



**U.S.\$200,000,000**  
**Grupo Famsa, S.A.B. de C.V.**  
**11.0 % Senior Notes due 2015**

We are offering U.S.\$200,000,000 aggregate principal amount of our 11.0% Senior Notes due 2015. We will pay interest on the notes on January 20 and July 20 of each year. The first interest payment will be made on January 20, 2011. The notes will mature on July 20, 2015. At our option, we may redeem the notes on or after July 20, 2013 at the redemption prices set forth in this offering circular. Prior to July 20, 2013 we may redeem the notes, in whole or in part, by paying the principal amount of the notes plus the applicable “make whole” premium and accrued interest. Prior to July 20, 2013, we may also redeem up to 35.0% of the notes with the proceeds of certain equity offerings. See “Description of Notes—Optional Redemption.” In addition, in the event of certain changes in the Mexican withholding tax treatment relating to payments on the notes, we may redeem all (but not less than all) of the notes at 100.0% of their principal amount, plus accrued and unpaid interest. There is no sinking fund for the notes.

The notes will be our senior unsecured general obligations. The notes will be unconditionally guaranteed by certain of our existing and future subsidiaries, jointly and severally, on a senior unsecured basis. The notes and guarantees will rank equally in right of payment with all of our and the subsidiary guarantors’ existing and future senior indebtedness and senior to all of our and the subsidiary guarantors’ existing and future subordinated indebtedness, subject to certain statutory preferences under Mexican law. The notes and guarantees will be structurally subordinated to the indebtedness and trade payables of our non-guarantor subsidiaries. The notes will effectively rank junior to all of our and the subsidiary guarantors’ secured indebtedness to the extent of the value of the assets securing such indebtedness.

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market. This Offering Circular constitutes a Prospectus according to Luxembourg law date July 10, 2005 on Prospectus for Securities.

**Investing in the notes involves risks. See “Risk Factors” beginning on page 18.**

**Price: 99.063 %**

plus accrued interest, if any, from July 20, 2010.

Delivery of the notes in book-entry form was made on July 20, 2010.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE NATIONAL BANKING AND SECURITIES COMMISSION (*COMISION NACIONAL BANCARIA Y DE VALORES*, OR CNBV), AND MAY NOT BE OFFERED OR SOLD PUBLICLY, OR OTHERWISE BE THE SUBJECT OF BROKERAGE ACTIVITIES, IN MEXICO, EXCEPT PURSUANT TO A PRIVATE PLACEMENT EXEMPTION SET FORTH UNDER ARTICLE 8 OF THE *LEY DEL MERCADO DE VALORES*, AS AMENDED (THE “MEXICAN SECURITIES MARKET LAW”). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY THE CNBV OF THE ISSUANCE OF THE NOTES INCLUDING THE PRINCIPAL CHARACTERISTICS OF THE NOTES AND THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE, DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION PROVIDED IN THIS OFFERING CIRCULAR. THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS EXCLUSIVELY THE RESPONSIBILITY OF THE COMPANY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV. IN MAKING AN INVESTMENT DECISION, ALL INVESTORS, INCLUDING ANY MEXICAN INVESTORS WHO MAY ACQUIRE NOTES FROM TIME TO TIME, MUST RELY ON THEIR OWN REVIEW AND EXAMINATION OF THE COMPANY AND THE GUARANTORS.

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to non-U.S. persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on the transfer of the notes, see “Notice to Investors.”

**Credit Suisse**

The date of this offering circular is December 10, 2010.



---

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
Notice to New Hampshire Residents .....	iii
Notice to Prospective Investors in the United Kingdom .....	iii
Notice to Prospective Investors in the EEA .....	iii
Available Information .....	iv
Service of Process and Enforcement of Civil Liabilities .....	v
Disclosure Regarding Forward-Looking Statements .....	vi
Presentation of Financial and Other Information .....	vii
Terms Used in This Offering Circular .....	x
Summary .....	1
Risk Factors .....	19
Use of Proceeds .....	37
Exchange Rates .....	38
Capitalization .....	39
Selected Consolidated Financial Information .....	40
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	44
Our Business .....	62
Our Management .....	101
Principal Shareholders .....	106
Related Party Transactions .....	107
Description of Notes .....	109
Book-Entry; Delivery and Form .....	159
Taxation .....	163
Notice to Investors .....	170
Plan of Distribution .....	173
Notice to Canadian Investors .....	176
General Information .....	178
Legal Matters .....	179
Independent Accountants .....	179
Summary of Significant Differences between MFRS and U.S. GAAP .....	180
Index to Consolidated and Combined Financial Statements .....	F-1
Exhibit A: Unaudited Income Statement and Balance Sheet Data and Financial Statements as of and for the Three Months Ended March 31, 2010 and 2009 .....	A-1

---

**You should rely only on the information contained in this offering circular. Neither we nor the initial purchasers have authorized any other person to provide you with information that is different or any additional information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the initial purchaser is not, making an offer to sell or seeking offers to buy the notes in any jurisdiction where the offer or sale is not permitted. The information in this offering circular may only be accurate as of the date of this offering circular.**

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. By purchasing the notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements described under the heading "Notice to Investors" in this offering circular. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the CNBV nor the U.S. Securities and Exchange Commission (the "SEC"), nor any state securities commission has approved or disapproved of these securities or determined if this offering circular is truthful or complete. Any representation to the contrary is a criminal offense.

We have submitted this offering circular solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so they can consider a purchase of the notes. We have not authorized its use for any other purpose. This offering circular may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering circular, you agree to these restrictions. See "Notice to Investors."

This offering circular is based on information provided by us and by other sources that we believe are reliable. We cannot assure you that this information is accurate or complete. This offering circular summarizes

certain documents and other information and we refer you to such documents and other information for a more complete understanding of what we discuss in this offering circular. In making an investment decision, you must rely on your own examination of our company, its subsidiaries and the subsidiary guarantors and the terms of this offering and the notes, including the merits and risks involved.

The initial purchaser makes no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering circular. Nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the initial purchaser as to the past or future. We have furnished the information contained in this offering circular. The initial purchaser makes no representation as to any of the information contained herein (financial, legal or otherwise) and assumes no responsibility for the accuracy or completeness of any such information.

Neither we, nor the initial purchaser, nor any of our or the initial purchaser's respective representatives is making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding any investment in the notes.

We accept responsibility for the information contained in this offering circular. To the best of our knowledge and belief (and we have taken all reasonable care to ensure that), the information contained in this offering circular is in accordance with the facts and does not omit any material information. You should assume that the information contained in this offering circular is accurate only as of the date on the front cover of this offering circular.

The notes have not been and will not be registered with the National Securities Registry maintained by the CNBV. The information contained in this offering circular is exclusively our responsibility and has not been reviewed or authorized by the CNBV. The notes may not be publicly offered or sold in Mexico or otherwise be subject to brokerage activities in Mexico, except pursuant to the public placement exemption set forth in Article 8 of the Mexican Securities Market Law and this offering circular may not be publicly distributed in Mexico.

We reserve the right to withdraw this offering of the notes at any time, and we and the initial purchaser reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchaser and certain related entities may acquire for their own account a portion of the notes.

You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchaser will have any responsibility therefor.

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that appear in this offering circular include: Famsa®, Famsa.com®, Auto Gran Crédito Famsa®, CisiAmo®, De Famsa a Famsa®, GarantiMax®, Giovanni Paolo®, Gran Crédito Famsa®, Verochi® and Viajes a Bordo Famsa®, each of which may be registered or trademarked in Mexico, the United States and other jurisdictions. Solely for convenience, we may refer to our trademarks, service marks and trade names in this offering circular without the ™ and ® symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent permitted under applicable law, our rights to our trademarks, service marks and trade names. Each trademark, trade name or service mark of any other company appearing in this offering circular is, to our knowledge, owned by such other company.

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

## **NOTICE TO PROSPECTIVE INVESTORS IN THE EEA**

To the extent that the offer of the notes is made in any European Economic Area (“EEA”) member state that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any member state, the “Prospectus Directive”) before the date of publication of a prospectus in relation to the notes which has been approved by the competent authority in that member state in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that member state in accordance with the Prospectus Directive), the offer (including any offer pursuant to this document) is only addressed to qualified investors in that member state within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require the issuer to publish a prospectus pursuant to the Prospectus Directive.

**IN CONNECTION WITH THE ISSUE OF THE NOTES, CREDIT SUISSE SECURITIES (USA) LLC, AS STABILIZATION MANAGER, OR THE PERSONS ACTING ON ITS BEHALF, MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, WE CANNOT ASSURE YOU THAT THE STABILIZATION MANAGER OR THE PERSONS ACTING ON ITS BEHALF WILL UNDERTAKE ANY STABILIZATION. ANY STABILIZATION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.**

## AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resales of notes, we will be required under the indenture under which the notes are issued (the “Indenture”), upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “Notice to Investors”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. As long as we maintain this exemption, we will not be required under the Indenture to deliver information otherwise required to be delivered under Rule 144A(d)(4) under the Securities Act.

The Indenture further requires that we furnish to the Trustee (as defined herein) all notices of meetings of the holders of notes and other reports and communications that are generally made available to holders of the notes. At our request, the Trustee will be required under the Indenture to mail these notices, reports and communications received by it from us to all record holders of the notes promptly upon receipt. See “Description of Notes.”

We will make available to the holders of the notes, at the corporate trust office of the Trustee at no cost, copies of the Indenture as well as this offering circular, including a review of our operations, and annual audited consolidated financial statements prepared in conformity with Mexican Financial Reporting Standards (*Normas de Información Financiera*, or “MFRS”). We will also make available at the office of the Trustee our unaudited quarterly consolidated financial statements in English prepared in accordance with MFRS. Information will also be available at the office of the Luxembourg Listing Agent (as defined herein).

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange, and to trading on the Euro MTF market, in accordance with its rules. This offering circular forms, in all material respects, the listing memorandum for admission to the Luxembourg Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Luxembourg Stock Exchange in connection with the notes, and to furnish to them all such information as the rules of the Luxembourg Stock Exchange may require in connection with the listing of the notes.

The quarterly reports for the periods ending June 30, 2010 and September 30, 2010 have been furnished to the Trustee and are publically available at [www.grupofamsa.com](http://www.grupofamsa.com). We are incorporating by reference into this offering circular the quarterly reports for the periods ending June 30, 2010 and September 30, 2010, which means that these reports disclose certain information that is considered part of this offering circular. The annual report for the year ending December 31, 2010 will be furnished to the Trustee within 120 days of the end the respective fiscal year pursuant to the Indenture.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a publicly traded variable capital corporation (*sociedad anónima bursátil de capital variable*) and our subsidiaries (except for Famsa, Inc., a subsidiary organized in the United States) are variable capital corporations (*sociedades anónimas de capital variable*) and in the case of Banco Famsa, a corporation (*sociedad anónima*) authorized to conduct banking activities as an *institución de banca múltiple*, organized under the laws of Mexico, and headquartered, managed and operated outside of the United States (principally in Mexico). Almost all of our directors and officers reside outside the United States. Substantially all of our assets and the assets of our directors and officers are located outside the United States (principally in Mexico). As a result, it may not be possible for investors to effect service of process within the United States or in any other jurisdiction outside of Mexico upon us, our directors or officers or our subsidiaries (except for Famsa, Inc.) or to enforce against such parties in any jurisdiction outside of Mexico judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the federal and state securities laws of the United States. We have been advised by our Mexican counsel, Mijares, Angoitia, Cortés y Fuentes, S.C., that there is doubt as to the enforceability in original actions in Mexican courts of civil liabilities under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon the federal and state securities laws of the United States.

See “Risk Factors—Risks Related to the Notes—You may not be able to effect service of process on us, our subsidiaries or directors or to enforce in Mexican courts judgments obtained against us in the United States.”

## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements. These forward-looking statements include, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets in which we participate or are seeking to participate or anticipated regulatory changes in the markets in which we operate or intend to operate. In some cases, forward-looking statements can be identified by terminology such as “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should” or “will” or the negative of such terms or other comparable terminology.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution potential investors that forward looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this offering circular. In addition, even if our results of operations, including our financial condition and liquidity and the development of the industries in which we operate, are consistent with the forward-looking statements contained in this offering circular, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to:

- risks related to our competitive position;
- risks related to our business, to our strategy, to our expectations about growth in demand for our products and services and to our business operations, financial condition and results of operations;
- our access to funding sources, and the cost of the funding;
- changes in regulatory, administrative, political, fiscal or economic conditions, including fluctuations in interest rates and growth or diminution of the Mexican and U.S. furniture, electronics and household appliances markets;
- risks associated with our subsidiary Banco Ahorro Famsa, S.A., Institución de Banca Múltiple, including regulatory, credit, market and any other risks related to financing activities and the Mexican consumer finance market and retail banking market generally;
- variations in loan default rates by our clients, as well as in our recording of provisions for doubtful loans;
- risks associated with market demand for and liquidity of the notes;
- foreign currency exchange fluctuations relative to the U.S. Dollar against the Mexican Peso;
- risks related to Mexico’s social, political or economic environment; and
- risks related to the United States’ social, political or economic environment as it relates to the U.S. Hispanic population.

Potential investors should read the sections of this offering circular entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Our Business” for a more complete discussion of the factors that could affect our future performance and the markets in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this offering circular may not occur. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments.



## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Financial Information

This offering circular includes our audited consolidated financial statements and related auditor's report and notes as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009, which we refer to as the "Financial Statements." Our Financial Statements and other financial information included in this offering circular, unless otherwise specified, are stated in Mexican Pesos and include the consolidated results of all of our subsidiaries, including our non-guarantor subsidiaries, such as Banco Famsa.

For unaudited selected consolidated financial information as of March 31, 2010 and 2009 and for the three month periods ended March 31, 2010 and 2009 and a discussion of our financial results for the three month periods ended March 31, 2010 and 2009, see Exhibit A to this offering circular beginning on page A-1. For a description of our indebtedness as of March 31, 2010, see Exhibit A beginning on page A-1, "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt." Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

The Financial Statements included in this offering circular are prepared and presented in accordance with MFRS issued by the Mexican Board for Research and Development of Financial Reporting Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*, or the "CINIF"). Significant differences exist between MFRS and accounting principles generally accepted in the United States, which we refer to as "U.S. GAAP." See "Summary of Significant Differences Between MFRS and U.S. GAAP" for a description of certain principal differences between MFRS and U.S. GAAP as they relate to us. We are not providing any reconciliation to U.S. GAAP of our Financial Statements or other financial information in this offering circular. We cannot assure you that a reconciliation would not identify material quantitative differences between our Financial Statements or other financial information as prepared on the basis of MFRS if such information were to be prepared on the basis of U.S. GAAP. Potential investors should consult their own professional advisors for an understanding of the differences between MFRS and U.S. GAAP, and how those differences might affect the Financial Statements and other financial information included in this Offering Circular.

In January 2009, the CNBV published amendments to the Mexican Securities Law, including the obligation to prepare and present financial statements using International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") in place of MFRS beginning in 2012 (early adoption is permitted). Our adoption of IFRS at such date or for any earlier period may have additional effects on our consolidated financial position and results of operations. We have not assessed the effects that adopting IFRS will have on our financial information or if we will undertake early adoption.

As disclosed in Note 3(a) of our Financial Statements, NIF B-10 considers two economic environments: a) an inflationary economic environment, where cumulative inflation over a three-year period is 26% or more, in which case, the effects of inflation need to be recognized, and b) a non-inflationary economic environment, where inflation is less than 26% in the same period, in which case, the effects of inflation may not be recognized in the financial statements.

As a result of having adopted NIF B-10, we discontinued recognition of the effects of inflation in our financial statements beginning January 1, 2008 because the accumulated inflation in the prior three-year period was less than 26%. Accordingly, our financial information through December 31, 2007 is stated in Pesos in purchasing power as of December 31, 2007. The financial information as of December 31, 2009 and December 31, 2008 and for the years ended December 31, 2009 and 2008, is not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods. Furthermore, NIF B-10 requires that the gain (loss) from monetary position in stockholders' equity and the cumulative gain (loss) that is derived from holding non-monetary assets be reclassified to retained earnings, except where the gain (loss) from holding non-monetary assets that are identified with inventories or fixed assets that have not been realized as of the effective date of this standard. Such amounts are required to be maintained in stockholders' equity and realized within current earning of the period in which such assets are depreciated or sold. NIF B-10 establishes that this accounting change be recognized prospectively.

The financial statements of Famsa USA, which are prepared in accordance with U.S. GAAP, and the financial statements of Banco Famsa, which are prepared in accordance with accounting rules and practices established by the CNBV, are both conformed to MFRS for consolidation purposes.

We recognize revenue on retail sales upon completion of the revenue recognition process, which occurs when merchandise is shipped or delivered to customers in accordance with the terms of an agreement of sale, there is a fixed or determinable selling price, title and risk of loss have been transferred, and collectability is reasonably assured, most of which conditions are satisfied at the time of delivery to customers and at the issuance of the sales receipt. We offer customers an option to pay in installments (weekly, bi-weekly or monthly) rather than in cash at the time of purchase. Revenues from installment sales are recognized at the date of sale, since the average period for the recovery in full of the amount of these sales is less than one year. We recognize as revenue from our personal loan sales the total interest to be generated throughout the life of the loan at the time the funds are transferred to the customer. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Revenue Recognition.”

### **Currency Information**

Unless stated otherwise, references herein to “Pesos” or “Ps.” are to Mexican Pesos, the legal currency of Mexico; references to “U.S. Dollar,” “U.S.\$” or “\$” are to U.S. Dollars, the legal currency of the U.S.

This offering circular contains translations of certain Peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of the dates mentioned herein or at any other rate. Unless otherwise indicated, U.S. Dollar amounts in this offering circular have been converted from Pesos at an exchange rate of Ps.13.04 to U.S.\$1.00 published by Mexico’s Central Bank (“*Banco de México*”) in the *Diario Oficial de la Federación* (the “Official Gazette of Mexico”) to be effective on December 31, 2009 for the payment of all obligations denominated in currency other than Pesos and payable within Mexico on such date. On December 8, 2010 the exchange rate for Pesos published by *Banco de México* in the Official Gazette of Mexico was Ps.12.41 to U.S.\$1.00. See “Exchange Rates” for information regarding the rates of exchange between the Peso and the U.S. Dollar for the periods specified therein.

References herein to “UDIs” are to *Unidades de Inversión*, a unit of account in Pesos, the value of which is indexed to inflation on a daily basis, as measured by the change in the Mexican National Consumer Price Index (*Índice Nacional de Precios al Consumidor*, or “NCPI”). Under a UDI-based loan, the borrower’s nominal Peso principal balance is valued at the UDI stated value at the balance sheet date. Differences in valuation are recognized as interest expense within the net comprehensive financing result. At December 31, 2009, one UDI was equal to Ps.4.340166. *Banco de México* publishes the value of the UDI for every business day. Unless otherwise stated, all information herein pertaining to UDIs refers to its unit of account value as of December 31, 2009.

### **Industry and Market Data**

Market data and other statistical information used throughout this offering circular are based on independent industry publications, government publications, other public independent sources and our internal surveys and analyses. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness. In addition, these sources may use different definitions of the relevant markets than those we present. Data regarding our industry are intended to provide general guidance but are inherently imprecise. Some data are also based on our estimates, which are derived from our review of internal surveys and analyses as well as the independent sources. Though we believe these estimates were reasonably derived, you should not place undue reliance on them as estimates are inherently uncertain.

### **Other Information Presented**

References to spreads refer to percentage amounts representing the difference between two interest rates or transaction values, as the context requires.

In this offering circular, where information is presented in thousands, millions or billions of Pesos or thousands, millions or billions of U.S. Dollars, amounts of less than one thousand, one million, or one billion, as the

case may be, have been truncated unless otherwise specified. All percentages and other numerals have been rounded to the nearest percent, one-tenth of one percent, one-hundredth of one percent, one-tenth or one hundredth as the case may be. In some cases, amounts and percentages presented in tables in this offering circular may not add up due to such rounding adjustments or truncating.

Unless otherwise specified, all units of area shown in this offering circular are expressed in terms of square meters.

## TERMS USED IN THIS OFFERING CIRCULAR

In this offering circular, unless the context otherwise requires, references to “Famsa” or the “Issuer” refer to Grupo Famsa, S.A.B. de C.V., and references to the “Company,” “we,” “our,” “us,” and “Grupo Famsa” refer to Famsa, our consolidated subsidiaries and affiliates.

In addition, this offering circular contains terms relating to operating performance that are commonly used within the retail industry and the consumer finance industry. Certain of these terms are defined as follows:

“Active credit sales accounts” refers to credit sales accounts with our customers that have an outstanding balance.

“Banco Famsa” and “Banco Ahorro Famsa” mean our commercial banking subsidiary, Banco Ahorro Famsa, S.A., Institución de Banca Múltiple.

“BMV” means the *Bolsa Mexicana de Valores, S.A.B. de C. V.*, the Mexican Stock Exchange.

“CAGR” means “compound annual growth rate,” which is the average year-over-year growth rate applied to different metrics of our activities over a multiple-year period.

“Cash sales” refers to sales in which full payment for merchandise is received up front.

“CINIF” means *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*, the Mexican Board for Research and Development of Financial Reporting Standards.

“CNBV” means the *Comisión Nacional Bancaria y de Valores*, the Mexican National Banking and Securities Commission.

“Credit sales” refers to sales carried out under our credit sales program.

“Credit sales program” refers to a financing option that we offer to our customers, implemented directly in our retail stores or through a credit granted by Banco Famsa, whereby payment for our products may be made in installments. Payments are required to be made on a weekly, bi-weekly or monthly basis for a period ranging from three to 24 months.

“Famsa Mexico” refers to our retail and consumer financing operations in Mexico, operated and managed through our Mexican subsidiaries, or to our Mexican subsidiaries, as the context requires.

“Famsa USA” refers to our retail and consumer financing operations in the U.S., operated and managed through Famsa, Inc., or to Famsa, Inc., as the context requires.

“INIF” means *Interpretaciones de Normas de Información Financiera*, Interpretations of Financial Reporting Standards.

“MFRS” or “NIF” refers to the Mexican Financial Reporting Standards (*Normas de Información Financiera*) issued by the CINIF, as amended.

“Same-store sales” refers to the total sales of retail stores that have been in operation for a year or more.

“Square meter” is the standard measure of area used in Mexico. One square meter is equal to approximately 10.764 square feet.

“STORIS<sup>TM</sup>” means “Strategic Retail Information System,” the supply chain management software system that we use. STORIS<sup>TM</sup> is a trademark of Storis, Inc.

“TIE” refers to the 28-day Mexican interbank rate (*Tasa de Interés Interbancaria de Equilibrio*), which was 4.92% as of December 31, 2009.

“Total store area” means the aggregate surface area of all of our operating retail stores in Mexico and the United States.

“UDIs” means *Unidades de Inversión*, a unit of account in Pesos, the value of which is indexed to inflation on a daily basis, as measured by the change in the NCPI.

“U.S. GAAP” means Generally Accepted Accounting Principles in the United States of America.

## SUMMARY

*This summary highlights selected information from this offering circular and is qualified in its entirety by, and is subject to, the more detailed information and Financial Statements appearing elsewhere in this offering circular. You should read this entire offering circular carefully, including the risk factors, Financial Statements and recent developments contained herein, before making an investment decision.*

### Overview

We believe we are a leading Mexican retailer of household appliances, furniture, clothing, cellular telephones and other durable consumer products, targeting the middle and lower-middle segments of Mexico's population. We were incorporated in December 27, 1979. The Company was originally incorporated for 99 years, however, the corporate by-laws were later amended to state that the duration of the Company shall be indefinite. We also believe we are one of the top retailers for furniture and appliances in the United States targeting the U.S. Hispanic population. As of December 31, 2009, we owned and operated 410 stores and 15 distribution centers, with a total selling area in our stores of approximately 544,456 square meters (5,860,476 square feet), including 357 stores in 78 cities throughout Mexico and 53 stores in five U.S. states: California, Nevada, Texas, Arizona and Illinois. During the five-year period from 2005 to 2009, we opened an average of 14 new stores per year in Mexico and 8 new stores per year in the United States. We believe that throughout our over 40-year history, we have constructed a strong brand name associated with a broad product assortment at low prices and personalized customer service with convenient consumer financing programs. Furniture, electronics and household appliances represent 53% of Grupo Famsa's total sales.

In connection with our retail operations, we offer consumer financing to our customers who opt to purchase our products and services on credit, many of whom do not typically have access to other forms of credit, which provides them with alternative method to purchase our products and services. In 2009, 81.1% of our total sales were through our credit sales programs. To enhance our consumer financing business in Mexico, in 2007, we established our own commercial bank, Banco Famsa, allowing us to offer additional banking services to our customers, and generate a lower-cost, more stable form of short-term financing for our operations through bank deposits. According to the CNBV, as of December 31, 2009, Banco Famsa operated one of the ten largest banking branch networks in Mexico, with 276 branches located within Famsa Mexico stores, and managed an aggregate amount of 2.3 million saving and credit accounts.

Our net sales totaled Ps.14,947 million for the year ended December 31, 2009 and our total retail space consisted of 544,456 square meters. Our U.S. operations represented 27.5% of total sales during 2009 with 23.5% of the total retail space. Our adjusted earnings before interest expense, depreciation and amortization ("Adjusted EBITDA") totaled Ps.1,456 million for the year ended December 31, 2008 and Ps.1,554 million for the year ended December 31, 2009. The following table shows certain of our financial and operating data for the three-years ended December 31, 2009:

	As of December 31,		
	2007 <sup>(1)</sup>	2008	2009
Number of stores.....	390	421	410
Total sales area <sup>(2)</sup> .....	494,325	547,415	544,456
Net sales <sup>(3)</sup> .....	Ps.14,181	Ps.14,762	Ps.14,947
Same-store sales.....	(1.3)%	(2.7)%	(5.4)%
Sales on credit, as a percentage of our total sales.....	78.6%	80.5%	81.1%
Famsa USA sales, as a percentage of total sales.....	19.8%	24.3%	27.5%
Adjusted EBITDA <sup>(4)</sup> .....	Ps.1,654	Ps.1,456	Ps.1,554
Adjusted EBITDA margin (%) <sup>(5)</sup> .....	11.7%	9.9%	10.4%

(1) Since the accumulated inflation for 2007, 2008 and 2009 did not exceed 26% in the countries of the functional currency that we have adopted, the financial statements as of and for the periods ended December 31, 2008 and 2009 do not include the effects of inflation from January 1, 2008 and have been prepared on a modified historical cost basis. Financial statements as of and for the year ended December 31, 2007 are stated in constant pesos of December 31, 2007 purchasing power.

(2) In square meters.

(3) In millions of Pesos.

(4) Adjusted EBITDA is not a financial measure computed under MFRS. Adjusted EBITDA derived from our MFRS financial information means MFRS net income (loss) excluding (i) depreciation and amortization of goodwill, (ii) net comprehensive financing cost (which is composed of net interest expense (income), foreign exchange gain or loss and monetary position gain or loss), (iii) income tax expense and employees statutory profit-sharing expense and (iv) other items such as other income (expenses) net, minority interest and change in

accounting standards. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—EBITDA and Adjusted EBITDA Reconciliation.”

<sup>(5)</sup> Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenue.

Famsa Mexico and Famsa USA manage our retail operations through our network of stand-alone stores and anchor stores. In addition to the products and services provided by stand-alone stores, anchor stores serve as administrative centers, providing customer service, credit processing, and other support to the stand-alone stores in the same region.

72.5% of Grupo Famsa’s consolidated net sales in 2009 were generated in Mexico. Over the last decade, Mexican consumers have increased their overall demand for goods and services as a result of greater purchasing-power, economic stability and income growth. Our target Mexican demographic is made up of the middle and lower-middle income segments, which we consider to be the portion of the adult working population earning a household monthly income between Ps.41,000 (U.S.\$3,144) and Ps.3,000 (U.S.\$230). Based on Softec, S.C.’s Mexican Housing Overview of 2009, this group represents 77.1% of the approximately 27.5 million Mexican households. For further discussion of our target demographics, see “Our Business—Target Markets.” Famsa Mexico has targeted this large segment of the population since 1970 by offering convenient installment credit plans, a broad assortment of products, and personalized customer service. Currently, Famsa Mexico serves its customers through 357 stores (301 stand-alone and 56 anchor) that are generally located within the metropolitan areas of cities with a population in excess of 50,000, and range in size from 500 to 3,000 square meters, with an average of 1,200 square meters per store. On average, each store maintains approximately 2,000 durable consumer products on display, ranging from furniture, electronics and household appliances to clothing and cellular telephones. In addition, we believe that we are also an important wholesaler of household appliances and electronic products in Mexico, operating 17 wholesale stores in the principal metropolitan areas of 17 Mexican states.

Famsa USA represented 27.5% of Grupo Famsa’s 2009 consolidated net sales. According to U.S. Census Bureau estimates, Hispanics make up the largest and fastest-growing minority in the United States, are highly concentrated geographically, and are expected to comprise approximately 49.7 million by 2010. Since 2001, Famsa USA has targeted the U.S. Hispanic market by replicating Famsa Mexico’s business model and leveraging recognition of the “Famsa” brand. Famsa USA serves its customers through a 53 store network (consisting of 48 stand-alone stores and five anchor stores), developed both organically and through acquisitions, in the five states that concentrate approximately 60% of the country’s entire Hispanic population. Famsa USA’s stores carry an average of 2,000 products on display, and range in size from 2,000 to 3,000 square meters with an average of 2,400 square meters. As a result of Famsa USA’s successful business model, we believe that we are now one of the top 100 U.S. retailers in terms of sales volume in each of our three core product categories: furniture, electronics and household appliances.

We offer a broad assortment of brand-name and other third-party durable goods products, including Sony, White Westinghouse, Panasonic, Whirlpool, LG, Samsung and Mabe, among others, and we continue to seek to expand our product and service offerings. In addition to our durable goods product offerings, we offer personal loans, extended warranties, and life and car insurance. Our stores are characterized by their layout, which is designed to maximize sales and optimize the use of space. Most of our stores have their own warehouse area to ensure that products are readily available. Each of our stores is also outfitted with integrated inventory management and marketing systems, and is connected to STORIS<sup>®</sup>, an advanced supply chain management application that provides real-time information on inventory levels, purchase order status and other information to both stores and vendors.

Given our product mix of high-ticket items and our focus on middle and lower-middle income individuals, Famsa’s comprehensive value offer has always included the availability of flexible credit sales programs, which enhance our customers’ purchasing power by providing a convenient source of financing for purchasing the retail products we offer. The credit sales programs we offer involve weekly, bi-weekly or monthly payments throughout terms that can range from three to 24 months, depending on the customer’s preference and payment capacity. The average maturity of Famsa’s credit portfolio is 11 months. In 2009, credit sales accounted for 81.1% of our total sales. We believe that our credit sales programs improve our retail operation’s profitability and boost our growth prospects.

The retail price of the merchandise sold in Mexico under our installment program includes a finance charge that varies depending on multiple factors, including the repayment period, the customer's credit history and the type of product. In contrast, cash sale prices generally vary from approximately 5% to 40% off the retail price, depending on the type of product and the product's credit sale terms. As a result, sales on credit generate gross margins well above those yielded by our sales in cash. In the United States, the purchase price of the merchandise sold on credit is determined based upon a suggested retail price plus a finance charge that is reviewed periodically. Generally, cash purchases in our United States stores are not subject to discounts. Our installment program calls for weekly, bi-weekly or monthly payments over a three- to 24-month period, depending on the customer's preference and payment ability, which is determined based upon various factors, including the customer's credit history, monthly income and the purchase price of the merchandise.

All customers who wish to enter into a credit sales program go through our credit approval process, which has been honed throughout our over 40 years of experience in consumer financing. This process includes a proprietary credit application, credit bureau analysis, telephone confirmation and, in some cases, physical address verification. Additionally, our credit approval process involves the determination of the customer's payment capacity based upon various factors such as monthly income, prior outstanding credit commitments and credit history. The payment capacity figure is one of the most important outputs of the entire credit approval process. This amount represents the maximum aggregate amount and number of installments a customer can commit to at any given time. For instance, if a customer has a payment capacity of Ps.1,000 he or she can purchase any amount of products whose aggregate installments at any time are equal to or less than Ps.1,000. Customers of our personal loans undergo the same credit approval process as those purchasing retail goods, though personal loans are only granted to existing credit sales customers with proven payment capacity.

With the establishment of our banking operations through Banco Famsa in 2007, we have increased our product and service offering to our customers. Banco Famsa leverages Famsa's expertise to serve our customer base and our target market, which has limited access to banking services. We believe this represents an opportunity for growth given that approximately 60% of our customer base has never used banking services before. We have incorporated our banking operations within our retail stores, and as of December 31, 2009, we had 276 banking branches in Mexico, becoming the tenth largest bank network in the country.

Through the banking branches we have been able to obtain deposits by offering several saving, checking and other investment products to our customers. As of December 31, 2009, bank deposits reached Ps.7,376.8 million, a 135% increase compared to December 31, 2008.

In addition, customers' deposits have provided us with a stable and less expensive source of funding for our Mexican retail operation. We have transferred and intend to continue to transfer our clients' accounts receivables to Banco Famsa providing additional transparency as a result of banking guidelines, the regulatory framework and reporting standards imposed by the CNBV.

### **Our Business Strengths**

We believe our business has the following strengths:

#### *Strong Market Position and Growth Platform in the Retail Industry in Mexico*

Our extensive network of stores and distribution centers covering most of the major metropolitan areas in Mexico provides what we believe to be an extensive distribution channel to launch new products and services to our target market. Moreover, our established retail store and distribution infrastructure, in particular the location and geographic coverage of our stores and distribution centers, allow us to efficiently continue our expansion plans and gives us a significant advantage over existing and new competitors. We offer a broad assortment of well-recognized brands, low prices, personalized customer service and convenient credit sales programs, which we believe has strengthened our customer loyalty. We believe the Famsa name has strong brand recognition particularly in the middle and lower-middle income segments, which we continually reinforce through an aggressive multi-media advertising program with national scope in Mexico. Our sales systems and marketing efforts are further supported through initiatives such as our "Gran Crédito" direct marketing program, whereby our credit representatives visit the homes of potential customers in an effort to set up new accounts both in areas where we currently operate stores, and in advance of new store openings. Other initiatives we carry out to reinforce our position include telemarketing,



direct mail, cashier pitches, and our “Cambaceo” door-to-door sales program. In addition, we believe that our strong market position in the retail industry in Mexico has enhanced our ability to negotiate better prices with our suppliers.

#### *Growth Opportunities in the U.S. Hispanic Retail Market*

The growing size and increasing purchasing power of the U.S. Hispanic population represents an attractive complement to the growth prospects of our Mexican retail operation. According to U.S. Census Bureau estimates, the Hispanic population in the United States are expected to reach 49.7 million by 2010, and one of every two persons added to the United States population will be Hispanic. In addition, Hispanics in the U.S. have a purchasing power approximately twice that of the average Mexican consumer. Furthermore, Hispanics are highly concentrated: 10 states hold approximately 80% of the total Hispanic population. Since 2001, Famsa USA has sought to serve this segment by locating its stores within Hispanic areas and by differentiating its value offer through personalized customer service, flexible credit sales programs and exclusive sales options such as “Famsa-to-Famsa,” whereby our U.S. customers can purchase products to be delivered to family members through our stores in Mexico. We believe that we currently are the only specialty retailer targeting the Hispanic market with large-scale operations in the U.S.

#### *Proven Track Record in Consumer Financing*

We have more than 40 years of experience providing consumer financing, with an emphasis on offering flexible credit sales programs to our retail customers while maintaining prudent risk management and credit evaluation policies and procedures. See “Our Business—Consumer Lending Operations.”

Our target markets’ financing needs have typically been underserved by the traditional financial sector. Since 1970, we have been developing the necessary skill set and infrastructure to capitalize on the growing credit needs of this large segment of the population. As of December 31, 2009, we managed a total of 1.7 million active credit accounts with a team of over 2,750 credit-related personnel, including approximately 180 call-center agents, all of whom are dedicated to making credit accessible to our customers while ensuring the quality of our loan portfolio. We also provide convenient options for our customers to manage their credit account payments, including through our Promobien program, which gives customers the option to make payments on their Famsa credit accounts through an automatic payroll deduction with participating employers. Despite the significant increase in unemployment during 2009, we maintained a relatively low uncollectibility level of 4.2%, measured as the percentage of net write-off over total accounts receivable. Combined with our in-depth knowledge of the retail industry, we believe that our extensive experience with risk management and consumer financing represents a competitive advantage that we have and will continue to further enhance through Banco Famsa.

#### *Funding through Banco Famsa*

In the past, we funded our credit sales program through multiple credit lines with major financial institutions and international and Mexican securities markets. However, with the establishment of Banco Famsa and the growth of its deposit base, we now have access to a more stable and less expensive source of short-term funding to support our credit sales portfolio and other growth initiatives. As of and for the year ended December 31, 2009, Banco Famsa was the source of 76% of our net funding and Banco Famsa’s interest expense as a percentage of its bank deposits and short- and long-term indebtedness combined was down 1.17% to 8.06% from its peak of 9.23% as of and for the three-month period ended March 31, 2009. Initially funded in part through financial intermediaries and interbank loans, Banco Famsa is now almost fully-funded through its own deposits in the form of savings and checking accounts, certificates of deposit and other consumer investment products. The combination of our diversified funding platform with our risk management experience and knowledge of the retail industry represents a unique competitive advantage.

#### *Integrated Consumer-Targeted Banking Services*

Through the development of Banco Famsa, we are able to offer our customers targeted banking products and services that are normally not available to a large portion of our customers. Based on our estimates, approximately 60% of Famsa Mexico’s customers have never used banking services. As a result of the credit evaluation and monitoring to which our retail credit sales account customers are already subject, and the associated

records we keep, we believe that we are in a better position than other banking services providers to offer our retail customers first-time banking services and develop products tailored to their needs. The integration of Banco Famsa with our retail operations provides a variety of cost-saving synergies, including joint product marketing through mailings, telemarketing, cashier sales pitches, television and other marketing campaigns, advertising on bank statements and cross selling in general. Banco Famsa now manages over 773 point-of-sale (POS) terminals in our stores, which accept Famsa and third-party credit and debit cards, along with our in-store ATMs. Banco Famsa also handles online payroll services for five Grupo Famsa companies and plans to provide payroll services to third-party customers. Additionally, the integration of our Banco Famsa branches into our retail stores leverages our customers' familiarity with our stores and personnel and allows us to provide longer hours of operation than other banking services providers.

#### *Product Diversification and Cross-Sales*

Our expansion into the banking sector through Banco Famsa has allowed us to create additional consumer finance products, which have helped us diversify our product offerings and thereby hedge our exposure to the sensitivity to durable goods demand caused by the recent economic downturn. In addition to our credit sales programs, we offer Banco Famsa customers several personal and business loan products. As a percentage of Famsa Mexico's total sales, personal loans offered by Banco Famsa grew from 8.9% in the year ended December 31, 2008 to 17.8% in the year ended December 31, 2009. This growth in our personal loan product sales relative to our other product offerings is due, in part, to the decrease in demand for our other products, but also demonstrates the counter-cyclical resilience of our loan products. The integration of Banco Famsa branches into our retail stores also provides us an enhanced opportunity to cross-sell our retail products and banking products and services in our retail stores and Banco Famsa branches, respectively.

#### *Personalized Quality Customer Service and Point-of-Sale Marketing*

We are dedicated to the highest-quality customer service. We believe our desire to serve our customers is evidenced by our ability to continually meet their expectations for providing high-quality products at competitive prices. We actively manage client relationships through:

- a well-trained, motivated sales force focused on delivering quality personalized service;
- customer service centers in each of our anchor stores;
- a call center to provide customer service;
- our "Gran Crédito" and "Cambaceo" (or "canvassing") programs; and
- a wide range of post-sale services, including repair services and home delivery.

We believe that our commitment to customer service is a significant factor in increasing our customer loyalty and expanding our customer base. Additionally, our dedication to high-quality, personalized customer service has been critical to the sale of complementary products such as extended warranties and the introduction of new products, including life and car insurance (which we sell for a commission) and personal loans.

#### *Advanced Information Technology and Systems*

We operate STORIS™, a modern supply chain management software system that, among other things, provides us with key real-time information regarding retail sales and inventory levels, product availability and purchase order status, enhancing our decision-making process. Our technology improves the efficiency of our supply chain by allowing us to manage detailed information in such a way as to increase the likelihood that our customers will find exactly the products they wish to purchase while optimizing the associated inventory levels. Moreover, we are able to track the interests, needs and buying habits of our customers, anticipating changes in consumer demand. Lastly, customer service has benefited by having:

- readily available access to important product information such as technical product descriptions and product availability;

- the ability to identify and prevent potential service problems (e.g., incorrect or inaccurate product information) in connection with matters such as inventory availability and returns; and
- a reliable resource for registering and handling customer complaints.

In addition, during the past few years we have complemented our information technology infrastructure with SAP to manage our human resources, accounting and soft good retail operations. We use advanced operational information technology to support Banco Famsa's operations, including ICBS-FISERV, Metacard (credit card processing FISERV module) and eBanking. In addition to providing a more sophisticated consumer financing management platform, our bank's systems enable us to identify cross-selling opportunities across credit and deposit customer databases by integrating virtually all of Famsa Mexico's existing credit accounts with Banco Famsa's growing deposit base.

#### *Strong Management Team and Motivated Employees Focused on Continuous Improvement*

Our executive officer team has over 25 years of accumulated specialty retail experience, and a solid track record of sustainable growth. Additionally, top management has successfully fostered a work culture based on teamwork and focused on continuous improvement and commercial innovation. Each of our employees has individual objectives, which serve as a basis for measuring performance and are associated with broader corporate goals. Having met operational and financial objectives, our employees are eligible for bonuses according to our compensation system. See "Our Business—Employees." We believe our goal-oriented culture and incentive programs have contributed to the development of a motivated and well-aligned team that is dedicated to serving our customers' needs and ensuring the sustainability of our business. The positive performance of our company rests on practices of sound corporate governance. Grupo FAMSА was one of the few finalists in the second edition of the "Affinitas" Awards for Good Corporate Governance in Latin America, held on November 22, 2007 as part of the 9th Latibex Forum in Madrid, Spain. More than 580 companies were evaluated by the jury and 12 finalists were chosen on the basis of criteria such as shareholders' rights, equality, stakeholder involvement, communication and transparency, and responsibilities of the board of directors.

#### **Our Business Strategy**

Grupo Famsa serves specific consumer, credit and savings needs of the middle and lower-middle income segments of the population through a unique portfolio of complementary businesses. We believe the synergies among our business units enable us to attain competitive advantages that reinforce our position. Our business strategy focuses on maximizing these synergies to provide a comprehensive and differentiated value offer to our customers. Consequently, the key elements of our strategy are the following:

##### *Enhance Our Consumer Financing Operations in Mexico through Banco Famsa*

We are in the process of enhancing our consumer financing operations in Mexico through the continuing development of Banco Famsa. We believe that further development of Banco Famsa will lead to an additional decrease in our cost of financing, allowing us to apply greater financial resources to other areas of our operations. We believe the inclusion of Banco Famsa branches in our retail stores has and will enable us to increase our customer base in Mexico and enhance our ability to sell additional products to our consumers. Besides acting as a catalyst for further growth in our retail operations, we believe Banco Famsa will increasingly become a source of independent growth through expansion of existing and development of new financial products and services. Furthermore, we believe Banco Famsa's personal and business loan programs and other financial products will help us further diversify our product offerings to hedge our exposure to durable goods demand sensitivity. We intend to continue building upon our experience and knowledge of providing consumer financing to further successfully establish, expand and operate Banco Famsa.

##### *Selectively Expand Our Store Network in Mexico*

We believe that our current retail store network provides an important platform for our selective expansion in Mexico. Our expansion strategy includes opening new stores in areas better served by full-format stores to selectively replace smaller stores, opening additional stores in strategic, high-demand areas of cities in which we already operate and opening new stores in regions which we believe offer a substantial growth opportunity given the

existing number of cities with populations exceeding 50,000 inhabitants that are currently underserved by us or our competitors. Based on our estimates, there are approximately 395 cities in Mexico with populations exceeding 50,000 inhabitants, and we currently operate in 78 (or 20%) of them. Nevertheless, given the prevailing market conditions, we maintain a conservative position with respect to expansion.

*Continue Increasing Our Presence in the U.S. Hispanic Retail Market*

Our goal is to take advantage of the rapid growth of the Hispanic population in the United States and continue strategically expanding our operations in the United States by building upon our current retail store network and our substantial knowledge of the U.S. Hispanic retail market. We intend to continue to expand our United States operations in the cities in which we operate, and, as economic conditions warrant, open stores primarily in cities with large Hispanic populations and continue our Hispanic-oriented multimedia advertising program. We believe there are 28 cities in the U.S. with more than 250,000 Hispanic inhabitants, primarily in the states of California, Texas, Arizona, Nevada, Illinois, New York, New Jersey and Florida, which represent attractive growth opportunities. We currently operate in the five U.S. states of California, Nevada, Texas, Arizona and Illinois, which, according to the U.S. Census Bureau are home to approximately 57% of the U.S. Hispanic population.

*Improve Our Sales and Marketing Efforts to Increase Our Market Share*

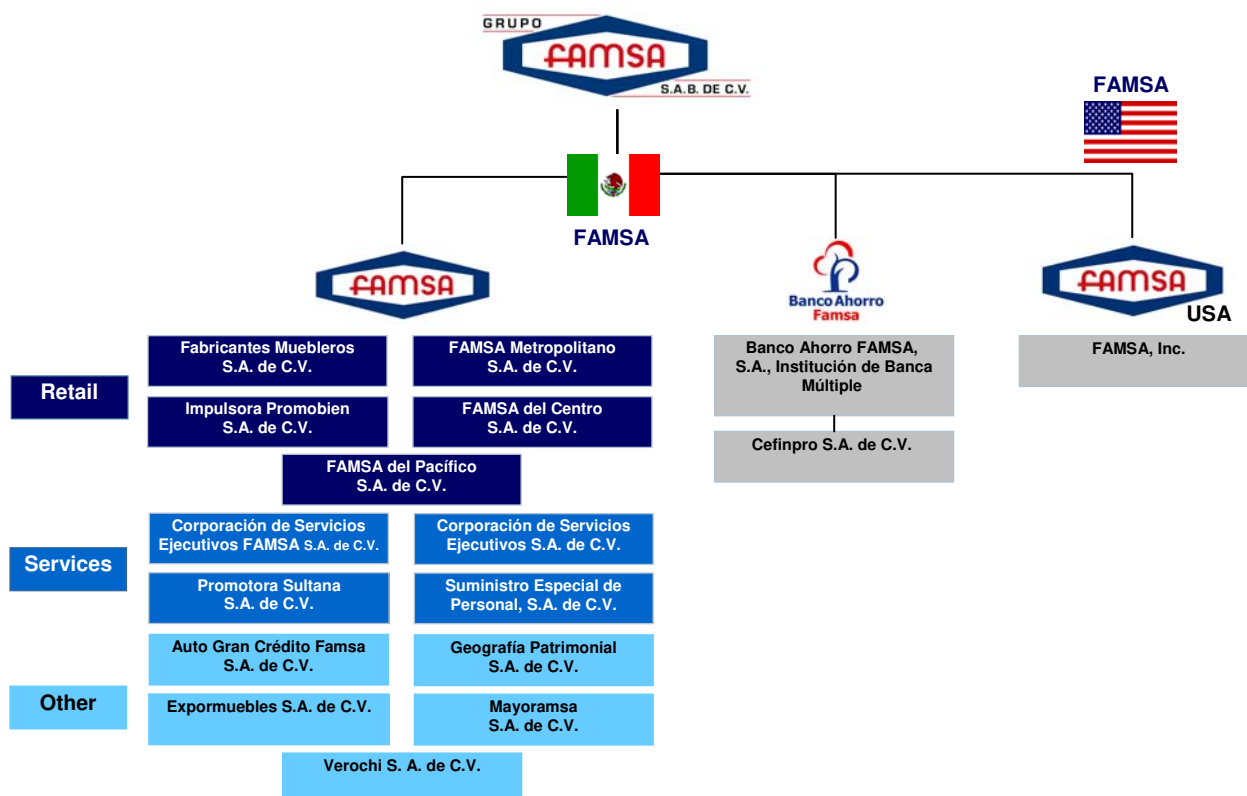
We plan to continue improving our sales force productivity through more effective training programs and attractive compensation systems and enhance our marketing efforts to attract new customers and increase our market share. We also plan to improve our information technology systems, databases and customer relationship management system in order to enhance our ability to anticipate consumer demand and promote commercial innovation. While our marketing strategy emphasizes mass media advertising, we also intend to further expand our telemarketing program and explore other new direct marketing channels. In addition, we will continue our commitment to customer service and customer satisfaction by providing a combination of personalized service, high-quality products and services at competitive prices and flexible consumer financing.

*Continue to Improve Our Margins through the Introduction of New Products, Services and Distribution Channels*

We plan to take advantage of the strong growth platform provided by our extensive retail store network to continue developing new products, services and distribution channels that satisfy our customers' needs, such as Internet sales, new consumer financing products, footwear catalog sales, travel packages and motorcycle and automobile financing, in addition to other products and services primarily directed to customers in higher income brackets. Furthermore, we expect that through the continued development and integration of Banco Famsa, we will be able to offer a growing variety of personal and business financial products and services in Mexico. We believe that the continued development of new products, services and distribution channels will allow us to cross-sell a broader range of products and services more effectively, lead to improvements in our margins and increase our competitiveness, further strengthening our growth platform. Additionally, we expect that the continuing development and integration of Banco Famsa will provide a lower-cost source of financing and expand our products offering, which may lead to an increase in our profitability.

## Our Corporate Structure

The following chart shows our organizational structure and our subsidiaries, all of which are substantially wholly owned, directly or indirectly, by us:



On December 31, 2009 the Issuer and Guarantors (as defined in “Summary—The Offering”) held 70.1 percent of the assets of Grupo Famsa, S.A.B. de C.V. and its consolidated subsidiaries.

## Our Corporate Information

Grupo Famsa, S.A.B. de C.V. is a *sociedad anónima bursátil de capital variable*, publicly traded variable capital corporation organized under the laws of the United Mexican States. Our principal executive offices are located at Av. Pino Suárez 1202 Norte, 3rd Floor, Unidad “A,” Zona Centro, Monterrey, Nuevo León, Mexico. Our telephone number at that address is +52 (81) 83-89-34-05/03. Our web site is located at [www.grupofamsa.com](http://www.grupofamsa.com). Information contained on, or accessible through, our web sites, is not incorporated by reference herein and shall not be considered part of this offering circular.

## Our Subsidiary Guarantors Information

Auto Gran Credito Famsa, S.A. de C.V. was incorporated on September 30, 2004. Its business address is Pino Suarez Nte. 1202 Unidad N. Col. Centro, Monterrey, N.L. C.P. 64000. The subsidiary is engaged in the retail car loan business.

Expormuebles, S.A. de C.V. was incorporated on December 31, 1987. Its business address is Jose maria Vigel 410 Col Del Norte, Monterrey, N.L. C.P. 64500. The subsidiary is engaged in manufacturing and distribution of furniture and related products.

Fabricantes Muebleros, S.A. de C.V. was incorporated on November 16, 1970. Its business address is Colon Pte. 601 Col. Zona A Centro, Monterrey, N.L. C.P. 64000. The subsidiary is engaged in the operation of 66 Famsa Mexico retail stores as of September 30, 2010.

Fama del Centro, S.A. de C.V. was incorporated on October 19, 1990. Its business address is Pino Suarez Nte. 1202 Colon Pte. 601 Col. Centro, Monterrey, N.L. C.P. 64000. The subsidiary is engaged in the operation of 61 Famsa Mexico retail stores as of September 30, 2010.

Famsa del Pacifico, S.A. de C.V. was incorporated on October 8, 1991. Its business address is Pino Suarez Nte. 1202 Col. Centro, Monterrey, N.L. C.P. 64000. The subsidiary is engaged in the operation of 50 Famsa Mexico retail stores as of September 30, 2010.

Famsa, Inc. was incorporated on April 28, 2000. Its business address is 12801 Leffingwell Avenue, Sante Fe Springs, C.A. 90670. The subsidiary is engaged in the operation of 51 retail stores in the United States as of September 30, 2010.

Famsa Metropolitano, S.A. de C.V. was incorporated on September 1, 1997. Its business address is Pino Suarez Nte. 1202 4TO. Piso Col. Centro, Monterrey, N.L. C.P. 64000. The subsidiary is engaged in the operation of 171 Famsa Mexico retail stores as of September 30, 2010.

Geografia Patrimonial, S.A. de C.V. was incorporated on October 8, 2009. Its business address is Pino Suarez 1202 Nte. 3ER Piso Col. Centro en Monterrey, N.L. C.P. 64000. The subsidiary is engaged primarily in leasing real estate to related parties.

Impulsora Promobien, S.A. de C.V. was incorporated on October 15, 1983. Its business address is Pino Suarez Nte. 1210 Col. Centro, Monterrey, N.L. C.P. 64000., N.L. C.P. 64000. The subsidiary serves as administrator for our “Promobien” program through which employees of participating entities purchase merchandise and have their installment payments deducted from their salaries.

Mayoramsa, S.A. de C.V. was incorporated on August 1, 1980. Its business address is Pino Suarez Nte. 1202 Col. Centro, Monterrey, N.L. C.P. 64000. The subsidiary is engaged in the wholesale and distribution of household appliances and furniture through its 17 warehouse clubs.

Verochi S.A. de C.V. was incorporated on December 1, 2004. Its business address is Pino Suarez 1202 Col. Centro, Monterrey, N.L. C.P. 64000. The subsidiary is engaged in the sale and distribution of footwear and other related products both directly and through third parties operating 8 retail stores as of September 30, 2010.

## The Offering

The following is a brief summary of some of the terms of this offering of the notes. For a more complete description of the terms of the notes, see “Description of Notes” in this offering circular.

Issuer .....	Grupo Famsa, S.A.B. de C.V.
Notes offered .....	U.S.\$200,000,000 aggregate principal amount of 11.0% senior notes due 2015.
Maturity .....	July 20, 2015.
Interest payment dates .....	January 20 and July 20 of each year, beginning on January 20, 2011.
Guarantors .....	Fabricantes Muebleros, S.A. de C.V. Famsa Metropolitano, S.A. de C.V. Famsa del Pacífico, S.A. de C.V. Famsa del Centro, S.A. de C.V. Impulsora Promobien, S.A. de C.V. Famsa, Inc. Auto Gran Crédito Famsa S.A. de C.V. Verochi S.A. de C.V. Expormuebles, S.A. de C.V. Mayoramsa, S.A. de C.V. Geografia Patrimonial, S.A. de C.V.
Guarantees .....	The payment of principal, interest and premium on the notes will be fully and unconditionally guaranteed on a senior unsecured basis by our existing and future “Significant Subsidiaries” that are not “Bank Regulated Subsidiaries” (each as defined in the “Description of Notes”). See “Description of Notes—Note Guarantees.”
Ranking .....	<p>The notes and guarantees will rank</p> <ul style="list-style-type: none"> <li>• equally in right of payment with all of our and the subsidiary guarantors’ existing and future senior indebtedness; and</li> <li>• senior in right of payment to all of our and the subsidiary guarantors’ existing and future subordinated indebtedness.</li> </ul> <p>The notes and the guarantees will effectively rank junior to all of our and the subsidiary guarantors’ existing and future secured indebtedness with respect and up to the value of the assets securing such indebtedness. The notes and the guarantees will be structurally subordinated to all indebtedness (including trade payables) of our non-guarantor subsidiaries. Furthermore, the notes and the guarantees will rank junior in right of payment to all obligations preferred by statute (such as tax or labor obligations).</p> <p>As of March 31, 2010, after giving pro forma effect to this offering of the notes and the application of proceeds as described under “Use of Proceeds,” and also including Ps.177.3 million of additional short-term indebtedness incurred after March 31, 2010:</p>

- Famsa and the subsidiary guarantors would have had Ps.4,327.4 million (U.S.\$348.7 million\*) of consolidated total indebtedness, of which Ps.0 million (U.S.\$0 million) would have been secured indebtedness; and
- Our non-guarantor subsidiaries, taken together, would have had Ps.7,599.1 million (U.S.\$612.3 million\*) (or Ps.8.8 million, or U.S.\$0.7 million\*, excluding bank deposits) of consolidated total indebtedness.

Optional redemption ..... On or after July 20, 2013, we may redeem the notes, in whole or in part, at the redemption prices set forth under “Description of Notes—Optional Redemption,” plus accrued and unpaid interest to the date of redemption.

Prior to July 20, 2013, we may redeem the notes, in whole or in part, by paying the principal amount of the notes plus the applicable “make whole” premium and accrued interest. See “Description of Notes—Optional Redemption.”

Optional redemption upon equity offering.....

We may, at our option, at any time on or prior to July 20, 2013, use the net cash proceeds of certain equity offerings to redeem in the aggregate up to 35.0% of the aggregate principal amount of the notes, including any additional notes we may issue in the future under the Indenture, at a redemption price equal to 111.0% of the principal amount thereof, *provided*, that:

- After giving effect to any such redemption at least 65.0% of the aggregate principal amount of the notes (including any additional notes) issued under the Indenture remains outstanding; and
- we make such redemption not more than 60 days after the consummation of such equity offering.

See “Description of Notes—Optional Redemption.”

Additional amounts..... All payments by us or the subsidiary guarantors in respect of the notes, whether of principal or interest, will be made without withholding or deduction for or on account of any Mexican taxes, unless required by law, in which case, subject to specified exceptions and limitations, we and the subsidiary guarantors will pay such additional amounts as may be required so that the net amount received by the holders of the notes in respect of principal, interest or other payments on the notes, after any such withholding or deduction, will not be less than the amount that would have been received in the absence of any such withholding or deduction. See “Description of Notes—Additional Amounts.”

---

\* Solely for the convenience of the reader, converted to a U.S. Dollar amount at an exchange rate of Ps.12.41 to U.S.\$1.00, the exchange rate published by *Banco de México* in the Official Gazette of Mexico to be effective on March 31, 2010.



Redemption for changes in withholding taxes .....	In the event that, as a result of certain changes in Mexican tax laws applicable to payments under the notes, we become obligated to pay additional amounts with respect to interest (or amounts deemed interest) payable under the notes, in excess of amounts attributable to a Mexican withholding tax rate of 4.9% on the notes, the notes will be redeemable, in whole but not in part, at our option, at any time upon notice, at 100.0% of the outstanding principal amount, plus accrued and unpaid interest to the date of redemption and any additional amounts that may be then payable. See “Description of Notes—Optional Redemption.”
Change of control .....	If a Change of Control occurs, each holder of notes may require us to repurchase all or a portion of its notes at a purchase price equal to 101.0% of the principal amount, plus accrued and unpaid interest through the date of purchase. The term “Change of Control” is defined under “Description of Notes—Certain Definitions.”
Use of proceeds .....	We estimate that the net proceeds from this offering of the notes will be approximately U.S.\$194.1 million. We intend to apply the net proceeds from this offering toward the repayment at maturity or otherwise of (i) U.S.\$71 million of our U.S. Dollar-denominated indebtedness under our Euro commercial paper programs and (ii) Ps.1,106.3 million (U.S.\$85.6 million*) of our short-term Peso-denominated indebtedness, consisting of Ps.360.0 million under our loan with Banco Inbursa, Ps.516.0 million under our short-term local bonds ( <i>Certificados Bursátiles de Corto Plazo</i> ), and Ps.230.3 million as repayment of loans extended to us by our principal shareholder, and the remainder, if any, for general corporate purposes. See “Use of Proceeds.” For a description of certain of our indebtedness to be repaid with the proceeds from this offering, see “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Peso Denominated Credit Facilities,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Other Short Term Indebtedness,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation—U.S. Denominated Credit Facilities,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Commercial Paper Programs” and “Related Party Transactions.”
Certain covenants .....	The Indenture will contain certain covenants that, among other things, will limit our ability and the ability of our subsidiaries to: <ul style="list-style-type: none"> <li>• incur additional indebtedness;</li> <li>• pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness;</li> </ul>

---

\* Solely for the convenience of the reader, converted to a U.S. Dollar amount at an exchange rate of Ps.12.93 to U.S.\$1.00, the exchange rate published by *Banco de México* in the Official Gazette of Mexico to be effective on July 7, 2010.

- make investments;
- create liens;
- create any consensual limitation on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us;
- engage in transactions with affiliates;
- sell assets, including capital stock of our subsidiaries; and
- consolidate, merge or transfer assets.

If the notes obtain investment grade ratings from both Standard and Poor's Ratings Group and Fitch Ratings Inc. and no default has occurred and is continuing, the foregoing covenants will cease to be in effect with the exception of covenants that contain limitations on liens and on, among other things, certain consolidations, mergers and transfer of assets for so long as each of the foregoing rating agencies maintains its investment grade rating.

These covenants are subject to important exceptions and qualifications. See "Description of Notes—Certain Covenants."

Events of default.....	For a discussion of certain events of default that will permit acceleration of the principal of the notes plus accrued interest, and any other amounts due with respect to the notes, see "Description of Notes—Events of Default."
Further issuances .....	Subject to the limitation contained in the Indenture, we may from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes of the same series as the notes offered pursuant to this offering circular. See "Description of Notes—Additional Notes."
Transfer restrictions.....	We have not registered, and we are not required to and do not currently plan on registering in the immediate future, the notes under the Securities Act and, unless so registered, the notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "Notice to Investors."

The notes will not be registered in the National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV and may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law.

As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes only, and the

delivery to and the receipt by the CNBV of such notice, does not imply any certification as to the investment quality of the notes or our solvency, liquidity or credit quality or the accuracy or completeness of the information contained in this offering circular.

Book entry; form and denominations .....	The notes will be issued in the form of one or more global notes without coupons, registered in the name of a nominee of The Depository Trust Company (“DTC”), as depositary, for the accounts of its participants including the Euroclear Bank S.A./N.V. (“Euroclear”), and Clearstream Banking, <i>société anonyme</i> , Luxembourg (“Clearstream”). The notes will be issued in minimum denominations of U.S.\$2,000 and integral multiples of U.S.\$1,000 in excess thereof. See “Description of Notes.”
Listing.....	Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market.
Risk factors.....	See “Risk Factors” and the other information in this offering circular for a discussion of factors you should carefully consider before deciding to invest in the notes.
Governing law .....	State of New York
Trustee, registrar, paying agent .....	The Bank of New York Mellon
Luxembourg paying agent, transfer agent and listing agent .....	The Bank of New York Mellon (Luxembourg) S.A.

### Summary of Consolidated Financial Information

The following tables present our summary consolidated financial information and other data for the periods indicated. These tables should be read in conjunction with our Financial Statements and notes thereto included elsewhere in this offering circular and are qualified in their entirety by the information contained therein. See “Presentation of Financial and Other Information.” The following income statement and balance sheet data for each of the years ended December 31, 2009, 2008 and 2007 has been derived from our Financial Statements, including the consolidated balance sheets as of December 31, 2009 and 2008, the related consolidated statements of income for the years ended December 31, 2009, 2008 and 2007, the consolidated statements of cash flow for the years ended December 31, 2009 and 2008, the consolidated statement of changes in financial position for the year ended December 31, 2007 and the accompanying notes appearing elsewhere in this offering circular. Our Financial Statements have been prepared in accordance with MFRS, which differ in certain respects from U.S. GAAP. See “Summary of Significant Differences Between MFRS and U.S. GAAP” for a description of certain principal differences between MFRS and U.S. GAAP as they relate to us. Our Financial Statements and other financial information included in this offering circular, unless otherwise specified, are stated in Pesos.

On January 1, 2008, NIF B-10 became effective. NIF B-10 revised the accounting for inflation such that inflation accounting no longer applies unless the economic environment in Mexico qualifies as “inflationary” for purposes of MFRS. An environment is considered inflationary if the cumulative inflation rate equals or exceeds an aggregate of 26% over the three preceding years. Because of the relatively low level of inflation in Mexico in recent years, as of January 1, 2008 and through December 31, 2009, due to a cumulative inflation rate of less than 26% in the three preceding years (measured as of January 1 of each year), Mexico’s economy is not considered an inflationary environment since December 31, 2007, and the effects of transactions that occurred after that date are expressed in nominal Pesos.

We are not providing any reconciliation to U.S. GAAP of our Financial Statements or other financial information in this offering circular. We cannot assure you that a reconciliation would not identify material quantitative differences between our Financial Statements or other financial information as prepared on the basis of MFRS if such information were to be prepared on the basis of U.S. GAAP.

The U.S. Dollar amounts provided below are conversions from the Peso amounts, solely for the convenience of the reader. The U.S. Dollar amounts for the years ended December 31, 2009, 2008 and 2007 have been converted using the exchange rate of Ps.13.04 to U.S.\$1.00, published by *Banco de México* in the Official Gazette of Mexico to be effective on December 31, 2009. See “Exchange Rates” for information regarding the rates of exchange between the Peso and the U.S. Dollar for the periods specified therein. These conversions should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated or at any other rate.

For unaudited selected consolidated financial information as of March 31, 2010 and 2009 and for the three month periods ended March 31, 2010 and 2009 and a discussion of our financial results for the three month periods ended March 31, 2010 and 2009, see Exhibit A to this offering circular beginning on page A-1. For a description of our indebtedness as of March 31, 2010, see Exhibit A beginning on page A-1, “Capitalization” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt.” Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

For additional information regarding financial information presented in this offering circular, see “Presentation of Financial and Other Information.”

## Income Statement and Balance Sheet Data

	Years Ended December 31,			
	2007	2008	2009	2009
	(millions of Pesos, except per share amounts and number of shares)			(millions of U.S. Dollars, with same exceptions)
Income Statement Data:				
Net sales.....	14,181.2	14,762.2	14,946.9	1,146.2
Cost of sales.....	7,692.1	7,533.6	7,355.2	564.0
Gross margin.....	6,489.1	7,228.7	7,591.7	582.2
Operating expenses.....	5,160.3	6,192.0	6,468.5	496.1
Operating income.....	1,328.8	1,036.6	1,123.2	86.1
Net comprehensive financing cost.....	680.3	421.9	1,235.6	94.8
Other income (expenses), net.....	(4.9)	(66.4)	1.9	0.1
Income before income tax.....	643.6	548.3	(110.5)	(8.5)
Income tax expense.....	(125.3)	15.1	210.1	16.1
Consolidated net income.....	518.2	563.4	99.7	7.6
Minority net income.....	0.3	2.6	2.3	0.2
Majority net income.....	518.0	560.9	97.4	7.5
	As of December 31,			
	2007	2008	2009	2009
	(millions of Pesos)			(millions of U.S. Dollars)
Balance Sheet Data:				
Cash and cash equivalent.....	324.1	1,011.6	1,514.2	116.1
Trade accounts receivable.....	9,793.9	12,937.0	14,131.1	1,083.7
Inventories.....	2,344.4	2,434.0	2,118.0	162.4
Total current assets.....	13,220.1	17,516.1	19,067.7	1,462.2
Property, leasehold improvements and furniture and equipment.....	2,501.0	2,869.0	2,731.9	209.5
Total assets.....	16,317.5	21,007.6	22,604.4	1,733.5
Short-term debt.....	2,254.0	6,922.7	2,889.9	221.6
Interest-bearing demand deposits and time-deposits	257.6	3,131.7	7,376.8	565.7
Suppliers.....	1,879.2	1,941.7	1,729.4	132.6
Total current liabilities.....	5,539.7	13,279.0	13,077.0	1,002.8
Long-term debt.....	3,540.1	0.0	1,009.6	77.4
Total long-term liabilities.....	4,298.3	433.6	1,160.1	89.0
Total liabilities.....	9,838.0	13,712.6	14,237.1	1,091.8
Total stockholders' equity.....	6,479.4	7,295.0	8,367.4	641.7
Total liabilities and stockholders' equity.....	16,317.5	21,007.6	22,604.4	1,733.5

## Other Operating Data

	Years Ended December 31,			
	2007	2008	2009	2009
	(millions of Pesos, except percentages, ratios and Other Operating Data)			(millions of U.S. Dollars, with same exceptions)
<b>Selected Segment Financial Data:</b>				
<b>Segment Net Sales:</b>				
Retail operations in Mexico .....	11,326.5	11,133.0	10,832.3	830.7
Retail operations in the U.S. ....	2,808.2	3,593.9	4,096.4	314.1
Other businesses <sup>(1)</sup> .....	969.3	848.7	763.3	58.5
Total segment net sales .....	15,104.0	15,575.7	15,692.0	1,203.4
Intersegment operations .....	(922.8)	(813.4)	(745.1)	(57.1)
Total consolidated net sales .....	14,181.2	14,762.2	14,946.9	1,146.2
<b>Segment Operating Income (Loss)</b>				
<b>Before Depreciation and Amortization<sup>(2)</sup>:</b>				
Retail operations in Mexico .....	1,265.8	1,116.1	1,659.5	127.3
Retail operations in the U.S. ....	246.2	217.5	(127.7)	(9.8)
Other businesses .....	16.9	(4.8)	(88.7)	(6.8)
Total segment operating income before depreciation .....	1,528.9	1,328.8	1,443.1	110.7
Intersegment operations .....	125.3	127.2	111.3	8.5
Total consolidated operating income before depreciation .....	1,654.2	1,456.0	1,554.4	119.2
<b>Other Financial Data:</b>				
Credit sales.....	11,142.4	11,890.9	12,123.7	929.7
Accounts receivable .....	9,906.5	13,063.4	14,854.7	1,139.2
Non-performing loans as a percentage of total accounts receivable <sup>(3)</sup> .....	8.0	12.0	16.1	
Number of active credit accounts (000s).....	1,144.1	1,687.8	1,670.2	
Provision for doubtful accounts .....	367.7	610.5	1,225.8	94.0
Allowance for doubtful accounts .....	112.6	126.4	723.6	55.5
Net write-offs .....	339.1	596.7	628.6	48.2
Allowance for doubtful accounts as a percentage of total accounts receivable.....	1.1	1.0	4.9	
Net write-offs as a percentage of total accounts receivable .....	3.4	4.6	4.2	
<b>Growth and Profitability Ratios (Unaudited):</b>				
Net sales growth .....	10.3%	4.1%	1.3%	
Same-store sales growth .....	(1.3)%	(2.7)%	(5.4)%	
Gross margin .....	45.8%	49.0%	50.8%	
Adjusted EBITDA margin <sup>(4)</sup> .....	11.7%	9.9%	10.4%	
Operating income margin .....	9.4%	7.0%	7.5%	
Net income margin.....	3.7%	3.8%	0.7%	
<b>Credit Ratios (Unaudited):</b>				
Total debt as percentage of total capitalization <sup>(5)</sup> .....	47.2	48.7	31.8	
Total debt to operating income .....	4.4	6.7	3.5	
Net debt to operating income .....	4.1	5.7	2.1	
Total debt to adjusted EBITDA <sup>(4)</sup> .....	3.5	4.8	2.5	
Net debt to adjusted EBITDA <sup>(4)</sup> .....	3.3	4.1	1.5	

	Years Ended December 31,			
	2007	2008	2009	2009
	(millions of Pesos, except percentages, ratios and Other Operating Data)			(millions of U.S. Dollars, with same exceptions)
Adjusted EBITDA minus capital expenditures to gross interest expense <sup>(4)</sup> .....	1.17	0.60	1.09	
<b>Other Operating Data (Unaudited):</b>				
Number of retail stores .....	390	421	410	
Total store area (square meters) .....	494,325	547,415	544,456	
Same-store sales growth (percentage) <sup>(6)</sup> .....	(1.3)%	(2.7)%	(5.4)%	
Mexican retail sales per square meter <sup>(7)</sup> .....	30.3	27.2	25.8	2.0
U.S. retail sales per square meter <sup>(7)</sup> .....	34.9	32.4	32.7	2.5
<b>Banco Famsa Deposits (Unaudited)<sup>(8)</sup>:</b>				
Demand Deposits .....	182	507	1,496	114.7
Short- and Medium-Term Investments .....	76	880	5,881	451.0
Money Market.....	—	1,745	—	—
Consolidated Bank Deposits .....	258	3,132	7,377	565.7
Deposit Accounts (000s) .....	84	332	613	
Banking Branches .....	176	277	276	

(1) Comprised of our wholesale, furniture manufacturing and footwear catalog businesses in Mexico.

(2) Operating Income (Loss) Before Depreciation is used as a measure of our segment financial performance that we believe indicates profitability in continuing business activities. Operating Income (Loss) Before Depreciation is different from earnings before interest, taxes, depreciation, and amortization (EBITDA), which reflects adjustments to net income instead of adjustments to operating income.

(3) More than 90 days past due.

(4) Adjusted EBITDA is not a financial measure computed under MFRS. Adjusted EBITDA derived from our MFRS financial information means MFRS net income (loss) excluding (i) depreciation of goodwill, (ii) net comprehensive financing cost (which is composed of net interest expense (income), foreign exchange gain or loss and monetary position gain or loss), (iii) income tax expense and employees statutory profit-sharing expense and (iv) other items such as other income (expenses) net, minority interest and change in accounting standards. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—EBITDA and Adjusted EBITDA Reconciliation.”

(5) Total capitalization is calculated as total debt plus total stockholders’ equity.

(6) 2007 same-store sales growth is calculated in “real” terms (in accordance with the inflationary accounting method used prior to January 1, 2008). All other figures are nominal.

(7) Average sales per square meter, in thousands of Pesos.

(8) For a description of Banco Famsa’s deposits see “Our Business—Banco Famsa—Products and Services.”

## **RISK FACTORS**

*You should carefully consider the following discussion of risks, as well as all the other information presented in this offering circular before investing in the notes. These risks are not the only risks that affect our business. Additional risks that are presently unknown to us or that we currently deem immaterial may also impair our business. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, financial condition and prospects.*

### **RISKS RELATED TO OUR BUSINESS**

#### **The loss of our market share to competitors may adversely affect our performance.**

We face intense competition in each of our product categories. Both the Mexican and U.S. retail markets are highly fragmented, encompassing large store chains, department stores, household appliance and electronics stores, discount warehouse clubs and a broad range of smaller independent specialty stores targeting both high and middle and lower-middle income levels. In Mexico, we compete with large domestic retailers, such as Grupo Elektra and Coppel, and with the Mexican subsidiaries or affiliates of international chains, including Wal-Mart, Sears and Best Buy, and in the United States, we compete with large U.S. retailers, such as Ashley Furniture, Rooms to Go, Best Buy and Sears, and with local and regional retailers that directly target U.S. Hispanics, such as Conn's, La Cuacao, Dearden's and Lacks. Many of our competitors have resources greater than ours. Some U.S. retail chains have also entered into strategic alliances with our competitors in certain local markets in Mexico, with the aim of opening new stores in those markets. In addition, as a result of the North America Free Trade Agreement ("NAFTA") and other free trade agreements to which Mexico is a party, other U.S. and European retailers may enter into similar arrangements or alliances in the future. We also compete, to a certain extent, with informal or "black" markets and street vendors. Any increase in the existing competition, the consolidation of the retail sector or the entry of new and more sophisticated competitors into our current or future markets could impact our business activities and, accordingly, have an adverse effect on our margins, results of operations, financial condition and prospects. See "Our Business—Our Markets" and "Our Business—Retail Operations—Competition" below.

#### **Our competitiveness and profitability depend on our ability to offer competitive financing terms to our customers.**

The consumer finance segments in both Mexico and the United States are highly competitive. We derive a significant portion of our revenues from our sales on credit. The price of the merchandise sold on credit is determined based on the cash price of the relevant product plus a surcharge, and, as a result, our sales on credit yield higher margins than our cash sales. Competition in the consumer finance business may increase significantly as a result of the introduction of new banking and other financial products, such as credit card and personal loans targeted towards the lower-middle class segment of the population, which constitutes our primary target customer base. Banco Famsa has faced and will continue to face strong competition in Mexico from banking institutions associated with Famsa Mexico competitors in the retail market, such as Banco Azteca, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Grupo Elektra, Bancoppel, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Coppel, and Banco Wal-Mart de México Adelante, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Wal-Mart. See "—Risks Related to Banco Famsa." Any increase in competition could affect our market position if our competitors are able to offer financing terms more attractive than ours.

In addition, our results of operations and financial condition could be adversely affected by any future imposition of price controls or restrictions on the interest rates that we can charge or other commercial terms under our credit sales program in either Mexico or the United States, or our inability to adjust our credit approval policies in response to future economic conditions. Any increase in competition could also affect the profitability of the consumer finance segment in general, thereby causing our competitors to adopt more aggressive pricing policies. See "Our Business—Consumer Lending Operations—Sales on Credit and Approval Process."



**Adverse economic conditions in Mexico and the United States may adversely affect our financial condition and results of operations.**

Our continued success depends largely on the economic conditions in the countries in which we operate. The global economy, including in Mexico and the United States, is currently undergoing a period of slowdown and volatility and has been materially and adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruption in the credit markets, reduced business activity, rising unemployment, decline in interest rates and erosion of consumer confidence. This situation has had a direct adverse effect on the purchasing power of our customers in Mexico and the United States, and has reduced the quality of our loan portfolio. In addition, Mexico's economy is largely influenced by the economic conditions in the United States as a result of various factors, including the volume of commercial transactions under NAFTA and the level of U.S. investments in Mexico. Events and conditions that affect the U.S. economy can also affect our business, results of operations and financial condition. The macroeconomic environment in which we operate is beyond our control, and the future economic environment may continue to be less favorable than that of recent years. Our level of revenues depends to a significant extent on our stores' ability to maintain high sales volumes, efficient inventory and distribution levels and strict control systems, which in turn depend on the recuperation of the global economy. There is no assurance when such recuperation will take place or the current economic conditions will ameliorate. The risks associated with current and potential changes in the Mexican and United States economies are significant and could have a material adverse effect on our business and results of operations.

**We are a holding company with no revenue generation on our own and depend upon dividends and other funds from subsidiaries to fund our operations and pay our obligations.**

We are a holding company and our operations are conducted through our subsidiaries. As a result, our ability to fund our operations and pay our obligations depends on the ability of our subsidiaries to generate earnings and to pay dividends to us.

Our subsidiaries are separate and distinct legal entities. Any payment of dividends, distributions, loans or advances by our subsidiaries is limited by general provisions of Mexican law regarding allocation of corporate profits, including those regarding mandatory employees' profit-sharing. Our banking subsidiary Banco Famsa may be restricted from paying dividends to us if it does not meet its required regulatory capital ratios or does not have sufficient retained earnings (see "Regulation—Legal Regime Applicable to Banco Famsa"). Payment of dividends by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations and contractual restrictions contained in debt instruments. Additionally, our right to receive any assets of any of our subsidiaries as an equity holder of those subsidiaries, upon their liquidation or reorganization, will be effectively subordinated to the claims of our subsidiaries' creditors, including trade creditors, and, in the case of Banco Famsa, will be subject to the special liquidation provisions applicable to Mexican banking institutions (see "Regulation—Legal Regime Applicable to Banco Famsa"). For additional information concerning these restrictions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness."

**Our success depends on our ability to retain certain and attract new key executives and maintain good relations with our employees.**

Our continued success will depend on our ability to retain certain key executives. In particular, our senior executives have extensive experience in the retail market for household appliances, furniture and consumer finance services, and the loss of any of these executives could have an adverse effect on us. Competition to attract these types of qualified individuals is intense, and we may be unable to attract key executives with the requisite experience and skills. We do not maintain key-man insurance on our executive officers and, as a result, we are exposed to the risk of any one or more of such individuals being unable to continue rendering their services to us. Our future success will also depend on our ability to identify, recruit, train and retain qualified sales, marketing and administrative personnel and to manage our personnel turnover. Approximately 34.9% of our employees are affiliated with labor unions, and we may be forced to incur increased overhead costs to avoid disruptions in our business operations in the event of a threatened strike or other labor dispute. Any conflict with our labor unions may affect our operations and result in a decrease in our sales volume or an increase in our overhead costs. See "Our Business—Employees" and "Management—Executive Officers."

**Our operations in the United States are exposed to various risks that differ from those we face in Mexico.**

We operate in the U.S. retail industry and plan to continue expanding our business operations in the United States. For the year ended December 31, 2009, our net sales in the United States accounted for 27.5% of our total net sales. As a result, we are exposed to the risks associated with doing business in the United States including the risks of:

- economic recessions;
- changes in government policies;
- international developments;
- contraction in the employment market for U.S. Hispanics;
- acts of war or terrorism;
- political instability; and
- protectionist government policies, including immigration policy.

Any of these risks may affect our business operations in the United States and, accordingly, the Company as a whole.

The U.S. consumer finance sector is subject to numerous U.S. federal, state and local laws and regulations, including some that impose information disclosure requirements on retailers engaged in the sale of merchandise on credit and others (*e.g.*, usury laws) that limit the amount of interest or interest rates that retailers may charge their customers and other commercial terms. Additional legislation (including the establishment of a new federal consumer protection agency) is currently under consideration by the U.S. government. We are also subject to numerous laws and regulations applicable to the U.S. retail industry generally, including laws and regulations in connection with the import, marketing and sale of products, consumer protection and zoning. Any change in the regulatory framework in the United States, or the imposition of special authorization requirements in connection with our credit sales program, may adversely affect our U.S. operations and in turn our business operations and financial condition.

In addition, our U.S. operations are subject to various immigration laws and regulations that require us to verify the employment eligibility of our personnel in that country and to maintain appropriate records to evidence our compliance therewith. While some of these requirements may change or become more stringent as a result of a proposed overhaul of the entire U.S. immigration system, the federal legislative bodies of the United States government have yet to approve a series of proposals in connection therewith, including certain proposed legislation that would result in the imposition of more severe penalties to any person that enables others to reside or remain in the U.S. illegally. If these proposed reforms are approved and incorporated into law, we may be forced or compelled to adopt stricter employment and credit eligibility requirements so as to ensure that all of our employees and customers are legal residents of the United States. This would cause us to incur additional expenses to comply with any such new law.

**We may not be able to acquire an adequate supply of high-quality, low-cost merchandise.**

Our future success, largely depends on our ability to secure a sufficient volume of merchandise for our stores at an attractive cost. Historically, we have been able to acquire quality merchandise at a low cost, but such merchandise may not be available in the future at all or in amounts sufficient to satisfy the demand from our customers. We do not rely heavily on any one supplier of merchandise for our stores. However, we purchase a substantial portion of our product inventories from: Whirlpool, Mabe and Electrolux Home Products, which supply household appliances; Sony, Panasonic and LG Electronics, which supply electronics; and Movistar and Telcel, which supply cellular telephones. Our business operations may be disrupted if we are unable to secure an adequate supply of merchandise at reasonable prices. See “Our Business—Retail Operations—Suppliers.”

**Our success depends on our ability to distribute our products to our stores on a timely and cost-efficient basis.**

Our success depends on our ability to distribute our products to our stores on a timely and cost-efficient basis. Our nine distribution centers in Mexico and six distribution centers in the United States receive inventory deliveries from our suppliers for processing and subsequent distribution to our stores and warehouses. The orderly operation of our receipt and distribution of inventory requires the effective management of our distribution centers and an adherence to our logistics guidelines. Our rapidly growing operations exert pressure on our inventory receiving and distribution systems, which could be affected by one or more of the following factors:

- the upgrade and expansion of our existing distribution centers and the installation of new distribution centers to accommodate our growth;
- any disruptions on the operation or our ability to improve or upgrade our information technology infrastructure and management information systems, in particular our supply chain management software system;
- disruptions in the delivery processes; and
- natural disasters or casualties, such as fires, explosions, hurricanes, tornadoes, floods or earthquakes, which may affect our inventory receipt and distribution processes.

See “Our Business—Retail Operations—Distribution Network.”

**Price competition may affect our results.**

Price competition in the retail industry is intense. We are subject to increasing pressure to reduce our prices as the industry continues to consolidate and more of our competitors are able to benefit from their economies of scale to offer lower prices. We may be unable to increase or maintain our current gross margins, and the decrease of such margins would have a negative effect on our business.

**Our future operating results may fluctuate and, accordingly, are difficult to predict.**

In the future, our annual and quarterly results may experience significant fluctuations due to various factors that are beyond our control, including the seasonal nature of our business. Historically, the demand for our products and services tends to increase during the second and fourth quarters of the year as a result of the increase in consumer spending associated with Mothers’ Day and the Christmas holiday season. Our quarterly operating results are not indicative of our results for a full year. See “Our Business—Overview—Basic Strategy.”

**We are exposed to credit risks in connection with our credit sales program, and our allowance for doubtful accounts may be insufficient to offset such risks.**

For the year ended December 31, 2009, sales on credit accounted for 81.1% of our total sales and our accounts receivable reached Ps.14,131 million. As a result, we are exposed to credit risks and may suffer losses if the customers of our credit sales program, personal loans and business credit products do not meet their payment obligations. Our non-performing loans, which are loans that are more than 90 days past due, as a percentage of accounts receivable for the year ended December 31, 2009, were 16.1%. Although we seek to minimize our exposure to this credit risk by subjecting our customers to strict credit approval policies and processes, any impairment in the quality of our loan portfolio or any increase in the amount of our non-performing accounts could affect our results of operations and financial condition if our allowance for doubtful accounts proves insufficient to offset losses therefrom.

The amount of our allowance for doubtful accounts is determined based on risk considerations given our past practices and experience. Although we believe that our allowance for doubtful accounts is adequate and sufficient to cover any losses associated with our loan portfolio, in the future we may be required or may deem it desirable to increase the amount of such provision. Any increase in our allowance for doubtful accounts may have an adverse effect on our results of operations and financial condition. See “Management’s Discussion and Analysis

of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Allowance for Doubtful Accounts,” “Regulation—Legal Regime Applicable to Banco Famsa” and “Our Business—Consumer Lending Operations.”

**We depend on Banco Famsa deposits as our primary source of financing.**

We have traditionally relied on a variety of funding sources, including credit lines with major financial institutions, commercial paper offerings in Mexico and international markets, and equity offerings in Mexico. We have only recently transformed our funding strategy to rely principally on Banco Famsa’s deposit base as a source of funding for our credit sales program and operations. We are, therefore, subject to the risks associated with Banco Famsa’s deposits. See “—Risks related to Banco Famsa.” We cannot guarantee that we will be able to continue to rely on Banco Famsa’s deposit base as our primary source of financing or that we will be able to do so on terms favorable to us. We also cannot assure you that our strategy of relying on Banco Famsa’s deposits as a source of funding will be an acceptably cost-effective and stable form of financing for our needs.

Furthermore, in the event that Banco Famsa’s deposit base is insufficient to finance our credit sales programs or operations, we cannot assure you that we will be able to extend maturities on our current lines of credit, acquire additional financing in the form of credit lines with major financial institutions or continue to access the Mexican or international capital markets on terms acceptable to us. Adverse developments in the Mexican and international credit markets, including higher interest rates, reduced liquidity or decreased interest by financial institutions in lending to us may increase our cost of borrowing or refinancing maturing indebtedness, with adverse consequences to our financial condition and results of operation. We cannot assure you that we will be able to refinance any indebtedness we may incur or otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

**Our business operations depend on the integrity of our employees.**

Our success and profitability depend largely on the quality and integrity of our employees at every level of our distribution process. Any breach in the quality or integrity of our employees could have an adverse effect on our success and profitability.

**Our business operations are dependent, in part, upon the success of our new product and service offerings.**

Our success and profitability depend to a certain extent on the market acceptance of our new product and service offerings, such as Internet sales, new consumer financing products, footwear catalog sales, travel packages and automobile financing, in addition to other products and services primarily directed to customers in higher income brackets. Additionally, we expect that through the continuing development and integration of Banco Famsa, we will be able to offer a growing variety of personal and business financial products and services in Mexico. Our new products and services could fail to gain market acceptance once available in our stores or at Banco Famsa’s branches, and we may be unable to anticipate in a timely fashion the ever-changing needs of our customers, which could render obsolete our new product and service offerings. If our competitors in the retail and consumer financing sectors are able to anticipate the market trends better than we are, our market share could decrease. See “Our Business—Overview—Business Strategy.”

**We may not be able to achieve our growth expectations.**

We expect to achieve significant growth through the opening of new stores, but we may be unable to fully implement our growth strategy in Mexico or the United States as a result of numerous factors, including adverse changes in economic conditions generally, our inability to secure financing on attractive terms and conditions, the unavailability of suitable retail space, difficulties in complying with the regulatory framework applicable in the jurisdictions in which we intend to open new stores, and our inability to attract and retain personnel for our new locations. The performance of any one or more of our new stores may fail to meet our expectations.

In addition, our cash flows may prove insufficient to finance the costs associated with the establishment of new stores, which may require us to seek other sources of financing. Our growth and expansion strategy would be hindered if we are unable to secure financing on favorable terms and conditions. Our growth and expansion strategy also calls for the opening of new stores in new markets, and the performance of such new stores may differ from that

of our existing stores. Similarly, the opening of new stores in markets in which we already operate could affect the sales volumes of our existing stores in those markets. In either case, the performance of our new stores may fail to justify the operating expenses associated with the opening of such stores, which could affect our margins. See “Our Business—Overview—Business Strategy” and “Our Business—Our Markets—Market Expansion Strategy.”

**Failures in our information systems, or any problem or delay in the installation of new systems, could have an adverse effect on our business operations.**

We depend heavily on our information technology (“IT”) systems to conduct our business activities, including our sales processing, inventory purchase and management, product distribution and customer service functions and maintain a cost-efficient operation. From time to time, our IT systems experience failures or suffer disruptions as a result of computer viruses, hacking and other similar events. Any material failure or disruption in our IT systems could result in the loss or damage of our customers’ purchase order information, which could give rise to delays in the delivery of merchandise to our stores and a decrease in sales, particularly during the Christmas holiday season. In 2007, we upgraded the IT systems used by our clothing, human resources and payroll departments through the incorporation of new technology, as well as Banco Famsa’s IT systems. Our ability to remain competitive will depend in part on our ability to upgrade our IT systems on a timely, cost-effective basis. We must continually make significant investments and improvements in our IT systems to remain competitive, in particular as we continue to open new stores and distribution centers in Mexico or the United States. In the future, we may be unable to develop or acquire the information technology systems necessary to address our customers’ needs. In addition, any future changes in technology could render our IT systems obsolete or unable to accommodate our growth, which could in turn result in a decrease in sales. See “Our Business—Systems.”

**RISKS RELATED TO BANCO FAMSA**

**We face uncertainties in connection with our banking activities.**

Banco Famsa was created in 2007 to provide consumer financing and deposit services to our retail customers. The performance of Banco Famsa and its ability to attract deposits and successfully offer consumer financing services is directly related to the ability of Banco Famsa to obtain deposits from our existing retail customers. However, Banco Famsa may find it difficult to attract deposits from or market its services to our existing retail customers who do not yet bank with Banco Famsa and who generally do not bank with other institutions. Accordingly, Banco Famsa may require additional capital investments in the future. In addition, Banco Famsa’s client portfolio is comprised of individuals with no previous or limited credit history who are more likely to default on their repayment obligations during periods of economic crisis.

Banco Famsa competes with a number of Mexican banks and Mexican affiliates of foreign financial institutions. The operations and activities of Banco Famsa are subject to the legal regime applicable to the Mexican banking industry, the accounting requirements prescribed by the CNBV and various other laws and regulations not otherwise applicable to our business operations. Such laws, regulations and requirements may impose restrictions upon Banco Famsa’s operations and activities and the activities of the Company in general. The application of different accounting standards to Banco Famsa and the rest of the Company may have an adverse effect on the recognition of our income and expenses, which could reduce our profitability. Any future change in the legal regime applicable to Banco Famsa could subject it to additional restrictions and affect its business operations and financial results. For more information on the legal regime applicable to Banco Famsa, see “Our Business—Regulation—Legal Regime Applicable to Banco Famsa.”

We cannot assure you that our banking activities will be successful or profitable. In addition, we cannot guarantee that the results of Banco Famsa will not have an adverse effect on our consolidated results of operations. See “Our Business—Banco Famsa.”

**The short-term nature of Banco Famsa’s financing resources may expose it to liquidity risks.**

Since 1994, Mexican banks have at times experienced liquidity shortages in the international financial markets, particularly in connection with the refinancing of their short-term debt. We cannot guarantee that the Mexican financial system will not experience liquidity shortages in the future, or that Banco Famsa will not be

affected by any such liquidity shortage. Although we expect that Banco Famsa will be able to repay or refinance its debt, there is no guarantee that it will be able to repay such debt or refinance it on favorable terms.

Banco Famsa intends to use its customer deposits as its primary source of financing, and we anticipate that our Mexican customers will continue to demand deposit services (particularly in the form of on-demand or short-term deposits) and short-term loans. However, we cannot guarantee that our customers will place their deposits with Banco Famsa or that such deposits will provide a stable source of financing for Banco Famsa, which in turn would affect Famsa because it relies on Banco Famsa as a principal source of funding. As of December 31, 2009, substantially all of Banco Famsa's deposits had current maturities of one year or less or were payable upon demand. In the past, a substantial portion of our bank deposits has been rolled over upon maturity, however, we cannot assure that this practice will continue and that Banco Famsa will be able to maintain the stability or consistency of its deposit base. The withdrawal of deposits by a significant number of Banco Famsa's customers would affect Banco Famsa's liquidity position, which would force Banco Famsa to seek financing from other, more expensive sources of short-term or long-term funding to finance Banco Famsa's operations, which, in turn, may have a material adverse effect on our consolidated financial condition or results of operation.

#### **Banco Famsa faces competition from other banks and financial institutions.**

Banco Famsa caters to the lower-middle class segment of the Mexican population, which has historically been underserved by the traditional banking system. However, Banco Famsa has faced and will continue facing strong competition in Mexico from banking institutions associated with Famsa's competitors in the retail market, which serve the same segment of the population as Banco Famsa, such as Banco Azteca, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Grupo Elektra, Bancoppel, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Coppel, and Banco Wal-Mart de México Adelante, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Wal-Mart. Furthermore, competition in the banking industry for clients among the lower-middle class segment may increase significantly as a result of the introduction of new banking and other financial products, such as credit cards and personal loans that target the lower-middle class or as a result of changes in regulations applicable to financial institutions, which could enable new participants focusing on Banco Famsa's target market to enter the banking industry more easily. Any increase in competition could affect our market position if our competitors are able to offer financing terms more attractive than ours. In addition, new competitors, including microfinance financial institutions, may emerge, and existing competitors may in the future engage in more aggressive efforts to attract Banco Famsa's customers, which may adversely affect the volume and profitability of Banco Famsa's operations.

#### **Changes in the Mexican banking regulatory framework may affect the results of Banco Famsa.**

Like the rest of the Mexican banks, Banco Famsa is subject to comprehensive regulation and supervision by Mexican regulatory authorities, such as *Banco de México*, the CNBV and the Ministry of Finance and Public Credit. These regulatory authorities have broad powers to adopt regulations and other requirements affecting or restricting virtually all aspects of Banco Famsa's capitalization, organization and operations, including the authority to regulate the interest rates and fees that it is allowed to charge and the other terms and conditions of its consumer lending transactions. Moreover, Mexican financial regulatory authorities possess significant power to enforce applicable regulatory requirements in the event of Banco Famsa's failure to comply with them, including by imposing fines, requiring the contribution of new capital, inhibiting Banco Famsa from paying dividends to us or paying bonuses to employees, and restricting or revoking licenses or permits to operate its business. In the event Banco Famsa encounters significant financial problems or becomes insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over Banco Famsa's management and operations. See "Regulation—Legal Regime Applicable to Banco Famsa."

Mexican banking and financial services laws and regulations are subject to continuing review and changes, and any such future changes may have an adverse impact on, among other things, Banco Famsa's ability to grant and collect on loans, transfer non-performing loans and otherwise extend credit on terms and conditions and at interest rates that are adequately profitable, which could materially and adversely affect Banco Famsa's and our consolidated results of operations and financial position.

The revocation of Banco Famsa's license or government approvals to operate its business, or the imposition of any restrictions on Banco Famsa's ability to grant consumer loans, may in turn affect the sales volumes of our

retail stores, which rely on the consumer financing supplied by Banco Famsa, and in turn affect our results of operations and financial position. See “Our Business—Regulation.”

**Future Mexican government restrictions on interest rates and banking fees may affect Banco Famsa’s liquidity and profitability.**

Our Mexican consumer finance operations implemented through Banco Famsa are subject to the legal regime applicable to the Mexican banking industry in general, including the Law for the Protection and Defense of the User of Financial Services (*Ley de Protección y Defensa al Usuario de Servicios Financieros*). This law does not impose any limit on interest rates or banking fees, subject to certain exemptions, that a bank may charge. However, the possibility of imposing such limits has been and continues to be debated by the Mexican Congress and Mexican banking authorities. In the future, the Mexican banking authorities could impose restrictions on the interest rates or fees charged by banks or impose additional interest rate or fees information disclosure requirements. We derive a substantial portion of our revenues and operating flows from our consumer lending business, and the imposition of any such restriction or requirement could impact Banco Famsa’s competitiveness and have a material adverse effect on our financial performance.

Any change in the Mexican laws applicable to Banco Famsa, including the imposition of credit approval requirements, could have an adverse effect on our financial condition and results of operations. See “Our Business—Regulation.”

**Guidelines for loan classification and loan loss reserves in Mexico may be less stringent than those in other countries.**

Mexican banking regulations require Banco Famsa to classify each loan or type of loan (other than loans to the Mexican government, *Banco de México*, *Instituto de Protección al Ahorro Bancario* (“IPAB”) and certain international organizations) according to a risk assessment that is based on specified criteria, to establish corresponding reserves and, in the case of some non-performing assets, to write-off certain loans. The criteria to establish reserves include both qualitative and quantitative factors. Mexican regulations relating to loan classification and determination of loan loss reserves are generally different or less stringent than those applicable to banks in the United States. Banco Famsa may be required or deem it necessary to increase its loan loss reserves in the future. Increasing loan loss reserves for Banco Famsa could materially and adversely affect Banco Famsa and our results of operations and financial position.

**Banco Famsa may be unable to effectively control the level of non-performing or poor credit quality loans or have insufficient loan loss reserves to cover future loan losses.**

Non-performing or low credit quality loans can negatively impact Banco Famsa and our results of operations. We cannot assure you that we will be able to effectively control and reduce the level of the impaired loans in Banco Famsa’s total loan portfolio. In particular, the amount of Banco Famsa’s non-performing loans may increase in the future as a result of growth in Banco Famsa’s total loan portfolio, including as a result of loan portfolios that Banco Famsa may acquire from time to time or otherwise, or factors beyond our control, such as the impact of macroeconomic trends, political events affecting Mexico or changes to accounting principles or other laws or regulations applicable to us or events affecting our target customers. In addition, Banco Famsa’s current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of Banco Famsa’s total loan portfolio. As a result, if the quality of Banco Famsa’s total loan portfolio deteriorates we may be required to increase our loan loss reserves, which may adversely affect Banco Famsa and our financial condition and results of operations. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves will be sufficient to cover actual losses. If we are unable to control or reduce the level of Banco Famsa’s non-performing or poor credit quality loans, Banco Famsa and our financial condition and results of operations could be materially and adversely affected.

**Mexican banks such as Banco Famsa, are subject to strict capitalization requirements.**

Mexican banks are required to maintain a net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. If Banco Famsa were to not comply with these requirements, two risk scenarios could arise: (i)

pursuant to articles 134 Bis and 134 Bis 1 of the Mexican Law of Credit Institutions, the CNBV could impose a minimum corrective measure, or (ii) pursuant to numeral V of article 28 of the Mexican Law of Credit Institutions, and under certain circumstances, the CNBV could revoke the authorization granted to Banco Famsa to operate as a banking institution. See “Regulation—Legal Regime Applicable to Banco Famsa.” The imposition of either scenario, and the consequences therefrom, could adversely affect Banco Famsa’s and our financial condition and results of operation.

**Loans due within 12 months account for a majority of Banco Famsa’s interest income, and any significant reduction in short-term loans or disruption in the economy may result in a significant decrease in our interest income.**

A majority of Banco Famsa’s outstanding loans consists of short-term consumer loans that are due within 12 months or less. The near-term maturity dates of these loans means that Banco Famsa’s long-term interest income stream is less certain than if a higher proportion of Banco Famsa’s loans were long-term loans. Customers of our personal loan and credit sales programs may not continue to borrow from us if competition increases or lower interest rate financings become available to them as a result of a general decrease in rates or the availability of new or different funding sources. In addition, the near-term maturity dates for repayment of these loans means that any disruption in the economy or in the specific sectors of the economy to which we primarily lend could result in a higher overall default rate on Banco Famsa’s loans. Either of these two factors of unstable interest income and a higher rate of loan defaults could materially and adversely affect Banco Famsa’s and our results of operations and financial position.

**Banco Famsa may be required to make significant contributions to IPAB.**

Under Mexican law, banks are required to make monthly contributions to IPAB to support its operations that are equal to 1/12 of 0.004% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. IPAB was created in January 1999 to manage the bank savings protection system and regulate the financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. Banco Famsa contributed Ps.3.9 million in 2008 and Ps.24.0 million in 2009. In the event that IPAB’s reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, IPAB maintains the limited right to require extraordinary contributions to participants in the system.

**Banco Famsa may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose Banco Famsa to additional liability and harm our business.**

Banco Famsa is required to comply with applicable anti-money laundering laws and other regulations in Mexico. These laws and regulations require Banco Famsa, among other things, to adopt and enforce “know your customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where Banco Famsa may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent Banco Famsa fails to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on Banco Famsa, including revoking Banco Famsa’s license to engage in commercial banking activities. In addition, Banco Famsa’s and our business and reputation could suffer if we fail to detect and prevent customers who engage in money laundering or illegal or improper purposes. See “Regulation—Legal Regime Applicable to Banco Famsa.”

**Failure to successfully implement and continue to upgrade Banco Famsa’s credit risk management system could materially and adversely affect Banco Famsa’s business operations and prospects.**

One of the principal types of risks inherent to Banco Famsa’s business is credit risk. We may not be able to, on a timely basis, upgrade Banco Famsa’s credit risk management system. For example, an important part of Banco Famsa’s credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a client. As this process involves detailed analyses of the client or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a client or credit risk, which may result in Banco Famsa’s



exposure to higher credit risks than indicated by Banco Famsa's risk rating system. However, we may not be able to timely detect these risks before they occur, or due to limited resources or tools available to us, our employees may not be able to effectively implement them, which may increase Banco Famsa's credit risk. As a result, failure to implement effectively, consistently follow or continuously refine Banco Famsa's credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect Banco Famsa's and our results of operations and financial position.

**Reductions in Banco Famsa's credit ratings would increase its cost of borrowing funds and make its ability to raise new funds, attract deposits or renew maturing debt more difficult.**

The credit ratings of Banco Famsa are an important component of its liquidity profile. Among other factors, Banco Famsa's credit ratings are based on the financial strength, credit quality and concentrations in its total loan portfolio, the level and volatility of its earnings, its capital adequacy, the quality of management, the liquidity of its balance sheet, the availability of a significant base of core retail and commercial deposits, and its ability to access funding sources. Changes in Banco Famsa's credit ratings would increase its cost of borrowing funds or renewing maturing debt or its ability to access the capital markets. The ability of Banco Famsa to compete successfully in the marketplace for deposits depends on various factors, including its financial stability as reflected by its credit ratings. A downgrade in Banco Famsa's credit rating may adversely affect perception of its financial stability and its ability to raise deposits.

## **RISKS RELATED TO MEXICO**

**Our business and customers may be negatively affected by the recent global and Mexican financial downturn.**

The economic and market conditions of Mexico, as well as the financial condition and operating results of our company, are greatly affected by worldwide economic conditions. The recent global deterioration of economic conditions has led to reductions in available capital and liquidity, reductions in equity and currency values, extreme volatility in credit, equity and fixed income markets and general economic uncertainty in Mexico and around the world. Continuing deterioration may harm our financial condition, inhibit demand for our services and adversely affect our suppliers and customers. The effects of the current economic situation are extremely difficult to forecast and mitigate.

**Health epidemics and other outbreaks in Mexico may affect our business operations.**

Our business could be adversely affected by the effects of avian flu, severe acute respiratory syndrome, SARS, H1N1 flu or another epidemic or outbreak. In April 2009, an outbreak of H1N1 flu occurred in Mexico and the United States and has spread to more than 70 countries, leading the World Health Organization to declare the first global flu pandemic in over 40 years. Any prolonged occurrence or recurrence of avian flu, SARS, H1N1 flu or other adverse public health developments in Mexico may have a material adverse effect on our business operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities and developments which could disrupt our operations, and a general slowdown in the Mexican economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS, H1N1 flu or any other epidemic.

**Weakness in the Mexican economy could adversely affect our business, financial condition and results of operations.**

Our operations, results and financial condition are dependent in part upon the level of economic activity in Mexico. Mexico experienced a period of slow economic growth from 2001 through 2003, primarily as a result of the downturn in the U.S. economy. According to *Banco de México* estimates, in 2001, Mexico's gross domestic product, or GDP, declined by 0.2%, while inflation reached 4.4%. In 2002, GDP grew by 0.8% and inflation reached 5.7%. In 2003, GDP grew by 1.4% and inflation declined to 4.0%. In 2004, GDP grew by 4.0% and inflation increased to 5.2%. In 2005, GDP grew by 3.2% and inflation decreased to 3.3%. In 2006, GDP increased by 5.1% and inflation increased to 4.1%. In 2007, GDP increased by 3.3% and inflation decreased to 3.8%. In 2008, GDP increased by 1.3% and inflation increased to 6.8%. In 2009, GDP increased by 6.5% and inflation decreased to 3.6%.

Mexico also has, and is expected to continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities (*certificados de la tesorería*) averaged approximately 6.8%, 9.2%, 7.2%, 7.2% 7.7% and 5.4% for 2004, 2005, 2006, 2007, 2008 and 2009, respectively. Relative to the U.S. Dollar, the Peso appreciated by 0.8% in 2004, appreciated by 4.6% in 2005, depreciated by 1.7% in 2006, depreciated by 1.0% in 2007, depreciated by 26.7% in 2008, and appreciated by 5.5% in 2009, all in nominal terms. Accordingly, to the extent that we incur Peso-denominated debt in the future, it could be at high interest rates.

As a consequence of the global recession and economic slowdown during 2008, the Mexican economy entered into a recession. In Mexico, GDP growth during the year ended December 31, 2009 contracted 6.5% compared to the year ended December 31, 2008. As of December 31, 2009, twelve-month accumulated inflation had increased 3.6% compared to 6.8% during the same period in 2008. As a consequence, the Mexican consumer confidence index decreased to an eight-year low of 77.0 points, with a corresponding impact on consumption. As a result, consumer purchasing power may decrease and demand for furniture, electronics and household appliances may also decrease. The current recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. These factors could result in a decrease in our revenues and profit.

**Fluctuations in the exchange rate between the Peso and the U.S. Dollar could lead to an increase in our cost of financing and have an adverse effect on our financial condition and results of operations.**

72.5% of our revenues are Peso-denominated and, accordingly, any decrease in the value of the Peso against the U.S. Dollar would increase the cost of our products and our U.S. Dollar-denominated debt, which would have an adverse effect on our financial condition and results of operations. The value of the Mexican Peso has been subject to significant fluctuations with respect to the U.S. Dollar in the past and may be subject to significant fluctuations in the future. During the year ended December 2004 and 2005, the Peso appreciated 0.8% and 4.7%, respectively (in nominal terms) relative to the U.S. Dollar. In 2006 and 2007 the Peso depreciated 1.6% and 1.1% (in nominal terms) respectively, relative to the U.S. Dollar. In 2008, as a consequence of the global economic and financial crisis, the Peso depreciated 26.7% against the U.S. Dollar in nominal terms. In 2009, the Peso appreciated 5.5% against the U.S. Dollar in nominal terms. Further declines in the value of the Peso may also result in disruption of the international foreign exchange markets. This may limit our ability to transfer or convert Pesos into U.S. Dollar and other currencies and adversely affect our ability to meet our current U.S. Dollar-denominated obligations including under the notes issued hereby, and any other U.S. Dollar-denominated obligations that we may incur in the future.

While the Mexican federal government does not currently restrict the ability of Mexican or foreign persons or entities to convert Pesos into U.S. Dollar or other currencies, the Mexican federal government could institute restrictive exchange control policies in the future.

**Political events in Mexico may affect our operations.**

Significant changes in laws, public policies and/or regulations could affect Mexico's political and economic situation, which could adversely affect our business. Any change in the current consumer protection or consumer finance regulatory policies could have a significant effect on Mexican retailers and consumer finance services providers, including us, variations in interest rates, demand for our products and services, market conditions, and the prices of and returns on Mexican securities.

Furthermore, following Mexican President Felipe Calderón Hinojosa's election in 2006, the Mexican Congress became politically divided, as the PAN does not have majority control. Elections for the Mexican Senate, House of Representatives and for the governorship of certain states of the Republic took place on July 5, 2009, giving the Partido Revolucionario Institucional, or PRI, a majority in the legislature. The lack of alignment between the legislature and the President could result in deadlock and prevent the timely implementation of political and economic reforms, which in turn could have a material adverse effect on Mexican economic policy and on our business. It is also possible that political uncertainty may adversely affect Mexico's economic situation.

Social and political instability in Mexico or other adverse social or political developments in or affecting Mexico could adversely affect our business, financial condition and result of operations, as well as market conditions and prices for our securities. These and other future developments in the Mexican political or social environment may cause disruptions to our business operations and decreases in our sales and net income.

**Developments in other countries could adversely affect the Mexican economy, the market value of our securities and our results of operations.**

The market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, prices of both Mexican debt securities and Mexican equity securities dropped substantially as a result of developments in Russia, Asia and Brazil.

In addition, the correlation between economic conditions in Mexico and the U.S. has sharpened in recent years as a result of the NAFTA and increased economic activity between the two countries. We are exposed to changes or re-negotiations of NAFTA, which may affect the Mexican economy. As a result of the slowing economy in the United States and the uncertainty it could have on the general economic conditions in Mexico and the United States, our financial condition and results of operations could be adversely affected. In addition, due to recent developments in the international credit markets, capital availability and cost could be significantly affected and could restrict our ability to obtain financing or refinance our existing indebtedness on favorable terms, if at all.

**High interest rates in Mexico could increase our financing and operating costs.**

Mexico historically has had high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities, CETES, averaged 21.3%, 15.3% and 11.3% for 1999, 2000 and 2001, respectively. Although average rates for 2003, 2004, 2005, 2006, 2007, 2008 and 2009 were 6.2%, 6.8%, 9.2%, 7.2%, 7.2%, 7.7% and 5.4% respectively, we cannot assure you that interest rates will remain at their current rates. Thus, if we are forced to incur Mexican Peso-denominated debt in the future, it may be at interest rates higher than the current rates.

**The new Mexican tax reforms may have an adverse effect on our clients, which in turn may adversely affect our business.**

During November 2009, the Mexican Congress approved a general tax reform, effective as of January 1, 2010. The general tax reform includes an increase of the highest income tax rate from 28% to 30%, which will be reduced to 29% in 2013, and an increase in the value added tax rate from 15% to 16%. This tax reform may adversely affect the financial position of our customers, which may in turn adversely affect our business.

**We are subject to different corporate disclosure and accounting standards than U.S. companies.**

We prepare our financial statements according to MFRS, which differs in certain significant respects from U.S. GAAP. The presentation of Mexican financial statements and reported earnings may differ from that of companies in other countries. See "Summary of Significant Differences Between MFRS and U.S. GAAP" for a description of certain principal differences between MFRS and U.S. GAAP as they relate to us.

**RISKS RELATED TO THE NOTES**

**Our indebtedness could adversely affect our financial condition and impair our ability to fulfill our obligations under the notes.**

Our ability to meet our debt service requirements will depend on our future performance, which is subject to a number of factors, many of which are outside our control. We cannot assure you that we will generate sufficient cash flow from operating activities to meet our debt service and working capital requirements.

As of December 31, 2009, we had Ps.3,899 million (U.S.\$299 million) of debt, and our ratio of debt to Adjusted EBITDA for the year ended December 31, 2009 was 2.5x.

Our level of indebtedness may have important negative effects on our future operations, including:

- impairing our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes;
- requiring us to dedicate a substantial portion of our cash flow to the payment of principal and interest on our indebtedness, which reduces the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including our borrowings under our credit facilities;
- increasing the possibility of an event of default under the financial and operating covenants contained in the agreements governing our and our subsidiary guarantors' outstanding indebtedness; and
- limiting our ability to adjust to rapidly changing market conditions, reducing our ability to withstand competitive pressures and making us more vulnerable to a downturn in general economic conditions or our business than our competitors with less debt.

If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to refinance all or a portion of our existing debt, or to obtain additional financing. We cannot assure you that any such refinancing would be possible or that any additional financing could be obtained. Our inability to obtain such refinancing or financing may have a material adverse effect on us.

**Our ability to repay the notes and our other debt depends on cash flow from our subsidiaries.**

We are a holding company whose only material assets are our ownership interests in our subsidiaries. Consequently, we depend on distributions or other inter-company transfers of funds from our subsidiaries to meet our debt service and other obligations, including with respect to the notes. Our non-guarantor subsidiaries are not obligated to make funds available to us for the payment on the notes. The ability of our subsidiaries to pay dividends or make other distributions to us may be limited on the basis of contractual and other restrictions, and we cannot assure you that the operating results of our subsidiaries will be sufficient to enable us to make payments on the notes. Banco Famsa will not be a guarantor of the notes, and its ability to pay dividends or make other distributions to us may be limited by applicable banking regulations.

**Certain of our subsidiaries, including Banco Famsa, are not guarantors, and our obligations with respect to the notes will be effectively subordinated to all liabilities of these non-guarantor subsidiaries.**

The guarantors of the notes do not include all of our subsidiaries. However, our financial information (including our Financial Statements included herein) is presented on a consolidated basis. As of March 31, 2010, after giving *pro forma* effect to the issuance of the notes and the application of the proceeds thereof, our non-guarantor subsidiaries, including Banco Famsa, taken together would have had Ps.7,599.6 million (U.S.\$582.8 million) (Ps.9.3 million, or U.S.\$0.7 million, excluding bank deposits) of consolidated total indebtedness. Any right that we or the guarantors have to receive assets of any of the non-guarantor subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors and holders of debt of that subsidiary. In addition, payments to us by our subsidiaries may be subject to legal restrictions on repatriation of earnings or currency exchange.

**We and our subsidiary guarantors may incur substantially more debt, which could further exacerbate the risks associated with our indebtedness.**

We may be able to incur substantial additional debt in the future. Although the agreements governing our and our subsidiary guarantors' outstanding indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us or our subsidiary guarantors from incurring obligations that do not constitute "indebtedness" as defined in the relevant documents. Adding new debt to our current indebtedness levels would increase our leverage. The related risks that we now face could intensify.

**The instruments governing our indebtedness, including the notes offered hereby, contain cross-default provisions that may cause all of the debt issued under such instruments to become immediately due and payable as a result of a default under an unrelated debt instrument.**

The indenture governing the notes contains numerous restrictive covenants. Instruments governing our other indebtedness also contain certain affirmative and negative covenants and require us and our subsidiaries to meet certain financial ratios and tests. Our failure to comply with the obligations contained in the indenture or other instruments governing our indebtedness could result in an event of default under the applicable instrument, which could then result in the related debt and the debt issued under other instruments becoming immediately due and payable. In such event, we would need to raise funds from alternative sources, which may not be available to us on favorable terms, on a timely basis or at all. Alternatively, such default could require us to sell our assets and otherwise curtail operations in order to pay our creditors.

**The notes and the guarantees will be unsecured and effectively subordinated to our secured indebtedness and to certain claims preferred by statute.**

The notes and the obligations of the subsidiary guarantors under their respective guarantees will be unsecured obligations of the Issuer and the subsidiary guarantors, respectively, and will be subordinate to our secured indebtedness and obligations given preference by mandatory provisions of law (including certain claims relating to taxes and labor) and will rank equally with all of our other unsecured indebtedness. As of March 31, 2010, we had U.S.\$5.0 million of secured debt outstanding.

If we become insolvent or are liquidated, or if payment under any secured debt is accelerated, the lenders thereunder would be entitled to exercise the remedies available to a secured lender. Accordingly, the lender would have priority over any claim for payment under the notes to the extent of the value of the assets that constitute its collateral. If this were to occur, it is possible that there would be no assets remaining from which claims of the holders of the notes could be satisfied. Further, if any assets did remain after payment of these lenders, the remaining assets might be insufficient to satisfy the claims of the holders of the notes and holders of other unsecured debt that is deemed the same class as the notes, and potentially all other general creditors who would participate ratably with holders of the notes.

**Restrictive covenants in our debt agreements may restrict the manner in which we can operate our business.**

The agreements governing our and our subsidiary guarantors' outstanding indebtedness, including the indenture governing the notes offered hereby, limit, among other things, our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness or issue guarantees;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness;
- make investments;
- create liens;
- create any consensual limitation on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us;
- engage in transactions with affiliates;
- sell assets, including capital stock of our subsidiaries; and
- consolidate, merge or transfer assets.

If we fail to comply with these covenants, we would be in default under our credit facilities and the indenture, and the principal and accrued interest on our outstanding indebtedness may become due and payable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Peso-Denominated Credit Facilities," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Commercial Paper Programs," "Management's Discussion and Analysis of Financial Condition and Results of

Operations—U.S. Dollar-Denominated Credit Facilities” and “Description of Notes—Certain Covenants.” In addition, our future indebtedness agreements may contain additional affirmative and negative covenants which could be more restrictive than those contained in the instruments governing our existing indebtedness.

These restrictions could limit our ability to seize attractive growth opportunities for our businesses that are currently unforeseeable, particularly if we are unable to incur financing or make investments to take advantage of these opportunities.

**We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture.**

Upon the occurrence of a change of control (as defined in the indenture), we will be required to offer to purchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest to the date of repurchase. Upon such a change of control, we may not have sufficient funds available to repurchase all of the notes tendered pursuant to this requirement. In addition, we may be prohibited by future credit facilities from repurchasing any of the notes unless the lenders thereunder consent to such repurchase. Our failure to repurchase the notes would be a default under the indenture, which would, in turn, be a default under our credit facility and, potentially, other debt. If the payment of any debt were to be accelerated, we might be unable to repay these amounts or make the required repurchase of the notes. See “Description of Notes—Change of Control.”

**We may not be able to make payments in U.S. Dollars.**

In the past, the Mexican economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Pesos to foreign currencies, including U.S. Dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. Dollars to meet our U.S. Dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations. We cannot predict the impact of any such measures on the Mexican economy.

**The notes are subject to restrictions on transfer within the United States or to U.S. persons and may be subject to transfer restrictions under the laws of other jurisdictions.**

We have not and do not intend to register the notes under the U.S. Securities Act or any U.S. state securities laws, and we have not undertaken to conduct any registered exchange offer for the notes. Accordingly, you may not offer the notes for sale in the United States or to U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, or pursuant to an effective registration statement. Furthermore, we have not registered the notes under any other country’s securities laws. It is your obligation to ensure that your offers and sales of the notes within the United States and elsewhere comply with applicable securities laws. See “Notice to Investors.”

**An active trading market may not develop for the notes, which may limit your ability to resell them.**

The notes will constitute a new class of securities for which there is currently no established trading market. We expect to make an application to list the notes on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market of the Luxembourg Stock Exchange. We do not intend to list the notes on any other stock exchange or seek their admission for trading on the National Association of Securities Dealers Automated Quotation System and we may delist the notes from the Luxembourg Stock Exchange at any time, should they become listed on that exchange. Although the initial purchaser has advised us that it intends to make a market in the notes, it is not obligated to do so, and it may cease to do so at any time without notice. The lack of an active trading market for the notes would have a material adverse effect on the market price and liquidity of the notes. If a market for the notes develops, the notes may trade at a discount from their initial offering price.

In addition, you may not be able to sell your notes at a particular time or at a price favorable to you. Future trading prices of the notes will depend on many factors, including:

- our operating performance and financial condition;
- the interest of securities dealers in making a market;
- the market for similar securities;
- prevailing interest rates;
- changes in earnings estimates or recommendations by research analysts who track our notes or the notes of other companies in our industry;
- changes in general economic conditions;
- acquisitions, strategic alliances or joint ventures involving us or our competitors; and
- other developments affecting us, our industry or our competitors.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in prices. The market for the notes, if any, may be subject to similar disruptions. A disruption may have a negative effect on you as a holder of the notes, regardless of our prospects or performance.

**The indenture governing the notes will contain periodic reporting requirements that will be different and less burdensome than would be applicable to us if we had agreed to register the notes following the closing of the offering.**

We do not presently file periodic reports and other information with the SEC, and the indenture governing the notes will not require us to file such reports or other information. The indenture will require us to provide annual and quarterly reports, including English language translations, to the holders of notes and the trustee. The requirements of the indenture, however, will be more limited in certain respects than those applicable to public companies under the Exchange Act. See “Description of Notes—Certain Covenants—Reports to Holders.”

**You may not be able to effect service of process on us, our subsidiaries or directors or to enforce in Mexican courts judgments obtained against us in the United States.**

We are a publicly traded variable capital corporation (*sociedad anónima bursátil de capital variable*) and our subsidiaries (except for Famsa Inc., a subsidiary organized under the laws of the State of California, United States) are variable capital corporations (*sociedades anónimas de capital variable*) and in the case of Banco Famsa, a corporation (*sociedad anónima*) authorized to conduct banking activities as an *institución de banca múltiple*, organized under the laws of Mexico, and headquartered, managed and operated outside of the United States (principally in Mexico). Almost all of our directors and officers reside outside the United States. Substantially all of the assets of such persons are located outside the United States. Furthermore, a majority of our assets are located in Mexico. As a result, it may not be possible for investors to effect service of process within the United States or in any other jurisdiction outside of Mexico upon us, our directors or officers or our subsidiaries (except for Famsa Inc.) or to enforce against such parties in any jurisdiction outside of Mexico judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the federal and state securities laws of the United States. We have been advised by our Mexican counsel, Mijares, Angoitia, Cortés y Fuentes, S.C., that there is doubt as to the enforceability in Mexican courts of civil liabilities under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon the federal and state securities laws of the United States.

**Payment of judgments entered against us in Mexico will be in Pesos, which may expose you to exchange rate risks.**

Under Article 8 of the *Ley Monetaria de los Estados Unidos Mexicanos* (the “Mexican Monetary Law”), in the event that proceedings are brought in Mexico seeking to enforce in Mexico our obligations under the notes, we would not be required to discharge such obligations in Mexico in a currency other than the Mexican Peso. Pursuant to Article 8 of the Mexican Monetary Law, an obligation which is payable in Mexico in a currency other than the Mexican Peso, as a result of an action initiated in Mexico or of the enforcement of a judgment in Mexico or otherwise, may be satisfied in Pesos at the rate of exchange in effect on the date when payment is made. Such

exchange rate currently is determined by *Banco de México* every business banking day in Mexico and published the following business banking day in the Official Gazette of Mexico. It is unclear, however, whether the applicable rate of exchange applied by a Mexican court to determine the amount owed will be the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions purporting to limit our liability to discharge our obligations as described above, or purporting to give any legitimate party an additional course of action seeking indemnity or compensation for possible deficiencies arising out of or resulting from variations in rates of exchange may not be enforceable in Mexico.

**If we, the subsidiary guarantors, or future guarantors were to be declared bankrupt, holders of notes may find it difficult to collect payment on the notes.**

Under Mexico's *Ley de Concursos Mercantiles* (the "Mexican Bankruptcy Law"), upon our declaration of insolvency (*Concurso Mercantil*) or bankruptcy, or in the event that actions and claims are initiated in the courts of Mexico, our obligations under the notes:

- (i) would be converted into Pesos at the exchange rate published by Banco de Mexico prevailing at the time of such declaration and would subsequently be converted into *Unidades de Inversion*, which is a unit pegged to the consumer price index determined by Banco de Mexico, and payment would occur at the time claims of our other creditors are satisfied;
- (ii) would be subject to any provisional remedy ("*providencia precautoria*") which may be issued in such proceedings;
- (iii) would be dependent upon the outcome of the insolvency or bankruptcy proceedings;
- (iv) would not be adjusted to take into account depreciation of the Peso against the U.S. Dollar occurring after such declaration of insolvency or bankruptcy; and
- (v) would be subject to certain statutory preferences including tax, social security and labor claims and secured creditors.

Under the Mexican Bankruptcy Law, it is possible that in the event we are declared insolvent or bankrupt, any amount by which the stated principal amount of the notes exceeds their accreted value may be regarded as not mature and, therefore, claims of holders of the notes may be allowed only to the extent of the accreted value of the notes. Any provision that aggravates or makes more onerous the obligations of the insolvent entity by virtue of the filing of a petition of bankruptcy or insolvency (whether voluntary or involuntary) is considered invalid and may be deemed as if not included in the agreement under Mexican Law. It is believed that there are no Mexican precedents in insolvency or bankruptcy addressing this matter and there exists significant uncertainty as to how a Mexican court would measure the claims to holders of the notes.

If Famsa, Inc. were to become the subject of a case under title 11 of the U.S. Code, we cannot predict whether any distribution in respect of the guarantees would be made or how long such distribution, if any, might be delayed.

**The collection of interest on interest may not be enforceable in Mexico.**

Mexican law does not permit the collection of interest on interest and, therefore, the accrual of default interest on past due ordinary interest accrued in respect of the notes may be unenforceable in Mexico.

**It is possible that the guarantees by our subsidiaries may not be enforceable.**

All of our current subsidiary guarantors (except Famsa, Inc.) are Mexican variable capital corporations (*sociedades anónimas de capital variable*). The guarantees being given by the subsidiary guarantors provide a basis for a direct claim against the subsidiary guarantors. However, it is possible that such guarantees may not be enforceable. We have been advised by our special Mexican counsel, Mijares, Angoitia, Cortés y Fuentes, S.C., that the laws of Mexico may in some cases prevent their respective guarantees from being valid, binding and enforceable against such subsidiary guarantors in accordance with their terms. However, in the event that such a subsidiary guarantor is declared insolvent or bankrupt, the guarantee may be deemed to have been a fraudulent transfer and



declared void if such subsidiary guarantor failed to receive fair consideration or reasonably equivalent value in exchange for such guarantee. In addition, under Mexican Bankruptcy Law, if we or any of the subsidiary guarantors are judicially declared insolvent or bankrupt, our obligations under the notes and each of such subsidiary guarantors' obligations under its guarantee will be subordinated to secured creditors and certain statutorily preferred creditors, such as those holding labor, tax and social security related claims, which will have preference over any other claims, including claims by any investor in respect of the notes or such guarantees. Furthermore, we have been advised that under Mexican laws, the validity of each guarantee is subject to the existence and validity of the obligation being guaranteed. As a consequence thereof, its enforcement is not independent or irrespective of such obligation being guaranteed. Furthermore, under Mexican law, a subsidiary guarantor may be released from its obligations under the guarantee if (i) the holder of the note gives us an extension for payment under the notes without the express consent of such subsidiary guarantor, or (ii) the company waives any cause that would otherwise release the company of its obligations under the notes, including expirations or statute of limitation provisions.

The obligation of each subsidiary guarantor (including Famsa, Inc.) may be subject to review under United States state or federal fraudulent transfer laws. Under such laws, if a court in a lawsuit by an unpaid creditor or representative of creditors of a subsidiary guarantor, such as a trustee in a bankruptcy of such subsidiary guarantor as debtor in possession, were to find that at the time such obligation was incurred such subsidiary guarantor, among other things, (a) did not receive fair consideration or reasonably equivalent value therefore and (b) (i) was insolvent, (ii) was rendered insolvent, (iii) was engaged in a business or transaction for which its remaining unencumbered assets constituted unreasonably small capital or (iv) intended to incur or believed that it would incur debts beyond its ability to pay such debts as they matured, such court could avoid such subsidiary guarantor's obligation and direct the return of any payments made thereunder to such subsidiary guarantor or to a fund for the benefit of its creditors. Moreover, regardless of the factors identified in the foregoing clauses (i) through (iv), such court could avoid such obligation and direct such repayment if it found that the obligation was incurred with an intent to hinder, delay or defraud such subsidiary guarantor's creditors.

The measure of insolvency for purposes of the preceding paragraphs will vary depending upon the law of the jurisdiction being applied. Generally, however, an entity would be considered insolvent if it is unable to pay or satisfy its obligations as they become due, the sum of its debts is greater than all of its property (including collection rights) at a fair valuation or the present fair salable value of its assets is less than the amount that will be required to pay its probable liability on its existing debts as they become absolute and matured. There can be no assurance as to what standard a court would apply to determine whether any of the guarantors was insolvent upon giving effect to the incurrence of the guarantees or how a court would determine the guarantors' adequate capitalization or ability to pay debts as they mature. If the guarantees become unenforceable under the conditions described above, the notes would effectively be subordinated to all liabilities, including trade payables, of the subsidiary guarantors. On December 31, 2009, the subsidiary guarantors had total balance sheet liabilities of Ps.943.6 million, excluding indebtedness to other subsidiaries of the Company.

#### **The laws of New York may not be recognized in a judicial proceeding in Mexico.**

Although the choice of the laws of New York governing the notes would be recognized by the competent courts of Mexico, in the case of a dispute before a Mexican court, the Mexican court would only recognize the substantive laws of New York and would apply the laws of Mexico with respect to procedural matters. The application of any foreign law in Mexico is subject to Mexican procedural rules of evidence. Further, a Mexican court may refuse to apply and/or to enforce provisions governed by the laws of New York if the respective provision is contrary to the public policy (*orden público*) of Mexico.

## USE OF PROCEEDS

We expect to receive net proceeds of approximately U.S.\$194.1 million after the initial purchaser's discounts and commissions and the payment of offering expenses payable by us from the issuance of the notes.

We intend to apply the net proceeds from this offering toward the repayment at maturity or otherwise of (i) U.S.\$71 million of our U.S. Dollar-denominated indebtedness under our Euro commercial paper programs, and (ii) Ps.1,106.3 million (U.S.\$85.6 million\*) of our short-term Peso-denominated indebtedness, consisting of Ps.360.0 million under our loan with Banco Inbursa, Ps.516.0 million under our short-term local bonds (*Certificados Bursátiles de Corto Plazo*), and Ps.230.3 million as repayment of loans extended to us by our principal shareholder, and the remainder, if any, for general corporate purposes. For a description of certain of our indebtedness to be repaid with the proceeds from this offering, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Peso Denominated Credit Facilities," "Management's Discussion and Analysis of Financial Condition and Results of Operation—Other Short Term Indebtedness," "Management's Discussion and Analysis of Financial Condition and Results of Operation—U.S Denominated Credit Facilities," "Management's Discussion and Analysis of Financial Condition and Results of Operation—Commercial Paper Programs" and "Related Party Transactions."

---

\* Solely for the convenience of the reader, converted to a U.S. Dollar amount at an exchange rate of Ps.12.93 to U.S.\$1.00, the exchange rate published by *Banco de México* in the Official Gazette of Mexico to be effective on July 7, 2010.

## EXCHANGE RATES

The following table sets forth, for the periods indicated, the period-end, average, high and low free market rates published by *Banco de México* in the Official Gazette of Mexico expressed in Pesos per U.S. Dollar. The rates shown below are in nominal Pesos that have not been restated in constant currency units. No representation is made that the Peso amounts referred to in this offering circular could have been or could be converted into U.S. Dollars at any particular rate or at all. Unless otherwise indicated, U.S. Dollar amounts that have been converted from Pesos have been so converted at an exchange rate of Ps.13.04 to U.S.\$1.00, the exchange rate published by *Banco de México* in the Official Gazette of Mexico to be effective on December 31, 2009.

	<i>Banco de México</i> Rate <sup>(1)</sup>			
	Period End	Average <sup>(2)</sup>	Low	High
<b>Year Ended December 31,</b>				
2005.....	10.71	10.89	10.41	11.40
2006.....	10.88	10.92	10.43	11.48
2007.....	10.90	10.95	10.66	11.27
2008.....	13.77	11.20	9.92	13.92
2009.....	13.04	13.55	12.60	15.37
<b>Month Ended</b>				
January 2010 .....	13.00	12.80	12.65	13.07
February 2010 .....	12.85	12.95	12.80	13.18
March 2010 .....	12.41	12.59	12.41	12.78
April 2010 .....	12.25	12.23	12.16	12.41
May 2010 .....	12.86	12.71	12.25	13.18
June 2010 .....	12.84	12.72	12.46	12.93
July 2010 .....	12.70	12.83	12.65	13.10
August 2010 .....	13.14	12.75	12.54	13.14
September 2010.....	12.48	12.83	12.48	13.17
October 2010.....	12.40	12.45	12.32	12.60
November 2010.....	12.55	12.33	12.21	12.55
December 2010 (through December 8) .....	12.41	12.40	12.35	12.47

<sup>(1)</sup> Source: *Banco de México*.

<sup>(2)</sup> The average annual rates were calculated by using the average of the exchange rates as of the end of the month and the average monthly rates were calculated by using the daily average of the exchange rates on each day during the relevant period.

Devaluation of the Peso in relation to the U.S. Dollar will adversely affect our ability to meet our U.S. Dollar-denominated obligations, including the notes. See “Risk Factors—Risks Related to Mexico—Fluctuations in the exchange rate between the Peso and the U.S. Dollar could lead to an increase in our cost of financing and have an adverse effect on our financial condition and results of operations.”

## CAPITALIZATION

The following table sets forth our consolidated capitalization as of October 31, 2010, derived from our unaudited consolidated financial statements prepared in accordance with MFRS as adjusted to reflect this offering of the notes and the application of the net proceeds in the manner described under “Use of Proceeds.” This table should be read together with our Financial Statements, unaudited selected interim consolidated financial information, including interim information incorporated by reference, and the notes thereto included elsewhere in this offering circular.

Solely for the convenience of the reader, Peso amounts appearing in the table below have been converted to U.S. Dollar amounts at an exchange rate of Ps.12.40 to U.S.\$1.00, the exchange rate published by *Banco de México* in the Official Gazette of Mexico to be effective on October 31, 2010. The exchange rate conversions contained in this offering circular should not be construed as representations that the Peso amounts actually represent the U.S. Dollar amounts presented or could be converted into U.S. Dollars at the rate indicated as of the dates mentioned herein or at any other rate. As of December 10, 2010 there has been no material change in our capitalization since October 31, 2010.

	<b>As of October 31, 2010</b>	
	<b>Actual (in thousands of Mexican Ps.)</b>	<b>Actual (in thousands of U.S.\$)</b>
<b>Short-term debt</b> .....	2,383.6	192.2
<b>Long-term debt</b> .....	2,476.0	199.6
<b>Total debt</b> .....	4,859.6	391.8
<b>Total stockholders' equity</b> .....	8,923.6	719.5
<b>Total capitalization</b> .....	13,783.2	1,111.3

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our selected consolidated financial information and other data for the periods indicated. These tables should be read in conjunction with our Financial Statements and notes thereto included elsewhere in this offering circular and are qualified in their entirety by the information contained therein. See “Presentation of Financial and Other Information.” The following income statement and balance sheet data for each of the years ended December 31, 2009, 2008 and 2007 has been derived from our Financial Statements, including the consolidated balance sheets as of December 31, 2009 and 2008, the related consolidated statements of income for the years ended December 31, 2009, 2008 and 2007, the consolidated statements of cash flow for the years ended December 31, 2009 and 2008, the consolidated statement of changes in financial position for the year ended December 31, 2007 and the accompanying notes appearing elsewhere in this offering circular. Our Financial Statements have been prepared in accordance with MFRS, which differ in certain respects from U.S. GAAP. See “Summary of Significant Differences Between MFRS and U.S. GAAP” for a description of certain principal differences between MFRS and U.S. GAAP as they relate to us. Our Financial Statements and other financial information included in this offering circular, unless otherwise specified, are stated in Pesos.

On January 1, 2008, NIF B-10 became effective. NIF B-10 revised the accounting for inflation such that inflation accounting no longer applies unless the economic environment in Mexico qualifies as “inflationary” for purposes of MFRS. An environment is considered inflationary if the cumulative inflation rate equals or exceeds an aggregate of 26% over the three preceding years. Because of the relatively low level of inflation in Mexico in recent years, as of January 1, 2008 and through December 31, 2009, due to a cumulative inflation rate of less than 26% in the three preceding years (measured as of January 1 of each year), Mexico’s economy is not considered an inflationary environment since December 31, 2007, and the effects of transactions that occurred after that date are expressed in nominal Pesos.

We are not providing any reconciliation to U.S. GAAP of our Financial Statements or other financial information in this offering circular. We cannot assure you that a reconciliation would not identify material quantitative differences between our Financial Statements or other financial information as prepared on the basis of MFRS if such information were to be prepared on the basis of U.S. GAAP.

The U.S. Dollar amounts provided below are conversions from the Peso amounts, solely for the convenience of the reader. The U.S. Dollar amounts for the years ended December 31, 2009, 2008 and 2007 have been converted using the exchange rate of Ps.13.04 to U.S.\$1.00, the exchange rate published by *Banco de México* in the Official Gazette of Mexico to be effective on December 31, 2009. See “Exchange Rates” for information regarding the rates of exchange between the Peso and the U.S. Dollar for the periods specified therein. These conversions should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated or at any other rate.

For unaudited selected consolidated financial information as of March 31, 2010 and 2009 and for the three month periods ended March 31, 2010 and 2009 and a discussion of our financial results for the three month periods ended March 31, 2010 and 2009, see Exhibit A to this offering circular beginning on page A-1. For a description of our indebtedness as of March 31, 2010, see Exhibit A beginning on page A-1, “Capitalization” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt.” Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

For additional information regarding financial information presented in this offering circular, see “Presentation of Financial and Other Information.”

## Income Statement and Balance Sheet Data

	Years Ended December 31,			
	2007	2008	2009	2009
	(millions of Pesos, except per share amounts and number of shares)			(millions of U.S. Dollars, with same exceptions)
Income Statement Data:				
Net sales.....	14,181.2	14,762.2	14,946.9	1,146.2
Cost of sales.....	7,692.1	7,533.6	7,355.2	564.0
Gross margin.....	6,489.1	7,228.7	7,591.7	582.2
Operating expenses.....	5,160.3	6,192.0	6,468.5	496.1
Operating income.....	1,328.8	1,036.6	1,123.2	86.1
Net comprehensive financing cost.....	680.3	421.9	1,235.6	94.8
Other income (expenses), net.....	(4.9)	(66.4)	1.9	0.1
Income before income tax.....	643.6	548.3	(110.5)	(8.5)
Income tax expense.....	(125.3)	15.1	210.1	16.1
Consolidated net income.....	518.2	563.4	99.7	7.6
Minority net income.....	0.3	2.6	2.3	0.2
Majority net income.....	518.0	560.9	97.4	7.5
	As of December 31,			
	2007	2008	2009	2009
	(millions of Pesos)			(millions of U.S. Dollars)
Balance Sheet Data:				
Cash and cash equivalent.....	324.1	1,011.6	1,514.2	116.1
Trade accounts receivable.....	9,793.9	12,937.0	14,131.1	1,083.7
Inventories.....	2,344.4	2,434.0	2,118.0	162.4
Total current assets.....	13,220.1	17,516.1	19,067.7	1,462.2
Property, leasehold improvements and furniture and equipment.....	2,501.0	2,869.0	2,731.9	209.5
Total assets.....	16,317.5	21,007.6	22,604.4	1,733.5
Short-term debt.....	2,254.0	6,922.7	2,889.9	221.6
Interest-bearing demand deposits and time-deposits.....	257.6	3,131.7	7,376.8	565.7
Suppliers.....	1,879.2	1,941.7	1,729.4	132.6
Total current liabilities.....	5,539.7	13,279.0	13,077.0	1,002.8
Long-term debt.....	3,540.1	0.0	1,009.6	77.4
Total long-term liabilities.....	4,298.3	433.6	1,160.1	89.0
Total liabilities.....	9,838.0	13,712.6	14,237.1	1,091.8
Total stockholders' equity.....	6,479.4	7,295.0	8,367.4	641.7
Total liabilities and stockholders' equity.....	16,317.5	21,007.6	22,604.4	1,733.5

## Other Operating Data

	Years Ended December 31,			
	2007	2008	2009	2009
	(millions of Pesos, except percentages, ratios and Other Operating Data)			(millions of U.S. Dollars, with same exceptions)
<b>Selected Segment Financial Data:</b>				
<b>Segment Net Sales:</b>				
Retail operations in Mexico .....	11,326.5	11,133.0	10,832.3	830.7
Retail operations in the U.S. ....	2,808.2	3,593.9	4,096.4	314.1
Other businesses <sup>(1)</sup> .....	969.3	848.7	763.3	58.5
Total segment net sales .....	15,104.0	15,575.7	15,692.0	1,203.4
Intersegment operations .....	(922.8)	(813.4)	(745.1)	(57.1)
Total consolidated net sales .....	14,181.2	14,762.2	14,946.9	1,146.2
<b>Segment Operating Income (Loss)</b>				
<b>Before Depreciation and Amortization<sup>(2)</sup>:</b>				
Retail operations in Mexico .....	1,265.8	1,116.1	1,659.5	127.3
Retail operations in the U.S. ....	246.2	217.5	(127.7)	(9.8)
Other businesses .....	16.9	(4.8)	(88.7)	(6.8)
Total segment operating income before depreciation .....	1,528.9	1,328.8	1,443.1	110.7
Intersegment operations .....	125.3	127.2	111.3	8.5
Total consolidated operating income before depreciation .....	1,654.2	1,456.0	1,554.4	119.2
<b>Other Financial Data:</b>				
Credit sales .....	11,142.4	11,890.9	12,123.7	929.7
Accounts receivable .....	9,906.5	13,063.4	14,854.7	1,139.2
Non-performing loans as a percentage of total accounts receivable <sup>(3)</sup> .....	8.0	12.0	16.1	
Number of active credit accounts (000s).....	1,144.1	1,687.8	1,670.2	
Provision for doubtful accounts .....	367.7	610.5	1,225.8	94.0
Allowance for doubtful accounts .....	112.6	126.4	723.6	55.5
Net write-offs .....	339.1	596.7	628.6	48.2
Allowance for doubtful accounts as a percentage of total accounts receivable.....	1.1	1.0	4.9	
Net write-offs as a percentage of total accounts receivable .....	3.4	4.6	4.2	
<b>Growth and Profitability Ratios (Unaudited):</b>				
Net sales growth .....	10.3%	4.1%	1.3%	
Same-store sales growth .....	(1.3)%	(2.7)%	(5.4)%	
Gross margin .....	45.8%	49.0%	50.8%	
Adjusted EBITDA margin <sup>(4)</sup> .....	11.7%	9.9%	10.4%	
Operating income margin .....	9.4%	7.0%	7.5%	
Net income margin.....	3.7%	3.8%	0.7%	
<b>Credit Ratios (Unaudited):</b>				
Total debt as percentage of total capitalization <sup>(5)</sup> .....	47.2	48.7	31.8	
Total debt to operating income .....	4.4	6.7	3.5	
Net debt to operating income .....	4.1	5.7	2.1	
Total debt to adjusted EBITDA <sup>(4)</sup> .....	3.5	4.8	2.5	
Net debt to adjusted EBITDA <sup>(4)</sup> .....	3.3	4.1	1.5	

	Years Ended December 31,			
	2007	2008	2009	2009
	(millions of Pesos, except percentages, ratios and Other Operating Data)			(millions of U.S. Dollars, with same exceptions)
Adjusted EBITDA minus capital expenditures to gross interest expense <sup>(4)</sup> .....	1.17	0.60	1.09	
<b>Other Operating Data (Unaudited):</b>				
Number of retail stores .....	390	421	410	
Total store area (square meters) .....	494,325	547,415	544,456	
Same-store sales growth (percentage) <sup>(6)</sup> .....	(1.3)%	(2.7)%	(5.4)%	
Mexican retail sales per square meter <sup>(7)</sup> .....	30.3	27.2	25.8	2.0
U.S. retail sales per square meter <sup>(7)</sup> .....	34.9	32.4	32.7	2.5
<b>Banco Famsa Deposits (Unaudited)<sup>(8)</sup>:</b>				
Demand Deposits .....	182	507	1,496	114.7
Short- and Medium-Term Investments .....	76	880	5,881	451.0
Money Market.....	—	1,745	—	—
Consolidated Bank Deposits .....	258	3,132	7,377	565.7
Deposit Accounts (000s) .....	84	332	613	
Banking Branches .....	176	277	276	

<sup>(1)</sup> Comprised of our wholesale, furniture manufacturing and footwear catalog businesses in Mexico.

<sup>(2)</sup> Operating Income (Loss) Before Depreciation is used as a measure of our segment financial performance that we believe indicates profitability in continuing business activities. Operating Income (Loss) Before Depreciation is different from earnings before interest, taxes, depreciation, and amortization (EBITDA), which reflects adjustments to net income instead of adjustments to operating income.

<sup>(3)</sup> More than 90 days past due.

<sup>(4)</sup> Adjusted EBITDA is not a financial measure computed under MFRS. Adjusted EBITDA derived from our MFRS financial information means MFRS net income (loss) excluding (i) depreciation of goodwill, (ii) net comprehensive financing cost (which is composed of net interest expense (income), foreign exchange gain or loss and monetary position gain or loss), (iii) income tax expense and employees statutory profit-sharing expense and (iv) other items such as other income (expenses) net, minority interest and change in accounting standards. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—EBITDA and Adjusted EBITDA Reconciliation.”

<sup>(5)</sup> Total capitalization is calculated as total debt plus total stockholders’ equity.

<sup>(6)</sup> 2007 same-store sales growth is calculated in “real” terms (in accordance with the inflationary accounting method used prior to January 1, 2008). All other figures are nominal.

<sup>(7)</sup> Average sales per square meter, in thousands of Pesos.

<sup>(8)</sup> For a description of Banco Famsa’s deposits see “Our Business—Banco Famsa—Products and Services.”



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with the Financial Statements and notes thereto included elsewhere in this offering circular. See also “—Recent Developments.” Our Financial Statements have been prepared in accordance with MFRS, which, as applied to us, differs in certain respects from U.S. GAAP. See “Summary of Significant Differences Between MFRS and U.S. GAAP.”*

*For a discussion of our results of operations for the three-month periods ended March 31, 2010 and 2009, and a description of our indebtedness as of March 31, 2010, see Exhibit A beginning on page A-1, “Capitalization” and “—Liquidity and Capital Resources—Debt.”*

### Overview

We believe we are a leading Mexican retailer of household appliances, furniture, clothing, cellular telephones and other durable consumer products, targeting the middle and lower-middle segments of Mexico's population. We also believe we are one of the top retailers for furniture and appliances in the United States targeting the U.S. Hispanic population. As of December 31, 2009, we owned and operated 410 stores and 15 distribution centers, with a total selling area in our stores of approximately 544,456 square meters (5,860,476 square feet), including 357 stores in 78 cities throughout Mexico and 53 stores in five U.S. states: California, Nevada, Texas, Arizona and Illinois. During the five-year period from 2005 to 2009, we opened an average of 14 new stores per year in Mexico and 8 new stores per year in the United States. We believe that throughout our over 40-year history, we have constructed a strong brand name associated with a broad product assortment at low prices and personalized customer service with convenient consumer financing programs. Furniture, electronics and household appliances represent 53% of Grupo Famsa's total sales.

In connection with our retail operations, we offer consumer financing to our customers who opt to purchase our products and services on credit, many of whom do not typically have access to other forms of credit, which provides them with an alternative method to purchase our products and services. In 2009, 81.1% of our total sales were through our credit sales programs. To enhance our consumer financing business in Mexico, in 2007, we established our own commercial bank, Banco Famsa, allowing us to offer additional banking services to our customers, and generate a lower-cost, more stable form of short-term financing for our operations. According to the CNBV, as of December 31, 2009, Banco Famsa operated one of the ten largest banking branch networks in Mexico, with 276 branches located within Famsa Mexico stores, and managed an aggregate amount of 2.3 million saving and credit accounts.

The financial statements of Famsa USA, which are prepared in accordance with U.S. GAAP, and the financial statements of Banco Famsa, which are prepared in accordance with accounting rules and practices established by the CNBV, are both conformed to MFRS for consolidation purposes.

Our net sales totaled Ps.14,947 million for the year ended December 31, 2009 and Ps.14,762 million for the year ended December 31, 2008. Our total retail space consisted of 544,456 square meters as of December 31, 2009, compared to 547,415 square meters as of December 31, 2008. Our Adjusted EBITDA totaled Ps.1,554 million for the year ended December 31, 2009 and Ps.1,456 million for the year ended December 31, 2008.

### Critical Accounting Policies and Estimates

Grupo Famsa's consolidated financial statements are prepared in conformity with MFRS. The preparation of these consolidated financial statements requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results may differ from these estimates, judgments and assumptions.

An accounting estimate in Grupo Famsa's consolidated financial statements is a critical accounting estimate if it requires Grupo Famsa to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and either different estimates that Grupo Famsa reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of Grupo Famsa's financial condition, cash flows or results of

operations. This section contains a discussion of our critical accounting policies so as to provide a clear understanding of our operating results. For a more detailed description of these and other accounting policies used by the Company, see Note 3 to our Financial Statements.

#### *Allowance for Doubtful Accounts*

We maintain an allowance for doubtful accounts related to customer receivables for estimated losses resulting from customers' inability to make timely payments, including interest on finance receivables. The amount of our allowance for doubtful accounts is based on various factors, including the length of past due payments, current business environments, past practices (% of sales), experience and the estimated recoverable value of the sold item since, in some cases, the sold item is pledged as customer's collateral under the sale contract. We believe that our allowance for doubtful accounts is adequate and sufficient to cover any losses associated with our accounts receivable and loan portfolio.

Although we believe that our allowance for doubtful accounts is adequate and sufficient to cover any losses associated with our accounts receivable, in the future we may be required or may deem it desirable to increase the amount of such provision. However, the adequacy and sufficiency of our allowance for doubtful accounts in the future could be affected by changes in our consumer lending policies, the profiles of our customers and the prevailing macroeconomic conditions both in Mexico and the United States. Any increase in our allowance for doubtful accounts may have an adverse effect on our results of operations and financial condition.

#### *Allowance for Income Taxes*

Our income tax expense includes both our accrued and deferred income tax obligations. Deferred income taxes represent our future income tax obligations or credits due to temporary differences between the tax and accounting treatment of certain balance sheet items, including our allowance for doubtful accounts, buildings, leasehold improvements and furniture and equipment and sales on credit. We report these temporary differences and unrealized tax losses or credits as deferred income tax assets and liabilities on our balance sheet. We report the corresponding change in the amount of our deferred income tax assets or liabilities as a charge or credit in our income statement depending on their nature. We establish a valuation reserve if there is significant likelihood that we will not be able to realize our deferred income tax assets. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company's ability to realize its deferred tax assets depends upon the generation of sufficient future taxable income and implementation of tax planning strategies to allow for the utilization of its unrealized tax losses and deductible temporary differences. If such estimates and related assumptions change in the future, the Company may be required to record additional valuation allowances against its deferred tax assets, resulting in additional income tax expense in the Company's consolidated statement of operations. Management evaluates the realization of the deferred tax assets and the need for additional valuation allowances quarterly. At this time, based on current facts and circumstances, management believes that it is more likely than not that the Company will realize the benefit for its gross deferred tax assets, except those deferred tax assets against which a valuation allowance has been recorded.

#### *Depreciation and Impairment of Property, Leasehold Improvements and Furniture and Equipment*

Depreciation is calculated in accordance with the straight-line method based on the estimated useful life of the relevant assets. Any change in circumstances, including any change in our business model, could give rise to differences between the actual and estimated useful lives of such assets. In those instances where we determine it necessary to shorten the useful life of a given item of property, leasehold improvements and furniture and equipment, we depreciate the portion of the net book value of such item that exceeds its recoverable value over the course of its remaining adjusted useful life, thus increasing our depreciation expense.

We review property, leasehold improvements and furniture and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal discounted cash flow estimates and

independent appraisals as appropriate to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate.

## Overview of our Results of Operations

### Revenues

We derive revenues from our retail operations primarily through the sale of recognized brand name products such as household appliances, furniture, clothing, electronics and cellular telephones, among others, as well as the issuance of personal loans and other financial services offered through Banco Famsa. We recognize revenue on cash sales upon issuance of the sales receipt and/or shipment of the merchandise to the customer. We offer our customers an option to pay in installments over time rather than in cash at the time of purchase. During 2009, sales under our credit sales program accounted for 81.1% of our total sales. We recognize the revenues associated with our credit sales as of the date of sale, upon issuance of the relevant sales receipt and/or shipment of the merchandise to our customers, since the average period for the recovery in full of the amount of these sales is less than one year. We recognize as revenue from our personal loan sales the total interest to be generated throughout the life of the loan at the time that funds are transferred to the customer.

In Mexico, the retail price of our products is determined based upon a suggested cash retail price plus a finance charge that varies depending on the repayment period. The actual installment payments result from the division of the retail price by the number of payments within the desired repayment period. Installment payments displayed at our stores are typically calculated using 12- or 18-month terms. In contrast, cash sale prices generally vary from approximately 5% to 40% off the retail price, depending on the type of product and the product's credit sale terms. As a result, sales on credit generate gross margins well above those yielded by our cash sales.

In the United States, the retail price of our merchandise sold on credit is determined based upon a retail price plus a finance charge that varies depending on various factors including the customer's credit history and the desired repayment period. However, unlike Mexico, cash sales in the United States are not made at a discount from our retail price; instead we use a cash retail price that is reviewed periodically.

Our net sales per square meter reflect the performance of our Famsa stores. Our sales area is measured in square meters and serves as a parameter for the calculation of our growth in terms of our net sales. The following table shows our stores' sales area and performance.

	Years Ended December 31,					
	2007		2008		2009	
Stores in Mexico	351		369		357	
Stores in U.S.	39		52		53	
Total number of stores.....	390		421		410	
Total sales area in Mexico <sup>(1)</sup>	395,341		424,578		416,643	
Total sales area in U.S. <sup>(1)</sup>	98,984		122,837		127,813	
Total sales area <sup>(1)</sup> .....	494,325		547,415		544,456	
Mexican sales per square meter <sup>(2)</sup> .	Ps.	30.3	Ps.	27.2	Ps.	25.8
U.S. sales per square meter <sup>(2)</sup> .....	Ps.	34.9	Ps.	32.4	Ps.	32.7
Growth in same-store sales.....	(1.3)%		(2.7)%		(5.4)%	

<sup>(1)</sup> In square meters.

<sup>(2)</sup> In thousands of Pesos.

We decreased the total number of our retail stores by 11 retail stores, or (2.6)%, to 410 total retail stores at year end 2009, from 421 total retail stores at year end 2008, as compared to an increase of 31 total retail stores, or 8.0% to 421 total retail stores at year end 2008, from 390 total retail stores at year end 2007. Our total store area decreased by 2,959 square meters in 2009, or (0.5)%, to 544,456 square meters at year end 2009, from 547,415 square meters at year end 2008, as compared to an increase of 53,090 square meters in 2008, or 10.7%, to 547,415 square meters at year end 2008, from 494,325 square meters at year end 2007, due to the number of larger new retail

stores that were added in 2008 and selective store closures carried out during 2009 as part of our selective expansion strategy and in response to the recent economic downturn. Mexican retail sales per square meter decreased Ps.1,400, or (5.1)%, to Ps.25,800 in 2009, from Ps.27,200 in 2008, and decreased Ps.3,100, or (10.2)%, to Ps.27,200 in 2008 from Ps.30,300 in 2007, due to decreases in net sales as a result of increasing weakness in consumption year on year related to the economic slowdown. U.S. retail sales in Pesos per square meter increased Ps.300, or 0.9%, to Ps.32,700 in 2009, from Ps.32,400 in 2008, as a result of the devaluation of the Mexican Peso relative to the U.S. Dollar in 2009, as compared to a decrease of Ps.2,500, or (7.2)%, to Ps.32,400 in 2008, from Ps.34,900 in 2007 due to a decrease in net sales in 2008.

#### *Seasonality*

We recognize a substantial percentage of our net sales across all of our business segments in the second and fourth quarters of the year as a result of the increase in consumer spending associated with Mother's Day and the Christmas holiday season. For example, in 2007, 2008 and 2009, we recognized 30.1%, 28.5% and 27.7% of our net sales in the fourth quarter of the year and 24.0%, 25.1% and 24.6% of our net sales in the second quarter of the year. Unlike our revenues, our operating costs (excluding the cost of the merchandise sold), our distribution costs and a portion of our marketing and advertising expenses are relatively the same in each period and, therefore, generally do not correlate with our sales percentage. Accordingly, our financial performance and results of operations are influenced by these seasonal factors.

#### *Cost of Sales*

The main component of our cost of sales is the cost of acquisition of the merchandise offered by our Famsa Mexico and Famsa USA stores and the merchandise we sell at wholesale prices. We recognize our cost of sales as of the date of sale of the relevant products.

#### *Operating Expenses*

The primary components of our operating expenses are the salaries and benefits of our employees, our rent, marketing and advertising expenses, depreciation expenses, our allowance for doubtful accounts, and our service and maintenance costs.

#### *Comprehensive Financing Result, Net*

Our comprehensive financing has a material effect on our financial statements during periods of high inflation or fluctuation in the exchange rate of the Peso against the U.S. Dollar. In accordance with MFRS, our net financing cost consists of interest income, interest expense, foreign exchange gains or losses attributable to our foreign-denominated monetary assets and liabilities, and gains or losses in monetary position from the holding of monetary assets and liabilities exposed to inflation. Our foreign exchange position is affected by our foreign-denominated assets and liabilities. We recognize a foreign exchange gain or loss in the event of an increase or decrease in the exchange rate of the Peso against the currencies in which our assets and liabilities are denominated.

#### *Income Tax*

The main components of our income tax expense are Mexican income tax and U.S. federal and state income taxes. Income tax rates vary from one country or state to another and are subject to changes in the tax laws of each such country or state. Our income tax expense includes both our accrued and deferred taxes and is calculated in accordance with MFRS. See Note 3(s) to our Financial Statements.

### **Operating Results by Geographic Segment**

The following table shows our net sales by geographic segment, as a percentage of our total net sales, and our adjusted EBITDA by geographic segment, for the years ended December 31, 2007, 2008 and 2009, calculated in accordance with Bulletin B-5, "Financial Information by Segment," issued by the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos*) ("IMCP") and incorporated into MFRS. MFRS require us to identify our business segments and perform an internal review of our organizational structure and reporting systems. In accordance with MFRS, our business operations are currently organized into three business segments:

Famsa Mexico, Famsa USA, and Other, which includes our footwear catalog, wholesale and furniture manufacturing.

	Years Ended December 31,					
	2007		2008		2009	
			(in millions of Pesos)			
	Amount	%	Amount	%	Amount	%
<b>Net Sales by Segment:</b>						
Famsa Mexico.....	11,326.4	79.9	11,133.0	75.5	10,832.3	72.5
Famsa USA.....	2,808.2	19.8	3,593.9	24.3	4,096.4	27.5
Other.....	969.3	6.8	848.7	5.7	763.3	5.1
Subtotal.....	15,103.9	106.5	15,575.6	105.5	15,692.0	105.0
Inter-segment sales.....	(922.7)	(6.5)	(813.4)	(5.5)	(745.1)	(5.0)
Total net sales.....	14,181.2	100.0	14,762.2	100.0	14,946.9	100.0
<b>Gross Margin:</b>						
Famsa Mexico.....	4,841.4	74.6	5,153.1	71.3	5,389.5	71.0
Famsa USA.....	1,439.3	22.2	1,891.5	26.2	2,116.5	27.9
Other.....	151.5	2.3	114.9	1.6	27.2	0.4
Subtotal.....	6,432.2	99.1	7,159.4	99.0	7,533.2	99.2
Inter-segment gross margin.....	56.9	0.9	69.3	1.0	58.5	0.8
Total gross margin.....	6,489.1	100.0	7,228.7	100.0	7,591.7	100.0
<b>Adjusted EBITDA:</b>						
Famsa Mexico.....	1,265.8	76.5	1,116.1	76.7	1,659.5	106.7
Famsa USA.....	246.2	14.9	217.5	14.9	(127.7)	(8.2)
Other.....	16.9	1.0	(4.8)	(0.3)	(88.7)	(5.7)
Subtotal.....	1,528.9	92.4	1,328.8	91.3	1,443.1	92.8
Inter-segment adjusted EBITDA.....	125.3	7.6	127.2	8.7	111.3	7.2
Total adjusted EBITDA.....	1,654.2	100.0	1,456.0	100.0	1,554.4	100.0

### Adjusted EBITDA Reconciliation

Adjusted EBITDA is not a financial measure computed under MFRS or U.S. GAAP. Adjusted EBITDA is generally defined as net income (loss) excluding depreciation and amortization expense, interest expense and income tax expense plus (i) other components of the MFRS caption “net comprehensive financing costs” other than interest (interest expense (income), foreign exchange gain or loss and monetary position gain or loss), (ii) minority interest in earnings, (iii) other items such as other income (expenses) and (iv) changes in accounting standards. We believe that adjusted EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies in our industry, but they have the following material limitations: (i) they do not include interest expense, which, because we have borrowed money to finance some of our operations, is a necessary and ongoing part of our costs and assisted us in generating revenue; (ii) they do not include taxes, which are a necessary and ongoing part of our operations; and (iii) they do not include depreciation, which, because we must utilize property and equipment in order to generate revenues in our operations, is a necessary and ongoing part of our costs.

We provide a reconciliation of net income to Adjusted EBITDA in the table below.

	Years Ended December 31,		
	2007	2008	2009
	(millions of Pesos)		
Net income.....	517.9	560.8	97.3
Depreciation and amortization.....	325.5	419.4	431.3
Interest expense.....	612.6	871.2	1,125.4
Income tax expense.....	125.3	(15.1)	(210.1)
Other income (expense).....	4.9	66.4	(1.9)
Interest income.....	(17.4)	(13.1)	(15.9)
Exchange gain (loss).....	4.0	(436.1)	126.0
Loss on monetary position.....	81.1	0	0
Minority interest.....	0.3	2.5	2.3
Adjusted EBITDA.....	1,654.2	1,456.0	1,554.4

## **Results of Operations for the Year Ended December 31, 2009 Compared with our Results of Operations for the Year Ended December 31, 2008**

### *Net Sales*

During the year ended December 31, 2009, our net sales increased 1.3%, to Ps.14,947 million, from Ps.14,762 million during the year ended December 31, 2008, primarily as a result of the devaluation of the Peso against the U.S. Dollar and the resulting favorable effect on Famsa USA's sales in Pesos. Consolidated same-store sales (which represent the sales of those of our stores that have been in operation longer than 12 months and isolate the effect of the Peso/U.S. Dollar exchange rate) decreased 5.4% during the year ended December 31, 2009. Famsa Mexico reported net sales of Ps.10,832 million in 2009, which represented a 2.7% decrease in net sales from Ps.11,133 million during 2008, primarily as a result of continuing weakness in consumption driven by the economic crisis and the effects of the swine flu outbreak during the month of May 2009. Moreover, same store sales at Famsa Mexico decreased 4.3% during 2009. However, we believe that the decrease in Famsa Mexico's same store sales was mitigated, in part, through the successful integration of our retail and banking platforms through Banco Famsa, which helped draw customers to our stores and facilitate our credit sales program offering; the shift in our product mix toward personal loans, which have tended to be a more resilient product during economic crises than our traditional durable goods offerings; and the enhanced commercialization efforts we implemented both inside and outside our stores. Personal loans accounted for 17.8% of Famsa Mexico's net sales for the year ended December 31, 2009 compared to 8.9% in 2008.

During the year ended December 31, 2009, net sales at Famsa USA increased to Ps.4,096 million, or 14.0%, from Ps.3,594 million during the year ended December 31, 2008. This increase was driven by the devaluation of the Peso against the U.S. Dollar, evidenced by the fact that Famsa USA's net sales and same store sales in terms of U.S. Dollars decreased 4.9% and 9.3%, respectively. The decrease in Famsa USA's net sales in terms of U.S. Dollars was primarily a result of the U.S. financial crisis, in particular, the historically high unemployment and low consumer confidence, which, according to the U.S. Census Bureau Monthly Retail Trade Report, caused a sharp, nation-wide retail sales decrease in 2009 of 9.4% in furniture, electronics, and appliance retail sales. During the first half of 2009, Famsa USA mitigated the effects of the harsh market conditions in part through growth in digital TV sales, a wide variety of marketing initiatives, and emphasis on its credit sales program. However, Famsa USA's net sales declined in the second half of 2009 as growth in digital TV sales declined after the conclusion of the U.S. migration to digital signal. U.S. Hispanics, who constitute the vast majority of our Famsa USA customers, have during the recent economic crisis and continue to experience higher unemployment levels than the U.S. average.

### *Cost of Sales and Gross Margin*

During the year ended December 31, 2009, our cost of sales decreased 2.4% with respect to 2008, from Ps.7,534 million, to Ps.7,355 million, primarily as a result of the decrease in our sales volume represented by the majority of our product categories combined with the growing volume and share of personal loans in our consolidated product mix. With the exception of personal loans, all of our product categories experienced lower sales volumes in 2008 as a result of the economic downturn, thereby also reducing our cost of sales. The increase in volume of personal loans and the share of personal loans in our consolidated product mix also reduced our cost of sales because personal loans offer lower associated costs and a higher gross margin than our traditional durable good products by taking advantage of Banco Famsa's favorable funding rates. For further discussion of Banco Famsa's funding see "—Liquidity and Capital Resources." Consequently, our consolidated gross margin increased to Ps.7,592 million in 2009, or 5.0%, from Ps.7,229 million in 2008. As a percentage of sales, gross margin reached 50.79% during the year ended December 31, 2009, which represents a 1.82% expansion compared to the same period of 2008. During the year ended December 31, 2009, Famsa Mexico's gross margin expanded 3.46%, while that of Famsa USA contracted 0.96%. This difference is partly a result of Famsa Mexico's ability to offer the personal loan products, which represented 17.8% of its sales in 2009, whereas Famsa USA does not offer personal loans, and Famsa USA's higher sensitivity to difficult economic conditions as a result of its more expensive, higher gross margin product lines in comparison to Famsa Mexico.

### *Operating Expenses*

Our operating expenses increased 4.5%, from Ps.6,192 million in 2008 to Ps.6,469 million, in 2009. As a percentage of sales, operating expenses reached 43.3% during the year ended December 31, 2009, which represents an increase of 1.32% compared to the same period of 2008. This increase was primarily attributable to the unfavorable effects of the depreciation of the Mexican Peso on our U.S. Dollar-denominated expenses and the increase in allowance for doubtful accounts resulting from continuing high unemployment levels among our customers in both Mexico and the U.S. While Famsa USA's operating expenses increased 8.2% on a U.S. Dollar basis, this increase in terms of Pesos is much greater as a result of the Peso's weakness against the U.S. Dollar throughout 2009, amounting to 34.1%. The increase in allowance for doubtful accounts represented Ps.615 million of the consolidated operating expense growth.

The increase in operating expenses was partially offset by our cost-cutting measures in employee salaries and advertising and other operating efficiencies we began at the end of 2008, and which savings accrued at the end of 2009 amounting to roughly Ps.253.6 million, or approximately 1.7% as a percentage of net sales. Famsa Mexico achieved close to Ps.208.7 million in savings, and Famsa USA saved U.S.\$3.4 million (Ps.44.9 million).

### *Operating Income*

During the year ended December 31, 2009, our operating income increased 8.3%, to Ps.1,123 million, from Ps.1,037 million during the year ended December 31, 2008. Despite operating expense growth, this increase was achieved as a result of our gross margin expansion, which was caused primarily by the improvement in our product mix toward personal loans, our lower cost of sales and our cost-cutting efforts that partially offset the effects of the Mexican Peso devaluation against the U.S. Dollar and the increases in our reserves for uncollectible accounts. As a result, our operating margin increased to 7.5% in 2009 from 7.2% in 2008.

### *Comprehensive Financing Expense, Net*

During the year ended December 31, 2009, our comprehensive financing expense, net, was Ps.1,236 million, which represented a 192.9% increase to our comprehensive financing expense, net, of Ps.422 million during the year ended December 31, 2008. This increase was primarily attributable to a foreign exchange loss of Ps.126 million for the year ended December 31, 2009, resulting from the "organic" net long U.S. Dollar position we maintain through Famsa USA's operations, compared to the foreign exchange gain of Ps.436 million we recognized in 2008. Additionally, due to increases in interest rates as well as the growth of interest-bearing liabilities (net debt plus bank deposits), our interest expense increased 29.4% in 2009 compared to 2008. Our funding rate, which was subject to significant interest rate increases as a result of the global financial crisis, has only recently been reduced by the introduction of our more cost-efficient bank deposits. The table below illustrates the changes to our comprehensive financing expense, net:

	<b>Years Ended December 31,</b>	
	<b>2008</b>	<b>2009</b>
	<b>(millions of Pesos)</b>	
Financial expense .....	871.2	1,125.4
Financial income .....	13.1	15.9
Exchange gain (loss), net .....	436.1	(126.0)
Loss on monetary position .....	—	—
	<b>422.0</b>	<b>1,235.6</b>

We have no exposure to derivative instruments and our treasury maintains a disciplined investment policy that involves exclusively fixed-income securities.

### *Income Tax*

Our income tax benefit increased 1,291.4%, from Ps.15.1 million during the year ended December 31, 2008 to Ps.210.1 million during 2009, primarily as a result of decreased income before taxes and a favorable effect on our deferred income taxes of Ps.625.1 million during the year ended December 31, 2009 compared to Ps.346.5 million during 2008. The favorable effect on our deferred income taxes was primarily due to the generation of tax loss carryforwards and the result of changes in Mexican corporate tax law.

As indicated in Note 2 to the Financial Statements, as part of our strategy, during 2009, Grupo Famsa transferred to Banco Famsa most of the credit accounts granted to customers in Mexico. The above mentioned sale of receivables to Banco Famsa generated tax loss carryforwards, which have been recognized in the Financial Statements as a deferred tax asset. Based on current year and expected financial results, the Company's management considers that Grupo Famsa will generate future taxable income to support the realization of its deferred tax asset.

Our effective tax rate in 2009 was 190% compared to 3% in 2008, while the statutory rate remained 28% for both years. Our effective tax rate for fiscal year 2009 was higher than the Mexican statutory tax rate of 28% due principally to the reasons explained above. See Note 12 to the Financial Statements for additional tax-related information.

### *Net Income*

Our net income decreased 82.7%, from Ps.561 million during the year ended December 31, 2008 to Ps.97 million during 2009, primarily as a result of the significant increase in comprehensive financing expense, net.

The effect of the comprehensive financing expense, net increase on our net income was partially mitigated by a favorable income tax effect amounting to Ps.210.1 million, which resulted from a favorable deferred income tax effect and the integration process of our banking and retail platforms.

### *Accounts Receivable*

During the year ended December 31, 2009, we reported accounts receivable of Ps.14,131 million, a 9.2% increase with respect to the Ps.12,937 million reported in 2008, primarily a result of the shift in our product mix to personal loans and an increase in our delinquent and non-performing accounts. Personal loans amounted to 17.8% of Famsa Mexico's net sales during the year ended December 31, 2009 compared to 8.9% in 2008. Furthermore, our non-performing loans, as a percentage of our total accounts receivable, increased from 12.0% in 2008 to 16.1% in 2009, as a result primarily of the continuing effects of high unemployment in both our markets.

### *Inventory*

In 2009, our inventory decreased 13.0% with respect to 2008, from Ps.2,434 million to Ps.2,118 million, as a result of effective implementation of initiatives aimed at optimizing inventory levels without reducing our standards of service. Among our initiatives, we developed an inventory management tool that allows us to optimize our display inventory on an SKU-Store basis. This has enabled us to more easily identify and reduce the lower rotation SKUs, and ensure the availability of higher rotation items on a store-by-store basis.

### *Net Debt*

Our net debt decreased 59.6%, to Ps.2,385 million during 2009, from Ps.5,911 million during 2008, as a result of the growth in Banco Famsa's bank deposit base and the repayment of indebtedness with proceeds from our rights offering concluded in August 2009.

### *Bank Deposits*

During the year ended December 31, 2009, Banco Famsa's deposit balance increased 135.6%, to Ps.7,377 million, from Ps.3,132 million during the year ended December 31, 2008 as a result of the continuing development of Banco Famsa. Bank deposits continue to represent an increasing percentage of Grupo Famsa's total net consolidated financing, having reached 76% on December 31, 2009 compared to 35% a year earlier. Our bank deposits have offered us an optimal source of funding for the credit extended to our Mexican customers. At the same



time, the diverse financing options that make up our bank deposit base (demand deposits, short- and medium-term investments and certificates of deposit) mitigate Grupo Famsa's exposure to conventional credit markets and have already started to reduce significantly our cost of funding.

Demand deposits represented by our savings and checking accounts increased to Ps.1,496 million in 2009 from Ps.507 million in 2008, and short- and medium-term investment deposits increased to Ps.5,880 million in 2009 from Ps.880 million in 2008. Banco Famsa did not sell any certificates of deposit in money market accounts issued by financial intermediaries in 2009 whereas it had sold an amount of Ps.1,745 million in 2008.

#### *Stockholders' Equity*

During the year ended December 31, 2009, our stockholders' equity increased 14.7% with respect to the same period of 2008, to Ps.8,367 million. This increase is mainly attributable to our rights offering and the issuance of 109,090,909 Famsa's Series A, Class II Shares of capital stock for total proceeds of Ps.1,181 million, which we concluded in August 2009.

### **Results of Operations for the Year Ended December 31, 2008, Compared with our Results of Operations for the Year Ended December 31, 2007**

#### *Net Sales*

During the year ended December 31, 2008, we reported consolidated net sales of Ps.14,762 million, which represented an increase of 4.1% with respect to the year ended December 31, 2007. Famsa Mexico reported net sales of Ps.11,133 million, a 1.7% decrease when compared with 2007. Famsa USA's net sales increased 28.0% with respect to 2007, to Ps.3,594 million, as a result of the opening of five new stores and the successful incorporation into its operations of the eight Edelstein's Better Furniture stores acquired in January 2008.

In 2008, the reported amount of our same-store sales was 2.7% lower than in 2007. This decrease was largely attributable to a 3.1% decrease in Famsa Mexico's same-store sales as a result of the contraction in Mexican consumer spending during the last few months of the year. Despite the crisis in the U.S. economy, Famsa USA's same-store sales remained nearly constant in 2008, decreasing by only 0.6%.

#### *Cost of Sales and Gross Margin*

In 2008, our cost of sales decreased by 2.1% when compared with 2007, to Ps.7,534 million. Our gross margin expanded to 49.0% in 2008 from 45.8% in 2007, as a result of improvements in the mix of products offered by our stores and our sales on credit. In 2008, largely as a result of our personal loan business and the expansion of Famsa USA, our gross profit increased by 11.4% with respect to 2007, to Ps.7,229 million.

#### *Operating Expenses*

During the year ended December 31, 2008, we reported operating expenses of Ps.6,192 million, a 20.0% increase with respect to the year ended December 31, 2007. This increase was primarily attributable to the expenses associated with the establishment of 101 Banco Famsa branches, and to a 10.7% increase in our total sales area, which included entry into the Chicago, Austin and Texas Valley markets in the United States. The increase in our operating expenses was also attributable to an increase in our allowance for doubtful accounts, which contributed Ps.243 million of our incremental operating expenses. As a percentage of sales, Operating Expenses reached 41.9% in 2008 compared to 36.4% in 2007.

#### *Operating Income*

In 2008, our operating income decreased by 22.0% with respect to 2007, to Ps.1,037 million from Ps.1,329 million, primarily as a result of a reduction in consumer spending and of the additional expenses incurred in 2008. The decrease in our operating income resulted in a decrease in our operating margin from 9.5% in 2007 to 7.0% in 2008.

### *Comprehensive Financing Expense, Net*

During the year ended December 31, 2008, our comprehensive financing expense, net, decreased by 38.0% with respect to the year ended December 31, 2007, to Ps.422 million, primarily as a result of a foreign exchange gain of Ps.436 million. In 2008, our interest expense increased 42.2% with respect to 2007 due to our higher debt levels and the global increase in interest rates during the year. However, such increase was offset by a foreign exchange gain resulting from the “organic” net long U.S. Dollar position we maintain in connection with Famsa USA’s operations. Additionally, as a result of an amendment to MFRS B-10, our result from monetary position did not change in comparison to the loss of Ps.81 million reported in 2007. The table below illustrates the changes to our comprehensive financing expense, net:

	<b>Years Ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(millions of Pesos)</b>	
Financial expense .....	612.6	871.2
Financial income.....	17.4	13.1
Exchange gain (loss), net.....	4.0	436.1
Loss on monetary position.....	(81.1)	—
	<u>680.3</u>	<u>422.0</u>

We are not exposed to risks from the holding of financial derivative instruments, and our treasury maintains a disciplined policy of investing only in fixed-income securities.

### *Income Tax*

Our income tax benefit increased 112.1%, from an expense of Ps.125.3 million during the year ended December 31, 2007 to a benefit of Ps.15.1 million during 2008, primarily as a result of decreased income before taxes and a favorable effect on our deferred income taxes of Ps.346.5 million during the year ended December 31, 2008 compared to Ps.72.4 million during 2008. Our effective tax rate in 2008 was 3% compared to 19% in 2007, while the statutory rate remained 28% for both years. See Note 12 to the Financial Statements for additional discussion of these rates.

### *Net Income*

Our consolidated net income increased by 8.3% in 2008 with respect to 2007, to Ps.561 million. This increase was primarily attributable to a foreign exchange gain offset in part by the decrease in our net sales and the increase in our operating expenses. Our net margin for 2008 was 3.8%, which represented an expansion of 10 basis points with respect to 2007.

### *Accounts Receivable*

As of December 31, 2008, we had accounts receivable in the amount of Ps.12,937 million, which represented a 32.1% increase with respect to 2007. This increase was partly due to the effect of fluctuations in the Peso/U.S. Dollar exchange rate on our U.S. accounts receivable, which amounted to the equivalent of approximately Ps.742 million. The increase in our accounts receivable was also attributable to the introduction of new products such as personal loans and other financing programs by Banco Famsa, and to the effect of the acquisition of Edelstein’s accounts receivable portfolio.

In 2008, our non-performing accounts as a percentage of our total accounts receivable was 4.6% as a result of higher unemployment rates in both Mexico and the United States.

### *Inventory*

Notwithstanding the 10.7% increase in our sales area during 2008, our inventory for the year increased by only 3.8% when compared with 2007. While in normal circumstances the increase in our number of stores would translate into higher levels of inventory, we have compensated for the shortfall in our actual versus expected growth in inventory levels by implementing effective inventory management.

### *Net Debt*

Our net debt decreased in the last quarter of 2008, but remained constant for the year when compared with 2007, at Ps.5,911 million.

### *Bank Deposits*

In 2008, our bank deposits increased to Ps.3,132 million, from Ps.258 million in 2007, as we continued to implement Banco Famsa's operations. Demand deposits represented by our savings and checking accounts increased to Ps.507 million in 2008 from Ps.183 million in 2007, and short- and medium-term investment deposits increased to Ps.880 million in 2008 from Ps.75 million in 2007. Banco Famsa also sold certificates of deposit in money market accounts issued by financial intermediaries in an amount of Ps.1,745 million in 2008 whereas none had been sold in 2007.

### *Stockholders' Equity*

Our stockholders' equity grew by 12.6% when compared with 2007, to Ps.7,295 million as of December 31, 2008, primarily as a result of increases in net income.

## **Liquidity and Capital Resources**

### *General*

Our primary sources of liquidity are the cash flow generated by our operating activities, Banco Famsa bank deposits, the funds available under our existing credit facilities, and the issuance of debt instruments, such as our commercial paper programs in international and Mexican capital markets (*certificados bursátiles*). We require liquidity primarily to fund our working capital needs, including our sales on credit and the opening of new stores, and to satisfy our debt service obligations.

### *Cash Flows*

The following table shows the generation and use of cash for the years ended December 31, 2007, 2008 and 2009.

	Year ended December 31,		
	2007	2008	2009
	(millions of Pesos)		
Net cash flow provided by (used in) operating activities.....	(895.0)	(1,601.5)	(993.4)
Net cash flow from financing activities .....	1,588.8	3,131.0	1,307.7
Net cash flow used in investing activities .....	(911.2)	(675.1)	(253.6)
(Decrease) increase in net cash and cash equivalent.....	<u>(217.4)</u>	<u>854.3</u>	<u>60.8</u>

Cash used in operating activities for the years ended December 31, 2009 and 2008 was (Ps.993.4) million and (Ps.1,601.5) million, respectively. The decrease in cash used in operating activities in 2009 was primarily a result of increases in our interest expense stemming from the increase in interest rates caused by the global financial crisis. This cash decrease was also due, in part, to the growth of interest-bearing liabilities related to the shift in our product mix to personal loans and an increase in our accounts receivable as a result of an increase in our delinquent and non-performing accounts. The increase of cash used in operating activities in 2008 was primarily a result of the increase in our net income and non-cash items, which was offset by an increase in our sales on credit and inventory.

Cash provided by financing activities for the years ended December 31, 2009 and 2008 was Ps.1,307.7 million and Ps.3,131.0 million, respectively. The decrease in our cash provided by financing activities in 2009 was attributable to the reduction in our borrowings under our existing credit facilities and other debt instruments, offset by the increase of our deposit base through Banco Fama, the issuance of Famsa's Series A, Class II Shares of capital stock concluded in August 2009 and the issuance of commercial paper pursuant to our commercial paper programs. The increase in our cash provided by financing activities in 2008 was attributable to the increase in our borrowing under credit facilities and other debt instruments in order to finance our sales on credit.

Cash used in investing activities for the years ended December 31, 2009 and 2008 was (Ps.253.6) million and (Ps.675.1) million, respectively. The decrease in our cash used in investing activities in both 2009 and 2008 was attributable to our investments in leasehold improvements and fixed assets in connection with the opening of new stores, as well as other expenses incurred in the normal course of our business activities.

As a result of MFRS B-2, "Statement of Cash Flows," effective January 1, 2008, we have included the description of cash flows for the years ended December 31, 2009 and 2008 above. For the year ended December 31, 2007, we include the description of changes in financial position below. The cash flow amounts for 2008 and 2009 may not be directly comparable to the changes in financial position presented for 2007 below.

For the year ended December 31, 2007, (i) resources used in operating activities; (ii) resources provided by financing activities and (iii) property, leasehold improvements and furniture and equipment, net were (Ps.895.0) million, Ps.1,588.8 million, and (Ps.911.2) million, respectively, resulting in a decrease in cash and cash equivalent of (Ps.217.4) million.

#### *Capital Investments*

During 2010, we plan to invest approximately Ps.350 million in leasehold improvements and the acquisition of furniture, equipment and IT systems, as well as to make investments in connection with the further development of our banking operations. Given the prevailing market conditions, we maintain a conservative position with respect to store expansion with a view to opening two new stores and replacing two smaller stores with two full-format stores in 2010. We are not planning on expanding our retail area in the United States during 2010.

In 2009 and 2008, we made capital investments of Ps.323.8 million and Ps.937.4 million, respectively, including:

- leasehold improvements in the amount of Ps.56.9 million in 2009 and Ps.402.7 million in 2008;
- the acquisition of furniture and equipment in the amount of Ps.79.9 million in 2009 and Ps.273.1 million in 2008; and
- the acquisition of information technology systems in the amount of Ps.34.1 million in 2009 and Ps.119.3 million in 2008.

The following table contains a more detailed breakdown of our capital investments during the years ended December 31, 2007, 2008 and 2009.

	Years Ended December 31,		
	2007	2008	2009
	(in thousands of Pesos)		
<b>Capital Investments</b>			
Land.....	Ps. -	Ps. 138.1	Ps. 67,217.6
Buildings .....	-	92,216.0	66,782.5
Leasehold improvements .....	520,635.2	402,683.7	56,926.5
Furniture and appliances .....	172,269.3	273,148.2	79,928.8
Transportation equipment .....	64,812.1	36,713.6	14,441.1
IT equipment .....	91,106.2	119,344.8	34,079.5
Investments in progress.....	89,408.3	13,187.7	4,407.9
Total capital investments .....	<u>Ps. 938,231.1</u>	<u>Ps. 937,432.1</u>	<u>Ps. 323,783.9</u>

In 2007, 2008 and 2009, we financed our capital investments through a combination of our operating resources, loans and borrowings under our existing credit facilities.

#### *Bank Deposits (Banco Famsa)*

During the year ended December 31, 2009, Banco Famsa's deposit balance increased 135.6%, to Ps.7,337 million, from Ps.3,132 million during the year ended December 31, 2008 as a result of the continuing development of Banco Famsa. Bank deposits continue to represent an increasing percentage of Grupo Famsa's total consolidated

financing, having reached 65% on December 31, 2009 compared to 31% a year earlier. The breakdown of Banco Famsa's deposits as of each of December 31, 2009, 2008 and 2007 is as follows:

	As of December 31,			
	2007	2008	2009	2009
	(millions of Pesos, except percentages, ratios and Other Operating Data)			(millions of U.S. Dollars, with same exceptions)
Demand Deposits .....	182	507	1,496	114.7
Short- and Medium-Term Investments .....	76	880	5,881	451.0
Money Market .....	—	1,745	—	—
Total Bank Deposits .....	258	3,132	7,377	565.7

For a description of Banco Famsa's deposit products, see "Our Business—Banco Famsa—Products and Services."

#### Debt

As of each of December 31, 2008 and December 31, 2009, we had outstanding debt in the aggregate amount of Ps.6,922.7 million and Ps.3,899.6 million, respectively. As of March 31, 2010, we had outstanding debt in the aggregate amount of Ps.3,427.4 million. Debt from affiliates is described under "Related Party Transactions." The following table contains a summary of our third-party debt as of March 31, 2010.

	As of March 31, 2010		
	Amount Outstanding (in thousands)	Interest Rate <sup>(1)</sup>	Maturity Date
<b>Famsa Mexico</b>			
Peso-denominated debt:			
Banco del Bajío, S.A. ....	Ps. 100,000	8.42% <sup>(2)</sup>	April 2010 <sup>(5)</sup>
Banco Santander Serfin, S.A. ....	100,000	8.92% <sup>(2)</sup>	April 2010 <sup>(5)</sup>
Banco Inbursa, S.A. ....	390,000	9.91% <sup>(2)</sup>	May 2010 <sup>(5)</sup>
Banorte, S.A. ....	149,995	9.57% <sup>(2)</sup>	May 2010 <sup>(5)</sup>
Long-term local bonds.....	1,000,000	8.50% <sup>(2)</sup>	August 2011
Short-term local bonds .....	567,700	8.26% <sup>(4)</sup>	May, June, October, November 2010, January 2011 <sup>(6)</sup>
U.S. Dollar-denominated debt:			
Euro Commercial paper programs .....	875,473	8.00%	October, December 2010
	3,183,168		
<b>Banco Famsa</b>			
Peso-denominated debt:			
Nacional Financiera, S.N.C. ....	9,279	9.57%	September 2014
	9,279		
<b>Famsa USA</b>			
U.S. Dollar-denominated debt:			
GE Capital Corporation .....	62,282	10.63% <sup>(3)</sup>	April 2010 <sup>(7)</sup>
Deutsche Bank N.Y. ....	172,629	2.75% <sup>(2)</sup>	July 2010
<b>Total debt .....</b>	<b>Ps. 3,427,358</b>		

<sup>(1)</sup> Nominal rates as of March 31, 2010.

<sup>(2)</sup> Variable rate indebtedness. See "—Peso-Denominated Credit Facilities," "—Other Short-Term Indebtedness" and "—Commercial Paper Programs."

<sup>(3)</sup> Fixed rate indebtedness. See "—Peso-Denominated Credit Facilities" and "—Other Short-Term Indebtedness."

<sup>(4)</sup> Weighted average of all outstanding debt pursuant to short-term local bonds issuances.

<sup>(5)</sup> The maturity date was extended after March 31, 2010 as discussed below.

<sup>(6)</sup> Additional issuances were made after March 31, 2010 as discussed below.

<sup>(7)</sup> The facility was repaid after March 31, 2010 as discussed below.

The following descriptions briefly summarize material terms of certain of our credit arrangements, including credit arrangements of our subsidiaries Banco Famsa and Famsa USA. These descriptions are only summaries and do not purport to describe all of the terms of the credit arrangements that may be important.

### **Peso-Denominated Credit Facilities**

#### *Banco del Bajío, S.A.*

As of March 31, 2010, we had entered into a credit facility with Banco del Bajío, S.A., Institución de Banca Múltiple, for a maximum amount of Ps.100 million. As of March 31, 2010, we had borrowed Ps.100 million under this credit facility at a variable interest rate, which as of March 31, 2010 was 8.42% per annum, with a maturity date of April 30, 2010. This facility is subject to standard terms, covenants and conditions. As of May 31, 2010, we had extended the maturity date of our borrowings under this facility to July 8, 2010.

#### *Banco Santander Serfin, S.A.*

As of March 31, 2010, we had entered into a credit facility with Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander, for a maximum amount of Ps.100 million, guaranteed by certain of our operating subsidiaries. As of March 31, 2010, we had borrowed Ps.100 million under this credit facility at a variable interest rate, which as of March 31, 2010 was 8.92% per annum, for an original term of six months but which has been extended to mature on April 20, 2011. We are subject to standard terms, covenants and conditions pursuant to this credit facility with which we were in compliance as of March 31, 2010.

### **Other Short Term Indebtedness**

As of March 31, 2010, we had obtained a loan from Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa, with an aggregate principal amount outstanding of Ps.390 million, a variable interest rate as of March 31, 2010 of 9.91% and with a maturity date of May 28, 2010. We are not subject to restrictive covenants pursuant to this loan. We intend to pay amounts outstanding under this loan agreement at maturity with the proceeds obtained from the issuance of the notes. See "Use of Proceeds." The maturity date has since been extended to July 26, 2010, and the aggregate principal amount outstanding was paid down to Ps.360 million.

As of March 31, 2010, we had obtained a loan from Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, with an aggregate principal amount outstanding of Ps.150 million, a variable interest rate as of March 31, 2010 of 9.57%, and with a maturity date of May 3, 2010. We are not subject to restrictive covenants pursuant to this loan. This loan has since been extended to July 2, 2010 and may be further extended on a monthly basis.

### **Banco Famsa's Credit Agreement with *Nacional Financiera, S.N.C.***

On July 22, 2008, Banco Famsa entered into a credit agreement with NAFIN pursuant to which Banco Famsa may borrow from NAFIN, from time to time, certain amounts, which may vary depending on the availability of funds received by NAFIN under the Program for Development Credit Transactions (*Programa de Operaciones de Crédito de Segundo Piso*) pursuant to which NAFIN receives funds from the *Banco Interamericano de Desarrollo* or BID and the *Banco Internacional de Reconstrucción y Fomento*. As of March 31, 2010, the maximum amount Banco Famsa could borrow under this credit agreement was Ps.250 million. As of March 31, 2010, Banco Famsa had borrowed Ps.9.3 million at a variable interest rate of 9.57%, with a maturity date of September 29, 2014. We are not subject to restrictive covenants pursuant to this credit agreement.

### **Commercial Paper Programs**

We have established various Peso- and U.S. Dollar-denominated commercial paper programs. As of each of March 31, 2010, we had Ps.2,443 million outstanding under the following commercial paper programs:

*Long-term local bonds (Certificados Bursátiles de Largo Plazo)*

- Ps.1,000 million long-term local bonds program established September 7, 2009, for a two year term.

We issued bonds in an aggregate principal amount of Ps.1,000 million under this program on September 11, 2009, in an offering through the BMV. These bonds were priced at a spread of 250 bps over the higher of (i) 6% or (ii) the 28-day TIIE interbank rate, mature on August 12, 2011, and were assigned “A(mex)” and “HRA” ratings by Fitch Mexico S.A. de C.V. and HR Ratings de Mexico S.A. de C.V., respectively. The net proceeds of this issuance, which amounted to Ps.982.7 million, were used by the Company for working capital and to pay off short-term debt.

Bonds issued pursuant to this program are partially guaranteed by NAFIN as part of a credit agreement with NAFIN. NAFIN is obliged to pay up to 50% of the outstanding amount of principal and ordinary interest due and unpaid on the bonds should Famsa default, provided that, at no time will NAFIN pay more than Ps.500 million. The note by which this bond was issued was also executed by NAFIN as guarantor (*por aval*). We pay NAFIN a monthly commission of Ps.0.4 million for this guaranty.

Additionally, the long-term local bonds contain certain restrictive covenants which, among other things, limit our ability to:

- change or modify the main business purpose or activities of the Company;
- incur additional debt in an amount higher than three times our net worth as of the date of issuance of the bonds;
- pay dividends or reduce our capital stock without the prior written consent of NAFIN;
- guarantee third party obligations, except for obligations assumed by our employees, subsidiaries and affiliates; and
- enter into or carry out any transaction with financial derivative instruments, except those entered into strictly for hedging purposes, pursuant to MFRS.

In addition, the long-term local bonds contain standard default provisions, including a change of control provision, as well as cross-default provisions.

*Short-term local bonds (Certificados Bursátiles de Corto Plazo)*

- Ps.500 million local secured bonds program established February 16, 2009, for a two-year term. As of March 31, 2010, we had issued bonds for Ps.346.0 million under this program, which mature on different dates throughout 2010 pursuant to the terms established for each issuance. We have issued an additional amount of Ps.100 million in bonds under this program, resulting in an aggregate amount of bonds outstanding of Ps.446.0 million.
- Ps.500 million local unsecured bonds program established June 18, 2009, for a two-year term. This program enables us to issue both Peso and/or UDI-denominated bonds. As of March 31, 2010 we had issued bonds for Ps.221.7 million under this program, which mature on different dates up through January 2011 pursuant to the terms established for each issuance. We have issued an additional amount of Ps.170.0 million in bonds under this program, resulting in an aggregate amount of bonds outstanding of Ps.391.7 million.

The interest rate to be paid under these programs is determined on a case-by-case basis, pursuant to the terms established for each issuance. The weighted average interest rate for all the short-term local bonds issuances, as of March 31, 2010, was 8.26%.

Our obligations under the program established on February 16, 2009 are secured by 16 real properties, which have been mortgaged in favor of the bondholders. Of the 16 real properties, 13 are properties of our subsidiary Geografía Patrimonial, S.A. de C.V. (“Geografía Patrimonial”), and three are directly owned by Famsa. These mortgages contain certain restrictive covenants which, among other things, limit our ability to:

- create any other lien or encumbrance in connection with the properties;
- decrease Geografia Patrimonial's or our capital stock under Ps.400 million; and
- pledge in any way the shares representing our capital stock.

In addition, the short-term local bonds programs contain standard default provisions, including a change of control provision, as well as cross-default provisions.

Both the long- and short-term local bonds have been registered with the *Registro Nacional de Valores* ("RNV") maintained by the CNBV.

#### *Euro commercial paper programs*

- U.S.\$50 million Euro commercial paper program established August 9, 2000, for a ten-year term. We issued short-term notes in an aggregate principal amount of U.S.\$44 million under this program on October 6 and October 16, 2009. These notes are non-coupon bearing, have a yield of 8.00% per annum, and mature on October 6, 2010. The net proceeds of this issuance, after original issue discount and fees, amounted to U.S.\$40.7 million, and were used by the Company for working capital and to refinance existing debt.
- U.S. \$100 million Euro commercial paper program established December 18, 2009, for a ten-year term. We issued short-term notes in an aggregate principal amount of U.S.\$27 million under this program on December 23, 2009. These notes are coupon-bearing, have an interest rate of 8.00% per annum, and mature on December 23, 2010. The net proceeds of this issuance, which amounted to U.S.\$26.5 million, were used by the Company for working capital and to repay a portion of our outstanding debt under the U.S. Dollar-denominated portion of our Peso/U.S. Dollar credit facility with GE Capital.

We intend to pay off amounts outstanding under these Euro commercial paper programs at maturity with the proceeds obtained from the issuance of the notes. See "Use of Proceeds."

### **U.S. Dollar-Denominated Credit Facilities**

#### *GE Capital Corporation*

As of March 31, 2010, Famsa and Famsa USA had entered into a one-year, fixed-interest rate credit facility with GE Capital Corporation, for U.S.\$300 million and U.S.\$30 million, respectively, each of which mature on April 30, 2010. As of March 31, 2010, Famsa had repaid in full its portion of the credit facility, and Famsa USA had U.S.\$5.1 million outstanding under the credit facility at a variable interest rate, which as of March 31, 2010 was 10.63%. Famsa USA's obligations under this credit facility are secured by its customer accounts receivable portfolio and a guaranty on the part of Famsa. The terms of the relevant credit agreement for this facility impose upon us obligations with respect to the maintenance of certain financial ratios, capital reductions and disclosure of our financial information. As of March 31, 2010, we were in compliance with all of our obligations under this agreement. We have repaid the outstanding amount under this facility in full.

#### *Deutsche Bank N.Y.*

As of March 31, 2010, Famsa USA had obtained a one-year, variable-interest rate loan from Deutsche Bank AG, New York Branch, for a maximum amount of U.S.14 million, and which matures on July 6, 2010. As of March 31, 2010, we had borrowed U.S.\$14 million (Ps.172.6 million) under this loan at a variable interest rate, which as of March 31, 2010 was 2.75%. This facility does not impose on us any restrictive covenants.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.



## Contractual Obligations and Other Commitments

The following table contains a description of our contractual obligations and other commitments as of December 31, 2009.

	Maturity				
	Total	Less than 1 Yr.	1-3 Yrs.	3-5 Yrs.	6+ Yrs.
	(in thousands of Pesos)				
Long-term debt.....	Ps. 1,009.6	Ps. 1.7	Ps. 1,006.1	Ps. 1.8	—
Capital lease obligations .....	—	—	—	—	—
Operating lease obligations.....	4,747.0	949.4	3,797.6	—	—
Purchase commitments .....	—	—	—	—	—
Total .....	Ps. 5,756.6	Ps. 951.1	Ps. 4,803.7	Ps. 1.8	—

## Market Risk Disclosures

The market risk represents our exposure to adverse changes in the value of our financial instruments as a result of fluctuations in the prevailing interest rates, foreign exchange rates and inflation. The following information contains certain statements that are subject to risks and uncertainties. Our actual results could differ from those referred to in such statements. Unless otherwise indicated, the information below has been prepared in accordance with MFRS.

### *Risk Management Policies and Procedures*

We are exposed to the market risks associated with potential fluctuations in the prevailing interest rates, foreign exchange rates and inflation in both Mexico and the United States.

Given our business activities and the short-term nature of our sales on credit, we believe that our level of market risk for potential changes in interest rates is low. We manage our interest rate risk by refinancing the short-term debt that we incur to fund our sales on credit. In addition, we have certain options to pay interest at either fixed or variable rates on some of our debt instruments. This enables us to match our debt maturities with the maturities of our customers' repayment obligations and to use a mix of fixed and variable interest rates.

We do not use financial derivative instruments to hedge our exposure to the market risk associated with potential fluctuations in interest rates, foreign exchange rates and inflation.

For a description of Banco Famsa's risk management policies and procedures, see "Our Business—Regulation—Legal Regime Applicable to Banco Famsa—Risk Management—Policies and Procedures."

## New Accounting Pronouncements

In 2009 the CINIF issued the following MFRS and Interpretations which are effective starting January 1, 2010, except for Interpretation 18, which became effective on December 7, 2009, and MFRS B-5 and B-9 which are effective from January 1, 2011 onwards. The Company's management considers that these MFRS and Interpretations will have no significant effect on the financial information presented. Following are brief details of the new standards:

- MFRS B-5, "Financial information by segment," sets forth the general standards for disclosure of financial information by segments, allowing the presentation of information by segment in a manner more consistent with the related financial statements; additionally, it also allows the user of such information to analyze the entity from a management approach. This standard will replace Statement B-5, "Financial information by segment," in force until December 31, 2010.
- MFRS B-9, "Interim financial information," sets forth the standards for the determination and presentation of interim financial information for external purposes and, among other changes, requires presentation of the statements of changes in stockholders' equity and of cash flows; these statements were not required by Statement B-9, "Interim financial information," in effect until December 31, 2010.

- MFRS C-1, “Cash and cash equivalents,” stipulates the standards for the accounting treatment and disclosure of cash, restricted cash and investments available for sale; it also provides new terminology to make it consistent with other MFRSs previously issued. This MFRS supersedes Statement C-1, “Cash,” in force until December 31, 2009.
- Interpretation 17, “Service concession arrangements,” eliminates the inconsistency between MFRS D-6, “Capitalization of comprehensive financing income (expense),” and Statement D-7, “Construction and manufacture of certain capital goods,” concerning the accounting treatment of comprehensive financing income (expense) applicable to service concession arrangements in the event of recognition of an intangible asset during the construction phase.
- Interpretation 18, “Recognition of the effects of the 2010 tax reforms on income tax,” was issued in response to various doubts raised over the 2010 tax reforms, mainly in connection with the changes to tax consolidation requirements and income tax rates.

## OUR BUSINESS

### Overview

We believe we are a leading Mexican retailer of household appliances, furniture, clothing, cellular telephones and other durable consumer products, targeting the middle and lower-middle segments of Mexico's population. We also believe we are one of the top retailers for furniture and appliances in the United States targeting the U.S. Hispanic population. As of December 31, 2009, we owned and operated 410 stores and 15 distribution centers, with a total selling area in our stores of approximately 544,456 square meters (5,860,476 square feet), including 357 stores in 78 cities throughout Mexico and 53 stores in five U.S. states: California, Nevada, Texas, Arizona and Illinois. During the five-year period from 2005 to 2009, we opened an average of 14 new stores per year in Mexico and 8 new stores per year in the United States. We believe that throughout our over 40-year history, we have constructed a strong brand name associated with a broad product assortment at low prices and personalized customer service with convenient consumer financing programs. Furniture, electronics and household appliances make up approximately 53% of Grupo Famsa's consolidated product mix.

In connection with our retail operations, we offer consumer financing to our customers who opt to purchase our products and services on credit, many of whom do not typically have access to other forms of credit, which provides them with an alternative method to purchase our products and services. In 2009, 81.1% of our total sales were through our credit sales programs. To enhance our consumer financing business in Mexico, in 2007, we established our own commercial bank, Banco Famsa, allowing us to offer additional banking services to our customers, and generate a lower-cost, more stable form of short-term financing for our operations through bank deposits. According to the CNBV, as of December 31, 2009, Banco Famsa operated one of the ten largest banking branch networks in Mexico, with 276 branches located within Famsa Mexico stores, and managed an aggregate amount of 2.3 million saving and credit accounts.

Our net sales totaled Ps.14,947 million for the year ended December 31, 2009 and our total retail space consisted of 544,456 square meters. Our U.S. operations represented 27.5% of total sales during 2009 with 23.5% of the total retail space. Our adjusted earnings before interest expense, depreciation and amortization ("Adjusted EBITDA") totaled Ps.1,456 million for the year ended December 31, 2008 and Ps.1,554 million for the year ended December 31, 2009. The following table shows certain of our financial and operating data for the three-years ended December 31, 2009:

	As of December 31,		
	2007 <sup>(1)</sup>	2008	2009
Number of stores.....	390	421	410
Total sales area <sup>(2)</sup> .....	494,325	547,415	544,456
Net sales <sup>(3)</sup> .....	Ps.14,181	Ps.14,762	Ps.14,947
Same-store sales.....	(1.3)%	(2.7)%	(5.4)%
Sales on credit, as a percentage of our total sales .....	78.6%	80.5%	81.1%
Famsa USA sales, as a percentage of total sales .....	19.8%	24.3%	27.5%
Adjusted EBITDA <sup>(4)</sup> .....	Ps.1,654	Ps.1,456	Ps.1,554
Adjusted EBITDA margin (%) <sup>(5)</sup> .....	11.7%	9.9%	10.4%

<sup>(1)</sup> Since the accumulated inflation for 2007, 2008 and 2009 did not exceed 26% in the countries of the functional currency that we have adopted, the financial statements as of and for the periods ended December 31, 2008 and 2009 do not include the effects of inflation from January 1, 2008 and have been prepared on a modified historical cost basis. Financial statements as of and for the year ended December 31, 2007 are stated in constant pesos of December 31, 2007 purchasing power.

<sup>(2)</sup> In square meters.

<sup>(3)</sup> In millions of Pesos.

<sup>(4)</sup> Adjusted EBITDA is not a financial measure computed under MFRS. Adjusted EBITDA derived from our MFRS financial information means MFRS net income (loss) excluding (i) depreciation and amortization of goodwill, (ii) net comprehensive financing cost (which is composed of net interest expense (income), foreign exchange gain or loss and monetary position gain or loss), (iii) income tax expense and employees statutory profit-sharing expense and (iv) other items such as other income (expenses) net, minority interest and change in accounting standards. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—EBITDA and Adjusted EBITDA Reconciliation."

<sup>(5)</sup> Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenue.

Famsa Mexico and Famsa USA manage our retail operations through our network of stand-alone stores and anchor stores. In addition to the products and services provided by stand-alone stores, anchor stores serve as administrative centers, providing customer service, credit processing, and other support to the stand-alone stores in the same region.

72.5% of Grupo Famsa's consolidated net sales in 2009 were generated in Mexico. Over the last decade, Mexican consumers have increased their overall demand for goods and services as a result of greater purchasing-power, economic stability and income growth. Our target Mexican demographic is made up of the middle and lower-middle income segments, which we consider to be the portion of the adult working population earning a household monthly income between Ps.41,000 (U.S.\$3,144) and Ps.3,000 (U.S.\$230). We estimate, based on Softec, S.C.'s Mexican Housing Overview of 2009, that this group represents 77.1% of the approximately 27.5 million Mexican households. For further discussion of our target demographics, see "—Target Markets." Famsa Mexico has targeted this large segment of the population since 1970 by offering convenient installment credit plans, a broad assortment of products, and personalized customer service. Currently, Famsa Mexico serves its customers through 357 stores (301 stand-alone and 56 anchor) that are generally located within the metropolitan areas of cities with a population in excess of 50,000, and range in size from 500 to 3,000 square meters, with an average of 1,200 square meters per store. On average, each store maintains approximately 2,000 durable consumer products on display, ranging from furniture, electronics and household appliances to clothing and cellular telephones. In addition, we believe that we are also an important wholesaler of household appliances and electronic products in Mexico, operating 17 wholesale stores in the principal metropolitan areas of 17 Mexican states.

Famsa USA represented 27.5% of Grupo Famsa's 2009 consolidated net sales. According to U.S. Census Bureau estimates, Hispanics make up the largest and fastest-growing minority in the United States, are highly concentrated geographically, and are expected to comprise approximately 49.7 million by 2010. Since 2001, Famsa USA has targeted the U.S. Hispanic market by replicating Famsa Mexico's business model and leveraging recognition of the "Famsa" brand. Famsa USA serves its customers through a 53 store network (consisting of 48 stand-alone stores and five anchor stores), developed both organically and through acquisitions, in the five states that concentrate approximately 60% of the country's entire Hispanic population. Famsa USA's stores carry an average of 2,000 products on display, and range in size from 2,000 to 3,000 square meters with an average of 2,400 square meters. As a result of Famsa USA's successful business model, we believe that we are now one of the top 100 U.S. retailers in terms of sales volume in each of our three core product categories: furniture, electronics and household appliances.

We offer a broad assortment of brand-name and other third-party durable goods products, including Sony, White Westinghouse, Panasonic, Whirlpool, LG, Samsung and Mabe, among others, and we continue to seek to expand our product and service offerings. In addition to our durable goods product offerings, we offer personal loans, extended warranties, and life and car insurance. Our stores are characterized by their layout, which is designed to maximize sales and optimize the use of space. Most of our stores have their own warehouse area to ensure that products are readily available. Each of our stores is also outfitted with integrated inventory management and marketing systems, and is connected to STORIS<sup>®</sup>, an advanced supply chain management application that provides real-time information on inventory levels, purchase order status and other information to both stores and vendors.

Given our product mix of high-ticket items and our focus on middle and lower-middle income individuals, Famsa's comprehensive value offer has always included the availability of flexible credit sales programs, which enhance our customers' purchasing power by providing a convenient source of financing for purchasing the retail products we offer. The credit sales programs we offer involve weekly, bi-weekly or monthly payments throughout terms that can range from three to 24 months, depending on the customer's preference and payment capacity. The average maturity of Famsa's credit portfolio is 11 months. In 2009, credit sales accounted for 81.1% of our total sales. We believe that our credit sales programs improve our retail operation's profitability and boost our growth prospects.

The retail price of the merchandise sold in Mexico under our installment program includes a finance charge that varies depending on multiple factors, including the repayment period, the customer's credit history and the type of product. In contrast, cash sale prices generally vary from approximately 5% to 40% off the retail price, depending on the type of product and the product's credit sale terms. As a result, sales on credit generate gross margins well above those yielded by our sales in cash. In the United States, the purchase price of the merchandise sold on credit is

determined based upon a suggested retail price plus a finance charge that is reviewed periodically. Generally, cash purchases in our United States stores are not subject to discounts. Our installment program calls for weekly, bi-weekly or monthly payments over a three- to 24-month period, depending on the customer's preference and payment ability, which is determined based upon various factors, including the customer's credit history, monthly income and the purchase price of the merchandise.

All customers who wish to enter into a credit sales program go through our credit approval process, which has been honed throughout our over 40 years of experience in consumer financing. This process includes a proprietary credit application, credit bureau analysis, telephone confirmation and, in some cases, physical address verification. Additionally, our credit approval process involves the determination of the customer's payment capacity based upon various factors such as monthly income, prior outstanding credit commitments and credit history. The payment capacity figure is one of the most important outputs of the entire credit approval process. This amount represents the maximum aggregate amount and number of installments a customer can commit to at any given time. For instance, if a customer has a payment capacity of Ps.1,000 he or she can purchase any amount of products whose aggregate installments at any time are equal to or less than Ps.1,000. Customers of our personal loans undergo the same credit approval process as those purchasing retail goods, though personal loans are only granted to existing credit sales customers with proven payment capacity.

With the establishment of our banking operations through Banco Famsa in 2007, we have increased our product and service offering to our customers. Banco Famsa leverages Famsa's expertise to serve our customer base and our target market, which has limited access to banking services. We believe this represents an opportunity for growth given that approximately 60% of our customer base has never used banking services before. We have incorporated our banking operations within our retail stores, and as of December 31, 2009, we had 276 banking branches in Mexico, becoming the tenth largest bank network in the country.

Through the banking branches we have been able to obtain deposits by offering several saving, checking and other investment products to our customers. As of December 31, 2009, bank deposits reached Ps.7,376.8 million, a 135% increase compared to December 31, 2008.

In addition, customers' deposits have provided us with a stable and less expensive source of funding for our Mexican retail operation. We have transferred and intend to continue to transfer our clients' accounts receivables to Banco Famsa providing additional transparency as a result of banking guidelines, the regulatory framework and reporting standards imposed by the CNBV.

## **Our Business Strengths**

We believe our business has the following strengths:

### *Strong Market Position and Growth Platform in the Retail Industry in Mexico*

Our extensive network of stores and distribution centers covering most of the major metropolitan areas in Mexico provides what we believe to be an extensive distribution channel to launch new products and services to our target market. Moreover, our established retail store and distribution infrastructure, in particular the location and geographic coverage of our stores and distribution centers, allow us to efficiently continue our expansion plans and gives us a significant advantage over existing and new competitors. We offer a broad assortment of well-recognized brands, low prices, personalized customer service and convenient credit sales programs, which we believe has strengthened our customer loyalty. We believe the Famsa name has strong brand recognition particularly in the middle and lower-middle income segments, which we continually reinforce through an aggressive multi-media advertising program with national scope in Mexico. Our sales systems and marketing efforts are further supported through initiatives such as our "Gran Crédito" direct marketing program, whereby our credit representatives visit the homes of potential customers in an effort to set up new accounts both in areas where we currently operate stores, and in advance of new store openings. Other initiatives we carry out to reinforce our position include telemarketing, direct mail, cashier pitches, and our "Cambaceo" door-to-door sales program. In addition, we believe that our strong market position in the retail industry in Mexico has enhanced our ability to negotiate better prices with our suppliers.

### *Growth Opportunities in the U.S. Hispanic Retail Market*

The growing size and increasing purchasing power of the U.S. Hispanic population represents an attractive complement to the growth prospects of our Mexican retail operation. According to U.S. Census Bureau estimates, the Hispanic population in the United States are expected to reach 49.7 million by 2010, and one of every two persons added to the United States population will be Hispanic. In addition, Hispanics in the U.S. have a purchasing power approximately twice that of the average Mexican consumer. Furthermore, Hispanics are highly concentrated: 10 states hold approximately 80% of the total Hispanic population. Since 2001, Famsa USA has sought to serve this segment by locating its stores within Hispanic areas and by differentiating its value offer through personalized customer service, flexible credit sales programs and exclusive sales options such as “Famsa-to-Famsa,” whereby our U.S. customers can purchase products to be delivered to family members through our stores in Mexico. We believe that we currently are the only specialty retailer targeting the Hispanic market with large-scale operations in the U.S.

#### *Proven Track Record in Consumer Financing*

We have more than 40 years of experience providing consumer financing, with an emphasis on offering flexible credit sales programs to our retail customers while maintaining prudent risk management and credit evaluation policies and procedures. See “—Consumer Lending Operations.”

Our target markets’ financing needs have typically been underserved by the traditional financial sector. Since 1970, we have been developing the necessary skill set and infrastructure to capitalize on the growing credit needs of this large segment of the population. As of December 31, 2009, we managed a total of 1.7 million active credit accounts with a team of over 3,000 credit-related personnel, including approximately 180 call-center agents, all of whom are dedicated to making credit accessible to our customers while ensuring the quality of our loan portfolio. We also provide convenient options for our customers to manage their credit account payments, including through our Promobien program, which gives customers the option to make payments on their Famsa credit accounts through an automatic payroll deduction with participating employers. Despite the significant increase in unemployment during 2009, we maintained a relatively low uncollectibility level of 4.2%, measured as the percentage of net write-off over total accounts receivable. Combined with our in-depth knowledge of the retail industry, we believe that our extensive experience with risk management and consumer financing represents a competitive advantage that we have and will continue to further enhance through Banco Famsa.

#### *Funding through Banco Famsa*

In the past, we funded our credit sales program through multiple credit lines with major financial institutions and international and Mexican securities markets. However, with the establishment of Banco Famsa and the growth of its deposit base, we now have access to a more stable and less expensive source of short-term funding to support our credit sales portfolio and other growth initiatives. As of December 31, 2009, Banco Famsa was the source of 76% of our net funding and Banco Famsa’s interest expense as a percentage of its bank deposits and short- and long-term indebtedness combined was down 1.17% to 8.06% from its peak of 9.23% as of and for the three-month period ended June 30, 2009. Initially funded in part through financial intermediaries and interbank loans, Banco Famsa is now almost fully-funded through its own deposits in the form of savings and checking accounts, certificates of deposit and other consumer investment products. The combination of our diversified funding platform with our risk management experience and knowledge of the retail industry represents a unique competitive advantage.

#### *Integrated Consumer-Targeted Banking Services*

Through the development of Banco Famsa, we are able to offer our customers targeted banking products and services that are normally not available to a large portion of our customers. Based on our estimates, approximately 60% of Famsa Mexico’s customers have never used banking services. As a result of the credit evaluation and monitoring to which our retail credit sales account customers are already subject, and the associated records we keep, we believe that we are in a better position than other banking services providers to offer our retail customers first-time banking services and develop products tailored to their needs. The integration of Banco Famsa with our retail operations provides a variety of cost-saving synergies, including joint product marketing through mailings, telemarketing, cashier sales pitches, television and other marketing campaigns, advertising on bank statements and cross selling in general. Banco Famsa now manages over 773 point-of-sale (POS) terminals in our stores, which accept Famsa and third-party credit and debit cards, along with our in-store ATMs. Banco Famsa also

handles online payroll services for five Grupo Famsa companies and plans to provide payroll services to third-party customers. Additionally, the integration of our Banco Famsa branches into our retail stores leverages our customers' familiarity with our stores and personnel and allows us to provide longer hours of operation than other banking services providers.

#### *Product Diversification and Cross-Sales*

Our expansion into the banking sector through Banco Famsa has allowed us to create additional consumer finance products, which have helped us diversify our product offerings and thereby hedge our exposure to the sensitivity to durable goods demand caused by the recent economic downturn. In addition to our credit sales programs, we offer Banco Famsa customers several personal and business loan products. As a percentage of Famsa Mexico's total sales, personal loans offered by Banco Famsa grew from 8.9% in the year ended December 31, 2008 to 17.8% in the year ended December 31, 2009. This growth in our personal loan product sales relative to our other product offerings is due, in part, to the decrease in demand for our other products, but also demonstrates the counter-cyclical resilience of our loan products. The integration of Banco Famsa branches into our retail stores also provides us an enhanced opportunity to cross-sell our retail products and banking products and services in our retail stores and Banco Famsa branches, respectively.

#### *Personalized Quality Customer Service and Point-of-Sale Marketing*

We are dedicated to the highest-quality customer service. We believe our desire to serve our customers is evidenced by our ability to continually meet their expectations for providing high-quality products at competitive prices. We actively manage client relationships through:

- a well-trained, motivated sales force focused on delivering quality personalized service;
- customer service centers in each of our anchor stores;
- a call center to provide customer service;
- our "Gran Crédito" and "Cambaceo" (or "canvassing") programs; and
- a wide range of post-sale services, including repair services and home delivery.

We believe that our commitment to customer service is a significant factor in increasing our customer loyalty and expanding our customer base. Additionally, our dedication to high-quality, personalized customer service has been critical to the sale of complementary products such as extended warranties and the introduction of new products, including life and car insurance (which we sell for a commission) and personal loans.

#### *Advanced Information Technology and Systems*

We operate STORIS™, a modern supply chain management software system that, among other things, provides us with key real-time information regarding retail sales and inventory levels, product availability and purchase order status, enhancing our decision-making process. Our technology improves the efficiency of our supply chain by allowing us to manage detailed information in such a way as to increase the likelihood that our customers will find exactly the products they wish to purchase while optimizing the associated inventory levels. Moreover, we are able to track the interests, needs and buying habits of our customers, anticipating changes in consumer demand. Lastly, customer service has benefited by having:

- readily available access to important product information such as technical product descriptions and product availability;
- the ability to identify and prevent potential service problems (e.g., incorrect or inaccurate product information) in connection with matters such as inventory availability and returns; and
- a reliable resource for registering and handling customer complaints.

In addition, during the past few years we have complemented our information technology infrastructure with SAP to manage our human resources, accounting and soft good retail operations. We use advanced operational information technology to support Banco Famsa's operations, including ICBS-FISERV, Metacard (credit card

processing FISERV module) and eBanking. In addition to providing a more sophisticated consumer financing management platform, our bank's systems enable us to identify cross-selling opportunities across credit and deposit customer databases by integrating virtually all of Famsa Mexico's existing credit accounts with Banco Famsa's growing deposit base.

#### *Strong Management Team and Motivated Employees Focused on Continuous Improvement*

Our executive officer team has over 25 years of accumulated specialty retail experience, and a solid track record of sustainable growth. Additionally, top management has successfully fostered a work culture based on teamwork and focused on continuous improvement and commercial innovation. Each of our employees has individual objectives, which serve as a basis for measuring performance and are associated with broader corporate goals. Having met operational and financial objectives, our employees are eligible for bonuses according to our compensation system. See "—Employees." We believe our goal-oriented culture and incentive programs have contributed to the development of a motivated and well-aligned team that is dedicated to serving our customers' needs and ensuring the sustainability of our business. The positive performance of our company rests on practices of sound corporate governance. Grupo FAMSAM was one of the few finalists in the second edition of the "Affinitas" Awards for Good Corporate Governance in Latin America, held on November 22, 2007 as part of the 9th Latibex Forum in Madrid, Spain. More than 580 companies were evaluated by the jury and 12 finalists were chosen on the basis of criteria such as shareholders' rights, equality, stakeholder involvement, communication and transparency, and responsibilities of the board of directors.

#### **Our Business Strategy**

Grupo Famsa serves specific consumer, credit and savings needs of the middle and lower-middle income segments of the population through a unique portfolio of complementary businesses. We believe the synergies among our business units enable us to attain competitive advantages that reinforce our position. Our business strategy focuses on maximizing these synergies to provide a comprehensive and differentiated value offer to our customers. Consequently, the key elements of our strategy are the following:

##### *Enhance Our Consumer Financing Operations in Mexico through Banco Famsa*

We are in the process of enhancing our consumer financing operations in Mexico through the continuing development of Banco Famsa. We believe that further development of Banco Famsa will lead to an additional decrease in our cost of financing, allowing us to apply greater financial resources to other areas of our operations. We believe the inclusion of Banco Famsa branches in our retail stores has and will enable us to increase our customer base in Mexico and enhance our ability to sell additional products to our consumers. Besides acting as a catalyst for further growth in our retail operations, we believe Banco Famsa will increasingly become a source of independent growth through expansion of existing and development of new financial products and services. Furthermore, we believe Banco Famsa's personal and business loan programs and other financial products will help us further diversify our product offerings to hedge our exposure to durable goods demand sensitivity. We intend to continue building upon our experience and knowledge of providing consumer financing to further successfully establish, expand and operate Banco Famsa.

##### *Selectively Expand Our Store Network in Mexico*

We believe that our current retail store network provides an important platform for our selective expansion in Mexico. Our expansion strategy includes opening new stores in areas better served by full-format stores to selectively replace smaller stores, opening additional stores in strategic, high-demand areas of cities in which we already operate and opening new stores in regions which we believe offer a substantial growth opportunity given the existing number of cities with populations exceeding 50,000 inhabitants that are currently underserved by us or our competitors. Based on our estimates, there are approximately 395 cities in Mexico with populations exceeding 50,000 inhabitants, and we currently operate in 78 (or 20%) of them. Nevertheless, given the prevailing market conditions, we maintain a conservative position with respect to expansion.



### *Continue Increasing Our Presence in the U.S. Hispanic Retail Market*

Our goal is to take advantage of the rapid growth of the Hispanic population in the United States and continue strategically expanding our operations in the United States by building upon our current retail store network and our substantial knowledge of the U.S. Hispanic retail market. We intend to continue to expand our United States operations in the cities in which we operate, and, as economic conditions warrant, open stores primarily in cities with large Hispanic populations and continue our Hispanic-oriented multimedia advertising program. We believe there are 38 cities in the U.S. with more than 250,000 Hispanic inhabitants, primarily in the states of California, Texas, Arizona, Nevada, Illinois, New York, New Jersey and Florida, which represent attractive growth opportunities. We currently operate in the five U.S. states of California, Nevada, Texas, Arizona and Illinois, which, according to the U.S. Census Bureau are home to approximately 57% of the U.S. Hispanic population.

### *Improve Our Sales and Marketing Efforts to Increase Our Market Share*

We plan to continue improving our sales force productivity through more effective training programs and attractive compensation systems and enhance our marketing efforts to attract new customers and increase our market share. We also plan to improve our information technology systems, databases and customer relationship management system in order to enhance our ability to anticipate consumer demand and promote commercial innovation. While our marketing strategy emphasizes mass media advertising, we also intend to further expand our telemarketing program and explore other new direct marketing channels. In addition, we will continue our commitment to customer service and customer satisfaction by providing a combination of personalized service, high-quality products and services at competitive prices and flexible consumer financing.

### *Continue to Improve Our Margins through the Introduction of New Products, Services and Distribution Channels*

We plan to take advantage of the strong growth platform provided by our extensive retail store network to continue developing new products, services and distribution channels that satisfy our customers' needs, such as Internet sales, new consumer financing products, footwear catalog sales, travel packages and motorcycle and automobile financing, in addition to other products and services primarily directed to customers in higher income brackets. Furthermore, we expect that through the continued development and integration of Banco Famsa, we will be able to offer a growing variety of personal and business financial products and services in Mexico. We believe that the continued development of new products, services and distribution channels will allow us to cross-sell a broader range of products and services more effectively, lead to improvements in our margins and increase our competitiveness, further strengthening our growth platform. Additionally, we expect that the continuing development and integration of Banco Famsa will provide a lower-cost source of financing and expand our products offering, which may lead to an increase in our profitability.

## **History**

The origin of our business dates to 1970, with the opening of a household appliances, furniture and electronics store in the city of Monterrey, Nuevo León, in northern Mexico, followed by additional stores in Monterrey and other markets in the states of Nuevo León and Coahuila over the course of the next decade. The Company was formally organized in 1979, under the name Corporación Famsa, S.A., in order to centralize the then existing stores' merchandise purchasing process and attain economies of scale.

During the 1980s, we began expanding into other business segments. In 1980, we ventured into the wholesale market with the establishment of our subsidiary Mayoramsa, S.A. de C.V. ("Mayoramsa"), and in 1983 we created Impulsora Promobien, S.A. de C.V. ("Promobien") to offer consumer loans to the employees of our affiliates. In 1987, we began our furniture manufacturing operations through our subsidiary, Expormuebles, S.A. de C.V. ("Expormuebles").

The year 1990 marked the beginning of a significant growth period for the Company. During the 1990s, we established a number of subsidiaries and expanded our geographical presence to other cities in central Mexico, including San Luis Potosí, Querétaro, León, Celaya and San Juan del Río. In 1991, we opened six stores within the metropolitan areas of Guadalajara, Ciudad Obregón, Los Mochis, Navojoa and Hermosillo. Between 1995 and 1996, we implemented a strategic expansion plan to capitalize on the then ongoing Mexican economic recovery process, opening additional stores in the States of Nuevo León, Puebla and Aguascalientes. By the decade's end, we had a

total of 185 stores located in 49 cities throughout Mexico. Concurrent with this geographic expansion, we also diversified our lines of products. For instance, in 1994 we began selling clothing, footwear, cosmetics and jewelry.

In 1999 and 2000, Tapazeca, S.L., a joint venture between Soros Fund Management and Mr. Fernando Chico Pardo, and Monterrey Venture Holding, L.L.C., an affiliate of General Electric Pension Trust, acquired in the aggregate a 13.78% interest in the Company. The proceeds of these transactions enabled us to further pursue our strategic expansion plan. The participation of these investors through Tapazeca, S.L. was sold to the public in May 2006 when we became a public company.

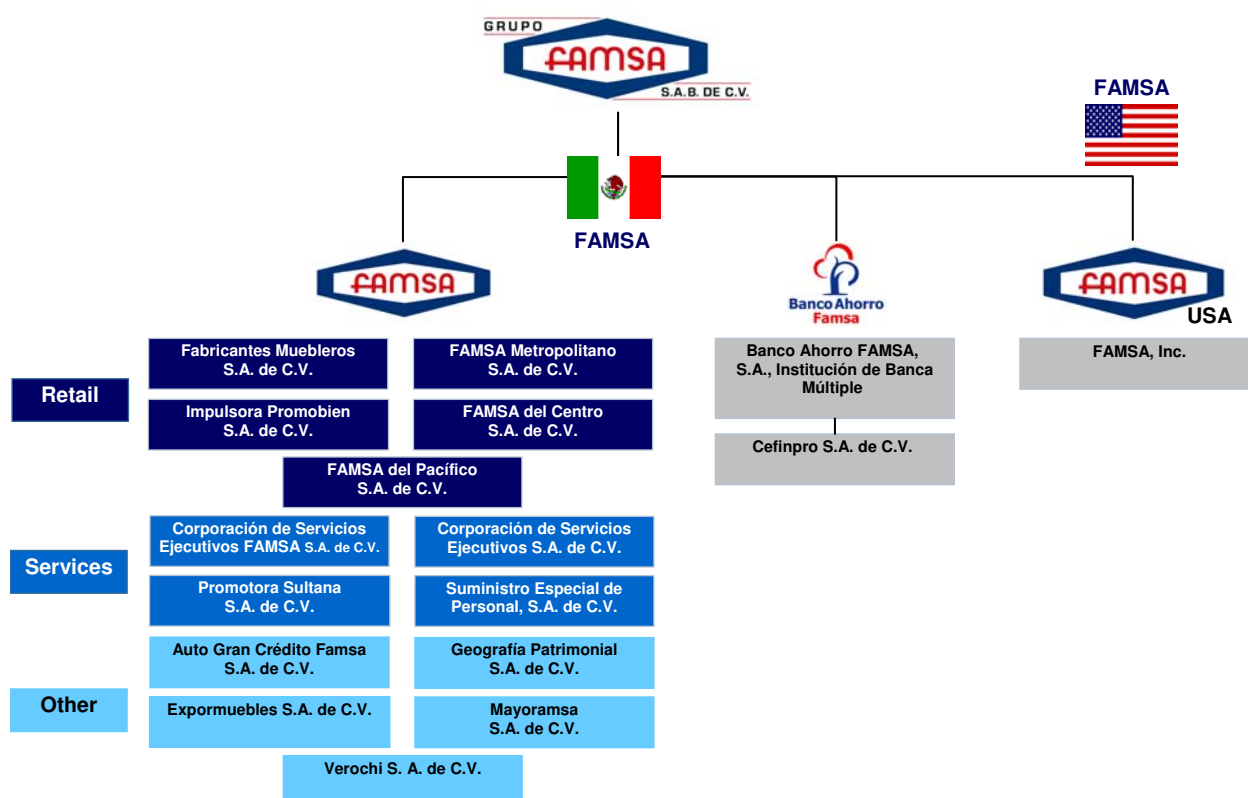
Between 2002 and 2009, we opened an additional 146 stores throughout Mexico, primarily in the country's Gulf and Central regions, including the states of Veracruz and Tabasco, Mexico City and the cities of Pachuca, Toluca and Cuernavaca, among others. As of December 31, 2009, we had a total of 357 stores located throughout Mexico.

Concurrent with our geographic expansion in Mexico, in 2001 we entered the United States market with the opening of a store in California, aimed at catering to the needs of the U.S. Hispanic population. Our expansion plan in the United States led to the acquisition and integration into our operations in 2006 of the five "National" furniture stores in San Antonio, Texas and in 2007 of the 12 "La Canasta" furniture stores in the cities of Los Angeles, California, and Houston, Texas. In 2008, we opened 13 new stores and acquired and integrated into our operations Edelstein's Better Furniture's eight stores in the Rio Grande Valley of Texas. As of December 31, 2009, our U.S. operations included a total of 53 stores located in California, Texas, Nevada, Arizona and Illinois.

In May 2006, we became a public company through an initial public offering of our shares on the BMV and also established Banco Famsa in order to further our consumer lending operations and enter the banking business. Banco Famsa commenced operations in Monterrey, Nuevo León, in 2007, and in the same year we opened 167 Banco Famsa branches within our stores in 12 states in Mexico. In 2008, we opened an additional 101 Banco Famsa branches in our stores in the states of Nuevo León, Sonora, Sinaloa, Puebla, Coahuila, Veracruz, San Luis Potosí, Aguascalientes, Baja California, Michoacán, Morelos, Toluca, Hidalgo, Tamaulipas, Jalisco, Campeche, Tabasco, México, Zacatecas, Colima, Chihuahua and Guanajuato. As of December 31, 2009, Banco Famsa had a total of 276 bank branches located throughout Mexico.

## Organizational Structure

We conduct our business operations through 17 operating subsidiaries. The following chart shows our organizational structure and our subsidiaries, all of which are substantially wholly owned, directly or indirectly, by us:



## Operating Subsidiaries

We operate our 410 stores in Mexico and the United States through our subsidiaries listed below:

- Fabricantes Muebleros, S.A. de C.V., Famsa Metropolitano, S.A. de C.V., Famsa del Pacífico, S.A. de C.V. and Famsa del Centro, S.A. de C.V., which are responsible for the operation of Famsa Mexico's 357 stores.
- Famsa, Inc., which operates our 53 stores in the United States and is a corporation organized under the laws of the State of California.
- Impulsora Promobien, S.A. de C.V., which serves as administrator for our Promobien program.
- Auto Gran Crédito Famsa S.A. de C.V., which is engaged in the personal car loan business; and
- Verochi S.A. de C.V., which is engaged in the sale and distribution of footwear and other related products both directly and through third parties.
- Expormuebles, S.A. de C.V., a manufacturer and distributor of furniture and related products; and
- Mayoramsa, S.A. de C.V., which is engaged in the wholesale and distribution of household appliances and furniture through its 17 warehouse clubs.

### *Financial, Administrative and Other Subsidiaries*

We conduct our banking and consumer lending businesses, receive administrative support and services, and are engaged in other business activities through our subsidiaries listed below:

- Banco Ahorro Famsa, S.A., Institución de Banca Múltiple, which is responsible for our banking business and providing financing services to our retail customers;
- Promotora Sultana, S.A. de C.V., Corporación de Servicios Ejecutivos, S.A. de C.V., Suministro Especial de Personal, S.A. de C.V. and Corporación de Servicios Ejecutivos Famsa S.A. de C.V., which provide administrative, accounting, audit, financial planning, personnel and IT systems development and maintenance services, as well as consulting services in connection with a variety of areas, including technical assistance, research and development, statistical information and analysis, marketing and public relations;
- Geografía Patrimonial, S.A. de C.V., which was incorporated and began operations in November 2009, and which is engaged primarily in leasing real estate to related parties.

### **Target Markets**

Our target market in Mexico is primarily the lower-middle and middle income segment of the population, which we consider to be the portion of the adult working population earning a household monthly income between Ps.41,000 (U.S.\$3,144) and Ps.3,000 (U.S.\$230). We estimate, based on Softec, S.C.'s Mexican Housing Overview of 2009, that this group represents 77.1% of the approximately 27.5 million Mexican households. The table below sets forth the breakdown of the Mexican population inhabiting cities with a population greater than 50,000 according to a classification made by *Asociación Mexicana de Agencias de Investigación de Mercado y Opinión Pública* ("AMAI"), for the year 2009:

<b>Demographic Group</b>	<b>Percentage of Total Population</b>	<b>Household Income per Month</b>
"A/B" .....	4.0%	Ps.104,000 and above
"C+" .....	8.3%	Ps.41,000 – Ps.104,000
"C" .....	17.5%	Ps.13,000 – Ps.41,000
"D+" .....	21.9%	Ps.9,000 – Ps.13,000
"D" .....	37.7%	Ps.3,000 – Ps.9,000
"E" .....	10.7%	Less than Ps.3,000

Source: Softec, S.C. Mexican Housing Overview of 2009

Our stores target customers who are primarily in the C, D+ and D groups; however, we also offer a variety of products and services that primarily appeal to customers from the A/B group (LCD flat screen televisions, etc.). The age distribution of Mexico's population favors the maintenance of high levels of consumer consumption and offers significant opportunities for growth. According to INEGI, approximately 54.65% of the Mexican population is between the ages of 20 and 74, which is the primary consumer group for our products, and approximately 40.44% of the Mexican population is under the age of 20, which we believe represents future growth potential for our customer base.

In addition, Mexico's low and middle-low housing industry has historically reported strong performance levels, contributing to the increase in the demand for household appliances and other products. We currently operate in 78 cities in Mexico.

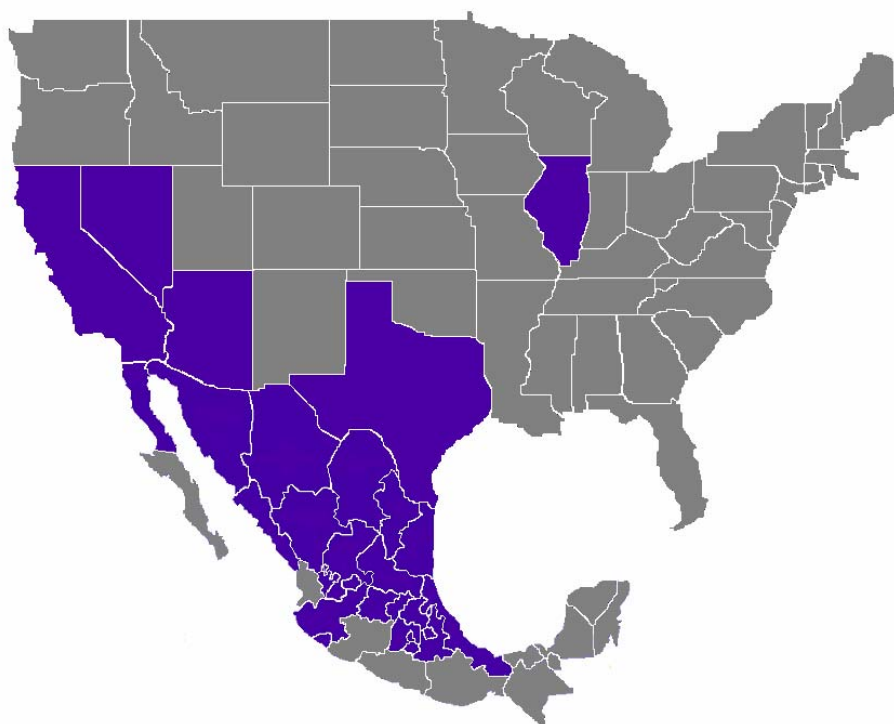
We continue to focus on strategically expanding our market share in the United States, which we entered in 2001 with the aim of catering to the needs of the country's Hispanic population. Hispanics make up the largest and fastest-growing minority in the United States. According to U.S. Census Bureau estimates, the Hispanic population in the United States will reach 49.7 million in 2010 and 66.4 million by 2020 and reach 30.2% of the total U.S. population by 2050. In 2010, one of every two persons added to the United States population will be Hispanic. In

addition, Hispanics in the U.S. have a purchasing power approximately twice that of the average Mexican consumer. The U.S. Hispanic population is heavily concentrated in a relatively few number of cities. According to estimates, there are currently 38 U.S. cities with a Hispanic population in excess of 250,000. This combination of factors offers significant opportunities for our future growth. We currently operate in the five U.S. states of California, Nevada, Arizona, New Mexico, Texas and Illinois, which are home to approximately 60% of the U.S. Hispanic population.

## Retail Network

As of December 31, 2009, we owned and operated 410 stores and 15 distribution centers, including 357 stores in 78 cities throughout Mexico and 53 stores in the five U.S. states of California, Nevada, Texas, Arizona and Illinois. We operate under a dual store format that encompasses both stand-alone as well as anchor stores. Anchor stores double as administrative centers that provide customer service, credit processing and other support to our stand-alone stores in the same region. Except for Mexico City and Guadalajara, which have multiple anchor stores given the size of the market and our number of stand-alone stores therein, each of the cities in which we operate has one anchor store or is located in close proximity to another city with an anchor store.

The following map and table show the geographical distribution of our stores in Mexico and the United States as of December 31, 2009.



State	Number of Stores	Square Meters
<b>MEXICO</b>		
Nuevo Leon	76	87,748
San Luis Potosi	7	8,944
Queretaro	4	5,124
Guanajuato	17	16,630
Veracruz	13	17,415
Toluca	4	5,221
Hidalgo	5	8,374
Villahermosa	9	10,060
Campeche	1	711
Sonora	11	16,466

<b>State</b>	<b>Number of Stores</b>	<b>Square Meters</b>
Sinaloa	10	12,930
Chihuahua	12	17,821
Baja California	18	26,218
Tamaulipas	32	34,125
Coahuila	26	34,368
Durango	4	4,829
Jalisco	20	18,785
Puebla	9	10,195
Aguascalientes	2	3,735
Michoacan	3	4,350
Colima	1	825
Morelos	5	6,693
Zacatecas	2	1,928
CD. Mexico	66	63,148
<b>Mexico Total</b>	<b>357</b>	<b>416,643</b>
<b>USA</b>		
California	24	52,413
Texas	23	58,254
Nevada	1	2,434
Arizona	2	5,432
Illinois	3	9,280
<b>USA Total</b>	<b>53</b>	<b>127,813</b>
<b>TOTALS</b>	<b>410</b>	<b>544,456</b>

Famsa Mexico's stores are located within the metropolitan areas of cities with a population in excess of 50,000 people and range in size from 500 to 3,000 square meters, with an average of 1,200 square meters per store. Each of our Mexican stores maintains an average of 2,000 products on display. As of December 31, 2009, we had a total of 301 stand-alone and 56 anchor stores in Mexico.

As of December 31, 2009, we had 48 stand-alone and five anchor stores in the United States. Our U.S. stores range in size from 2,000 to 3,000 square meters, with an average of 2,400 square meters per store. Each store maintains an average of 2,000 products on display. We believe that we are one of the 100 largest retailers in the United States in terms of sales volume in each of our three principal product categories: furniture, electronics and household appliances.

Our stores in both Mexico and the United States are characterized by their display method, which is designed to maximize sales and the use of space. Most of our stores have their own warehouse area to ensure that their most popular products are readily available. Each of our stores is outfitted with integrated inventory management and marketing systems and is connected to STORIS<sup>®</sup>, which is an advanced supply chain management application that provides real-time information on inventory levels, purchase order status, and other information to both stores and vendors. Most of our stores are open from 9:00 a.m. to 9:00 p.m., seven days a week (other than January 1 and December 25), except that stores located within shopping centers are subject to the shopping center's business hours.

We lease most of the properties that house our stores. We select the retail space used by our stores based upon various considerations, including our desire to convey a uniform corporate image and the need for total sales and warehouse areas sufficient to accommodate our increasing number of product lines and services and merchandise volumes.

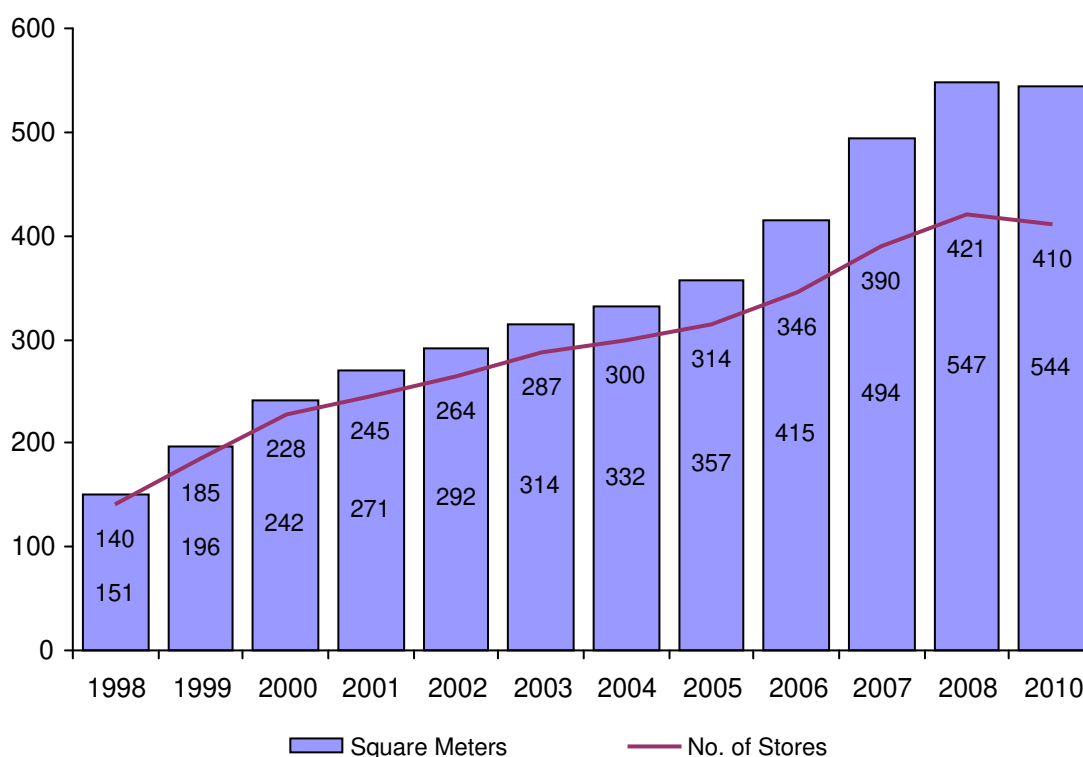
#### *Market Expansion Strategy*

Our expansion, first in Mexico and, since 2001, in the United States, has enabled us to achieve significant growth levels in terms of both our net sales and net income over the past ten years. As part of our ongoing expansion strategy, we continue to consider opening additional stores in Mexico, both in cities in which we are already present and in other regions, such as the southeast part of the country, where we believe there are significant growth

opportunities given the number of cities with a population in excess of 50,000 that are not currently served by us or our competitors. We also continue to consider expanding our presence in the United States, particularly in Northeast cities with large Hispanic population concentrations. In addition to opening new stores, we also periodically consider the benefits of closing older, smaller stores that are located in areas adequately served by our larger full-format stores. In 2009, for example, we optimized our retail network by selectively closing fifteen stores while opening four larger, full-format stores, resulting in a net square meter reduction of 0.5% in our total sales area. Reapportioning our resources through these strategic closures contributed to operational savings of approximately Ps.253.6 million in 2009.

The following chart illustrates our growth in terms of our total number of stores in Mexico and the United States during the periods indicated.

The following chart illustrates our growth in terms of our total sales area, in thousands of square meters, in Mexico and the United States during the periods indicated.



## Products and Services

We offer a broad assortment of and third-party domestic and imported durable goods products, including household appliances, furniture, electronics, clothing and cellular telephones, and we seek to constantly expand our product and service offerings. Imports account for approximately 4% of our product portfolio. The following table shows our sales by type of product as of December 31, 2008 and 2009.

Product Category	% of Total Sales as of December 31, 2008		Total Consolidated	% of Total Sales as of December 31, 2009		Total Consolidated
	Famsa Mexico	Famsa USA		Famsa Mexico	Famsa USA	
Electronics .....	16.9	33.5	21.1	15.2	38.8	22.1
Furniture .....	17.6	37.8	22.7	13.4	34.3	19.5
Personal Loans	8.9	—	6.7	17.8	—	12.6
Household appliances.....	16.1	8.9	14.3	13.3	7.8	11.7
Cellular Telephones.....	13.0	—	9.7	11.6	—	8.2
Clothing and Accessories...	8.0	—	6.0	7.0	—	4.9
Famsa-to-Famsa .....	—	7.3	1.8	—	4.8	1.4
Other .....	19.5	12.5	17.7	21.7	14.3	19.6
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Our portfolio of product and service offerings includes:

- *Electronics*, including video equipment (cameras, TV sets, home theater systems and DVD players), sound systems (car stereos, modular stereo systems, and recorders) of international brands such as Sony, Panasonic, RCA, Sharp, Samsung, and LG, among others.
- *Furniture*, including living room, dining room and bedroom sets, chairs, tables, armoires, headboards, mattresses, cushions, rocking chairs, dressers, book cases and sofas. The principal furniture brands carried by our Famsa Mexico stores are Simmons, Selther, Mónaco, Sealy, Terciopelera Nacional, Demomuebles, Chavoya, MobilKraft, Taosa and Dafel. In addition, our Famsa Mexico stores offer an exclusive brand-name line of furniture manufactured by our subsidiary Expormuebles. Famsa USA furniture brands include brands Ashley Furniture, Wickline Bedding, Michels & Company, International Furniture, Golden Oaks, Acme Furniture and Sandberg Furniture.
- *Personal loans*, which are unsecured cash loans our customers use to meet needs not offered in our retail floor, including medical care and house remodeling. These loans are normally offered to our existing customers and are very similar in amount and duration to other credits that we issue.
- *Major household appliances*, including refrigerators, washers, freezers, dryers, ovens and stoves of internationally recognized brands such as White Westinghouse, General Electric, Mabe, Maytag, Easy, IEM, Acros, Whirlpool and Supermatic, among others.
- *Small household appliances*, including microwave ovens, toasters, irons, coffee makers, vacuum cleaners, mixers and other small appliances of brands such as Samsung, Moulinex, Panasonic, Black & Decker, Braun, LG and Osterizer. We also sell fans, air conditioning units and boilers, including those manufactured by Impco, Samsung, Lenomex, Calorex, LG, Mytek and Cinsa.
- *Cellular telephones and accessories*, including those distributed by Telcel, Iusacell and Movistar. The phones and accessories are sold in our stores by us and we receive marketing support from the providers. Customers contract with the providers separately.
- *Clothing and accessories*, including a broad range of formal and casual men's, women's and children's wear, footwear and accessories such as jewelry, watches and perfumes. Under this product category we also offer home linens and luggage. The principal clothing brands carried by our stores include Levis, Wrangler, Lee and Oggi, among others, and we also offer a variety of items under our own Giovanni Paolo, Kultur and Nene Wear labels. We entered the clothing segment in 1994, and as of December 31, 2009 this line of products was carried by 108 Famsa Mexico stores. As a result of the success attained by this segment, we are now including this line of products in all of our new store openings.
- *Motorcycles and scooters*, including an assortment of economical models manufactured by Carabela and Islo featuring engine sizes from 90cc to 200cc and a variety of colors and other features.



Leveraging on our large merchandise purchase volumes, we have entered into certain arrangements with some of our vendors, pursuant to which they manufacture products according to our specifications for inclusion in our stores' portfolio of product offerings. For instance, Lester manufactures the mattresses sold in our stores under our proprietary "CisiAmo" label.

In addition to our conventional product categories described above, our stores offer a variety of other products and services, including the following:

- *Famsa-to-Famsa.* Our Famsa-to-Famsa services allows our clients in the United States to purchase merchandise at any of our Famsa USA stores and have it delivered to family members in Mexico through Famsa Mexico, taking advantage of our infrastructure on both sides of the border. Though the product is delivered in Mexico, the sale is treated as a sale in the United States. The products most frequently purchased for delivery in Mexico through this service are household appliances, furniture and electronics. In 2009, sales under our Famsa-to-Famsa program accounted for 4.8% of our total sales.
- *Catalog sales.* In 2004, we entered the sales-by-catalog business within the footwear segment, through our subsidiary Verochi, S.A. de C.V. ("Verochi"). Our customers place their purchase orders either with our call center or through an informal network of independent, door-to-door sales people who are primarily housewives and other women in search of a source of additional income. We offer these independent sales people the ability to pay for their merchandise purchases in up to eight weeks, and to return any unsold merchandise. Currently, our Verochi footwear is available only through a limited number of Famsa stores in northern Mexico, although we plan to expand this business to the rest of the country.
- *Electronic transfer of funds, and foreign exchange.* Our Famsa Mexico stores offer electronic money transfer and foreign exchange services in exchange for a commission payable by the sender. Although we do not directly offer these types of services in the United States, Famsa USA has entered into an agreement with U.S. Dollar Express, Inc. ("DolEx"), pursuant to which DolEx provides such services to our customers through kiosks located within our stores. In exchange for these business referrals, DolEx pays to Famsa USA a fixed monthly rent on account of the space used by its kiosks. In addition, we have entered into a series of agreements with DolEx Envíos, SA. de C.V. ("DolEx Mexico") and other providers of international money transfer services, pursuant to which we deliver to their intended recipients, at our Famsa Mexico stores, the proceeds of the transactions processed by them, in exchange for a commission for each completed transaction. We do not charge any fee or commission to the recipients.
- *Viajes a Bordo Famsa (On Board Famsa Travel Services).* We sell holiday packages on credit to our customers in Mexico. Our holiday packages include air or ground transportation and hotel accommodations in some of Mexico's most popular tourist destinations. We believe that our holiday packages are affordable and increase our customers' travel options. Given the growing popularity of Mexican tourist destinations, we are currently planning to offer vacation packages to our customers in both Mexico and the United States.
- *Auto Gran Crédito.* In 2005, we began offering personal car financing services under our "Auto Gran Crédito" brand. We finance the purchase of new vehicles only, through a lottery system that requires the customer to pay when due each of the first six installments on their purchase before they can receive delivery of the vehicle. If a customer fails to pay when due any of such six first installments, then delivery of the vehicle is delayed until the customer's name is drawn in a lottery. We hold lottery drawings on a monthly basis. As in the case of our other consumer finance services, customers make weekly payments in amounts that vary depending on their individual payment ability, over a 48-month period. During the year ended December 31, 2009, we entered into 1,220 car finance agreements and delivered 648 vehicles. Auto Gran Crédito represented only 0.52% of our consolidated accounts receivable balance as of December 31, 2009.
- *Banco Famsa Products.* Through Banco Famsa, we offer a variety of consumer and business finance banking products, which are designed to target the banking needs of our retail customers. Our deposit and investment products include traditional savings and checking accounts and a variety of short- and medium-term investment products, including certificates of deposit, offering a range of terms to maturity and different returns. Our credit offerings include personal and business products, including a Famsa private-

label credit card for use only at Famsa stores, personal cash loans and both long and short-term business loans and revolving credit. For additional discussion of Banco Famsa's products, see "—Banco Famsa—Products and Services."

As part of our business strategy, we continually seek new products and services to offer to our customers, and from time to time we introduce new products or services through trials before incorporating them into our portfolio. The products and services offered can vary from store to store based on layout as well as specific demographics and regional and customer preferences.

## **Sales**

*Sales in Cash.* Our sales in cash include the sales paid in hard currency and the sales paid by check or credit card. Cash sale prices generally vary from approximately 5% to 40% off the retail price, depending on the type of product and the product's credit sale terms. We offer to our institutional customers a 30-day credit line, and account for these sales in the same manner as sales paid for in cash given the short repayment period associated therewith.

*Sales on Credit.* As an alternative to traditional sales in cash, we offer to our customers an option to pay in installments the purchase price of their merchandise. Because many of our clients do not generally have access to other sources of credit, we believe that our installment program contributes to increasing the number of our potential customers, enhances our existing customers' purchasing power and, as a result, contributes to our growth in net sales and net income. In 2009, our sales on credit accounted for approximately 81.1% of our total sales.

Our customers can make payments on their accounts at any of our stores and, in the United States, by mail.

## **Prices**

Our price strategy seeks to offer our products at low, competitive prices in each of our markets. To ensure the maintenance of competitive market prices, our marketing department monitors on a daily basis the prices advertised by our competitors and adjusts and determines the discounts applicable to the price of the merchandise that we sell in cash or on credit. Our store managers are authorized to reduce the cash purchase price of our products to match the prices offered by our competitors, within certain specified parameters.

## **Distribution Network**

As part of our customer service strategy, we have developed a series of administrative procedures, information technology systems and personnel training programs to maximize the efficiency of our distribution operations. We currently operate nine distribution centers strategically positioned throughout Mexico in the cities of Monterrey, Hermosillo, Chihuahua, Guadalajara, Tijuana, Mexico City, Irapuato, Villahermosa and Culiacán. In the United States, we have two distribution centers in California, three in Texas and one in Illinois. Our distribution centers receive our merchandise purchases directly from our suppliers and also provide merchandise return processing support to our stores. Upon its arrival at our distribution centers, the merchandise is transported to the point of sale through proprietary routes that generate automatically upon consolidations of our stores' daily sales by type of product and destination. To ensure an efficient delivery process, our distribution centers maintain permanent on-line communication with our stores.

We also operate various merchandise transfer centers throughout Mexico and the United States, which have an average of 600 square meters of warehouse area. These centers receive merchandise deliveries from our distribution centers for their subsequent shipment to our stores or our customers' homes. Our transfer centers are along certain specified routes characterized by large merchandise traffic volumes. In the second quarter of 2008, we discontinued our Tijuana-Mexicali route as a result of its low levels of use, and the equipment associated with this route was reassigned to our Culiacán-Mochis and Culiacán-Mazatlán routes. In the third quarter of 2008, we established the Irapuato-San Luis Potosí route. As of the date hereof, we operate 10 delivery routes out of five distribution centers, including to certain areas surrounding Mexico City.

We distribute and deliver our merchandise in Mexico using our own transportation fleet. As of December 31, 2009, we owned 246 transportation vehicles, a majority of which were small, 3.5 ton trucks. Our transportation fleet also included large tractor trailers fitted with containers. In addition, in the United States and Mexico we have arrangements in place with a network of approximately 90 independent carriers responsible for our merchandise

deliveries. On average, we transport approximately 20,877 cubic meters (36,532 cubic meters during peak periods) per week of merchandise from our distribution centers as of 2009. In 2006, we outfitted all of our vehicles with the WMS automated route-tracking system, in order to maximize the efficiency of our human and automated resources.

## Customer Service

We believe that our commitment to excellence in our pre- and post-sale customer service sets us apart from our competitors and provides us with a distinctive feature upon which to retain and expand our customer base. The broad range of services that we offer our customers includes home delivery, a 30-day repair guaranty on all electronic products, and extended guaranties on all other products except furniture. We operate a state-of-the-art customer service center that is open every day of the year except December 25 and January 1. In addition, each of our anchor stores includes a customer service department that supports our stand-alone stores in the region. In the United States, we employ many bilingual speakers to service our customers.

## Suppliers

A critical element of our marketing strategy is our ability to offer a broad range of high-quality products at low prices to our customers. We secure our merchandise purchase requirements from a network of approximately 565 domestic and international suppliers. We have developed strong business relationships with several of the world's largest manufacturers of electronic products, as well as with domestic manufacturers of furniture and other products.

In order to centralize our merchandise purchasing process and maximize the efficiency of our distribution network, we have integrated into our retail operations the STORIS<sup>®</sup> supply chain management system, an advanced software application that provides real-time information on our inventory levels, historic purchases, purchase order status and other information to both our stores and vendors, who can access this system through our web page, thereby enabling us to remain in permanent communication with them. This helps us reduce the risk of inventory shortages and obsolescence, while enabling us to obtain optimum prices and other purchase conditions.

We believe that we conduct business with our suppliers on terms that are no less favorable than those of our competitors.

The following table shows Famsa Mexico's and Famsa USA's ten largest suppliers and the percentage of our merchandise purchases represented by each such supplier as of December 31, 2009:

Suppliers	%
<b>Famsa Mexico:</b>	
Radiomóvil Dipsa, S.A. de C.V./(TELCEL) .....	12.0%
Mabe, S.A. de C.V. ....	10.5%
Comercial Acros Whirlpool .....	10.4%
Sony de México, S.A. de C.V. ....	8.6%
LG Electronics México, S.A. ....	8.3%
Panasonic de México, S.A. de C.V. ....	8.1%
Samsung Electronics México .....	4.0%
Pegaso PCS, S.A. de C.V. (Telefónica Movistar).....	3.3%
Hewlett-Packard México S. ....	2.9%
Electrolux Home Products II .....	2.6%
Brightstar Retail de Mexico .....	1.7%
<b>Famsa USA:</b>	

<b>Suppliers</b>	<b>%</b>
Sony Electronics Inc.....	22.8%
Panasonic .....	13.8%
LG Electronics USA Inc.....	10.3%
Ashley Furniture Industries, Inc.....	7.0%
Famsa Mexico.....	4.4%
Toshiba America I. Systems, Inc .....	3.9%
Electrolux.....	3.8%
General Electric .....	3.6%
Acme Furniture Industry Inc .....	2.9%
Sanberg Furniture MFG CO INC.....	2.2%
Crown Mark Imports .....	2.1%

## Consumer Lending Operations

### *Sales on Credit and Credit Approval Process*

As an alternative to the traditional in-cash sales system, we offer our customers an installment program that provides them with a convenient source of financing to satisfy their credit needs, which helps increase our number of potential customers and enhance the purchasing power of our existing customers, which translates into an increase in our sales volume and profitability. New credit sales accounts and credit approval processes in Mexico are managed by Banco Famsa whereas in the United States they are managed through Famsa, Inc.

The retail price of the merchandise sold in Mexico under our installment program includes a finance charge that varies depending on multiple factors, including the repayment period, the customer's credit history and the type of product. In contrast, cash sale prices generally vary from approximately 5% to 40% off the retail price, depending on the type of product and the product's credit sale terms. As a result, sales on credit generate gross margins well above those yielded by our sales in cash. In the United States, the purchase price of the merchandise sold on credit is determined based upon a suggested retail price plus a finance charge that is reviewed periodically. In general terms, cash purchases in the United States are not subject to discounts. Our installment program calls for weekly, bi-weekly or monthly payments over a three- to 24-month period, depending on the customer's preference and payment ability, which is determined based upon various factors, including the customer's credit history, monthly income and the purchase price of the merchandise. We also offer several product-specific finance options, including financing for the purchase of clothing items exclusively, which is targeted towards our younger customers. Our customers can make payments on their accounts at any of our stores or, in the United States, by mail.

As of December 31, 2009, Famsa Mexico, through Banco Famsa, had approximately 1.45 million active customer accounts, and Famsa USA had approximately 220,113 active customer accounts. Total accounts receivable as of December 31, 2009 were Ps.14,855 million (U.S.\$1,139 million). The following table sets forth the accounts receivable by outstanding account size as of December 31, 2009:

<b>Size of Individual Accounts (Pesos)</b>	<b>Accounts Receivable (millions of Pesos)</b>	<b>%</b>
< 5,000	Ps.2,480	16.7%
5,000.01 - 10,000	4,259	28.7%
10,000.01 - 15,000	3,089	20.8%
15,000.01 - 20,000	1,720	11.6%
> 20,000	3,307	22.3%
<b>Total Accounts Receivable</b>	<b>Ps. 14,855</b>	<b>100.0%</b>

The following table sets forth our accounts receivable by region in Mexico and by state in the United States:

<b>Region in Mexico</b>	<b>Accounts Receivable (millions of Pesos)</b>	<b>%</b>
Northeast	Ps. 4,043	36.2%
Central	2,635	23.6%
Pacific	1,434	12.9%
Gulf	1,377	12.3%
Northwest	1,207	10.8%
North	461	4.1%
<b>Total Mexico</b>	<b>Ps. 11,155</b>	
<b>U.S. State</b>		
Texas	Ps. 1,745	47.2%
California	1,482	40.1%
Illinois	169	4.6%
Arizona	165	4.5%
Nevada	139	3.8%
<b>Total USA</b>	<b>Ps. 3,700</b>	
<b>Total Accounts Receivable</b>	<b>Ps. 14,855</b>	

Our customer credit approval process entails the submission of a credit application and certain support documentation, including photo identification and proof of income and address, and the execution of a credit agreement and a promissory note by the customer. In addition, we normally require the execution of a guaranty by a relative or third party who has previously obtained financing from us. Because Mexican credit bureaus do not report on consumer loans other than for credit card accounts, a Company representative pays a visit to the customer's residence in order to verify the accuracy of the information contained in the application. Absent adequate proof of income, the application is approved or declined based on the outcome of such visit and of the verification of the customer's credit references and guaranty. In general terms, the amount of the weekly installments under our consumer loans does not exceed 30% of the customer's gross weekly income. The credit approval process, which normally takes less than 48 hours, is managed by anchor stores. Sales in excess of a pre-determined threshold amount must be approved by the store manager or his or her superior. Depending on the customer's credit worthiness and repayment ability, we may require a down payment of between 5% and 20% of the purchase price, and the balance is subject to repayment in weekly, bi-weekly or monthly installments that can be made at any of our stores. If a customer's application is initially declined, the customer can offer a larger down payment to reduce the amount of the loan and increase the likelihood of approval. This credit verification process yields a valuable data base that is used to improve our customer relations functions.

Our credit agreements and promissory notes provide for interest on the loan at a fixed rate that varies depending on the type of product and the length of the repayment period. In addition, we assess late interest upon any installment not paid when due. The amount of late interest is determined on a daily basis taking into consideration the number and amount of missed payments, until the account is brought to date.

In 2008, we began transferring to Banco Famsa our consumer credit accounts. The Company will retain the management of all the accounts originated prior to the commencement of Banco Famsa's operations, and any new customer credit accounts will be originated and managed by Banco Famsa. Management procedures and collection protocols are not affected by the transfer of credit accounts to Banco Famsa, as delinquent credit accounts are transferred back to the originating subsidiary for collection purposes. However, the transfer of credit accounts to Banco Famsa will enable our customers to obtain financing and other services directly from Banco Famsa. See "—Banco Famsa" below.

### *Account Collection Procedure*

Past due accounts in Mexico are maintained at Banco Famsa, where they are subject to preliminary collection procedures, until they are more than 120 days delinquent, whereupon they are transferred at a discount to the Grupo Famsa retail subsidiary where they were originated for additional and, in some cases, legal collection procedures, in connection with which the retail subsidiary receives any revenues derived therefrom. Past due accounts in the United States are maintained at Famsa, Inc. throughout the collection process.

*Notice Procedures.* We operate a call center in Mexico to handle the collection of our past due Mexican and U.S. customer account portfolio. Our call center is staffed with more than 180 representatives. When an account has gone past due for a period of up to 20 days, one of our call center representatives places a telephone call to the relevant customer to remind him or her of the amount due and payable and the date by which payment must be received. In most instances, the issue is settled at this point and the customer arranges payment. Otherwise, if the account goes over 20 days past due, a call center representative telephones the customer once again to make payment arrangements. Our call center uses various customized telephone call formats for specific stores, cities, and customer profiles.

In addition to the efforts of our call center, we periodically mail reminders, demands for payment and default notices to our past due account holders. Default notices are sent on the 15th day from the date on which payment was due, and at various intervals thereafter. The procedure for recovery on our past due accounts varies depending on the relevant customer's risk profile, the amount owed and other factors as we may deem relevant. Any customer whose account has gone past due for over 60 days is also advised of our intent to take legal action if the amount in default is not received by a specified date.

*Legal Procedures.* In general terms, we do not resort to litigation until after an account has gone past due for over 120 days. If an account is not settled following notice or personal contact with the customer, we may decide to bring legal action against the customer or transfer the account to an independent collection agency. We base our decisions as to whether to pursue legal action upon a cost/benefit analysis and the likelihood of recovery. If we decide to engage in litigation in Mexico and the outcome of such litigation favors us, we may seize or repossess the relevant merchandise based upon the applicable court resolution. The repossessed merchandise is then sold at a discount through one of our stores. As opposed to this, our past due account recovery process in the United States provides for the attachment of the customer's wages rather than the repossession of the merchandise.

Our account collection and recovery procedures in Mexico are subject to the Commerce Code (*Código de Comercio*), the Consumer Protection Law, and the Federal Civil Code (*Código Civil Federal*). Our account collection procedure in the United States are subject among others to the Federal Fair Debt Collection Practices Act, the Federal Trade Commission Act, and various other provisions applicable to the retail industry and the origination of and collection on accounts payable. Our uncollectibility level has generally been higher in the United States than in Mexico, primarily as a result of the effects of the U.S. economic downturn on U.S. Hispanic unemployment, as well as repossession in Mexico.

### *Promobien*

We established our Promobien program in 1983, to offer an alternative source of consumer finance products and services to the employees of the program's participating entities. Under Promobien, employees of participating entities are able to purchase merchandise at our stores or from kiosks installed in their workplace, and to have the purchase price of such merchandise deducted from their salaries over a three- to 18-month period. As of December 31, 2009, Promobien had approximately 3,900 participants in 55 cities throughout Mexico. Promobien's participants include private sector entities, government entities and universities. As of December 31, 2009, our sales under the Promobien program accounted for 18% of our total net revenues. In 2009, approximately 43% of our sales under Promobien were attributable to private sector entities, 26% to government entities, and 31% to teachers' and oil industry workers' unions.

To be eligible to participate in Promobien, a company must have been in operation for at least two years, have a minimum of 50 full-time employees, and be based in a city with at least one Famsa store. In turn, the employee must have been employed with the participating entity for at least one year (two years in the case of employees of in-bond manufacturers (*maquiladoras*) based in the Mexico-U.S. border region) and provide a copy of his most recent payroll stub and certain personal identification documentation, together with a pre-approved

merchandise purchase order. Any participating individual switching jobs while maintaining an outstanding balance under Promobien may have his account information forwarded to the new employer and continue to have the applicable amount deducted from his salary, so long as the new employer is a Promobien participant.

The Company and the relevant participating entity review on a case-by-case basis the amount of financing requested by the latter's employees, to ensure that such amount does not exceed the employee's payment ability. The Company provides the participant with a list of all the Promobien accounts established by its employees, the outstanding balances under each such account, and the amount to be deducted from the employees' salaries.

## **Competition**

The retail industry is highly competitive, particularly as it concerns the household appliances, furniture and electronics segments. Both the Mexican and U.S. retail markets are highly fragmented, encompassing large store chains, department stores, household appliance and electronics stores, discount warehouse clubs, factory outlets and a broad range of smaller independent specialty stores. In Mexico, we compete primarily with two other large domestic retail chains that have nationwide presence and offer similar consumer financing options, including Grupo Elektra and Coppel. We also compete with other large retail stores, including Grupo Chedraui, Organización Soriana, Centros de Descuento Viana, Mundihogar and El Surtidor del Hogar, and with the Mexican subsidiaries or affiliates of international chains such as Wal-Mart and Best Buy. Although to a lesser extent, we also compete with several domestic department store chains, including El Puerto de Liverpool, Grupo Palacio de Hierro, Grupo Hermanos Vázquez y Fábricas de Francia and Sears, which do not have national presence, are targeted towards other population segments and offer less-flexible and other non-consumer finance options, as well as with informal or "black" markets and street vendors. In the United States, we compete with large U.S. retailers, such as Ashley Furniture, Rooms to Go, Best Buy and Sears, and with local and regional retailers that directly target U.S. Hispanics, such as Conn's, La Cuacao, Dearden's and Lacks.

We believe that our focus in the household appliances, furniture and electronics segments, our broad geographical presence and our ability to offer competitive pricing and financing options to our customers, backed by our 40 years of experience and what we believe to be the broad market recognition enjoyed by the Famsa brand, provide us with a significant competitive advantage based upon which we to continue to grow and expand.

In addition, we believe our pre- and post-sale personalized customer service and our convenient locations coupled with our unique banking services, provides us with a competitive advantage. Furthermore, we employ many promotional programs, including, among others, our "Gran Credito" and "Combaceo" (or "canvassing") door-to-door sales programs coupled with a nationwide marketing campaign. We also provide convenient options for our customers to manage their credit account payments, including through our Promobien program, which gives customers the option to make payments on their Famsa credit accounts through an automatic payroll deduction with participating employers.

The banking segment in Mexico is also highly competitive. For more information on the competition in the banking segment in Mexico see "Banco Famsa—Competition."

## **Banco Famsa**

### *Overview*

Banco Famsa, our own retail bank, was established in 2006 as part of a plan to maximize our consumer finance operations and complement our product portfolio with banking services and loan products and, in addition, to serve as a source of funding for Famsa's credit sales and operations. Banco Famsa began operations in Monterrey in January 2007. According to the CNBV, as of December 31, 2009, Banco Famsa operated one of the ten largest banking branch networks in Mexico, with 273 branches located within Famsa Mexico stores and 3 independent branches, and managed an aggregate amount of 2.3 million saving and credit accounts. Combined, our 276 branches now have over 1,000 tellers and 650 service executives to serve our customers' banking needs.

Within our overall business strategy, Banco Famsa seeks to achieve the following objectives:

- Ensure a constant and reliable source of low-cost, short-term funding through customer deposits and interbank loans to finance our Mexican consumer finance operations, which we had traditionally

financed through a combination of credit facilities with banking and other financial institutions and the issuance of debt;

- Foster the cross-selling of products and services within the Company with the introduction of personal loans and other financial services to our Mexican customers, who typically do not have access to credit or other financial services from the traditional banking sector.

Bank deposits continue to make up an increasing percentage of our net consolidated financing, having reached 76% on December 31, 2009 compared to 35% a year earlier. Through Banco Famsa, we are achieving our objective of providing a viable source of funding for our consumer credit operations in Mexico. At the same time, the diverse financing options that make up our bank deposit base, including savings and checking deposits, CDs and other investment vehicles, mitigate our exposure to conventional credit markets and have begun to reduce significantly our cost of financing. Initially funded in part through financial intermediaries and interbank loans, Banco Famsa is now funded almost entirely through deposits obtained through its proprietary banking branch network. Furthermore, Banco Famsa offers a growing assortment of its own financial products and services, including a variety of personal and business loans. As of December 31, 2009, according to a report published by the CNBV, Banco Famsa's total loan portfolio was almost 50 times larger than that of Banco Wal-Mart's and four times larger than Bancoppel's. Furthermore, according to the same report Banco Famsa's percentage of non-performing loans was at least 32% lower than either Banco Wal-Mart or Bancoppel.

Since 2007, Famsa has transferred Mexican accounts receivable to Banco Famsa. As of December 31, 2009, the balance of accounts receivable managed by Banco Famsa represented 90% of Grupo Famsa's Mexican accounts receivable. Our plan is to issue a Banco Famsa private-label credit card to all of our active Mexican credit accounts, which may be used only in Famsa stores, and process all new credit applicants in Mexico through Banco Famsa. By year-end 2009, Banco Famsa processed all new credit applicants in Mexico, and approximately 467 thousand of our 1.45 million active credit customers in Mexico had been issued a private-label Famsa credit card. In order to optimize the use of banking funds during the ongoing Famsa card rollout phase, we developed a transparent credit account transfer process that allows Banco Famsa to be transferred receivables originated at our Mexican subsidiaries. On the other hand, the transfer process provides that the accounts receivable that are more than 120 days past due are transferred back to the originating subsidiary at a discount for additional collection procedures, in connection with which the originating subsidiary receives any revenues derived therefrom.

### *Products and Services*

Banco Famsa offers traditional deposit and other banking services through branches located within Famsa Mexico's stores, taking advantage of their existing credit processing and customer service facilities and infrastructure.

In addition, Banco Famsa has incorporated our pre-existing consumer finance operations and is engaged in an ongoing process of developing its products and services, expanding its bank deposits base and improving its systems and procedures, including by developing an information technology and risk management platform, to meet regulatory requirements, in order to enable it to compete in the Mexican financial industry and support its expansion plans. Among other things, Banco Famsa has installed the IBM e-Series platform served by FISERV.

Banco Famsa's financial products include traditional demand deposit accounts, short- and medium-term investments, including certificates of deposit, personal loans, and business loans, each of which is described below.

### *Demand Deposits*

- *Famsa Ahorro.* Banco Famsa offers a traditional savings account that pays between 1%–3% interest based on the deposit amount, requires no annual fee, and may be opened with a minimal amount (Ps.1). It offers free withdrawal and deposit service at any Banco Famsa branch along with free transfers among Banco Famsa accounts. Same-day transfers to accounts of other persons or accounts at other banks are offered for a fee. Withdrawals from certain other banks and third-party ATMs are provided for a fee after the first three transactions each month, which are offered for free.



- *Mi Chequera Famsa*. Banco Famsa's checking feature provides essentially the same features as the *Famsa Ahorro* with the exception that it requires a higher minimum deposit (Ps.1,000). Checks are provided without fee.
- *Ahorro Niños*. Banco Famsa offers savings accounts targeting first-time account holders, adolescents and children, with similar features as the *Famsa Ahorro* with exception of the requirement of parental consent.

#### *Short- and Medium-Term Investments*

- *InverFamsa and InverFamsaPlus*. Banco Famsa's fixed rate investment products provide a variety of options including 15 different possible terms under one year and different associated rates of return, the option to reinvest returns, increase the amount of the investment during its term, receive monthly or end-of-term interest payments, and withdraw principal during the term of the investment for a reduction in the final return. Minimum required deposits vary from Ps.4,000 to Ps.5,000 (U.S.\$306.7 to U.S.\$383.4) depending on the product.
- *InverCedeFamsa*. Banco Famsa offers fixed-rate certificates of deposit with 9-, 12- and 18-month terms, offering respectively greater returns for longer terms. Interest may be paid out monthly or reinvested at the customer's option, and the minimum deposit is Ps.100,000 (U.S.\$7,668.7).
- *Money Market*. In the past, as part of its initial funding Banco Famsa offered certificates of deposit and money market accounts issued through financial intermediaries.

The following table sets forth the maturity profile of our deposits as of December 31, 2009:

	<u>Term</u>	<u>Balance</u> (millions of Pesos)	
<b>Demand Deposits .....</b>	<b>None</b>	Ps. 1,496	20%
<b>Short-term Term Deposits .....</b>	<b>1-6 months</b>	1,215	16%
	<b>6-12 months</b>	4,342	59%
	<b>&gt; 12 months</b>	324	4%
	<b>Total</b>	<b>Ps. 7,377</b>	<b>100%</b>

#### *Credit*

- *Tarjeta Famsa*. Banco Famsa offers a private label credit card that may be used in any Famsa store. Cardholders are only subject to our credit approval procedures at the time of issuance of the card, rather than at the time of purchase. Payments and cash withdrawals on the card may be made at any Banco Famsa branch.
- *Prestamo en Efectivo*. Banco Famsa offers fixed-rate personal loans for up to a term of 24 months, requiring a minimum monthly payment of Ps.3,000. (U.S.\$230.1) Besides including no pre-payment penalty, the personal loan product includes disability, life and unemployment insurance covering principal amounts up to Ps.25,000, Ps.25,000 and Ps.5,000 (U.S.\$1,917.2, U.S.\$1,917.2 and U.S.\$383.4) respectively.
- *Crédito PYME*. Banco Famsa offers both fixed-term and revolving small- and medium-sized business loans with a variety of features including terms from six to 60 months, fixed interest rates, commission free origination, and a number of payment options including amortization and bullet payments. Banco Famsa's revolving credit product is utilized predominantly by Grupo Famsa suppliers.

Subject to the exceptions provided under Article 10 of the IPAB, all of Banco Famsa's deposit accounts benefit from the guarantee of the IPAB covering deposits up to the amount of 400,000 UDIs (or approximately

Ps.1.7 million (U.S.\$130,000) as of December 31, 2009). See “—Regulation—Relevant Provisions Applicable to Banco Famsa.”

In support of its financial products, Banco Famsa offers free basic Internet banking and a premier, fee-based Internet banking upgrade. Basic Internet banking allows users to check account balances and review transaction history, make free transfers among Banco Famsa accounts and update personal information, whereas the premier service also allows same-day transfers to other persons and other bank accounts. Banco Famsa also provides traditional payroll services, convenient ATMs (approximately 63) within Banco Famsa branches, point of sale terminals throughout Famsa’s store network and to third-parties (approximately 781 in total) and a customer service call center.

### *Competition*

Banco Famsa competes with various Mexican banks and other financial institutions that cater to the same segment of the Mexican population and offer similar products and services. However, having only launched in 2007, Banco Famsa is already one of the ten largest banking branch networks in Mexico, according to the CNBV, as of December 31, 2009, and enjoys a number of competitive advantages relating to its products and synergies with Famsa Mexico’s retail operations.

Banco Famsa, has faced and will continue facing strong competition from banking institutions associated with Famsa Mexico competitors in the retail market, such as Banco Azteca, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Grupo Elektra, Bancoppel, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Coppel, and Banco Wal-Mart de México Adelante, S.A., Institución de Banca Múltiple, the consumer financing subsidiary of Wal-Mart, which target customers in Famsa’s Mexico population segments. According to information published by the CNBV, several of Banco Famsa’s more direct competitors currently offer more banking branches. As of December 31, 2009 Banco Azteca operated 1,223 branches, Bancoppel, 681 and Banco Wal-Mart 156, compared to Banco Famsa’s 276. Additionally, stand-alone bank institutions (not associated with any retailer) such as Banorte, Bancomer and Santander have recently shown interest in lower income segments than those to whom they have historically catered.

Competition in the consumer finance business may increase significantly as a result of the introduction of new banking and other financial products, such as credit card and personal loans targeted towards the lower-middle class segment of the population, which constitutes our primary target customer base. Any increase in competition could affect our market position if our competitors are able to offer financing terms more attractive than ours.

Commercial banks in Mexico also compete in the retail market with non-banking institutions known as Sofoles and Sofomes, which focus primarily on offering consumer and mortgage loans to middle- and low-income individuals. Sofoles and Sofomes are Mexican corporations (*sociedades anónimas*) that expressly include as their main corporate purpose in their by-laws, engaging in lending and/or financial leasing and/or factoring services, but are prohibited from engaging in many banking operations, including foreign trade financing, taking deposits, offering checking accounts and engaging in foreign currency operations.

Until recently, the commercial credit market for middle and low-income individual customers has been serviced almost exclusively by Sofoles and Sofomes, however traditional banks have begun to extend their credit services to the markets previously dominated by Sofoles and Sofomes.

In July 2006, the Mexican Congress enacted certain reforms to deregulate lending activities, including financial leasing and factoring activities, pursuant to which, the Ministry of Finance and Public Credit has ceased to authorize the creation of new Sofoles, and all existing Sofol authorizations will automatically terminate on July 19, 2013. On or prior to that date, existing Sofoles must cease operating as a Sofol. Failure to comply with this requirement will result in dissolution or liquidation of the Sofol. Existing Sofoles also have the option of converting to Sofomes or otherwise extending their corporate purposes to include activities carried out by Sofomes.

Sofomes that are affiliates of Mexican credit institutions (i.e., private or public banks) or the holding companies of financial groups that hold a credit institution are regulated and supervised by the CNBV, and are required to comply with a number of provisions and requirements applicable to credit institutions such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. All other entities whose main purpose is engaging in lending, financial

leasing and factoring activities are non-regulated Sofomes. Non-regulated Sofomes are not subject to the supervision of the CNBV, and therefore are not subject to the same extensive federal banking regulation, including capitalization and reserve requirements. As a result, certain of our competitors may have advantages in conducting certain businesses and providing certain services.

At the beginning of 2008, the Mexican Law of Credit Institutions was modified to, among other things, grant authority to the CNBV (with the assistance of other regulators, but having primary responsibility) to authorize the creation of banks solely to engage in certain activities (which is intended to incentivize competition, reduce required capital and improve the attention to certain industries and regions) as compared to so-called “universal” banks. As a result of the reduced capital requirements and potential reduced operational costs that are likely to apply to this type of bank, there could be increased competition as a result of the creation of more banks to target specific market niches. As of December 31, 2009, the CNBV has not granted any authorization for the creation of this type of bank or issued specific rules of capitalization.

Our banking services target a segment of the population that has historically had limited access to the regulated banking sector. Despite the recent growth in the number of competitors pursuing Mexico’s middle and lower-middle income segments, banking service penetration among Mexicans is significantly low. Based on our estimates, approximately 60% of Mexico’s middle and lower-middle income segments have never used banking services.

Banco Famsa has positioned itself by focusing on our target customers’ needs to develop several key competitive advantages, which include a comprehensive portfolio of simple banking products, an accessible network of banking branches with extended hours of operation, and a number of Grupo Famsa synergies. Given the lack of access to financial services of our target market, Banco Famsa offers a wide variety of simple, straight-forward deposit and credit products that are intended to simplify our customers’ selection process. Furthermore, Banco Famsa’s 276 banking branches make up one of the top-ten banking branch networks in Mexico. Lastly, the integration of our Banco Famsa branches within our retail stores provides an inviting environment for our customers and allows us to offer longer hours of operation than other banking services providers.

Most importantly, synergies between Banco Famsa and Famsa’s Mexican retail operation provide unique competitive advantages. For instance, as a result of the credit evaluation and monitoring to which our existing retail credit customers are already subject, we believe, we are in a better position than other competitors to cross-sell first-time banking services and develop products tailored to our target customers’ needs. Additionally, we believe Banco Famsa leverages the widespread Famsa brand recognition and good standing among its target segment. Furthermore, the integration of Banco Famsa with our retail operations provides a variety of cost-saving synergies, including rent expense, utilities, and joint product marketing through direct mail, telemarketing, cashier pitches, television or advertising on bank statements.

In order to comply with the applicable bank secrecy provisions, we have established different operating systems, which restrict information to be shared between our retail business and Banco Famsa. The only information of Banco Famsa’s loan portfolio that is provided to Famsa is the information regarding specific loans which are effectively transferred to Famsa as part of the credit transfer-back process of accounts receivable that are more than 120 days past due. See “—Regulation—Bank Secrecy.”

## **Other Businesses**

### *Wholesale Business*

Famsa operates its wholesale business, which specializes in sales of home appliances, electronics and household goods, through its subsidiary, Mayoramsa. For the period ended December 31, 2009, our wholesale segment generated Ps.644.7 million in net sales, or 4.3% of our total net sales.

Our customers in this segment consist principally of small and mid-sized furniture stores. At December 31, 2009, we had more than 1,625 customers, of which only one accounted for more than 1.3% of the sales of our wholesale segment.

At December 31, 2009, Famsa operated 17 wholesale stores in the principal metropolitan areas of 17 Mexican states, including Veracruz, Guadalajara, Monterrey, Mérida, Puebla, Culiacán, Torreón, Tijuana, Tuxtla

Gutiérrez, León, México, San Luis Potosí, Hermosillo, Reynosa, Chihuahua, Chilpancingo and Tampico. At December 31, 2009, the floor space of these stores totaled 11,060 square meters. Each store includes a customer service department responsible for, among other things, issues relating to product guarantees. During 2008, we consolidated the operations of two of our wholesale stores in order to reduce our operating costs and the amount of warehouse space available at our principal distribution center. We operate five stores which receive merchandise directly from our suppliers. Once our stores receive merchandise, they deliver it directly to our customers. Our delivery routes are determined using a database generated from sales occurring throughout the day at our wholesale locations.

Famsa wholesale customers can pay for goods in installments for periods ranging from 30 to 90 days. Before each sale on credit, customers are subject to a credit investigation, which Famsa conducts from the nearest distribution center. Collections are carried out at the premises of customers regularly and by the same vendor that performed the initial sale.

Famsa offers a wide range of wholesale products, mainly home appliances, electronics, heaters, air conditioners, household goods and bicycles. Products can be domestic or imported, and most are of recognized brands. Most wholesale products we sell have a manufacturer's guaranty.

At December 31, 2009, our sales of wholesale products were distributed in the following percentages: home appliances, 53.10%; electronic devices, 26.18%; air conditioners and heaters, 13.32%; and household goods accounted for 7.41% of total wholesale product sales.

### **Furniture Manufacturing**

Through our Monterrey-based subsidiary Expormuebles, we produce two lines of home furniture that are sold exclusively in our Famsa stores: living room and dining room sets, and tubular furniture, which includes bunk beds and sofa beds. We also sell a portion of Expormuebles' production through our wholesale operations.

Expormuebles' production facilities have total area of approximately 10,000 square meters, with capacity to produce 65,000 living room and dining room sets and 140,000 tubular items. In 2009, Expormuebles contributed to our operating results revenues of Ps.75.9 million.

### **Marketing**

Our marketing strategy seeks to strengthen our customer base at our existing stores, assist in the development of a solid clientele for our new store openings, and increase the demand for additional locations, by emphasizing our broad catalog of low-priced, high-quality merchandise always in stock, easily accessible consumer finance products, convenient locations, excellence in customer service, and high levels of customer satisfaction. As part of our marketing strategy, we are constantly engaged in aggressive advertising efforts, primarily through prime-time TV commercials and the distribution of fliers, which are designed to allow us flexibility to adapt to the size and profile of each particular market.

In 2007, 2008 and 2009, our marketing and advertising expenses accounted for 2.8%, 3.0% and 2.9%, respectively, of our total sales.

In addition, our web site, [www.famsa.com](http://www.famsa.com), enables our clients to make on-line purchases and perform research with respect to our products for their subsequent purchase from our stores. Although on-line sales currently represent a relatively small percentage of our total retail sales, we believe that our web site helps foster consumer loyalty and encourages consumer spending. In 2009, our web site had approximately 1.3 million hits with an average of 12.85 pages viewed per hit. As part of our efforts to increase our on-line sales, in 2009 we launched 53 e-mail campaigns that involved the delivery of more than 630,000 messages each and produced an average of more than 89,000 hits (or a 14.11% yield) per campaign.

In recent periods, we have focused our marketing and advertising efforts on countering the effects of the decrease in consumer spending as a result of the economic crisis, by engaging in outdoor advertising to redirect the flows of street traffic to our stores and introducing cross-business promotions.

## **Systems**

We have traditionally made significant capital investments in the acquisition, installation and upgrade of information technology systems and software applications. In 2007, 2008, 2009, we invested Ps.135 million, Ps.155 million and Ps.100 million in our systems. Our capital investments in IT systems from period to period is primarily a reflection of our growth in terms of number of stores, the creation of Banco Famsa, the related migration to Banco Famsa of our credit sales accounts, and a number of optimization initiatives regarding business processes.

Our central IT system consists of a 64-gigabyte IBM RS/6000 Enterprise Server with 32 RISC processors, which is located in Triara-Apodaca, outside of Monterrey's metropolitan area, backed by two ESS 8100 "Shark" disc servers with total capacity of 3 terabytes, which are housed within our own facilities. The location of our central IT system provides both security advantages and energy efficiencies, and enables us to reduce service reductions to a minimum. In addition, we have developed a TCP/IP communications network that links all of our stores, distribution centers and warehouse facilities and enables them to maintain ongoing, real-time communication to maximize their processes and operations.

Our sales, credit processing, accounting, collection, purchasing, distribution and inventory management functions are processed by STORIS<sup>®</sup>, an advanced supply chain management application that provides real-time information on inventory levels, purchase order status and other information to both stores and vendors, and performs a number of administrative functions. Our distribution system is supported by internally-developed applications. Our sales of clothing and accessories are managed through SAP and Calypso, a sales processing system developed by Unisys. The operation of the Promobien program, our data analysis system (which incorporates sales and inventory data into a single data base), and our customer relations functions are supported by systems that incorporate SQL Server Database technologies, among others.

Banco Famsa network architecture is built around an IBM eSeries system with immediate recovery capacity, which is also housed in Apodaca-Triara with back-up services provided by Diveo-México. In addition, Banco Famsa's operations are supported by Fiserv, a banking and financial services system application. As a build-up on the Fiserv system, Banco Famsa is currently in the process of installing the Metacard application for its brand-name credit card operations. Banco Famsa has successfully completed a trial period implementing Metacard in the city of Monterrey, and has begun implementing this application in all other branches throughout Mexico.

## **Trademarks**

As of December 31, 2009, we owned the rights to more than 1,102 registered trademarks and trade names used in connection with our business operations, including, among others, "Famsa," "Famsa.com," "Auto Gran Crédito Famsa," "CisiAmo," "De Famsa a Famsa" (Famsa-to-Famsa), "GarantiMax," "Giovanni Paolo," "Gran Crédito Famsa," "Verochi" and "Viajes a Bordo Famsa" (On-Board Famsa).

In addition, pursuant to certain agreements with some of our vendors and suppliers, we hold licenses to various trademarks used in connection with the sale and distribution of their products at our stores. See "—Retail Operations—Products and Services."

## **Regulation**

This section contains a summary of the legal regime applicable to our retail and consumer finance operations in Mexico and the United States, as well as the laws and regulations applicable to Banco Famsa.

### *Operations in Mexico*

#### *Securities Market Law*

Corporations whose equity and debt securities are registered with the RNV and trade on the BMV, such as the Company, are subject to the Mexican Securities Market Law (*Ley del Mercado de Valores*) and the rules and regulations issued thereunder, and are otherwise governed by the provisions of the General Law of Commercial Corporations (*Ley General de Sociedades Mercantiles*).

### *Consumer Protection Laws*

Our consumer financing services not carried out through Banco Famsa, are subject to the Federal Consumer Protection Law (*Ley Federal de Protección al Consumidor*), which promotes and protects consumer rights and seeks to establish equality and legal certainty in relationships between consumers and commercial suppliers.

### *Collection Procedures*

Our account collection and recovery procedures in Mexico are subject to the Commerce Code (*Código de Comercio*), the Consumer Protection Law, and the Federal Civil Code (*Código Civil Federal*).

### *Legal Regime Applicable to Banco Famsa*

#### *General*

As a Mexican banking institution, Banco Famsa is subject to regulation and oversight by the SHCP, Mexico's Central Bank (*Banco de México*), the CNBV, the Institute for the Protection of Bank Savings (*Instituto de Protección al Ahorro Bancario*, or IPAB), and CONDUSEF (*Comisión Nacional para la Defensa de los Usuarios de las Instituciones Financieras*).

Banco Famsa's operations are primarily subject to the Mexican Law of Credit Institutions (*Ley de Instituciones de Crédito*), the General Provisions Applicable to Credit Institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) (the "General Bank Rules") published on December 2, 2005, and other rules and regulations issued by the SHCP, *Banco de México*, the CNBV and the IPAB.

The Ministry of Finance and Public Credit, either directly or through the CNBV, the role of which has been expanded and enhanced, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and *Banco de México*. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements prepared in accordance with accounting rules and practices established by the CNBV to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Law of Credit Institutions, or regulations promulgated thereunder. In addition, *Banco de México* has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the "Law of Banco de México" (*Ley del Banco de México*) and regulations that it promulgates and the Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), particularly as violations relate to interest rates and fees and the terms of disclosure of fees charged by banks to clientele. Violations of specified provisions of the Mexican Law of Credit Institutions are subject to administrative sanctions and criminal penalties.

### *Relevant Provisions Applicable to Banco Famsa*

Among other things, under the Mexican Law of Credit Institutions, the General Bank Rules, and other rules and regulations, Mexican banks are subject to the following provisions:

**Licensing Requirements.** Authorization of the Mexican government is required to conduct banking activities. The CNBV, subject to the prior favorable opinion of *Banco de México*, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is required prior to the opening, closing or relocating offices, including branches, of any kind, outside of Mexico, transfer of assets or liabilities between branches, or any amendments to a bank's bylaws or increase or decrease of its capital.

**Capitalization.** The minimum equity capital requirement applicable to commercial banks (including newly chartered banks) is 90,000,000 UDIs (approximately Ps.376.6 million as of December 31, 2009).

Banks are required to maintain a net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Law of Credit Institutions, the General Rules for Banks, as well as the Rules for Capitalization Requirements of Commercial Banks and National Credit Institutions (*Reglas para los requerimientos de Capitalización de las Instituciones de Banca Múltiple y las Sociedades Nacionales de Crédito, Instituciones de Banca de Desarrollo*) (the “Mexican Capitalization Requirements”) set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements and *Banco de México* may, with the CNBV’s recommendation, grant temporary exceptions to such requirements.

The Mexican Capitalization Requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Supervision (although Mexico does not fully implement such requirements, and has not fully implemented the last amendment).

Under the Mexican Capitalization Requirements, Mexican banks are required to maintain a minimum capital ratio of 10.0% to avoid the imposition of any of the corrective measures described below. Aggregate net capital consists of a basic portion *parte básica* or Tier 1 capital and an additional portion *parte complementaria* or Tier 2 capital of the net capital. At all times, Tier 1 capital must represent at least 50.0% of our aggregate net capital.

Failure to meet the capital requirements may result in the imposition of corrective measures as described below. We are in compliance with all applicable Mexican Capitalization Requirements.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), included as part of Tier 1 capital. Banks must allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The balance of net income, to the extent not distributed to shareholders, is added to the retained earnings account. Under Mexican law, dividends may not be paid out of the legal reserve. As of December 31, 2009, Banco Famsa had not set aside legal reserves and had paid-in capital of Ps.1,540 million (without adjustment for inflation).

*Intervention.* The CNBV may declare managerial intervention (*intervención*) of a banking institution pursuant to Articles 138 through 149 of the Mexican Law of Credit Institutions and in such case the Governing Board of IPAB will appoint a peremptory manager (*administrador cautelar*) (the “CNBV Intervention”).

A CNBV Intervention pursuant to Articles 138 through 149 of the Mexican Law of Credit Institutions, will only occur when (i) during a calendar month, the capitalization ratio of bank is reduced from a level equal to or above the minimum capital ratio required, does not comply with the Mexican Capitalization Requirements; or (ii) a bank does not comply with any minimum corrective measure ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Law of Credit Institutions, does not comply with more than one additional special corrective measures ordered by the CNBV pursuant to such Article 134 Bis 1 or consistently does not comply with any such additional corrective measures ordered by the CNBV. In addition, a CNBV Intervention may occur when the CNBV in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank’s creditors.

The peremptory manager appointed by IPAB will assume the authority of Banco Famsa’s Board of Directors. The peremptory manager will have the authority to represent and manage the bank with the broadest powers under Mexican law and will not be subject to Banco Famsa’s Board of Directors or its shareholders. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

*IPAB.* The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the new bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

Only in exceptional cases may IPAB grant financial support to banking institutions.

IPAB will manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets

is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a governing board of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of *Banco de México*, (iii) the President of the CNBV, and (iv) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by IPAB to a bank's depositors will be paid upon determination of the dissolution and liquidation, or bankruptcy of a bank. IPAB will act as liquidator or receiver in the dissolution and liquidation, or bankruptcy of banks, either directly or through designation of a representative. IPAB will guarantee obligations of banks to certain depositors and creditors only up to the amount of 400,000 UDIs (or approximately U.S.\$132,955 as of December 31, 2009), per person per bank.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. Under IPAB's Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.004% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by IPAB; and (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution.

IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) may not exceed, on an annual basis, the amount equivalent to 0.003% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.008% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

In July 2006, certain amendments to the Mexican Law of Credit Institutions, the Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*, the "IPAB Law") and the Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) were enacted by Mexican Congress, to provide an improved legal framework to resolve and grant financial support to commercial banking institutions undergoing financial difficulties.

*Revocation of Banking License.* In case that the CNBV revokes a license to organize and operate as a banking institution, IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 122 Bis 16 through 122 Bis 29 of the Mexican Law of Credit Institutions. In such a case, IPAB's Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution; (ii) constitute, organize and manage a new banking institution owned and operated directly by IPAB, with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits and conditions provided by the Mexican Law of Credit Institutions that IPAB considers as the best and less expensive option to protect the interest of bank depositors.

*Causes to Revoke a Banking License.* The following are among the most relevant events upon which the CNBV may revoke a banking license:

- (1) if the banking institution is dissolved or initiates liquidation or bankruptcy procedures (*concurso mercantil* or *quiebra*);
- (2) if the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Law of Credit Institutions; (b) does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 134 Bis 1; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV;



- (3) if the banking institution does not comply with the minimum capital ratio required under the Mexican Law of Credit Institutions and the Mexican Capital Requirements;
- (4) if the banking institution defaults with respect to any of the following payment obligations (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its clients.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette of Mexico and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation or the declaration of bankruptcy (*concurso mercantil* or *quiebra*) of a banking institution, IPAB shall proceed to make payment of all “guaranteed obligations” of the relevant banking institution.

Obligations of a banking institution in liquidation that are not considered “guaranteed obligations” pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- (1) term obligations will become due (including interest accrued);
- (2) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in Pesos or UDIs will cease to accrue interest;
- (3) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into Pesos at the prevailing exchange rate determined by *Banco de México*;
- (4) secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- (5) obligations subject to a condition precedent, shall be deemed unconditional; and
- (6) obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) liquid and enforceable labor liabilities, (ii) secured liabilities, (iii) tax liabilities, (iv) liabilities to IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Law of Credit Institutions; (v) bank deposits, as well as any other liabilities in favor of IPAB different from those referred to clause (iv) above, (vi) any other liabilities other than those referred to in the following clauses, (vii) preferred subordinated debentures, (viii) non-preferred subordinated debentures (such as the Notes), and (ix) the remaining amounts, if any, shall be distributed to stockholders.

*Financial Support. Determination by the Financial Stability Committee.* In case that the newly created Financial Stability Committee (the “FSC”) determines that if a bank were to default on its payment obligations and such default may (i) generate severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put the operation of the payments’ system at risk, then the FSC may determine, on a single-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the

transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures, such as the Notes, be covered or paid by IPAB or any other Mexican governmental agency.

The members of the FSC are representatives of the Ministry of Finance and Public Credit, *Banco de México*, the CNBV and IPAB.

*Conditional Management Regime.* As an alternative to revoking the banking license, a new conditional management regime was created, that may apply to commercial banks with a capital ratio below the minimum required pursuant to the Mexican Capitalization Requirements. To adopt this regime, the relevant bank must voluntarily request to the CNBV, with prior approval of its shareholders, the application of the conditional management regime. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions with a capital ratio equal to or below 50% of the minimum capital ratio required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

*Corrective Measures.* Pursuant to the Mexican Capitalization Requirements, the CNBV classifies Mexican banks in several categories based on their capital ratio and orders corrective measures to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet the minimum required capital ratio. Some of these corrective measures, include, among others:

- (1) informing the board of directors of the bank's classification (and the circumstances that resulted in such classification), based on the capital ratio thereof, and submitting a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulation, including the principal regulatory ratios, that reflect the bank's degree of stability and solvency (together with any determinations or indications made by any of the CNBV or *Banco de México*); the bank shall provide written notice to the general director and the chairman of the board of directors of the bank's regulated holding company with respect to such events and the status thereof;
- (2) within a period not to exceed fifteen (15) Business Days, filing with the CNBV, for its approval, a capital recovery plan to increase the bank's capital ratio (which may include improving operating efficiencies, rationalizing expenses, increasing profitability, receiving new capital contributions and limiting the bank's operations); the bank's capital recovery plan shall be approved by such bank's board of directors before it is submitted to the CNBV for approval; subject to certain exceptions, the plan is required to be satisfied within 270 days counted from the date of its approval by the CNBV;
- (3) suspending any payment of dividends to its shareholders, as well as any mechanism or action for the making of any distributions or the granting of any economic benefits to shareholders;
- (4) suspending any share repurchase programs;
- (5) deferring or canceling payments of interest and deferring the payment of principal on outstanding subordinated debt or, if applicable, exchanging, outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; in the event that the bank issues subordinated debt, the bank is obligated to include in the documentation evidencing the relevant debt, in the applicable indenture and in the applicable offering documents, that such deferral of payment of principal or deferral and cancellation of payments of interest shall apply upon the occurrence of certain events, as provided in the general rules of Article 134 Bis of the Mexican Law of Credit Institutions set forth under the General Rules for Banks, and that the implementation of such measures shall not be considered a default under the relevant debt documentation;
- (6) suspending payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the general director or any officer within the next two levels, and suspending the

granting of new benefits and bonuses to the general director and the officers mentioned above until the bank complies with the minimum capital ratio set forth under the Mexican Capitalization Requirements;

- (7) abstaining from increasing outstanding amounts under any loans granted to any party who is a related party to the bank; and
- (8) any other corrective measures that, in each case, are provided by the general rules of Article 134 Bis of the Mexican Law of Credit Institutions set forth under the General Rules for Banks.

*Reserve and Compulsory Deposit Requirements.* The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of *Banco de México*'s monetary policy is to maintain the stability of the purchasing power of the Mexican Peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of *Banco de México* have been directed towards a restrictive monetary policy.

Under the *Banco de México* Law (*Ley del Banco de México*), *Banco de México* has the authority to order the percentage of the liabilities of financial institutions that must be deposited in interest or non-interest-bearing deposits with *Banco de México*. These deposits may not exceed 20% of the aggregate liabilities of the relevant financial institution. *Banco de México* also has the authority to order that 100% of the liabilities of Mexican banks resulting from specific funding purposes or pursuant to special legal regimes, be invested in specific assets created in respect of any such purpose or regime.

To manage its maturity exposures to the Mexican financial markets, *Banco de México* has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (*Bondes*) and compulsory monetary regulatory bonds (*Brems*). At the same time, *Banco de México* has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

*Classification of Loans and Allowance for Loan Losses.* The loan classification and rating rules set forth under the General Rules for Banks, provide a methodology to classify (i) consumer loans (*i.e.*, each of credit card exposure and loans to individuals, divided as separate groups) considering as principal elements (a) for credit card exposure, the possibility of non-payment and potential losses (taking into account collateral received), and (b) for loans to individuals, the possibility of non-payment, potential losses (taking into account collateral received), and credit exposure (net of reserves created), (ii) mortgage loans (*i.e.*, residential, including loans for construction, remodeling or improvements), considering as principal elements delinquency periods, possibility of non-payment and potential losses (taking into account collateral and guarantees received), and (iii) commercial loans, based principally on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees.

The loan classification and rating rules require that consumer loans to individuals be stratified, considering the number of unpaid billing periods applicable to the relevant loans, and that a statutory percentage be applied to loans that are past due for each level, as a means to create reserves; reserves may be decreased as the maturity of the applicable loan approaches and past due payments are made. Credit card loans must be reserved, on a loan-by-loan basis, considering amounts due, amounts paid to the relevant date, credit limits, and minimum payments required. Consumer loans to individuals may be classified as A, B, C, D or E, depending upon the percentage of reserves required (from 0% to 100%); credit card consumer loans may be classified as A, B-1, B-2, C, D or E also depending upon the percentage of reserves required.

The loan classification and rating rules establish the following categories corresponding to levels of risk, applicable reserves and set forth procedures for the grading of commercial loans: A-1, A-2, B-1, B-2, B-3, C-1, C-2, D and E.

The loan classification and rating rules require that Mexican banks grade their commercial loan portfolio (except loans made to or guaranteed by the Mexican federal government) as of the end of each quarter and the classification must be reported to the CNBV. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

The loan loss reserves are held in a separate account on the balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to write-off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

The determination of the allowance for loan losses reflected in Famsa's Financial Statements is made at the consolidated Grupo Famsa level, and, pursuant to MFRS, is calculated according to Company policy, which requires management's judgment, particularly for commercial loans. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the loan loss reserve and the actual loss will be reflected in Banco Famsa's financial statements at the time of charge-off.

*Risk Management Policies and Procedures.* Banco Famsa is subject to the provisions applicable to the development and implementation of risk management policies and procedures contained in the General Bank Rules, which in general terms provided for the development of a non-speculative, low-risk profile on the part of Mexican banks. Among other things, under such provisions Mexican banks are required to identify, quantify, manage and report the various types of risks to which it is exposed in connection with the financial transactions entered into thereby.

To such effect, Banco Famsa has established a Risk Management Committee that is responsible for the development and implementation of the policies, procedures and methodology applicable to the identification and administration of its risks, including the establishment of risk limits and any exceptions thereto. In addition, Banco Famsa's Overall Risk Management Unit is responsible for the development and implementation of mechanisms and procedures for the identification, measurement, management and reporting of the risks to which it is exposed, based upon legal, regulatory, external and other quantitative and qualitative considerations. For additional information concerning Banco Famsa's risk management policies and procedures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk Disclosures—Risk Management Policies and Procedures."

*Funding Limits.* In accordance with the General Rules for Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV, the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of a bank's Tier 1 capital. None of Banco Famsa's liabilities to a person or group of persons exceeds the 100% threshold.

*Restrictions on Liens and Guarantees.* Under the Mexican Law of Credit Institutions, banks are specifically prohibited from (i) pledging their securities as collateral (except if *Banco de México* or the CNBV so authorizes, including as described above with respect to derivative transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

*Bank Secrecy Provisions; Credit Bureaus.* Pursuant to the Mexican Law of Credit Institutions, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter or broker, or holder of any of the bank's securities), other than (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant, (iii) the Mexican federal tax authorities for tax purposes, (iv) the Ministry of Finance and Public Credit for purposes of the implementation of measures and procedures to prevent terrorism and money laundering, (v) the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority, (vi) the supervisory unit of the Federal Electoral Agency, and (vii) the federal attorney general's office (*Procuradur General de la República*) for purposes of criminal proceedings, among others. In most cases, the information needs to be requested through the CNBV.

In order to comply with the applicable bank secrecy provisions, we have established different operating systems, which restrict information to be shared between our retail business and Banco Famsa. The only information of Banco Famsa's loan portfolio that is provided to Famsa is the information regarding specific loans which are effectively transferred to Famsa as part of the credit transfer-back process of accounts receivable that are more than 120 days past due. See "—Banco Famsa—Overview."

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

*Money Laundering Regulations.* Mexico has in effect rules relating to money laundering; the most recent set of rules have been in effect since April 21, 2009 (the “Money Laundering Rules”).

Under the Money Laundering Rules, Banco Famsa is required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know-your-customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (Código Penal Federal));
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Ministry of Finance and Public Credit regulations);
- reporting of relevant, unusual and suspicious transactions to the CNBV and the Ministry of Finance and Public Credit; and
- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

Banco Famsa is also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an “Identification File”).

An individual’s Identification File shall include, among other information, a copy of the following documentation or data: (i) full name, (ii) date of birth, (iii) country of birth, (iv) nationality, (v) occupation, profession, main activity or line of business, (vi) complete domicile, (vii) telephone number, (viii) e-mail, if any, (ix) tax identification number and population registry identification, when applicable, and (x) advanced electronic signature series number, when applicable.

An entity’s Identification File shall include, among other information, a copy of the following documentation or data: (i) corporate name, (ii) corporate purpose and line of business, (iii) nationality, (iv) tax identification number, (v) advanced electronic signature series number, when applicable, (vi) complete domicile, (vii) telephone number, (viii) e-mail, if any, (ix) incorporation date, and (x) complete name of the sole administrator, the members of the board of directors, the general manager or any relevant attorneys-in-fact.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

Under the Money Laundering Rules, Banco Famsa must provide to the Ministry of Finance and Public Credit, through the CNBV, (i) quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.\$10,000, (ii) monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S.\$10,000, (iii) reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by its systems, and (iv) periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

*Rules on Interest Rates.* Banco de México regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For Peso-denominated loans, banks may choose any of a fixed rate, TIIE, *Cetes*, CCP (*costo de captación promedio a plazo*), the rate determined by Banco de México as applied to loans funded by or discounted with NAFIN, the rate agreed to with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo bancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with

such banks or funds. For U.S. Dollar denominated loans, banks may choose either a fixed rate, any of the rates referred to in the prior sentence or CCP-U.S. Dollars, as calculated and published in the Official Gazette by *Banco de México*.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On July 11, 2008, *Banco de México* published new rules that regulate the issuance, use and include certain card users protection provisions.

*Fees.* Under *Banco de México* regulations, Mexican banks, *Sofoles* and *Sofomes* may not, in respect of loans, deposits or other forms of funding and services with their respective clients, (i) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo annual total*), (ii) charge alternative fees, except if the fee charged is the lower fee, and (iii) charge fees for the cancellation of credit cards issued. In addition, among other things, Mexican banks may not (i) charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts, (ii) charge fees for returned checks received for deposit in a deposit account or as payment for loans granted, (iii) charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or (iv) charge different fees depending upon the amount subject of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks, *Sofoles* and *Sofomes* permitting customers the use of, or operating, ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (i) specifying a fee for the relevant transactions, in which case, Mexican banks, *Sofoles* and *Sofomes* issuing credit or debit cards (“Issuers”) may not charge cardholders any additional fee (Issuers are entitled to charge operators the respective fee), or (ii) permit Issuers to charge a fee to clients, in which case, banks, *Sofoles* and *Sofomes* may not charge additional fees to clients.

*Banco de México*, on its own initiative or as per request from the CONDUSEF (*Comisión Nacional para la Defensa de los Usuarios de las Instituciones Financieras*), banks, *Sofoles* or *Sofomes*, may assess whether reasonable competition conditions exist in connection with fees charged by banks, *Sofoles* or *Sofomes* in performing financial operations. *Banco de México* must obtain the opinion of the Federal Competition Commission (*Comisión Federal de Competencia*) in carrying out this assessment. *Banco de México* may take measures to address these issues.

*Law for the Protection and Defense of Financial Service Users.* A Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, Banco Famsa must submit to CONDUSEF’s jurisdiction in all conciliation proceedings (initial steps of a dispute) and may choose to submit to CONDUSEF’s jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks, as Banco Famsa, to maintain an internal unit designated to resolve any and all controversies submitted by clients.

CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by using standard accession agreements.

Banco Famsa may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. Banco Famsa may also be subject to recommendations by CONDUSEF regarding its standard agreements or information used to provide its services. It may be subject to coercive measures

or sanctions imposed by CONDUSEF. Banco Famsa is not the subject of any material proceedings before CONDUSEF.

Law for the Transparency and Ordering of Financial Services. The new Transparency and Ordering of Financial Services Law (Ley para la Transparencia y Ordenamiento de los Servicios Financieros) was published in the Official Gazette of Mexico in June, 2007. The purpose of this law is to regulate (i) the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds, (ii) the fees that financial institutions charge to each other for the use of any payment system, (iii) interest rates that may be charged to clients, and (iv) other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants *Banco de México* the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see “Rules on Interest Rates” and “Fees” above). *Banco de México* has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (costo anual total), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements.

Banco Famsa must inform *Banco de México* of any changes in fees at least 30 (thirty) calendar days before they become effective.

*Recently Issued Regulations Regarding the Entry of U.S. Dollars into Mexico.* On June 16, 2010, the SHCP issued new regulations limiting the ability of banking institutions to accept U.S. Dollars. Among other things, these new regulations restrict banks from receiving from their customers more than U.S.\$4,000 in cash from individuals or U.S.\$7,000 from companies operating in the northern border region in the same month in transactions such as the purchase of U.S. Dollars, cash deposits, or as payment of credits or other banking services. These new measures seek to reinforce anti-money laundering policy and dissuade other illegal or improper activities. These new regulations do not limit in any way the amount of U.S. Dollars that may be sold to the public by banking institutions and do not restrict transactions with U.S. Dollars performed by any other means other than cash. According to the press release of the SHCP dated June 15, 2010, announcing the issuance of these new regulations, more than 96% of the cash remittance from the United States into Mexico is carried out through electronic money transfers and, therefore, will not be affected by these new regulations. Considering that (i) substantially all of our customers in Mexico pay in Pesos (less than 1% of our sales are paid in U.S. Dollars), and (ii) all the payment services made in connection with the cash remittance from the United States are made in Pesos, we do not expect that these new regulations will have a significant impact in our operations. There can be no assurance that regulations related to U.S. Dollar transactions will not be implemented in the future that could have a material effect on our operations.

#### *Legal Regime Applicable to our U.S. Operations*

Our consumer finance operations in the United States are subject to various federal laws and regulations, including the Federal Truth-In-Lending Act, the Federal Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Federal Fair Debt Collection Practices Act, the Federal Trade Commission Act, Regulations B and Z of the Federal Reserve Systems, and to numerous state and local laws and regulations. Among other things, these laws and regulations:

- subject us to licensing and registration requirements in connection with our sales on credit and installments;
- limit the time-length of our consumer lending transactions;
- restrict the amount of the fees and commissions that we may charge our clients;
- require full-disclosure of our lending practices to our customers;
- prescribe procedures for the processing of credit applications, and regulate the entire lending process;
- regulate certain account collection practices and procedures; and
- regulate the repossession of merchandise and its resale.

In addition, our retail operations are subject to the consumer protection, customs, zoning and other laws and regulations applicable to the U.S. retail industry generally. For instance, we are subject to federal and state laws and regulations that require retailers who offer merchandise at discount prices to also offer merchandise at regular prices during certain periods.

The violation of any of these laws and regulations may result in the imposition of fines and penalties, and may entitle our customers to challenge the validity of their payment obligations.

We believe that as of the date hereof we are in compliance with all the laws and regulations applicable to our operations in the United States.

## Employees

The following table shows our number of full-time employees by area of activity and geographical segment during the periods indicated.

	As of December 31,		
	2007	2008	2009
<b>By Activity:</b>			
Sales and operations.....	10,904	9,413	8,000
Credit and collections .....	3,263	3,405	2,798
Logistics and distribution .....	1,612	1,313	866
Furniture manufacturing .....	198	140	163
Management.....	745	204	463
Executive Officers .....	101	111	99
Banco Famsa .....	—	2,233	2,280
<b>By Geographical Segment:</b>			
Famsa Mexico .....	16,823	16,819	14,669
Famsa USA .....	1,384	1,656	1,523
<b>Total employees .....</b>	<b>18,207</b>	<b>18,475</b>	<b>16,192</b>

In addition, from time to time we hire temporary employees, particularly around the Christmas holiday season. As of December 31, 2008 and 2009, 34.7% and 34.9% of our employees, respectively, were affiliated with labor unions. Our Mexican employees are affiliated with five labor associations (*centrales obreras*) and 10 unions, and we have entered into a collective bargaining agreement with each of them. Pursuant to Mexican law, collective bargaining agreements are subject to renegotiation on an annual basis as with respect to salaries, and otherwise on a bi-annual basis. We believe that our relationships with our labor unions are good. To date, we have never experienced a strike or other labor disruption. Famsa USA's employees are not unionized. Monthly turnover of our employees in Mexico and the United States during 2009 was 5.6% and 4.0% respectively, which figures reflect a higher turnover in general helpers, street-operating verification agents, and security guards than our other employees.

## Property

We lease a substantial majority of the retail space used by our stores. We select the retail space used by our stores based upon various considerations, including our desire to convey a uniform corporate image and the need for total sales and warehouse areas sufficient to accommodate our increasing number of product lines and services and merchandise volumes.

As of December 31, 2009, 89.0% of our stores were located on real property owned by independent third parties, 9.8% were located on property leased from related third parties, and 1.2% were located on property we own. As of December 31, 2008, 89.1% of our stores were located on real property owned by independent third parties, 9.7% were located on property leased from related third parties, and 1.2% were located on property we own.

As of December 31, 2008 and December 31, 2009, we had more than 500 short- and long-term lease agreements in place. Leased properties are used primarily for our stores and as office space and warehouse facilities. As of December 31, 2008, and December 31, 2009, our total rental expense amounted to Ps.805 million and Ps.904 million, respectively.



The following table shows the principal real properties owned by us as of December 31, 2009.

Location	Use	Area
		(in square meters)
Cienega de Flores Polígono No.5, Monterrey, Nuevo León .....	Vacant	1,082,433.0
Cienega de Flores Polígono No.2, Monterrey, Nuevo León .....	Vacant	69,078.8
Adolfo López Mateos No.1339, Monterrey, Nuevo León.....	Warehouse	7,409.9
Manuel Pérez Treviño No. 284, Saltillo, Coahuila.....	Store	3,520.6
Colón No. 607 Pte., Monterrey, Nuevo León.....	Store	1,922.5
Pino Suárez and Ruperto Martínez, Monterrey, Nuevo León .....	Store	1,910.4
Félix U. Gómez No. 850, Monterrey, Nuevo León .....	Parking lot	1,640.0
Zaragoza and Ocampo, Saltillo, Coahuila .....	Store	1,315.2
Cuahtémoc No.1419 Norte, Monterrey, Nuevo León .....	Warehouse	1,288.0
Humberto Lobo (Opción San Pedro Mall), Nuevo León .....	Leased to unaffiliated third party	1,000.0
Ocampo and Hidalgo, Monclova, Coahuila.....	Store	939.0
Cuahtémoc No. 1408 Lado Sur, Monterrey, Nuevo León.....	Warehouse	802.7
Benito Juárez and Zaragoza, Sabinas, Coahuila .....	Store	700.0
Zaragoza No.449, Saltillo, Coahuila .....	Store	298.3
Allende No. 424, Saltillo, Coahuila .....	Store	249.0
Zaragoza No. 447, Saltillo, Coahuila.....	Store	143.3

## Environmental Matters

In connection with the ownership and/or operation of the real properties where our stores are located, we are subject to various Mexican and United States environmental protection laws and regulations, including those concerning the handling and disposal of hazardous residues and materials and the clean-up of polluting agents. We could be forced to incur in unanticipated expenses as a result of the violation of such laws or regulations, including clean-up expenses and administrative fines, or of third-party environmental-related claims. We believe that we carry all of our business operations strict compliance with such laws and regulations.

## Legal Proceedings

From time to time, we and our subsidiaries are involved in various types of legal proceedings that are incidental to our business operations. Although we cannot predict the outcome of any such proceeding, we believe that none of which proceedings is likely to have a material adverse effect on our financial condition.

## Insurance

Our policy is to purchase and carry all-risk insurance coverage for our property and business operations. We currently maintain insurance policies in respect of all leased and owned real property, all of our inventory, equipment and distribution fleet, with policy specifications, and for insured limits that we believe are appropriate in view of our exposure to the risk of loss, the cost of such insurance, the regulatory requirements to which we are subject, and the prevailing industry practice. However, we could suffer losses that are not covered by our insurance policies or in amounts that exceed our insured limits.

## OUR MANAGEMENT

### General

The management of our business affairs and operations is entrusted to our Board of Directors. Our corporate bylaws prescribe that our Board of Directors shall consist of no less than five and no more than 21 members, subject to determination by the general shareholders meeting. At least 25% of the directors must be independent within the meaning assigned to such term by the Mexican Securities Market Law.

The members of our Board of Directors are appointed to one-year terms during our general annual shareholders meeting, and may be reelected. At such meeting, any shareholder or group of shareholders representing at least 10% of our outstanding capital stock is entitled to appoint a director and an alternate. All of our current directors and alternate directors were elected or ratified on April 29, 2009.

A quorum at any meeting of the Board of Directors is formed with the attendance of a majority of its members, and actions are validly taken by the affirmative vote of a majority of the members present. In the event of an impasse, the Chairman of the Board casts the deciding vote.

Our Board of Directors' mailing address is Av. Pino Suárez 1202 Norte, 3rd Floor, Unidad "A," Zona Centro, Monterrey, Nuevo León, Mexico.

### Board of Directors

Our board of directors currently consists of eight members, four of whom are considered independent. The following table sets forth the name, title, age and years in office of the current board members.

Name	Title	Age	Director since
Humberto Garza González.....	Chairman of the Board	82	1993
Humberto Garza Valdez.....	Director	48	1993
Hernán Javier Garza Valdez.....	Director	46	1993
Oziel Mario Garza Valdez .....	Director	41	1993
Salvador Kalifa Assad .....	Independent Director	59	1998
Horacio Marchand Flores.....	Independent Director	49	2006
Jorge Luis Ramos Santos .....	Independent Director	58	2006
Alejandro Sepúlveda Gutiérrez.....	Independent Director	69	2006

*Humberto Garza González* is our founder.

*Humberto Garza Valdez* has been with the Company for the past 24 years. He has been our President for the past 11 years, having previously served as Deputy President. He holds a Bachelor's degree in Business Administration from the University of Monterrey (UEM), and a Masters in Executive Business Administration from the Institute of Executive Business Management (IPADE).

*Hernán Javier Garza Valdez* has been with the Company for the past 22 years. He holds a Bachelor's degree in Economics from the Monterrey Institute of Technology and Professional Studies (ITESM), An M.B.A. from the University of Notre Dame, and a Masters in Information Systems from ITESM.

*Oziel Mario Garza Valdez* has been with the Company for the past 16 years. He has been our Vice President of Clothing and Real Estate for the past 10 years, having previously served as Commercial Director for the Monterrey Region. He holds a Bachelor's degree in Business Administration from UDEM, and a Masters in Executive Business Administration from IPADE.

*Salvador Kalifa Assad* has been an independent director since 1998. His business experience includes five years as Director of Economic Studies at Grupo Alfa, and serving as an independent consultant on the subject of economics for Grupo Financiero GBM-Atlántico. He currently serves as an independent analyst for and publishes a weekly column in several newspapers in the State of Nuevo Leon, and is member of the board of directors of Grupo IMSA,

S.A. de C.V. He holds a degree in Economics from ITESM, and a Masters and a Ph.D. in Economics from Cornell University.

*Horacio Marchand Flores* has been an independent director since 2006. He is Treasurer and member of the board of directors of the Monterrey Chamber of Commerce, member of the Executive Committee of the Confederation of National Chambers of Commerce, Services and Tourism (CONCANACO), and member of the board of directors of the Institutional Council of the State of Nuevo León. Previously, he served as Sales Vice President at Alestra, S. de R.L. de C.V., and as Marketing Vice President at Iusacell, S.A. de C.V. He holds a Bachelor's degree in Business Administration from ITESM, and a Masters in Business Administration and Marketing from the University of Texas at Austin.

*Jorge Luis Ramos Santos* has been an independent director since 2006. His previous business experience includes serving as President of Cervecería Cuauhtémoc Moctezúma, and as Vice President of Human Resources and, subsequently, President of Comercial de Fomento Económico Mexicano, S.A. de C.V. (FEMSA). He holds a degree in Accounting and Business Administration from ITESM and an M.B.A. from the Wharton School of Economics the University of Pennsylvania.

*Alejandro Sepúlveda Gutiérrez* has been an independent director since 2006. He is member of the Committee on Financial Reporting Practices of the Mexican Institute of Finance Executives, Monterrey Division. His previous experience includes serving as Vice President of Financial Information at Alfa, S.A. de C.V., and Corporate Controller and Deputy Vice President, Costs, at Fundidora Monterrey. He holds a degree in Accounting from ITESM and an M.B.A. from Texas Christian University, and has completed course studies on executive business management at IPADE.

#### *Board Practices*

Pursuant to the Mexican Securities Market Law and our corporate bylaws, our Board of Directors must, among other things:

- determine our general business strategy;
- approve (i) policies and guidelines for the use of our assets by related parties, and (ii) any transaction with related parties, subject to certain limited exceptions, in both cases taking into consideration the opinion of the Audit Committee;
- approve unusual or non-recurrent transactions and any transactions that imply the acquisition or sale of assets with a value equal to or in excess of 5% of our consolidated assets, or the provision of collateral or guarantees or the assumption of liabilities equal to or in excess of 5% of our consolidated assets;
- appoint and remove our chief executive officer, and approve the policies for the appointment of our executive officers;
- approve our financial statements, accounting policies and internal control systems;
- approve the appointment of our external auditors; and
- approve the policies for the disclosure of information.

The Mexican Securities Market Law also imposes duties of care and loyalty on our directors.

Our Financial Statements have been approved by our board of directors and will be submitted for the approval of our shareholders at the annual ordinary shareholders' meeting.

## **Secretary**

As of December 31, 2005, the secretary of the board of directors is Luis Gerardo Villarreal Rosales. He is not a member of the board of directors.

## **Audit Committee**

Under the Mexican Securities Market Law, all members of our Audit Committee must be independent, and two such members must meet the criteria to be considered as financial experts. Of the current members of our Audit Committee, Alejandro Sepulveda Gutiérrez (Chairman) was ratified on April 29, 2009, and Salvador Llarena Arriola and Horacio Marchand Flores were elected on April 27, 2007.

The duties of the Audit Committee include, among others:

- evaluating our internal control and internal audit systems;
- submitting to the Board and Directors and the shareholders meeting, for approval, an annual report of activities;
- reviewing our financial statements and, if applicable, recommending their approval to the Board of Directors; and
- overseeing the enforcement of the resolutions adopted by our shareholders meeting and Board of Directors.

The chairman of the Audit Committee prepares an annual report to our board of directors with respect to its activities and findings.

## **Corporate Practices Committee**

As in the case of our Audit Committee, in accordance with the Mexican Securities Market Law all members of our Corporate Practices Committee must be independent. The current members of our Corporate Practices Committee are Alejandro Sepulveda Gutiérrez (Chairman), Salvador Llarena Arriola and Horacio Marchand Flores.

The Corporate Practices Committee is required to:

- Oversee the performance of our executive officers;
- Provide to the Board of Directors opinions in connection with any material transaction with related parties;
- Call shareholders meetings and submit thereto any matter as it may deem appropriate; and
- Assist the Board of Directors in the preparation of the information required by law.

The chairman of the Corporate Practices Committee prepares an annual report to our board of directors with respect to its activities and findings.

## **Executive Officers**

The following table sets forth the name, title, age and years with the company of our executive officers.

Name	Title	Age	Years with the Company
Humberto Garza Valdez.....	Chief Executive Officer	48	24
Oziel Mario Garza Valdez .....	Vice President, Clothing and Real Estate	41	16
Luis Gerardo Villarreal Rosales.....	Chief Operating Officer	59	12
Abelardo García Lozano .....	Chief Financial Officer	49	20
Héctor Padilla Ramos.....	Vice President, Purchases	49	12
Héctor Hugo Hernández Lee.....	Vice President, Human Resources	45	10
Gabriel Eduardo Contel Arechavala .....	General Director, Famsa Mexico	46	11
Ignacio Ortiz Lambretón .....	General Director, Famsa USA	55	10
Adrián Jorge Lozano Lozano .....	General Director, BAF	42	3

*Luis Gerardo Villarreal Rosales* has served as our Chief Operating Officer for the past 12 years. Prior to his joining the Company, he served as Corporate Controller at Hylsa S.A. de C.V. for eight years, and as Director of Finance and Administration and, later on, President of Sigma Alimentos, S.A. de C.V., for a total of nine years. He holds a Chemical Engineering degree from ITESM, a degree in Accounting and Audit from Universidad Regiomontana and an M.B.A. from ITESM, and has completed several courses on executive business management at the University of Texas and IPADE.

*Abelardo García Lozano* has been with the Company for the past 20 years. He has served as our Chief Financial Officer for the past 15 years, having previously served as Regional Manager and later on as Vice President of Financial Information. Prior to his joining the Company, he served as Deputy Vice President of Administration at Plastic Art. He holds a degree in Accounting and Audit from UDEM, a Diploma in Finance from ITESM, and a Diploma in Taxation from the Institute for the Specialization of Business Executives (IEE).

*Héctor Padilla Ramos* has served as our Vice President of Purchases for the past 12 years. Prior to his joining the Company, he served as Vice President of Purchases at Grupo Mazon, S.A. de C.V. for nine years. He holds a bachelor's degree in Industrial Psychology from Northwestern University, an M.B.A. from the University of Sonora, and a Diploma in Marketing and Finance from ITESM at Sonora.

*Héctor Hugo Hernández Lee* has served as our Vice President of Human Resources for the past ten years. Prior to his joining the Company, he served as National Director of Human Resources at Danone de México, S.A. de C.V. for three years, and as Vice President of Human Resources at Sigma Alimentos S.A. de C.V. for six years. He holds a Bachelor's degree in Industrial Relations and a Diploma in Organizational Development, both from Universidad Iberoamericana.

*Gabriel Eduardo Contel Arechavala* is the General Director of Famsa Mexico. Previously, he served as our Commercial Director (Monterrey Region) for four years and as Vice President of Regional Operations (Gulf and Northeast Regions) for seven years. Prior to his joining the Company, he served as Regional Sales Manager at Productos de Maiz for 2 years, District Sales Manager at Grupo Pepsico, Kraft General Foods, S.A. de C.V. for five years, and Regional Commercial Director at Productos Gerber, S.A. de C.V. for five years. He holds a Bachelor's degree in Business Administration from Universidad Regiomontana, and a Diploma in Marketing from ITESM.

*Ignacio Ortiz Lambretón* has served as General Director of Famsa USA for the past ten years. Prior to his joining the Company, he worked in Grupo Protexa, S.A. de C.V. for eight years, where he last held the position of Director of the Tourism and Real Estate Division. Previously, he held various positions in Alfa, S.A. de C.V., and also served as General Director of Church's and Caesars Pizza, where he was responsible for the operations of 14 stores. He holds a Degree in Systems and Industrial Engineering from ITESM, and a Masters in Business Administration from the Wharton School of Business of the University of Pennsylvania.

*Adrián Jorge Lozano* has served as General Director of BAF for the past three years. Prior to his joining the Company, he served as General Counsel of Banpais for three years, and worked for eight years at Afirme Grupo Financiero, where he last served as President of the financial group and its member entities. He also served as General Counsel and Head of Compliance at GE Money Bank for three years. He holds a J.D. from ITESM, a Masters in International Law and Finance from Tulane University, and an M.B.A. from ITESM.

Pursuant to the Mexican Securities Market Law, our Executive Officers are subject to the duty of care and duty loyalty obligations described above.

### Compensations of Our Directors and Executive Officers

By resolution of the annual shareholders meeting held April 29, 2009, each member of our Board of Directors is entitled to receive two gold coins known as “Centennials” (*Centenarios*), or their equivalent in Pesos (each equal to Ps.17,500 (U.S.\$1,340) as of December 31, 2009), as compensation for each board meeting attended by such director.

We pay our executive officers, on an annual basis, in addition to their salaries and other fixed compensation, a performance bonus equal to up to 33% of their fixed compensations, based on each executive’s individual performance and our results of operations for the year. During the year ended December 31, 2009, the aggregate amount of all fixed and variable compensations paid to our executive officers, as a group, was Ps.47.2 million.

### Stock Plan

A stock plan (the “Plan”) for our executive officers and certain other employees was approved at our extraordinary and ordinary annual shareholders’ meeting held on April 27, 2006. The Plan’s primary objectives are as follows:

- to motivate and incentivize our employees;
- to allow our employees to partake in the success of our businesses;
- to align our interests and the interests of our employees; and
- to maximize employee retention rates, particularly with regard to employees who possess significant knowledge and experience.

We are authorized to issue 3,123,546 ordinary shares, no par value, under the Plan. Such shares were acquired, at the same price as shares sold in our primary public stock offering in the domestic stock market, by Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, acting as trustee in connection with a trust that has been specially created for implementing the Plan. The shares acquired by the Plan’s trustee, are transferred to the Plan’s beneficiaries in accordance with the rules established in the trust. We anticipate that no more than 50 beneficiaries are permitted to participate in the Plan. To this date we have allocated 2,558,585 shares in favor of our executive officers and other employees under the Plan. The remaining 564,962 shares of the Plan represent approximately 0.1% of our issued and outstanding capital stock.

### Share Ownership

The following table sets forth the beneficial ownership of our capital stock by our directors and senior management as of December 31, 2009.

<u>Name</u>	<u>Number of Common Shares Owned</u>	<u>Percentage of Common Shares Outstanding</u>
Humberto Garza González .....	278,174,628	63.3%
Humberto Garza Valdéz .....	293,325	0.1%
Hernán Javier Garza Valdéz .....	293,325	0.1%
Oziel Mario Garza Valdéz .....	293,325	0.1%
<b>Total</b> .....	279,054,603	63.7%

## PRINCIPAL SHAREHOLDERS

Our issued capital stock is divided into 439,447,994 shares, of which 330,357,085 are Series A, Class I Shares and 109,090,909 are Series A, Class II Shares. The table below sets forth information concerning the percentage of our capital stock owned by any person known to us to be the owner of 5% or more of any class of our voting securities and our other shareholders as of December 31, 2009. Our major shareholders do not have different or preferential voting rights with respect to the Shares they own.

Identity of owner	Series A, Class I Shares		Series A, Class II Shares		Shares	
	Number	%	Number	%	Number	%
Control Trusts <sup>(1)</sup> .....	211,610,603	64.05	66,564,025	61.02	278,174,628	63.30
Other members of the Garza Valdez family <sup>(2)</sup> .....	1,173,300	0.36	----		1,173,300	0.27
Public Investors .....	117,573,182	35.59	42,526,884	38.98	160,100,066	36.43
Sub Total	330,357,085		109,090,909			
Total		439,447,994				100%

<sup>(1)</sup> Trust No. F/007 and Trust No. F/715 (the "Control Trusts") were entered into on April 7, 2005 and May 17, 2007, respectively, by Humberto Garza González and Graciela Valdez Sánchez de Garza, with Humberto Garza Valdez, Graciela Valdez Sánchez de Garza and certain immediate family members as beneficiaries. Under the terms of the Control Trusts, voting in respect of the Shares subject to the Control Trusts must be exercised by the Trustee as instructed by Humberto Garza González and, upon his death, as instructed by a committee comprised of various members of the Garza Valdez family. The Control Trusts also contain standard provisions relating to, among other things, preemptive rights in the context of future stock issuances and limitations on transfer. The Control Trusts have a duration of 20 years and may be revoked at any time by Humberto Garza González.

<sup>(2)</sup> Humberto Garza Valdez, Hernán J. Garza Valdez, Graciela L. Garza Valdez and Oziel Mario Garza Valdez.

At our extraordinary and ordinary shareholders' meeting held on April 27, 2006, our shareholders approved a five-for-one stock split of our common stock, resulting in an increase in our outstanding capital stock from 53,240,874 to 266,204,370, to increase the Company's capital stock through a primary public stock offering in the domestic stock market, and the establishment of a stock plan for executives, employees and other workers rendering their services to Grupo Famsa and its subsidiaries. The number of shares effectively subscribed and paid-in as a result of the global offer and the employee stock plan was 64,152,715, of which 61,884,654 corresponded to the public offering and 2,268,061 to the employee stock plan. The subscription and payment of shares representative of the Company's capital stock was performed on May 2, 2007 at a price of Ps.26 Pesos per share. The capital stock is variable with a fixed minimum of Ps.660,714,170 (nominal amount) and an unlimited maximum. At December 31, 2009, the subscribed and paid in nominal capital stock was represented by 330,357,085 Class I Series A, common, nominative shares.

At our annual shareholders' meeting held on April 29, 2008, the stockholders agreed to the creation of a fund for the purchase and sale of the Company's own shares by an amount of Ps.110 million.

On July 17, 2009, our shareholders approved an increase in our capital stock through the issuance of 109,090,909 Series A, Class II Shares of common stock, no par value, corresponding to the variable portion of the capital stock of the Company. In connection with the pre-emptive rights afforded to our shareholders by Mexican law, our shareholders subscribed and paid for 101,454,329, or 93% of such new shares. During the period for the exercise of the aforementioned pre-emptive rights, 604 of our shareholders expressed interest in purchasing any new shares that remained unsubscribed at the end of such period. The number of shares in respect of which we received additional purchase offers exceeded the 7,636,580 new shares that remained unsubscribed at the end of the period. On August 12, 2009, our Board of Directors allocated such shares (except 11 shares unsubscribed for rounding purposes) to the prospective purchasers on a pro rata basis based upon the number of shares subject to their purchase offers. The shares so allocated were subscribed and paid by such shareholders in accordance with the procedure set forth by the Board of Directors. As a result, all of the 109,090,909 shares issued in connection with the aforementioned capital increase have been subscribed and paid for in full, and as of this date our issued and outstanding capital stock is represented by 439,447,994 shares.

## **RELATED PARTY TRANSACTIONS**

We have historically engaged and will continue to engage in a number of transactions with our shareholders or their affiliates. All transactions with these related parties are entered into on an arm's length basis, on terms and conditions no more favorable than those available in the market through independent third parties.

### **Real Property Leases**

As of December 31, 2009, we had 40 long-term lease agreements in place with our controlling shareholders and various entities controlled by them, in respect of the retail space used by several of our stores. As of such date, these lease agreements accounted for approximately 16.9% of the aggregate amount of leased space used for our stores and represented 10.6% of our total rental expense in 2009. The terms of all such agreements are substantially identical and are consistent with standard industry practices and real estate market prices, except for certain lease agreements entered into with Desarrollos Inmobiliarios Garza Valdez, S.A. de C.V. ("DIGV"), an entity owned by our controlling shareholders, which contain provisions pursuant to which DIGV may terminate the relevant lease in the event of our default with any of our obligations thereunder. As of December 31, 2009 we had entered into 26 leases with DIGV. The DIGV leases constituted as of December 31, 2009, approximately 10.3% of the aggregate amount of leased space used for our stores and represented 6.8% of our total rental expense in 2009.

The terms of our lease agreements with our controlling shareholders and entities controlled by them range from on average three to fifteen years, and monthly lease payments per lease range from approximately Ps.24,000 to Ps.793,000. With exception of one lease with an indefinite term, the average maturity date for these leases as of December 31, 2009 was 5.8 years. Upon maturity, a majority of these lease agreements are automatically renewable for successive additional one-year terms.

In addition, in respect of the DIGV leases, DIGV has pledged the amounts payable as rent by the Company and its subsidiaries under such lease agreements as collateral for certain loan obligations incurred by it. As a result, in the event of default by the Company or its subsidiaries under such lease agreements, DIGV and/or the holder of such debt will be entitled to collect any and all rents through the expiration or termination of the relevant lease.

During the years ended December 31, 2007, 2008 and 2009, we made payments in the aggregate amount of Ps.84.5 million, Ps.89.6 million and Ps.95.9 million, respectively, under our lease agreements with these related parties. The rental amounts currently scheduled under these lease agreements are Ps.100.7 million in 2010 and Ps.403.0 million from 2011 to 2014.

### **Asset Management**

We have entered into various asset management agreements with affiliates and other entities controlled by our principal shareholders, pursuant to which we provide cash management services to such entities. The terms of all such agreements are substantially identical and are consistent with standard industry practices. In general, the terms of these agreements provide that Famsa receives segregated funds from each of such entities on a daily basis and is responsible for making payments on behalf of such entities, as instructed in writing, and for making cash available to satisfy certain monetary obligations of such entities. The duration of these asset management agreements is indefinite.

In addition, pursuant to these agreements we are required to make available to such entities a revolving credit facility that bears interest at a fixed rate to be determined by the parties on a case-by-case basis, payable in arrears at the end of each such year. As of December 31, 2009, the aggregate principal amount outstanding pursuant to this credit facility was Ps.7.9 million, at a fixed interest rate of 15.41% per annum and an average repayment term of 90 days.

We have entered into these type of agreements with certain entities that are directly or indirectly controlled by our controlling shareholder, including Inmobiliaria Garza Valdez, S.A. de C.V., Inmobiliaria Garza Valdez de la Laguna, S.A. de C.V., Inmobiliaria Logar de Monterrey, S.A. de C.V., and Desarrollos Inmobiliarios Garza Valdez, S.A. de C.V., among others.



## **Banco Famsa**

Banco Famsa has set in place a series of policies and procedures with respect to its transactions with our controlling shareholders and their affiliates, including qualitative and quantitative restrictions and oversight and reporting and disclosure obligations in connection therewith. Among other things, such policies and procedures impose restrictions to the granting of loans to our directors, executives and employees other than as part of their employment benefit packages. Banco Famsa is in compliance with these policies and procedures.

Article 73 of the Mexican Law of Credit Institutions regulates transactions by a bank with affiliates and other “related party transactions.” Related party transactions may only be undertaken on market terms. Loans made to related parties require the approval of 75% of the members of our board that are present and the prior approval of our credit committee, and must be notified to the CNBV. As of December 31, 2009, loans granted by Banco Famsa to related parties pursuant to Article 73 of the Mexican Law of Credit Institutions amounted to Ps.346 million (3.9% of Banco Famsa’s total loan portfolio as of such date). Banco Famsa entered into a two-year revolving credit facility with us on March 25, 2009. Under this credit facility, Banco Famsa may, pursuant to applicable Mexican law, grant loans to related parties in an aggregate principal amount of up to 50% of the basic portion of Banco Famsa’s net capital. As of December 31, 2009, we had borrowed Ps.347 million pursuant to this credit facility, at a variable interest rate of TIIE plus 2.3%. We are required to maintain a cash or cash equivalent deposit with Banco Famsa for an amount equivalent to 2.5% of the outstanding amounts under this credit facility. The credit facility matures on May 25, 2011.

## **Controlling Shareholder Loan**

We have also obtained loans from Mr. Humberto Garza González, our controlling shareholder. As of December 31, 2009, we had borrowed an aggregate amount of Ps.230.2 million from our controlling shareholder. These loans have an interest rate equal to TIIE plus 2% and mature in May and June of 2011. We intend to use proceeds from the issuance of the notes to repay these loans. See “Use of Proceeds.”

## DESCRIPTION OF NOTES

We will issue the notes under an Indenture, to be dated the Issue Date, between us, the Subsidiary Guarantors and The Bank of New York Mellon, as Trustee (the “Trustee”). The terms of the notes include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the “TIA”). We summarize below certain provisions of the Indenture, but do not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights. You can obtain a copy of the Indenture in the manner described under “Available Information,” and, for so long as the notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on EuroMTF, at the office of the paying agent in Luxembourg.

You can find the definition of capitalized terms used in this section under “—Certain Definitions.” When we refer to:

- the “Company” in this section, we mean Grupo Famsa, S.A.B. de C.V., and not its subsidiaries, and
- “notes” in this section, we mean the notes originally issued on the Issue Date and additional notes.

### Prescription

Under New York’s statute of limitations, any legal action upon the notes in respect of interest or principal must be commenced within six years after the payment thereof is due.

### General

The notes will:

- be general unsecured obligations of the Company,
- rank equal in right of payment with all other existing and future Senior Indebtedness of the Company,
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Company, if any,
- be effectively subordinated to all existing and future secured Indebtedness of the Company and the Subsidiary Guarantors,
- be unconditionally guaranteed on a general unsecured senior basis by all of the Company’s existing and future Restricted Subsidiaries that are Significant Subsidiaries and not Bank Regulated Subsidiaries,
- be structurally subordinate to all existing and future Indebtedness and trade payables of the Company’s subsidiaries that do not guarantee the notes, and
- rank junior to all obligations preferred by statute (such as tax and labor obligations).

As of March 31, 2010, on a pro forma basis after giving effect to this offering and the related transactions as described under “Use of Proceeds” and also including Ps.177.3 million of additional short-term indebtedness incurred after March 31, 2010:

- the Company and its Subsidiaries would have had consolidated total indebtedness of Ps.4,336.2 million (U.S.\$349.4 million\*) (excluding bank deposits),

---

\* Solely for the convenience of the reader, converted to a U.S. Dollar amount at an exchange rate of Ps.12.41 to U.S.\$1.00, the exchange rate published by *Banco de México* in the Official Gazette of Mexico to be effective on March 31, 2010.

- the Company and the Subsidiary Guarantors would have had consolidated total indebtedness of Ps.4,327.4 million (U.S.\$348.7 million\*), of which Ps.0 (U.S.\$0) would have been secured,
- the Company's Subsidiaries that are not Subsidiary Guarantors would have had consolidated total indebtedness of Ps.7,599.1 million (U.S.\$612.3 million\*) (or Ps.8.8 million, or U.S.\$0.7 million\*, excluding bank deposits).

### **Additional Notes**

Subject to the limitations set forth under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” the Company and its Subsidiaries may incur additional Indebtedness. At the Company's option, this additional Indebtedness may consist of additional notes (“additional notes”) issued in one or more transactions, which have identical terms (other than issue date) as notes issued on the Issue Date. Holders of additional notes would have the right to vote together with holders of notes issued on the Issue Date as one class.

### **Principal, Maturity and Interest**

The Company will issue notes in denominations of U.S.\$2,000 and integral multiples of U.S.\$1,000 in excess thereof. The notes will mature on July 20, 2015. The notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the notes will accrue at the rate of 11.0% per annum and will be payable semi-annually in arrears on each January 20 and July 20, commencing on January 20, 2011. Payments will be made to the persons who are registered holders at the close of business on January 5 and July 5, respectively, immediately preceding the applicable interest payment date.

Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The redemption of notes with unpaid and accrued interest to the date of redemption will not affect the right of holders of record on a record date to receive interest due on an interest payment date.

If not otherwise redeemed, the notes will be redeemed at 100.0% of the principal amount on the maturity date.

If any interest payment or redemption date falls on a day which is not a Business Day, payment of interest, principal and premium, if any, with respect to the notes will be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no interest on such payment will accrue from and after such due date.

Initially, the Trustee will act as Paying Agent and Registrar for the notes. The Company may change the Paying Agent and Registrar without notice to holders of notes. If a holder has given wire transfer instructions to the Company, the Company will make all principal, premium and interest payments on those notes in accordance with those instructions. All other payments on the notes will be made at the office or agency of the Paying Agent and Registrar in New York City unless the Company elects to make interest payments by check mailed to the registered holders of notes at their registered addresses. Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market. As long as the notes are listed on this market, the Company will also maintain a Paying Agent and a transfer agent in Luxembourg.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon written request any money held by them for the payment of principal of or interest on the notes that remains unclaimed for two years, and, thereafter, holders entitled to any such money must look to the Company for payment as general creditors.

## Additional Amounts

We are required by Mexican law to deduct Mexican withholding taxes from payments of interest to investors who are not residents of Mexico for tax purposes, and will pay additional amounts on those payments to the extent described in this subsection.

The Company and the Subsidiary Guarantors will pay to holders of the notes all additional amounts that may be necessary so that every net payment of interest (including any premium paid upon redemption of the notes) or principal to the holder will not be less than the amount provided for in the notes. By net payment, we mean the amount we or our paying agent pay the holder after deducting or withholding an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed with respect to that payment by a Mexican taxing authority.

Our obligation to pay additional amounts is subject to several important exceptions, however. The Company and the Subsidiary Guarantors will not pay additional amounts to any holder of notes for or solely on account of any of the following:

- any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was any connection between the holder or beneficial owner of a note and Mexico (or any political subdivision or territory or possession thereof), including such holder or beneficial owner (i) being or having been a citizen or resident thereof or (ii) maintaining or having maintained an office, permanent establishment, or branch subject to taxation therein,
- any estate, inheritance, gift or similar tax, assessment or other governmental charge imposed with respect to the notes,
- any taxes, duties, assessments or other governmental charges imposed solely because the holder or any other person fails to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Mexico (or any political subdivision or territory or possession thereof) of the holder or any beneficial owner of a note if compliance is required by law, regulation or the Administrative Tax Rules (*Resolución Miscelánea Fiscal*) of the taxing jurisdiction or by an applicable income tax treaty to which Mexico is a party, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the holders of notes at least 30 days' notice prior to the first payment date with respect to which such certification, identification, information, documentation or reporting requirement is required to the effect that holders will be required to provide such information and identification,
- any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the notes,
- any taxes, duties, assessments or other governmental charges with respect to a note presented for payment more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders of notes, whichever occurs later, except to the extent that the holder of such note would have been entitled to such additional amounts on presenting such note for payment on any date during such 30-day period, and
- any payment on a note to a holder thereof that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the note.

The limitations on our obligations to pay additional amounts stated in the third bullet point above will not apply if the provision of information, documentation or other evidence described in the applicable bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a note, taking into account any relevant differences between U.S. and Mexican law, regulation

or administrative practice, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States-Mexico Income Tax Treaty), regulation (including proposed regulations) and administrative practice.

Applicable Mexican regulations currently allow us to withhold at a reduced rate, provided we comply with certain information reporting requirements. Accordingly, the limitations on our obligations to pay additional amounts stated in the third bullet point above also will not apply unless (a) the provision of the information, documentation or other evidence described in the applicable bullet point is expressly required by the applicable Mexican statutes, regulations and the Administrative Tax Rules (*Resolución Miscelánea Fiscal*) and (b) we cannot obtain the information, documentation or other evidence necessary to comply with the applicable Mexican regulations, on our own through reasonable diligence, and (c) we otherwise would meet the requirements for application of the reduced Mexican tax rate.

In addition, such third bullet point does not require that any person, including any non-Mexican pension fund, retirement fund or financial institution, register with the Ministry of Finance and Public Credit to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

Upon request, the Company and the Subsidiary Guarantors will provide the trustee with documentation satisfactory to the trustee evidencing the payment of Mexican taxes in respect of which we have paid any additional amount. We will make copies of such documentation available to the holders of the notes or the relevant paying agent upon request.

Any reference in this offering circular, the indenture, the supplemental indenture or the notes to principal, premium, interest or any other amount payable in respect of the notes by us will be deemed also to refer to any additional amount that may be payable with respect to that amount under the obligations referred to in this subsection.

In the event that additional amounts actually paid with respect to the notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto.

For a discussion of Mexican withholding taxes applicable to payments under or with respect to the notes, see “Taxation.”

## **Note Guarantees**

Each Subsidiary Guarantor will unconditionally guarantee the performance of all obligations of the Company under the Indenture and the notes. The Obligations of each Subsidiary Guarantor in respect of its Note Guarantee will be limited to the maximum amount as will result in the Obligations not constituting a fraudulent conveyance, fraudulent transfer or similar illegal transfer under applicable law. See “Risk Factors—Risks Related to the Notes—It is possible that the guarantees by our subsidiaries may not be enforceable.”

Each Subsidiary Guarantor will be released and relieved of its obligations (or in the case of Covenant Defeasance, defeasance of certain of its obligations) under its Note Guarantee in the event:

- (1) there is a Legal Defeasance or a Covenant Defeasance of the notes as described under “—Legal Defeasance and Covenant Defeasance”;
- (2) there is a sale or other disposition of Capital Stock of such Subsidiary Guarantor following which such Subsidiary Guarantor is no longer a direct or indirect Subsidiary of the Company; or

- (3) such Subsidiary Guarantor is designated as an Unrestricted Subsidiary in accordance with “— Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries”;

*provided*, that the transaction is carried out pursuant to and in accordance with all other applicable provisions of the Indenture.

If any Person that is not a Bank Regulated Subsidiary becomes a Restricted Subsidiary that is a Significant Subsidiary (including upon a Revocation of the Designation of a Subsidiary as an Unrestricted Subsidiary), the Company will cause that Restricted Subsidiary (promptly following the determination in accordance with the terms of the Indenture that such Restricted Subsidiary is a Significant Subsidiary) concurrently to become a Subsidiary Guarantor on a senior basis by executing a supplemental indenture and providing the Trustee with an Officers’ Certificate and Opinion of Counsel.

On the Issue Date, Fabricantes Muebleros, S. A. de C. V., Famsa del Centro, S. A. de C. V., Famsa del Pacífico, S. A. de C. V., Famsa Metropolitano, S. A. de C. V., Impulsora Promobien, S. A. de C. V., Famsa, Inc., Auto Gran Crédito Famsa, S. A. de C. V., Expormuebles, S. A. de C. V., Mayoramsa, S. A. de C. V., Verochi, S. A. de C. V. and Geografía Patrimonial, S. A. de C. V. will be the Subsidiary Guarantors.

Not all of our “Restricted Subsidiaries” will guarantee the notes and our Unrestricted Subsidiaries will not guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of these non-guarantor subsidiaries, these non-guarantor subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us. In addition, holders of minority equity interests in Subsidiaries may receive distributions prior to or *pro rata* with the Company depending on the terms of the equity interests. See “Risk Factors—Risks Related to the Notes—Certain of our subsidiaries, including Banco Famsa, are not guarantors, and our obligations with respect to the notes will be effectively subordinated to all liabilities of these non-guarantor subsidiaries.”

### Optional Redemption

*Optional Redemption.* Except as stated below, the Company may not redeem the notes prior to July 20, 2015. The Company may redeem the notes, at its option, in whole at any time or in part from time to time, on and after July 20, 2013, at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on July 20 of any year set forth below:

Year	Percentage
2013.....	105.50%
2014 .....	102.75%

Prior to July 20, 2013, the Company will have the right, at its option, to redeem any of the notes, in whole or in part, at any time or from time to time prior to their maturity, upon at least 30 days’ but not more than 60 days’ notice, at a redemption price equal to the greater of (1) 100% of the principal amount of such notes and (2) the sum of the present value of the redemption price of the notes to be redeemed at July 20, 2013 (such redemption price being set forth in the table appearing above) plus each remaining scheduled payment of interest thereon during the period between the redemption date and July 20, 2013 (exclusive of interest accrued to the date of redemption), in each case discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points (the “Make-Whole Amount”), plus in each case accrued interest on the principal amount of the notes to the date of redemption.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the

notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Company.

“Comparable Treasury Price” means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Reference Treasury Dealer” means Credit Suisse Securities (USA) LLC or its affiliates which are primary United States government securities dealers and not less than two other leading primary United States government securities dealers in New York City reasonably designated by the Company; *provided, however*, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 pm New York time on the third Business Day preceding such redemption date.

*Optional Redemption upon Equity Offerings.* At any time, or from time to time, on or prior to July 20, 2013, the Company may, at its option, use the net cash proceeds of one or more Equity Offerings to redeem in the aggregate up to 35.0 % of the aggregate principal amount of the notes issued under the Indenture at a redemption price equal to 111.0 % of the principal amount thereof; *provided*, that:

- (1) after giving effect to any such redemption at least 65% of the aggregate principal amount of the notes issued under the Indenture remains outstanding; and
- (2) the Company shall make such redemption not more than 60 days after the consummation of such Equity Offering.

“Equity Offering” means (i) an underwritten public offering of Qualified Capital Stock of the Company pursuant to a registration statement (other than a registration statement filed on Form F-4) filed with the U.S. Securities and Exchange Commission in accordance with the Securities Act or in accordance with applicable Mexican laws, rules and regulations, (ii) a rights offering of Qualified Capital Stock of the Company made generally to the holders of such Qualified Capital Stock or (iii) any private placement of Qualified Capital Stock of the Company to any Person, in each case other than issuances upon exercise of options by employees of the Company or any of its Subsidiaries.

*Optional Redemption for Changes in Withholding Taxes.* If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Mexico or any political subdivision or taxing authority or other instrumentality thereof or therein affecting taxation, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on or after the date on which the notes we are offering are issued (which, in the case of a merger, consolidation or other transaction permitted and described under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets,” shall be treated for this purpose as the date of such transaction), we have become obligated or will become obligated, in each case, after taking all reasonable measures to avoid this requirement, to pay additional amounts in excess of those attributable to a Mexican withholding tax rate of 4.9% with respect to the notes (see “—Additional Amounts” and “Taxation—Mexican Federal Tax”), then, at our option, all, but not less than all, of the notes may be redeemed at any time on giving not less than 30 nor more than 60 days’ notice, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any additional amounts due thereon up to but not including the date of redemption; *provided, however*, that (1) no notice

of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which we would be obligated to pay these additional amounts if a payment on the notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such additional amounts remains in effect.

Prior to the publication of any notice of redemption pursuant to this provision, we will deliver to the trustee:

- a certificate signed by one of our duly authorized representatives stating that we are entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred, and
- an opinion of Mexican legal counsel (which may be our counsel) of recognized standing to the effect that we have or will become obligated to pay such additional amounts as a result of such change or amendment.

This notice, once delivered by us to the Trustee, will be irrevocable.

We will give notice to DTC pursuant to the provisions described under “—Certain Covenants—Notices” of any redemption we propose to make at least 30 days (but not more than 60 days) before the redemption date.

*Optional Redemption Procedures.* In the event that less than all of the notes are to be redeemed at any time, selection of notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which notes are listed or, if the notes are not then listed on a national securities exchange, on a *pro rata* basis, by lot or by any other method as the Trustee shall deem fair and appropriate (subject to the procedures of DTC). If a partial redemption is made with the proceeds of an Equity Offering, selection of the notes or portions thereof for redemption will, subject to the preceding sentence, be made by the Trustee only on a *pro rata* basis or on as nearly a *pro rata* basis as is practicable (subject to the procedures of DTC), unless the method is otherwise prohibited. No notes of a principal amount of U.S.\$2,000 or less may be redeemed in part and notes of a principal amount in excess of U.S.\$2,000 may be redeemed in part in multiples of U.S.\$1,000 only.

Notice of any redemption will be mailed by first-class mail, postage prepaid, at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address. If notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount thereof to be redeemed. For so long as the notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF, the Company will cause notices of redemption also to be published as provided under “—Certain Covenants—Notices.” A new note in a principal amount equal to the unredeemed portion thereof (if any) will be issued in the name of the holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will pay the redemption price for any note together with accrued and unpaid interest thereon through the date of redemption. On and after the redemption date, interest will cease to accrue on notes or portions thereof called for redemption as long as the Company have deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any notes by the Company, such redeemed notes will be cancelled.

### **Change of Control**

Upon the occurrence of a Change of Control, each holder of notes will have the right to require that the Company purchase all or a portion (in minimum principal amounts of U.S.\$2,000 or an integral multiple of U.S.\$1,000 in excess thereof) of the holder’s notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon through the date of purchase (the “Change of Control Payment”).

Within 30 days following the date upon which the Change of Control occurred, the Company must send, by first-class mail, a notice to each holder, with a copy to the Trustee, offering to purchase the notes as described above (a “Change of Control Offer”) and publish the Change of Control Offer in a newspaper having a general circulation



in Luxembourg (which is expected to be the *Luxemburger Wort*). The Change of Control Offer shall state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is mailed, other than as may be required by law (the “Change of Control Payment Date”).

On the Change of Control Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all notes or portions thereof properly tendered and not withdrawn pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Change of Control Payment in respect of all notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers’ Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Company.

If only a portion of a note is purchased pursuant to a Change of Control Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to a Change of Control Offer will be cancelled and cannot be reissued.

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all notes properly tendered and not withdrawn pursuant to the Change of Control Offer, or (2) notice of redemption has been given pursuant to the Indenture as described above under the caption “—Optional Redemption,” unless and until there is a default in payment of the applicable redemption price.

A Change of Control Offer may be made in advance of a Change of Control, conditioned upon the occurrence of such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making the Change of Control Offer.

In the event that holders of not less than 95% of the aggregate principal amount of the outstanding notes accept a Change of Control Offer and the Company or a third party purchases all of the notes held by such holders, the Company will have the right, on not less than 30 nor more than 60 days’ prior notice, given not more than 30 days following the purchase pursuant to the Change of Control Offer described above, to redeem all of the notes that remain outstanding following such purchase at a purchase price equal to the Change of Control Payment plus, to the extent not included in the Change of Control Payment, accrued and unpaid interest, if any, on the notes that remain outstanding, to the date of redemption (subject to the right of holders of notes on the relevant record date to receive interest due on the relevant interest payment date).

Other existing and future Indebtedness of the Company may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the holders of their right to require the Company to repurchase the notes upon a Change of Control would cause a default under such Indebtedness even if the Change of Control itself does not.

If a Change of Control Offer occurs, there can be no assurance that the Company will have available funds sufficient to make the Change of Control Payment for all the notes that might be delivered by holders seeking to accept the Change of Control Offer. In the event the Company is required to purchase outstanding notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations and any other obligations in respect of Senior Indebtedness. However, there can be no assurance that the Company would be able to obtain necessary financing.

The Change of Control purchase feature of the notes may in certain circumstances make more difficult or discourage a sale or takeover of us and, thus, the removal of incumbent management. The Change of Control

purchase feature is a result of negotiations between the Initial Purchaser and us. Holders will not be entitled to require the Company to purchase their notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction which is not a Change of Control. In addition, clause (4) of the definition of “Change of Control” includes the sale, conveyance, assignment, transfer, lease or other disposition of all or substantially all of the assets of the Company, determined on a consolidated basis. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no established definition of how this phrase is to be interpreted under applicable law. Accordingly, the application of this provision is uncertain.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the “Change of Control” provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by doing so.

## **Certain Covenants**

### ***Suspension of Covenants***

During any period of time that (i) the notes have Investment Grade Ratings from both Rating Agencies and (ii) no Default or Event of Default has occurred and is continuing (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a “Covenant Suspension Event”), the Company and its Restricted Subsidiaries will not be subject to the provisions of the Indenture described under:

- “—Limitation on Incurrence of Additional Indebtedness”;
- “—Limitation on Guarantees”;
- “—Limitation on Restricted Payments”;
- “—Limitation on Asset Sales and Sales of Subsidiary Stock”;
- “—Limitation on Designation of Unrestricted Subsidiaries”;
- “—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- “—Limitation on Layered Indebtedness”;
- clause (b) of “—Limitation on Merger, Consolidation or Sale of Assets”;
- “—Limitation on Transactions with Affiliates”; and
- “—Conduct of Business”

(collectively, the “Suspended Covenants”).

In the event that the Company and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the “Reversion Date”) one of the Rating Agencies withdraws its Investment Grade Rating or downgrades its rating assigned to the notes below an Investment Grade Rating, then the Company and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. The period of time between the Suspension Date and the Reversion Date is referred to as the “Suspension Period.” Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with the Suspended Covenants during the Suspension Period (or upon termination of the Suspension Period or after that time based solely on events that occurred during the Suspension Period).

On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified to have been incurred pursuant to paragraph (1) of “—Limitation on Incurrence of Additional Indebtedness” below or one of the clauses set forth in paragraph (2) of “—Limitation on Incurrence of Additional Indebtedness” below (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to paragraph (1) or (2) of “—Limitation on Incurrence of Additional Indebtedness”, such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (d) of paragraph (2) of “—Limitation on Incurrence of Additional Indebtedness”. Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under “—Limitation on Restricted Payments” will be made as though the covenant described under “—Limitation on Restricted Payments” had been in effect since the Issue Date and throughout the Suspension Period. Accordingly, Restricted Payments made during the Suspension Period will reduce the amount available to be made as Restricted Payments under the first paragraph of “—Limitation on Restricted Payments.”

The Company will give the Trustee written notice of any Covenant Suspension Event and in any event not later than ten Business Days after such Covenant Suspension Event has occurred. In the absence of such notice, the Trustee shall assume the Suspended Covenants apply and are in full force and effect. The Company will give the Trustee written notice of any occurrence of a Reversion Date not later than five Business Days after such Reversion Date. After any such notice of the occurrence of the Reversion Date, the Trustee shall assume the Suspended Covenants apply and are in full force and effect.

***Limitation on Incurrence of Additional Indebtedness***

(1) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness, including Acquired Indebtedness, except that:

- (a) the Company and any Subsidiary Guarantor may Incur Indebtedness, including Acquired Indebtedness, and
- (b) any Restricted Subsidiary may Incur Acquired Indebtedness not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation,

if, at the time of and immediately after giving pro forma effect to the Incurrence thereof and the application of the proceeds therefrom, the Consolidated Leverage Ratio of the Company is not greater than (i) 3.5 to 1.0, if such Incurrence occurs prior to May 1, 2013 or (ii) 3.25 to 1.0, if such Incurrence occurs on or after May 1, 2013.

(2) Notwithstanding paragraph (1) above, the Company and its Restricted Subsidiaries, as applicable, may Incur the following Indebtedness (“Permitted Indebtedness”):

- (a) Indebtedness in respect of the notes (including any Note Guarantee in respect thereof) excluding additional notes;
- (b) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any other Subsidiary Guarantor permitted under the Indenture; provided that, if any such Guarantee is of Subordinated Indebtedness, then the Note Guarantee of such Subsidiary Guarantor shall be senior to such Subsidiary Guarantor’s Guarantee of such Subordinated Indebtedness;
- (c) Indebtedness Incurred by the Company or any Subsidiary Guarantor under the Credit Facilities (including Guarantees in respect thereof) in an aggregate principal amount outstanding at any one time not to exceed the greater of (x) U.S.\$50.0 million or (y) 2.5% of Consolidated Tangible Assets of the Company and its Restricted Subsidiaries;
- (d) other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the Issue Date other than Indebtedness otherwise specified under any of the other clauses of this definition of “Permitted Indebtedness”;

- (e) Hedging Obligations entered into by the Company and its Restricted Subsidiaries in the ordinary course of business and not for speculative purposes;
- (f) intercompany Indebtedness between the Company and any Restricted Subsidiary or between any Restricted Subsidiaries; provided that:
  - (A) if the Company or any Subsidiary Guarantor is the obligor on any such Indebtedness owed to a Restricted Subsidiary that is not a Subsidiary Guarantor, such Indebtedness must be expressly subordinated to the prior payment in full of all obligations under the notes and the Indenture, in the case of the Company, or such Subsidiary Guarantor's Note Guarantee, in the case of any such Subsidiary Guarantor, and
  - (B) in the event that at any time any such Indebtedness ceases to be held by the Company or a Restricted Subsidiary, such Indebtedness shall be deemed to be Incurred and not permitted by this clause (f) at the time such event occurs;
- (g) Indebtedness of the Company or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (including daylight overdrafts paid in full by the close of business on the day such overdraft was Incurred) drawn against insufficient funds in the ordinary course of business; *provided*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (h) Indebtedness of the Company or any of its Restricted Subsidiaries represented by letters of credit for the account of the Company or any Restricted Subsidiary, as the case may be, in order to provide security for workers' compensation claims, payment obligations in connection with self-insurance or similar requirements in the ordinary course of business;
- (i) Capitalized Lease Obligations or Purchase Money Indebtedness of the Company or any Restricted Subsidiary, in each case Incurred for the purpose of acquiring or financing all or any part of the purchase price or cost of construction or improvement of property or equipment used in the business of the Company or such Restricted Subsidiary in an aggregate principal amount outstanding at any one time not to exceed the greater of (x) U.S.\$25.0 million or (y) 1.5% of Consolidated Tangible Assets of the Company and its Restricted Subsidiaries;
- (j) Indebtedness in respect of bid, performance or surety bonds in the ordinary course of business for the account of the Company or any of its Restricted Subsidiaries, including Guarantees or obligations of the Company or any Restricted Subsidiary with respect to letters of credit supporting such bid, performance or surety obligations (in each case other than for the payment of borrowed money);
- (k) Refinancing Indebtedness in respect of:
  - (A) Indebtedness (other than Indebtedness owed to the Company or any Subsidiary of the Company) Incurred pursuant to paragraph (1) above (it being understood that no Indebtedness outstanding on the Issue Date is Incurred pursuant to such paragraph (1) above), or
  - (B) Indebtedness Incurred pursuant to clause 2(a) or 2(d) of this covenant (excluding Indebtedness outstanding on the Issue Date deemed to be incurred under clause (c) above or Indebtedness owed to the Company or a Subsidiary of the Company) above; and
- (l) Deposits received from customers of a Bank Regulated Subsidiary;
- (m) Additional Indebtedness of a Bank Regulated Subsidiary (excluding any Deposits Incurred pursuant to clause (l) above) in an aggregate principal amount outstanding at any one time not to exceed U.S.\$50.0 million;
- (n) Permitted Acquisition Indebtedness;

- (o) Indebtedness of the Company or any of its Restricted Subsidiaries Incurred pursuant to any Receivables Transaction; and
  - (p) Additional Indebtedness of the Company or any Subsidiary Guarantor in an aggregate principal amount not to exceed U.S.\$20.0 million at any one time outstanding (which amount may, but need not, be Incurred, in whole or in part, under the Credit Facilities).
- (3) For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:
- (a) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with GAAP.
  - (b) The accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Disqualified Capital Stock in the form of additional Disqualified Capital Stock with the same terms will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant; *provided* that any such outstanding additional Indebtedness or Disqualified Capital Stock paid in respect of Indebtedness Incurred pursuant to any provision of paragraph (2) of this covenant will be counted as Indebtedness outstanding thereunder for purposes of any future Incurrence under such provision.
  - (c) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness.
  - (d) In the event that Indebtedness meets the criteria of more than one of the clauses of Permitted Indebtedness described above, or is entitled to be Incurred pursuant to the first paragraph of this covenant, the Company, in its sole discretion, will be permitted to classify such Indebtedness at the time of its Incurrence in any manner that complies with this covenant. In addition, any Indebtedness originally classified as Incurred pursuant to any clause of Permitted Indebtedness may later be reclassified by the Company, in its sole discretion, such that it will be deemed to be Incurred pursuant to another of such clauses to the extent that such reclassified Indebtedness could be Incurred pursuant to such other clause at the time of such reclassification.
  - (e) For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, principal amount of Indebtedness denominated in a currency other than U.S. dollars shall be the U.S. Dollar Equivalent thereof. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded as a result solely of fluctuations in exchange rates or currency values.

#### ***Limitation on Guarantees***

Except to the extent that the limitations set forth below expressly contravene, or result in a violation of, Mexican law applicable to a Bank Regulated Subsidiary as determined by the Mexican Banking Regulators, the Company will not permit any Restricted Subsidiary that is not a Subsidiary Guarantor to Guarantee any Indebtedness of the Company or to secure any Indebtedness of the Company with a Lien on the assets of such Restricted Subsidiary, unless contemporaneously therewith (or prior thereto) effective provision is made to Guarantee or secure the notes, as the case may be, on an equal and ratable basis with such Guarantee or Lien for so long as such Guarantee or Lien remains effective, and in an amount equal to the amount of Indebtedness so Guaranteed or secured. Any Guarantee by any such Restricted Subsidiary of Subordinated Indebtedness of the Company will be subordinated and junior in right of payment to the contemporaneous Guarantee of the notes by such Restricted Subsidiary.

### ***Limitation on Restricted Payments***

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a “Restricted Payment”):

- (a) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of the Company or any Restricted Subsidiary to holders of such Capital Stock, other than:
  - dividends or distributions payable in Qualified Capital Stock of the Company,
  - dividends or distributions payable to the Company and/or a Restricted Subsidiary, or
  - dividends, distributions or returns of capital made on a pro rata basis to the Company and its Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand (or on a less than pro rata basis to any minority holder);
- (b) purchase, redeem or otherwise acquire or retire for value:
  - any Capital Stock of the Company, or
  - any Capital Stock of any Restricted Subsidiary held by an Affiliate of the Company (other than a Restricted Subsidiary) or any Preferred Stock of a Restricted Subsidiary, except for Capital Stock held by the Company or a Restricted Subsidiary or purchases, redemptions, acquisitions or retirements for value of Capital Stock on a *pro rata* basis from the Company and/or any Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand, according to their respective percentage ownership of the Capital Stock of such Restricted Subsidiary;
- (c) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness (excluding (x) any intercompany Indebtedness between or among the Company and/or any Restricted Subsidiaries or (y) the purchase, repurchase or other acquisition of Indebtedness that is contractually subordinate to the notes or any Note Guarantee, as the case may be, purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case within one year of such date of purchase, repurchase or acquisition); or
- (d) make any Investment (other than Permitted Investments);

if at the time of the Restricted Payment immediately after giving effect thereto:

- (1) a Default or an Event of Default shall have occurred and be continuing;
- (2) the Company is not able to Incur at least U.S.\$1.00 of additional Indebtedness pursuant to paragraph (1) of “—Limitation on Incurrence of Additional Indebtedness”; or
- (3) the aggregate amount (the amount expended for these purposes, if other than in cash, being the Fair Market Value of the relevant property) of the proposed Restricted Payment and all other Restricted Payments made subsequent to the Issue Date up to the date thereof, less any Investment Return calculated as of the date thereof, shall exceed the sum of:
  - (A) 50% of cumulative Consolidated Net Income of the Company or, if such cumulative Consolidated Net Income of the Company is a loss, minus 100% of the loss, accrued during the period, treated as one accounting period, beginning on the first day of the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which consolidated financial information of the Company is available; *plus*

(B) 100% of the aggregate net cash proceeds received by the Company from any Person from any:

- contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock or issuance and sale of Qualified Capital Stock of the Company, in each case, subsequent to the Issue Date, or
- issuance and sale subsequent to the Issue Date (and, in the case of Indebtedness of a Restricted Subsidiary, at such time as it was a Restricted Subsidiary) of any Indebtedness of the Company or any Restricted Subsidiary that has been converted into or exchanged for Qualified Capital Stock of the Company,

excluding, in each case, any net cash proceeds:

- (w) received from a Subsidiary of the Company;
- (x) used to redeem notes under “—Optional Redemption—Optional Redemption Upon Equity Offerings”;
- (y) used to acquire Capital Stock or other assets from an Affiliate of the Company; or
- (z) applied in accordance with clause (2) or (3) of the second paragraph of this covenant below;

*plus*

(C) U.S.\$10.0 million.

Notwithstanding the preceding paragraph, this covenant does not prohibit:

- (1) the payment of any dividend or the consummation of any irrevocable redemption of Subordinated Indebtedness within 60 days after the date of declaration of such dividend or giving of the redemption notice, as the case may be, if the dividend or redemption would have been permitted on the date of declaration or notice pursuant to the preceding paragraph; provided that such redemption shall be included (without duplication for the declaration) in the calculation of the amount of Restricted Payments;
- (2) the acquisition of any shares of Capital Stock of the Company,
  - (x) in exchange for Qualified Capital Stock of the Company, or
  - (y) through the application of the net proceeds received by the Company from a substantially concurrent sale of Qualified Capital Stock of the Company or a contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock, in each case not received from a Subsidiary of the Company;

*provided*, that the value of any such Qualified Capital Stock issued in exchange for such acquired Capital Stock and any such net proceeds shall be excluded from clause (3)(B) of the first paragraph of this covenant (and were not included therein at any time);

- (3) the voluntary prepayment, purchase, defeasance, redemption or other acquisition or retirement for value of any Subordinated Indebtedness solely in exchange for, or through the application of net proceeds of a substantially concurrent sale, other than to a Subsidiary of the Company, of:
  - (x) Qualified Capital Stock of the Company or
  - (y) Refinancing Indebtedness for such Subordinated Indebtedness;

*provided*, that the value of any Qualified Capital Stock issued in exchange for Subordinated Indebtedness and any net proceeds referred to above shall be excluded from clause (d)(3)(B) of the first paragraph of this covenant (and were not included therein at any time);

- (4) if no Default or Event of Default shall have occurred and be continuing, repurchases by the Company of Common Stock of the Company or options, warrants or other securities exercisable or convertible into Common Stock of the Company from any current or former employees or directors or consultants of the Company or any of its Subsidiaries or their authorized representatives upon the death, disability or termination of employment or directorship of the employees, officers or directors, or the termination or retention of any such consultant, in an amount not to exceed U.S.\$5.0 million in any calendar year (with unused amounts in any calendar year being permitted to be carried over into succeeding calendar years) plus the cash proceeds of key man life insurance policies received by the Company and its Restricted Subsidiaries;
- (5) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;
- (6) the declaration and payment of regularly scheduled or accrued dividends or distributions to holders of any class or series of Disqualified Capital Stock of the Company or any Restricted Subsidiary issued on or after the Issue Date in accordance with the test set forth in paragraph (1) of “—Limitation on Incurrence of Additional Indebtedness”;
- (7) upon the occurrence of a Change of Control and within 60 days after the completion of the offer to repurchase the notes pursuant to the covenant described under “—Change of Control” above, any repurchase, redemption or other acquisition or retirement for value of any Subordinated Indebtedness of the Company or any Subsidiary Guarantor required pursuant to the terms thereof as a result of such Change of Control; *provided* that (A) the terms of such purchase or redemption are substantially similar in all material respects to the comparable provision included in the Indenture, and (B) at the time of such purchase or redemption no Default or Event of Default shall have occurred and be continuing (or would result therefrom);
- (8) any Restricted Payments made in connection with the Transactions; and
- (9) if no Default or Event of Default shall have occurred and be continuing, the purchase by the Company of fractional shares arising out of stock dividends, splits or combinations or business combinations.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date, amounts expended pursuant to clauses (1) (without duplication for the declaration of the relevant dividend) (4) and (7) above shall be included in such calculation and amounts expended pursuant to clauses (2), (3), (5), (6), (8) and (9) above shall not be included in such calculation.

#### ***Limitation on Asset Sales and Sales of Subsidiary Stock***

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (a) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets sold or otherwise disposed of, and
- (b) at least 75% of the consideration received for the assets sold by the Company or the Restricted Subsidiary, as the case may be, in the Asset Sale shall be in the form of cash or Cash Equivalents received at the time of such Asset Sale.



For purposes of this clause (b), the following are deemed to be cash:

- (i) Indebtedness and other liabilities shown on the most recent consolidated balance sheet of the Company prior to the date of such Asset Sale (other than Subordinated Indebtedness) that are assumed by the transferee of any such assets and as a result of which the Company and its Restricted Subsidiaries are released from all liability in connection therewith at the time of such Asset Sale; and
- (ii) any securities, notes or other obligations received by the Company or any such Restricted Subsidiary from such transferee that are converted, sold or exchanged by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 120 days, to the extent of the cash or Cash Equivalents received in that conversion, sale or exchange.

Notwithstanding anything to the contrary herein, the Company shall not, and shall not permit any of its Restricted Subsidiaries to, consummate an Asset Sale with respect to the Capital Stock or property or assets of a Bank Regulated Subsidiary. For the avoidance of doubt, a disposition of accounts receivable (including those of a Bank Restricted Subsidiary) in connection with a Receivables Transaction does not constitute an Asset Sale.

The Company or such Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 days thereof to:

- (a) repay any Senior Indebtedness of the Company or a Restricted Subsidiary or Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor (including, in each case without limitation, Capitalized Lease Obligations),
- (b) make capital expenditures in a Permitted Business, or
- (c) purchase
  - (1) assets (other than current assets as determined in accordance with GAAP or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business, or
  - (2) all or substantially all of the assets of, or any Capital Stock of, a Person engaged solely in a Permitted Business if, after giving effect to any such acquisitions of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary

from a Person other than the Company and its Restricted Subsidiaries; *provided* that, in the case of clauses (1) and (2), a binding commitment to acquire such assets or such Capital Stock shall be deemed a permitted application of such Net Cash Proceeds hereunder, so long as (i) the Company or such Restricted Subsidiary enters into such binding commitment within 365 days after receipt of such Net Cash Proceeds, (ii) such binding commitment is subject only to customary conditions and (iii) such acquisition is consummated within six months from the date of signing such binding commitment.

To the extent all or a portion of the Net Cash Proceeds of any Asset Sale are not applied within 365 days of the Asset Sale as set forth in clause (a) or (b) (or, in the case of clause (c) only, within such longer period set forth therein) of the immediately preceding paragraph, the Company will make an offer to purchase notes (the "Asset Sale Offer"), at a purchase price equal to 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest thereon, to the date of purchase (the "Asset Sale Offer Amount"). The Company will purchase pursuant to an Asset Sale Offer from all tendering holders on a *pro rata* basis, and, at the Company's option, on a *pro rata* basis with the holders of any other Senior Indebtedness with similar provisions requiring the Company to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of notes and the other Senior Indebtedness to be purchased equal to such unapplied Net Cash Proceeds. The Company may satisfy its obligations under this covenant with respect to the Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 365-day period.

The purchase of notes pursuant to an Asset Sale Offer will occur not less than 20 Business Days following the date thereof, or any longer period as may be required by law, nor more than 45 days following the 365<sup>th</sup> day following the Asset Sale. The Company may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied Net Cash Proceeds from one or more Asset Sales equal to or in excess of U.S.\$15.0 million. At that time, the entire amount of unapplied Net Cash Proceeds, and not just the amount in excess of U.S.\$15.0 million, will be applied as required pursuant to this covenant. Pending application in accordance with this covenant, Net Cash Proceeds will be applied to temporarily reduce revolving credit borrowings that can be reborrowed or Invested in Cash Equivalents.

Each notice of an Asset Sale Offer will be mailed first class, postage prepaid, to the record holders of notes as shown on the register of holders within 20 days following such 365<sup>th</sup> day, with a copy to the Trustee offering to purchase the notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is mailed, other than as may be required by law (the “Asset Sale Offer Payment Date”). Upon receiving notice of an Asset Sale Offer, holders of notes may elect to tender their notes in whole or in part in amounts of U.S.\$2,000 or integral multiples of U.S.\$1,000 in excess thereof in exchange for cash.

On the Asset Sale Offer Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all notes or portions thereof properly tendered pursuant to the Asset Sale Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Asset Sale Offer Amount in respect of all notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers’ Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Company.

To the extent holders of notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of unapplied Net Cash Proceeds, the Company will purchase the notes and the other Senior Indebtedness on a *pro rata* basis (based on amounts tendered). If only a portion of a note is purchased pursuant to an Asset Sale Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a global note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the “Asset Sale” provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the “Asset Sale” provisions of the Indenture by doing so.

Upon completion of an Asset Sale Offer, the amount of Net Cash Proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of notes and other Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied Net Cash Proceeds, the Company and its Restricted Subsidiaries may use any remaining Net Cash Proceeds for any purpose not otherwise prohibited by the Indenture.

In the event of the transfer of substantially all (but not all) of the property and assets of the Company and its Restricted Subsidiaries as an entirety to a Person in a transaction permitted under “—Limitation on Merger, Consolidation and Sale of Assets,” the Surviving Entity will be deemed to have sold the properties and assets of the Company and its Restricted Subsidiaries not so transferred for purposes of this covenant, and will comply with the provisions of this covenant with respect to the deemed sale as if it were an Asset Sale. In addition, the Fair Market Value of properties and assets of the Company or its Restricted Subsidiaries so deemed to be sold will be deemed to be Net Cash Proceeds for purposes of this covenant.

If at any time any non-cash consideration received by the Company or any Restricted Subsidiary, as the case may be, in connection with any Asset Sale is converted into or sold or otherwise disposed of for cash (other than interest received with respect to any non-cash consideration), the conversion or disposition will be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof will be applied in accordance with this covenant within 365 days of conversion or disposition.

***Limitation on Designation of Unrestricted Subsidiaries***

Except to the extent that the limitations set forth below expressly contravene, or result in a violation of, Mexican law applicable to a Bank Regulated Subsidiary as determined by the Mexican Banking Regulators, the Company may designate after the Issue Date any Subsidiary of the Company as an “Unrestricted Subsidiary” under the Indenture (a “Designation”) only if:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Designation and any transactions between the Company or any of its Restricted Subsidiaries and such Unrestricted Subsidiary are in compliance with “—Limitation on Transactions with Affiliates”;
- (2) at the time of and after giving effect to such Designation, the Company could Incur U.S.\$1.00 of additional Indebtedness pursuant to paragraph (1) of “—Limitation on Incurrence of Additional Indebtedness”;
- (3) the Company would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation and treating such Designation as an Investment at the time of Designation) as a Restricted Payment pursuant to the first paragraph of “—Limitation on Restricted Payments” in an amount (the “Designation Amount”) equal to the amount of the Company’s Investment in such Subsidiary on such date; and

at the time of such Designation, neither the Company nor any Restricted Subsidiary will:

- (1) provide credit support for, subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary) to the satisfaction of, or Guarantee, any Indebtedness of such Unrestricted Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness);
- (2) be directly or indirectly liable for any Indebtedness of such Unrestricted Subsidiary; or
- (3) be directly or indirectly liable for any Indebtedness which provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity upon the occurrence of a default with respect to any Indebtedness of such Unrestricted Subsidiary, except for any non-recourse Guarantee given solely to support the pledge by the Company or any Restricted Subsidiary of the Capital Stock of such Unrestricted Subsidiary.

The Company may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary (a “Revocation”) only if:

- (1) No Default or Event of Default shall have occurred and be continuing at the time of and after giving effect to such Revocation; and
- (2) all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if Incurred at such time, have been permitted to be Incurred for all purposes of the Indenture.

The Designation of a Subsidiary of the Company as an Unrestricted Subsidiary shall be deemed to include the Designation of all of the Subsidiaries of such Subsidiary. All Designations and Revocations must be evidenced

by resolutions of the Board of Directors of the Company, delivered to the Trustee certifying compliance with the preceding provisions.

***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

(a) Except as provided in paragraph (b) below, the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any other Restricted Subsidiary or pay any Indebtedness owed to the Company or any other Restricted Subsidiary;
- (2) make loans or advances to, or Guarantee any Indebtedness or other obligations of, or make any Investment in, the Company or any other Restricted Subsidiary; or
- (3) transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) Paragraph (a) above will not apply to encumbrances or restrictions existing under or by reason of:

- (1) applicable law, rule, regulation or order (including any restrictions imposed by the Mexican Banking Regulators on a Bank Regulated Subsidiary);
- (2) the Indenture, the notes and the Note Guarantees;
- (3) the terms of any Indebtedness outstanding on the Issue Date, and any amendment, modification, restatement, renewal, restructuring, replacement or Refinancing thereof; *provided*, that any amendment, modification, restatement, renewal, restructuring, replacement or Refinancing is not materially more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those in existence on the Issue Date;
- (4) customary non-assignment provisions of any contract and customary provisions restricting assignment or subletting in any lease governing a leasehold interest of any Restricted Subsidiary, or any customary restriction on the ability of a Restricted Subsidiary to dividend, distribute or otherwise transfer any asset which secures Indebtedness secured by a Lien, in each case permitted to be Incurred under the Indenture;
- (5) any instrument governing Acquired Indebtedness not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired;
- (6) restrictions with respect to a Restricted Subsidiary of the Company imposed pursuant to a binding agreement which has been entered into for the sale or disposition of Capital Stock or assets of such Restricted Subsidiary; *provided*, that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;
- (7) customary restrictions imposed on the transfer of copyrighted or patented materials;
- (8) an agreement governing Indebtedness of the Company or any Restricted Subsidiaries permitted to be Incurred subsequent to the date of the Indenture in accordance with the covenant set forth under “—Limitation on Incurrence of Additional Indebtedness”; *provided* that the provisions relating to such encumbrance or restriction contained in such agreement are no more restrictive than those contained in the agreement referred to in clause (3) or, in the case of Indebtedness Incurred pursuant to this clause (8) to Refinance Acquired Indebtedness, no more restrictive than those contained in the agreement referred to in clause (5) of this paragraph;

- (9) purchase money obligations for property (including Capital Stock) acquired in the ordinary course of business and Capitalized Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of paragraph (a) above;
- (10) Liens permitted to be incurred under the provisions of the covenant described below under the caption “—Limitation on Liens” that limits the right of the debtor to dispose of the assets securing such Indebtedness;
- (11) provisions limiting the payment of dividends in the organizational documents, shareholders’ agreements, joint venture agreements or similar documents of, or related to, Restricted Subsidiaries that are not Wholly Owned Subsidiaries and which have been entered into (A) in the ordinary course of business and (B) with the approval of the Company’s Board of Directors;
- (12) restrictions on cash deposited with banks in the ordinary course of business consistent with past practice; or
- (13) restrictions customarily granted in connection with securitization, factoring or discounting involving receivables that are imposed in connection with a Receivables Transaction.

***Limitation on Layered Indebtedness***

The Company will not, and will not permit any Subsidiary Guarantor to, directly or indirectly, Incur any Indebtedness that is subordinate in right of payment to any other Indebtedness, unless such Indebtedness is expressly subordinate in right of payment to the notes or, in the case of a Subsidiary Guarantor, its Note Guarantee to the same extent and on the same terms as such Indebtedness is subordinate to such other Indebtedness.

***Limitation on Liens***

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Liens of any kind (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, to secure any Indebtedness or trade payables unless contemporaneously therewith effective provision is made:

- (1) in the case of the Company or any Restricted Subsidiary other than a Subsidiary Guarantor, to secure the notes and all other amounts due under the Indenture; and
- (2) in the case of a Subsidiary Guarantor, to secure such Subsidiary Guarantor’s Note Guarantee of the notes and all other amounts due under the Indenture;

in each case, equally and ratably with such Indebtedness or other obligation (or, in the event that such Indebtedness is subordinated in right of payment to the notes or such Note Guarantee, as the case may be, prior to such Indebtedness or other obligation) with a Lien on the same properties and assets securing such Indebtedness or other obligation for so long as such Indebtedness or other obligation is secured by such Lien.

***Limitation on Merger, Consolidation and Sale of Assets***

The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company’s properties and assets (determined on a consolidated basis for the Company and its Restricted Subsidiaries), to any Person unless:

- (a) either:
  - (1) the Company shall be the surviving or continuing corporation, or

- (2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):
  - (A) shall be a corporation organized and validly existing under the laws of Mexico or the United States of America, any State thereof or the District of Columbia, and
  - (B) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the notes and the performance and observance of every covenant of the notes and the Indenture on the part of the Company to be performed or observed;
- (b) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be, will be able to Incur at least U.S.\$1.00 of additional Indebtedness pursuant to paragraph (1) of "—Limitation on Incurrence of Additional Indebtedness";
- (c) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing;
- (d) each Subsidiary Guarantor (including Persons that become Subsidiary Guarantors as a result of the transaction) has confirmed by supplemental indenture that its Note Guarantee will apply for the Obligations of the Surviving Entity in respect of the Indenture and the notes;
- (e) if the Company is organized under Mexican law and merges with a corporation, or the Surviving Entity is, organized under the laws of the United States, any State thereof or the District of Columbia or the Company is organized under the laws of the United States, any State thereof or the District of Columbia and merges with a corporation, or the Surviving Entity is, organized under the laws of Mexico, the Company or the Surviving Entity will have delivered to the Trustee an Opinion of Counsel from each of Mexico and the United States to the effect that, as applicable:
  - (i) the holders of the notes will not recognize income, gain or loss for U.S. or Mexican income tax purposes as a result of the transaction and will be taxed in the holder's home jurisdiction in the same manner and on the same amounts (assuming solely for this purpose that no Additional Amounts are regarded to be paid on the notes) and at the same time as would have been the case if the transaction had not occurred;
  - (ii) any payment of interest or principal under or relating to the notes or any Note Guarantee will be paid in compliance with any requirements under "—Additional Amounts";
  - (iii) no other taxes on income, including capital gains, will be payable by holders of the notes under the laws of Mexico or the United States relating to the acquisition, ownership or disposition of the notes, including the receipt of interest or principal thereon; *provided* that the holder does not use or hold, and is not deemed to use or hold the notes in carrying on a business in Mexico or the United States, and
- (f) the Company or the Surviving Entity has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease,

conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

For purposes of this covenant, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company (determined on a consolidated basis for the Company and its Restricted Subsidiaries), will be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The provisions of clause (b) above will not apply to:

- (1) any transfer of the properties or assets of a Restricted Subsidiary to the Company or to a Subsidiary Guarantor;
- (2) any merger of a Restricted Subsidiary into the Company or a Subsidiary Guarantor; or
- (3) any merger or spin-off of the Company or a Restricted Subsidiary into a Wholly Owned Subsidiary of the Company created for the purpose of holding the Capital Stock, the properties or assets of the Company or a Restricted Subsidiary, as the case may be,

so long as, in each case the Indebtedness of the Company and its Restricted Subsidiaries taken as a whole is not increased thereby.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and its Restricted Subsidiaries in accordance with this covenant, in which the Company is not the continuing corporation, the Surviving Entity formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the notes with the same effect as if such Surviving Entity had been named as such. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Company (including a Surviving Entity, if applicable) under “—Change of Control,” if applicable.

Each Subsidiary Guarantor will not, and the Company will not cause or permit any Subsidiary Guarantor to, consolidate with or merge into, or sell or dispose of all or substantially all of its assets to, any Person (other than the Company) that is not a Subsidiary Guarantor unless:

- (1) such Person (if such Person is the surviving entity) assumes all of the obligations of such Subsidiary Guarantor in respect of its Note Guarantee by executing a supplemental indenture and providing the Trustee with an Officers’ Certificate and Opinion of Counsel, and such transaction is otherwise in compliance with the Indenture;
- (2) such Note Guarantee is to be released as provided under “—Note Guarantees”; or
- (3) such sale or other disposition of substantially all of such Subsidiary Guarantor’s assets is made in accordance with “—Limitation on Asset Sales and Sales of Subsidiary Stock.”

#### ***Limitation on Transactions with Affiliates***

- (1) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an “Affiliate Transaction”), unless:

- (a) the terms of such Affiliate Transaction are no less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company;
  - (b) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of U.S.\$15.0 million, the terms of such Affiliate Transaction will be approved by a majority of the members of the Board of Directors of the Company (including a majority of the disinterested members thereof), the approval to be evidenced by a Board Resolution stating that the Board of Directors has determined that such transaction complies with the preceding provisions; and
  - (c) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of U.S.\$25.0 million, the Company will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Affiliate Transaction to the Company and the relevant Restricted Subsidiary (if any) from a financial point of view from an Independent Financial Advisor and file the same with the Trustee.
- (2) Paragraph (1) above will not apply to:
- (a) Affiliate Transactions with or among the Company and any Wholly Owned Subsidiary or between or among Wholly Owned Subsidiaries;
  - (b) reasonable fees and compensation paid to, and any indemnity provided on behalf of, officers, directors, employees, consultants or agents of the Company or any Restricted Subsidiary as determined in good faith by the Company's Board of Directors;
  - (c) Affiliate Transactions undertaken pursuant to any contractual obligations or rights in existence on the Issue Date and any amendment, modification, extension or replacement of such agreement (so long as such amendment, modification, extension or replacement is not materially more disadvantageous to the holders of notes, taken as a whole, than the original agreement as in effect on the Issue Date);
  - (d) any Restricted Payments made in compliance with "—Limitation on Restricted Payments";
  - (e) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary for travel, entertainment, moving and other relocation expenses, in each case made in the ordinary course of business and not exceeding U.S.\$2.5 million outstanding at any one time; and
  - (f) any issuance of Capital Stock (other than Disqualified Stock) of the Company to Affiliates of the Company or to any director, officer, employee or consultant of the Company, and the granting and performance of registration rights.

### ***Conduct of Business***

The Company and its Restricted Subsidiaries will not engage in any business other than a Permitted Business.

### ***Reports to Holders***

So long as any notes are outstanding, the Company will furnish to the Trustee:

- (a) Within 120 days following the end of each of the Company's fiscal years, information (presented in the English language) including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section with scope and content substantially similar to the corresponding section of this offering circular (after taking into consideration any changes to the business and operations of the Company after the Issue Date), consolidated audited income



statements, balance sheets and cash flow statements and the related notes thereto for the Company for the two most recent fiscal years in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the U.S. Securities and Exchange Commission, together with an audit report thereon by the Company's independent auditors; and

- (b) Within 60 days following the end of the first three fiscal quarters in each of the Company's fiscal years, quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the Company and the Restricted Subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the U.S. Securities and Exchange Commission, together with a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section for such quarterly period and condensed footnote disclosure (in each case, presented in the English language).

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, the Company shall furnish to the holders of the notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the notes are not freely transferable under the Securities Act by Persons who are not "affiliates" under the Securities Act.

In addition, if and so long as the notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF and the rules of the Luxembourg Stock Exchange so require, copies of such reports furnished to the Trustee will also be made available at the specified office of the Luxembourg paying agent.

Delivery of such reports, information and documents to the Trustee shall be for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of the covenants contained in the Indenture (as to which the Trustee will be entitled to conclusively rely upon an Officers' Certificate).

### ***Listing***

In the event that the Notes are listed on EuroMTF, the Company will use its reasonable best efforts to maintain such listing, *provided* that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the "Transparency Directive") or any legislation implementing the Transparency Directive the Company could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Company would otherwise use to prepare its published financial information, the Company may delist the notes from the EuroMTF in accordance with the rules of the Luxembourg Stock Exchange and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as the Company may decide.

### ***Notices***

From and after the date the notes are listed on Euro MTF, and so long as it is required by the rules of the Luxembourg Stock Exchange, all notices to holders of notes will be published in English:

- (1) in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*);

- (2) if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions; or
- (3) on the website of the Luxembourg Stock Exchange (which is currently at [www.bourse.lu](http://www.bourse.lu)).

Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to holders of notes at their registered addresses in Luxembourg.

### Events of Default

The following are “Events of Default”:

- (1) default in the payment when due of the principal of or premium, if any, on any notes, including the failure to make a required payment to purchase notes tendered pursuant to an optional redemption, Change of Control Offer or an Asset Sale Offer;
- (2) default for 30 days or more in the payment when due of interest, or Additional Amounts, if any, on any notes;
- (3) the failure to perform or comply with any of the provisions described under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets”;
- (4) the failure by the Company or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or in the notes for 45 days or more after written notice to the Company from the Trustee or holders of at least 25% in aggregate principal amount of the outstanding notes;
- (5) default by the Company or any Restricted Subsidiary under any Indebtedness which:
  - (A) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of any applicable grace period provided in such Indebtedness on the date of such default; or
  - (B) results in the acceleration of such Indebtedness prior to its stated maturity;and the principal or accreted amount of Indebtedness covered by subclause (A) or (B) at the relevant time, aggregates U.S.\$25.0 million or more;
- (6) failure by the Company or any of its Restricted Subsidiaries to pay one or more final judgments against any of them, aggregating U.S.\$25.0 million or more, which judgment(s) are not paid, discharged or stayed for a period of 60 days or more;
- (7) certain events of bankruptcy, insolvency or *concurso mercantil* affecting the Company or any of its Restricted Subsidiaries or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary; or
- (8) except as permitted by the Indenture, any Note Guarantee is held to be unenforceable or invalid in a judicial proceeding or ceases for any reason to be in full force and effect or any Subsidiary Guarantor, or any Person acting on behalf of any Subsidiary Guarantor, denies or disaffirms such Subsidiary Guarantor’s obligations under its Note Guarantee.

If an Event of Default (other than an Event of Default specified in clause (7) above with respect to the Company) shall occur and be continuing, the Trustee or holders of at least 25% in principal amount of outstanding notes may declare the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the notes to

be immediately due and payable by notice in writing to the Company and the Trustee specifying the Event of Default and that it is a “notice of acceleration.” If an Event of Default specified in clause (7) above occurs with respect to the Company, then the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any holder of notes.

The Trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless either (i) an authorized officer of the Trustee with direct responsibility for the Indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the Trustee by the Company or any holder of notes.

At any time after a declaration of acceleration with respect to the notes as described in the preceding paragraph, holders of a majority in principal amount of the notes may rescind and cancel such declaration and its consequences:

- (1) if the rescission would not conflict with any judgment or decree;
- (2) if all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration;
- (3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and
- (4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its reasonable expenses, disbursements and advances.

No rescission will affect any subsequent Default or impair any rights relating thereto.

Holders of a majority in principal amount of the notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the holders of notes, unless such holders have offered to the Trustee reasonable indemnity. Subject to all provisions of the Indenture and applicable law, holders of a majority in aggregate principal amount of the then outstanding notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No holder of any notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless:

- (1) such holder gives to the Trustee written notice of a continuing Event of Default;
- (2) holders of at least 25% in principal amount of the then outstanding notes make a written request to pursue the remedy;
- (3) such holders of notes provide to the Trustee satisfactory indemnity;
- (4) the Trustee does not comply within 60 days; and
- (5) during such 60 day period holders of a majority in principal amount of the outstanding notes do not give the Trustee a written direction which, in the opinion of the Trustee, is inconsistent with the request;

*provided* that a holder of a note may institute suit for enforcement of payment of the principal of and premium, if any, or interest on such note on or after the respective due dates expressed in such note.

The Company is required to deliver to the Trustee written notice of any event which would constitute certain Defaults or Events of Default, their status and what action the Company is taking or proposes to take in respect thereof. In addition, the Company is required to deliver to the Trustee, within 105 days after the end of each fiscal year, an Officers' Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous fiscal year. The Indenture provides that if a Default or Event of Default occurs, is continuing and is actually known to a responsible officer of the Trustee, the Trustee must mail to each holder of notes notice of the Default or Event of Default within 90 days after the occurrence thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any note, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the holders of notes.

### **Legal Defeasance and Covenant Defeasance**

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding notes and all obligations of the Subsidiary Guarantors under the Note Guarantees discharged ("Legal Defeasance"). Such Legal Defeasance means that the Company will be deemed to have paid and discharged the entire indebtedness represented by the outstanding notes and Note Guarantees after the deposit specified in clause (1) of the second following paragraph, except for:

- (1) the rights of holders of notes to receive payments in respect of the principal of, premium, if any, and interest on the notes when such payments are due;
- (2) the Company's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the Trustee and the Company's and the Subsidiary Guarantors' obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have its obligations and the obligations of the Subsidiary Guarantors released with respect to certain covenants (including, without limitation, obligations to make Change of Control Offers, Asset Sale Offers, the obligations described under "—Certain Covenants" and the cross-acceleration provisions and judgment default provisions described under "—Events of Default") that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the notes or the Note Guarantees. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under "—Events of Default" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of notes cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, premium, if any, and interest (including Additional Amounts) on the notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;

- (2) in the case of Legal Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that:
- (a) the Company have received from, or there has been published by, the Internal Revenue Service a ruling; or
  - (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall state that, the holders of notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Company has delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) to the effect that the holders of notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) in the case of Legal Defeasance or Covenant Defeasance, the Company has delivered to the Trustee:
- (a) an Opinion of Counsel from counsel in Mexico reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that, based upon Mexican law then in effect, holders of notes will not recognize income, gain or loss for Mexican tax purposes, including withholding tax except for withholding tax then payable on interest payments due, as a result of Legal Defeasance or Covenant Defeasance, as the case may be, and will be subject to Mexican taxes on the same amounts and in the same manner and at the same time as would have been the case if such Legal Defeasance or Covenant Defeasance, as the case may be, had not occurred, or
  - (b) a ruling directed to the Trustee received from the tax authorities of Mexico to the same effect as the Opinion of Counsel described in clause (a) above;
- (5) no Default or Event of Default shall have occurred and be continuing on the date of the deposit pursuant to clause (1) of this paragraph (except any Default or Event of Default resulting from the failure to comply with “—Certain Covenants—Limitation on Indebtedness” as a result of the borrowing of the funds required to effect such deposit);
- (6) the Trustee has received an Officers’ Certificate stating that such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under the Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;
- (7) the Company has delivered to the Trustee an Officers’ Certificate stating that the deposit was not made by the Company with the intent of preferring holders of notes over any other creditors of the Company or any Subsidiary of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;
- (8) the Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel reasonably acceptable to the Trustee and independent of the Company, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with (subject to customary exceptions and exclusions); and

- (9) the Company has delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee and independent of the Company to the effect that the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally (subject to customary exceptions and exclusions).

### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the notes, as expressly provided for in the Indenture) as to all outstanding notes when:

- (1) either:
- (a) all the notes theretofor authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofor been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or
  - (b) all notes not theretofor delivered to the Trustee for cancellation have become due and payable, and the Company has irrevocably deposited or caused to be deposited with the Trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment to pay and discharge the entire Indebtedness on the notes not theretofor delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the notes to the date of deposit, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment;
- (2) the Company has paid all other sums payable under the Indenture and the notes by it; and
- (3) the Company has delivered to the Trustee an Officers' Certificate stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

### **Modification of the Indenture**

From time to time, the Company, the Subsidiary Guarantors and the Trustee, without the consent of the holders, may amend the Indenture, the notes or the Note Guarantees for certain specified purposes, including curing ambiguities, defects or inconsistencies, to provide for uncertificated notes in addition to or in place of certificated notes; to provide for the assumption of the Company's or a Subsidiary Guarantor's obligations to holders of notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Company's or such Subsidiary Guarantor's assets, as applicable, to the extent permitted under the Indenture; to make any change that would provide any additional rights or benefits to the holders or that does not adversely affect the legal rights under the Indenture of any such holder; to comply with requirements of the SEC in order to effect or maintain the qualification of the Indenture under the TIA; to conform the text of the Indenture, the Note Guarantees or the notes to any provision of this "Description of Notes" to the extent that such provision in this "Description of Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Note Guarantees or the notes; to allow any Subsidiary Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the notes and to release Subsidiary Guarantors from the Note Guarantee in accordance with the terms of the Indenture; to comply with the requirements of any applicable securities depository; to provide for a successor Trustee in accordance with the terms of the Indenture, to otherwise comply with any requirement of the Indenture; to issue additional notes, and make any other changes which do not adversely affect the rights of any of the holders in any material respect. The Trustee will be entitled to rely on such evidence as it deems appropriate, including on an Opinion of Counsel and Officers' Certificate, and shall have no liability whatsoever in reliance upon the foregoing. Other modifications and amendments of the Indenture or the notes may be made with the consent of the holders of a majority in principal amount of the then outstanding notes issued under the Indenture, except that, without the consent of each holder affected thereby, no amendment may (with respect to any notes held by a non-consenting holder):

- (1) reduce the amount of notes whose holders must consent to an amendment or waiver;
- (2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any notes;
- (3) reduce the principal of or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption, or reduce the redemption price therefor;
- (4) make any notes payable in money other than that stated in the notes;
- (5) make any change in provisions of the Indenture entitling each holder of notes to receive payment of principal of, premium, if any, and interest on such note on or after the due date thereof or to bring suit to enforce such payment, or permitting holders of a majority in principal amount of notes to waive Defaults or Events of Default;
- (6) amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in respect of a Change of Control that has occurred or make and consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;
- (7) eliminate or modify in any manner a Subsidiary Guarantor's obligations with respect to its Note Guarantee which adversely affects holders of notes in any material respect, except as contemplated in the Indenture;
- (8) make any change in the provisions of the Indenture described under "—Additional Amounts" that adversely affects the rights of any holder or amend the terms of the notes in a way that would result in a loss of exemption from Taxes; and
- (9) make any change to the provisions of the Indenture or the notes that adversely affect the ranking of the notes.

#### **Litigation; Governing Law; Jurisdiction**

The Indenture and the notes will be governed by, and construed in accordance with, the law of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. Each of the parties to the Indenture consent to the exclusive jurisdiction of the Federal and State courts located in the City of New York, Borough of Manhattan, waive to the fullest extent permitted by law its right to bring action in any other jurisdiction that may apply by virtue of its present or future domicile or for any other reason, and to any objection which it may now or hereafter have to the laying of venue of any suit or proceeding arising out of or relating to the Indenture or the transactions contemplated thereby. Each of the Company and the Subsidiary Guarantors have appointed an agent for service of process with respect to any actions brought in these courts arising out of or based on the Indenture or the notes.

#### **The Trustee**

Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Indenture and the provisions of the TIA contain certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. Subject to the TIA, the Trustee will be permitted to engage in other transactions; *provided*, that if the Trustee acquires any conflicting interest as described in the TIA, it must eliminate such conflict or resign.

## **No Personal Liability**

An incorporator, director, officer, employee, stockholder or controlling person, as such, of the Company or any Subsidiary Guarantor shall not have any liability for any obligations of the Company or such Subsidiary Guarantor under the notes (including the Note Guarantees) or the Indenture or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a note, each holder waives and releases all such liability.

## **Currency Indemnity**

The Company and each Subsidiary Guarantor will pay all sums payable under the Indenture or the notes solely in U.S. Dollars. Any amount that you receive or recover in a currency other than U.S. Dollars in respect of any sum expressed to be due to you from the Company or any Subsidiary Guarantor will only constitute a discharge to us to the extent of the U.S. Dollar amount which you are able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that date, on the first date on which you are able to do so. If the U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due to you under any note, to the extent permissible under applicable law, the Company and the Subsidiary Guarantors will jointly and severally indemnify you against any loss you sustain as a result. In any event, the Company and the Subsidiary Guarantors will jointly and severally indemnify you against the cost of making any purchase of U.S. Dollars. For the purposes of this paragraph, it will be sufficient for you to certify in a satisfactory manner that you would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which you were able to do so. In addition, you will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Company and the Subsidiary Guarantors;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any holder of notes; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

## **Certain Definitions**

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for a full definition of all such terms, as well as any other terms used herein for which no definition is provided.

*“Acquired Indebtedness”* means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or any of its Restricted Subsidiaries or is assumed in connection with the acquisition of assets from such Person. Such Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

*“Additional Amounts”* has the meaning set forth under “—Additional Amounts” above.

*“additional notes”* has the meaning set forth under “—Additional Notes” above.

*“Affiliate”* means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person.



The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“*Asset Acquisition*” means:

- (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person will become a Restricted Subsidiary, or will be merged with or into the Company or any Restricted Subsidiary;
- (2) the acquisition by the Company or any Restricted Subsidiary of the assets of any Person (other than a Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business; or
- (3) any Revocation with respect to an Unrestricted Subsidiary.

“*Asset Sale*” means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease, assignment or other transfer, including a Sale and Leaseback Transaction (each, a “disposition”) by the Company or any Restricted Subsidiary of:

- (a) any Capital Stock other than Capital Stock of the Company; or
- (b) any property or assets (other than cash, Cash Equivalents or Capital Stock) of the Company or any Restricted Subsidiary;

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

- (1) the disposition of all or substantially all of the assets of the Company and its Restricted Subsidiaries as permitted under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets”;
- (2) a disposition of inventory or damaged, worn-out, obsolete or no longer useful assets or properties in the ordinary course of business;
- (3) a disposition of assets of the Company or any Restricted Subsidiary or Capital Stock of any Restricted Subsidiary that is not a Bank Regulated Subsidiary in any transaction or series of related transactions with an aggregate Fair Market Value not to exceed U.S.\$10.0 million in any fiscal year;
- (4) for purposes of “—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock” only, the making of Restricted Payments or Permitted Investments permitted under “—Certain Covenants—Limitation on Restricted Payments”;
- (5) a disposition to the Company or a Restricted Subsidiary, including a Person that is or will become a Restricted Subsidiary immediately after the disposition; *provided* that, this clause (5) applies only to a disposition by the Company to a Wholly Owned Subsidiary and by a Restricted Subsidiary to another Restricted Subsidiary of which the Company owns, directly or indirectly, an equal or greater percentage of the Common Stock of the transferee than the transferor; *provided, however*, that, in the case of a Wholly Owned Subsidiary or a Restricted Subsidiary not organized in the United States, any differences in the percentages of the Company’s direct or indirect ownership of the Common Stock of the transferor and the transferee shall be disregarded for purposes of the foregoing where such differences arise solely due to an immaterial amount of shares of Capital Stock of such transferor or transferee owned by other Persons as required pursuant to applicable law;

- (6) a disposition of accounts receivable in connection with a Receivables Transaction for Fair Market Value thereof;
- (7) a disposition of assets received by the Company or any of its Restricted Subsidiaries upon the foreclosure on a Lien in the ordinary course of business; and
- (8) the creation of a Lien permitted under the Indenture (other than a deemed Lien in connection with a Sale and Leaseback Transaction).

“*Asset Sale Offer*” has the meaning set forth under “—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock.”

“*Asset Sale Transaction*” means any Asset Sale and, whether or not constituting an Asset Sale, (1) any sale or other disposition of Capital Stock, (2) any Designation with respect to an Unrestricted Subsidiary and (3) any sale or other disposition of property or assets excluded from the definition of Asset Sale by clause (1) of that definition.

“*Bank Regulated Subsidiary*” means any direct or indirect subsidiary of the Company that is subject to Mexican Law of Credit Institutions (*Ley de Instituciones de Crédito*), the General Provisions Applicable to Credit Institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) published on December 2, 2005, as amended from time to time, and other rules and regulations issued from time to time by the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*), Mexican National Banking and Securities (*Comisión Nacional Bancaria y de Valores*), and the Institute for the Protection of Bank Savings (*Instituto de Protección al Ahorro Bancario*) (collectively, the “Mexican Banking Regulators”), and is authorized to conduct banking activities as an *institución de banca múltiple* and regulated by the Mexican Banking Regulators. As of the Issue Date, Banco Ahorro Famsa, S.A., Institución de Banca Múltiple, is a Bank Regulated Subsidiary.

“*Board of Directors*” means, as to any Person, the board of directors, management committee or similar governing body of such Person or any duly authorized committee thereof.

“*Board Resolution*” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“*Business Day*” means a day other than a Saturday, Sunday or other day on which commercial banking institutions are authorized or required by law to close in New York City or Mexico.

“*Capitalized Lease Obligations*” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

“*Capital Stock*” means:

- (1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person;
- (2) with respect to any Person that is not a corporation, any and all partnership or other equity or ownership interests of such Person; and
- (3) any warrants, rights or options to purchase any of the instruments or interests referred to in clause (1) or (2) above.

“*Cash Equivalents*” means:

- (1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof;
- (2) *Certificados de la Tesoreria de la Federación* (Cetes) or *Bonos de Desarrollo del Gobierno Federal* (Bondes), in each case, issued by the government of Mexico and maturing not later than one year after the acquisition thereof;
- (3) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Fitch or any successor thereto;
- (4) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least F-1 from Fitch;
- (5) demand deposits, certificates of deposit, time deposits or bankers' acceptances maturing within one year from the date of acquisition thereof issued by (a) any bank organized under the laws of the United States of America or any state thereof or the District of Columbia, (b) any U.S. branch of a non-U.S. bank having at the date of acquisition thereof combined capital and surplus of not less than U.S.\$500 million, or (c) in the case of Mexican peso deposits, any of the five top-rated banks (as evaluated by an internationally recognized rating agency) organized under the laws of Mexico;
- (6) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (5) above; and
- (7) investments in money market funds which invest substantially all of their assets in securities of the types described in clauses (1) through (6) above.

“*Change of Control*” means the occurrence of one or more of the following events:

- (1) any Person or Group other than the Permitted Holders is or becomes the beneficial owner (as defined below), directly or indirectly, in the aggregate of more than 50% of the total voting power of the Voting Stock of the Company (including a Surviving Entity, if applicable);
- (2) the Company consolidates with, or merges with or into, another Person, or the Company sells, conveys, assigns, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, determined on a consolidated basis, to any Person, other than a transaction where the Person or Persons that, immediately prior to such transaction “beneficially owned” the outstanding Voting Stock of the Company are, by virtue of such prior ownership, the “beneficial owners” in the aggregate of a majority of the total voting power of the then outstanding Voting Stock of the surviving or transferee person (or if such surviving or transferee Person is a direct or indirect wholly-owned subsidiary of another Person, such Person who is the ultimate parent entity), in each case whether or not such transaction is otherwise in compliance with the Indenture; or
- (3) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company, whether or not otherwise in compliance with the provisions of the Indenture.

For purposes of this definition:

- (a) “beneficial owner” will have the meaning specified in Rules 13d-3 and 13d-5 under the Exchange Act, except that any Person or Group will be deemed to have “beneficial ownership” of all

securities that such Person or Group has the right to acquire, whether such right is exercisable immediately, only after the passage of time or, except in the case of the Permitted Holders, upon the occurrence of a subsequent condition;

- (b) “Person” and “Group” will have the meanings for “person” and “group” as used in Sections 13(d) and 14(d) of the Exchange Act; and
- (c) the Permitted Holders or any other Person or Group will be deemed to beneficially own any Voting Stock of a Person held by any other Person (the “parent entity”) so long as the Permitted Holders or such other Person or Group, as the case may be, beneficially own, directly or indirectly, in the aggregate at least 50% of the voting power of the Voting Stock of the parent entity and no other Person or Group beneficially owns an equal or greater amount of the Voting Stock of the parent entity.

“*Change of Control Payment*” has the meaning set forth under “Change of Control.”

“*Change of Control Payment Date*” has the meaning set forth under “Change of Control.”

“*Common Stock*” of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

“*Consolidated EBITDA*” means, for any Person for any period, Consolidated Net Income for such Person for such period, plus the following, without duplication, to the extent deducted or added in calculating such Consolidated Net Income:

- (1) Consolidated Income Tax Expense for such Person for such period;
- (2) Consolidated Interest Expense for such Person for such period;
- (3) Consolidated Non-cash Charges for such Person for such period;
- (4) net after-tax losses from Asset Sale Transactions or abandonments or reserves relating thereto for such period; and
- (5) any income or loss from discontinued operations;

*less* (x) all non-cash credits and gains increasing Consolidated Net Income for such Person for such period, other than any items which represent the reversal in such period of any accrual of, or cash reserve for, anticipated charges in any prior period where such accrual or reserve is no longer required under GAAP and (y) all cash payments made by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period relating to non-cash charges that were added back in determining Consolidated EBITDA in any prior period.

Notwithstanding the foregoing, the items specified in clauses (1) and (3) above for any Subsidiary (Restricted Subsidiary in the case of the Company) will be added to Consolidated Net Income in calculating Consolidated EBITDA for any period:

- (a) in proportion to the percentage of the total Capital Stock of such Subsidiary (Restricted Subsidiary in the case of the Company) held directly or indirectly by such Person at the date of determination, and
- (b) to the extent that a corresponding amount would be permitted at the date of determination to be distributed to such Person by such Subsidiary (Restricted Subsidiary in the case of the Company) pursuant to its charter and bylaws and each law, regulation, agreement or judgment applicable to such distribution (including, in the case of Bank Regulated Subsidiary, any restrictions on

distributions with respect to applicable minimum capital requirements imposed by the Mexican Banking Regulators).

“*Consolidated Income Tax Expense*” means, with respect to any Person for any period, the provision for U.S. federal, state, local and non-U.S. income taxes payable by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period as determined on a consolidated basis in accordance with GAAP.

“*Consolidated Interest Expense*” means, for any Person for any period, the sum of, without duplication determined on a consolidated basis in accordance with GAAP:

- (1) the aggregate of cash and non-cash interest expense of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period determined on a consolidated basis in accordance with GAAP, including, without limitation (whether or not interest expense in accordance with GAAP):
  - (a) any amortization or accretion of debt discount or any interest paid on Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) in the form of additional Indebtedness,
  - (b) any amortization of deferred financing costs,
  - (c) the net costs under Hedging Obligations (including amortization of fees),
  - (d) all capitalized interest,
  - (e) the interest portion of any deferred payment obligation,
  - (f) commissions, discounts and other fees and charges Incurred in respect of letters of credit or bankers’ acceptances, and
  - (g) any interest expense paid in respect of Indebtedness of another Person that is Guaranteed by such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company) or secured by a Lien on the assets of such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company); and
- (2) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period.

“*Consolidated Leverage Ratio*” means, for any Person as of any date of determination, the ratio of the aggregate amount of Consolidated Total Indebtedness of such Person as of such date to Consolidated EBITDA of such Person for the four most recent full fiscal quarters for which financial statements are available ending prior to the date of such determination (the “Four Quarter Period”). For purposes of this definition, “Consolidated Total Indebtedness” and “Consolidated EBITDA” will be calculated after giving effect on a pro forma basis for the period of such calculation to:

- (1) the Incurrence, repayment or redemption of any Indebtedness (including Acquired Indebtedness) of such Person or any of its Subsidiaries (Restricted Subsidiaries, in the case of the Company), and the application of the proceeds thereof, including the Incurrence of any Indebtedness (including Acquired Indebtedness), and the application of the proceeds thereof, giving rise to the need to make such determination, occurring during such Four Quarter Period or at any time subsequent to the last day of such Four Quarter Period and on or prior to such date of determination, to the extent such Indebtedness is outstanding on the date of determination, as if such Incurrence, and the application of the proceeds thereof, repayment or redemption occurred on the first day of such Four Quarter Period; and

- (2) any Asset Sale Transaction or Asset Acquisition by such Person or any of its Subsidiaries (Restricted Subsidiaries, in the case of the Company), including any Asset Sale Transaction or Asset Acquisition giving rise to the need to make such determination, occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to such date of determination, as if such Asset Sale Transaction or Asset Acquisition occurred on the first day of the Four Quarter Period.

Furthermore, the amount of Indebtedness under any revolving credit facility will be computed based on:

- (a) the average daily balance of such Indebtedness during such Four Quarter Period, or
- (b) if such facility was created after the end of such Four Quarter Period, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation,

in each case giving pro forma effect to any borrowings related to any transaction referred to in clause (2) above. For the avoidance of doubt, this paragraph shall not apply to any amount repaid under a revolving credit facility to the extent commitments thereunder are permanently reduced by such amount repaid, and shall be given effect on a pro forma basis pursuant to clause (1) above.

“*Consolidated Net Income*” means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries (after deducting (or adding) the portion of such net income (or loss) attributable to minority interests in Subsidiaries of such Person) for such period on a consolidated basis, determined in accordance with GAAP; *provided*, that there shall be excluded therefrom to the extent reflected in such aggregate net income (loss):

- (1) net after-tax gains or losses from Asset Sale Transactions or abandonments or reserves relating thereto;
- (2) net after-tax items classified as extraordinary gains or losses;
- (3) the net income (but not loss) of any Person, other than such Person and any Subsidiary of such Person (Restricted Subsidiary in the case of the Company); except that, solely for purposes of calculating Consolidated Net Income pursuant to clause (3) of the first paragraph of “—Certain Covenants—Limitation on Restricted Payments” only, Consolidated Net Income of the Company will include the Company’s proportionate share of the net income of:
  - (a) any Person acquired in a “pooling of interests” transaction accrued prior to the date it becomes a Restricted Subsidiary or is merged or consolidated with the Company or any Restricted Subsidiary; or
  - (b) a Surviving Entity prior to assuming the Company’s obligations under the Indenture and the notes pursuant to “—Certain Covenants—Limitation on Merger, Consolidation and Sales of Assets”;
- (4) the net income (but not loss) of any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) to the extent that a corresponding amount could not be distributed to such Person at the date of determination as a result of any restriction pursuant to the constituent documents of such Subsidiary (Restricted Subsidiary in the case of the Company) or any law, regulation, agreement or judgment applicable to any such distribution (including, in the case of Bank Regulated Subsidiary, any restrictions on distributions with respect to applicable minimum capital requirements imposed by the Mexican Banking Regulators);
- (5) any increase (but not decrease) in net income attributable to minority interests in any Subsidiary (Restricted Subsidiary in the case of the Company);

- (6) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time following the Issue Date;
- (7) any gain (or loss) from foreign exchange translation or change in net monetary position; and
- (8) the cumulative effect of changes in accounting principles.

“*Consolidated Non-cash Charges*” means, for any Person for any period, the aggregate depreciation, amortization and other non-cash expenses or losses of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period, determined on a consolidated basis in accordance with GAAP (excluding any such charge which constitutes an accrual of or a reserve for cash charges for any future period or the amortization of a prepaid cash expense paid in a prior period).

“*Consolidated Total Indebtedness*” means, for any Person as of any date of determination, an amount equal to the sum of the aggregate amount (without duplication) of all Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) outstanding at such time, determined on a consolidated basis in accordance with GAAP.

“*Consolidated Tangible Assets*” means, for any Person at any time, the total consolidated assets of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) as set forth on the balance sheet as of the most recent fiscal quarter of such Person, prepared in accordance with GAAP, less (i) Intangible Assets and (ii) any assets securing Non-Recourse Indebtedness.

“*Covenant Defeasance*” has the meaning set forth under “Legal Defeasance and Covenant Defeasance.”

“*Credit Facilities*” means one or more debt facilities, commercial paper facilities or Debt Issuances, in each case with banks, investment banks, insurance companies, mutual funds and/or other institutional lenders or institutional investors providing for revolving credit loans, term loans, letters of credit or Debt Issuances, in each case, as amended, extended, renewed, restated, Refinanced (including, Refinancing with Debt Issuances), supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time.

“*Currency Agreement*” means, in respect of any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed to hedge foreign currency risk of such Person.

“*Debt Issuances*” means, with respect to the Company or any Restricted Subsidiary, one or more issuances after the Issue Date of Indebtedness evidenced by notes, debentures, bonds or other similar securities or instruments.

“*Default*” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“*Deposits*” means any deposits received from customers of a Bank Regulated Subsidiary, including without limitation, those made through or documented by certificates of deposit, short-term deposits, investments, bank notes (pagarés bancarios) and similar instruments.

“*Designation*” and “*Designation Amount*” have the meanings set forth under “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries” above.

“*Disqualified Capital Stock*” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, on or prior to the final maturity date of the notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock

upon the occurrence of an “asset sale” or “change of control” occurring prior to the final maturity of the notes shall not constitute Disqualified Stock if:

- (1) the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the terms applicable to the notes and described under “—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock” and “—Change of Control”; and
- (2) any such requirement only becomes operative after compliance with such terms applicable to the notes, including the purchase of any notes tendered pursuant thereto.

The amount of any Disqualified Capital Stock shall be equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any. The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided, however*, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

“*Equity Offering*” has the meaning set forth under “Optional Redemption.”

“*Event of Default*” has the meaning set forth under “Events of Default.”

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“*Fair Market Value*” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) which could be negotiated in an arm’s-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction; *provided*, that the Fair Market Value of any such asset or assets will be determined conclusively by the Board of Directors of the Company acting in good faith, and will be evidenced by a Board Resolution.

“*Fitch*” means Fitch Ratings and any successor to its rating agency business.

“*Four Quarter Period*” has the meaning set forth in the definition of Consolidated Leverage Ratio above.

“*GAAP*” means generally accepted accounting principles in Mexico that are in effect as of the Issue Date.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

- (1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or
- (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part,

*provided*, that “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business. “Guarantee” used as a verb has a corresponding meaning.

“*Hedging Obligations*” means the obligations of any Person pursuant to any Interest Rate Agreement or Currency Agreement.



“*Incur*” means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person (and “Incurrence,” “Incurred” and “Incurring” will have meanings correlative to the preceding).

“*Indebtedness*” means with respect to any Person, without duplication:

- (1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money (excluding, for the avoidance of doubt, any Deposits);
- (2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;
- (4) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 180 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted);
- (5) all letters of credit, banker’s acceptances or similar credit transactions, including reimbursement obligations in respect thereof;
- (6) Guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (5) above and clauses (8) through (10) below;
- (7) all Indebtedness of any other Person of the type referred to in clauses (1) through (6) which is secured by any Lien on any property or asset of such Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset or the amount of the Indebtedness so secured;
- (8) all obligations under Hedging Obligations of such Person;
- (9) all liabilities recorded on the balance sheet of such Person in connection with a sale or other disposition of accounts receivables and related assets;
- (10) all Disqualified Capital Stock issued by such Person; and
- (11) to the extent not otherwise included in this definition, the Receivables Transaction Amount outstanding relating to any Receivables Transaction.

“*Independent Financial Advisor*” means an accounting firm, appraisal firm, investment banking firm or consultant of internationally recognized standing that is, in the judgment of the Company’s Board of Directors, qualified to perform the task for which it has been engaged and which is independent in connection with the relevant transaction.

“*Intangible Assets*” means with respect to any Person all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights and all other items which would be treated as intangibles on the consolidated balance sheet of such Person prepared in accordance with GAAP.

“*Interest Rate Agreement*” of any Person means any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge interest rate risk of such Person.

“*Investment*” means, with respect to any Person, any:

- (1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee) to any other Person,
- (2) capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) other Person, or
- (3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person.

“Investment” will exclude accounts receivable or deposits arising in the ordinary course of business. “Invest,” “Investing” and “Invested” will have corresponding meanings.

For purposes of the “Limitation on Restricted Payments” covenant, the Company will be deemed to have made an “Investment” in an Unrestricted Subsidiary at the time of its Designation, which will be valued at the Fair Market Value of the sum of the net assets of such Unrestricted Subsidiary at the time of its Designation and the amount of any Indebtedness of such Unrestricted Subsidiary or owed to the Company or any Restricted Subsidiary immediately following such Designation. Any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer. If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Company or any Restricted Subsidiary or owed to the Company or any other Restricted Subsidiary immediately following such sale or other disposition.

“*Investment Grade Rating*” means a rating equal to or higher than (i) BBB- (or the equivalent) by S&P and (ii) BBB- (or the equivalent) by Fitch, or, if either such entity ceases to rate the notes for reasons outside of the control of the Company, the equivalent investment grade credit rating by any other Rating Agency.

“*Investment Return*” means, in respect of any Investment (other than a Permitted Investment) made after the Issue Date by the Company or any Restricted Subsidiary:

- (1) the cash proceeds received by the Company or any Restricted Subsidiary upon the sale, liquidation or repayment of such Investment or, in the case of a Guarantee, the amount of the Guarantee upon the unconditional release of the Company and its Restricted Subsidiaries in full, less any payments previously made by the Company or any Restricted Subsidiary in respect of such Guarantee;
- (2) in the case of the Revocation of the Designation of an Unrestricted Subsidiary, an amount equal to the lesser of:
  - (a) the Company’s Investment in such Unrestricted Subsidiary at the time of such Revocation;
  - (b) that portion of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time of Revocation that is proportionate to the Company’s equity interest in such Unrestricted Subsidiary at the time of Revocation; and
  - (c) the Designation Amount with respect to such Unrestricted Subsidiary upon its Designation which was treated as a Restricted Payment; and
- (3) in the event the Company or any Restricted Subsidiary makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, the existing Investment of the Company and its Restricted Subsidiaries in such Person,

in the case of each of (1), (2) and (3), up to the amount of such Investment that was treated as a Restricted Payment under “—Certain Covenants—Limitation on Restricted Payments” less the amount of any previous Investment Return in respect of such Investment.

“*Issue Date*” means the first date of issuance of notes under the Indenture.

“*Legal Defeasance*” has the meaning set forth under “Legal Defeasance and Covenant Defeasance.”

“*Lien*” means any lien, mortgage, deed of trust, pledge, security trust (*Fidecomiso de Garantías*), security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder.

“*Mexican Banking Regulators*” has the meaning set forth in the definition of “Bank Regulated Subsidiary.”

“*Net Cash Proceeds*” means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries from such Asset Sale, net of:

- (1) reasonable out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);
- (2) taxes paid or payable in respect of such Asset Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;
- (3) repayment of Indebtedness secured by a Lien permitted under the Indenture that is required to be repaid in connection with such Asset Sale; and
- (4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness.

“*Non-Recourse Indebtedness*” with respect to any Person means Indebtedness of such Person for which (1) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 365 days after the acquisition or construction of such property and (2) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness.

“*Note Guarantee*” means any guarantee of the Company’s Obligations under the notes and the Indenture provided by a Restricted Subsidiary pursuant to the Indenture.

“*Obligations*” means, with respect to any Indebtedness, any principal, interest (including, without limitation, Post-Petition Interest), penalties, fees, indemnifications, reimbursements, damages, and other liabilities payable under the documentation governing such Indebtedness, including in the case of the notes and the Note Guarantees, the Indenture.

“*Opinion of Counsel*” means a written opinion of counsel, who may be an employee of or counsel for the Company (except as otherwise provided in the Indenture) and which opinion shall be reasonably acceptable to the Trustee.

*“Permitted Acquisition Indebtedness”* means Indebtedness of the Company or any of its Restricted Subsidiaries to the extent such Indebtedness was Indebtedness of (i) a Subsidiary prior to the date on which such Subsidiary became a Restricted Subsidiary or (ii) a Person that was merged or amalgamated into the Company or a Restricted Subsidiary, *provided* that on the date such Subsidiary became a Restricted Subsidiary or the date such Person was merged and amalgamated into the Company or a Restricted Subsidiary, as applicable, after giving pro forma effect thereto, (a) the Company, would be permitted to incur at least U.S.\$1.00 of additional Indebtedness pursuant to paragraph (1) under *“—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,”* or (b) the Consolidated Leverage Ratio of the Company and the Restricted Subsidiaries would be less than the Consolidated Leverage Ratio immediately prior to such transaction.

*“Permitted Business”* means the business or businesses conducted by the Company and its Restricted Subsidiaries as of the Issue Date and any business ancillary or complementary thereto.

*“Permitted Holders”* means (i) Mr. Humberto Garza González and any member of the Board of Directors of the Company on the Issue Date, (ii) a parent, brother or sister of any of the individuals named in clause (i), (iii) the spouse or a former spouse of any individual named in clause (i) or (ii), (iv) the lineal descendants of any person named in clauses (i) through (iii) and the spouse or a former spouse of any such lineal descendant, (v) the estate or any guardian, custodian or other legal representative of any individual named in clauses (i) through (iv), (vi) Fidecomiso No. F/007 (Trust No. F/007) and Fidecomiso No. F/715 (Trust No. F/715) with Deutsche Bank Mexico, S.A., Institución de Banca Múltiple, División Fiduciaria, as trustee, and any trust established primarily for the benefit of any one or more of the individuals named in clauses (i) through (v), and (vii) any Person in which all of the equity interests are owned, directly or indirectly, by any one or more of the Persons named in clauses (i) through (vi).

*“Permitted Indebtedness”* has the meaning set forth under clause (2) of *“—Certain Covenants—Limitation on Incurrence of Additional Indebtedness.”*

*“Permitted Investments”* means:

- (1) Investments by the Company or any Restricted Subsidiary in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary or constituting a merger or consolidation of such Person into the Company or with or into a Restricted Subsidiary, except for a Guarantee of Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor;
- (2) Investments by any Restricted Subsidiary in the Company;
- (3) Investments in cash and Cash Equivalents;
- (4) any extension, modification or renewal of any Investments existing as of the Issue Date (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof, other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind pursuant to the terms of such Investment as of the Issue Date);
- (5) Investments permitted pursuant to clause (2)(b) or (e) of *“—Certain Covenants—Limitation on Transactions with Affiliates”*;
- (6) Investments received as a result of the bankruptcy or reorganization of any Person or taken in settlement of or other resolution of claims or disputes, and, in each case, extensions, modifications and renewals thereof;
- (7) Investments made by the Company or its Restricted Subsidiaries as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under *“—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock”*;

- (8) Investments in the form of Hedging Obligations permitted under clause (2)(e) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness;”
- (9) Investments in a Person engaged in a Permitted Business not to exceed 3.0% of Consolidated Tangible Assets of the Company and its Restricted Subsidiaries at any one time outstanding;
- (10) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (11) payroll, travel, entertainment, relocation and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (12) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary;
- (13) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers’ compensation, performance and other similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary; and
- (14) Investments in a Receivables Entity in connection with a Receivables Transaction; *provided* that such Investment in any such Person is in the form of any equity interest or interests in receivables and related assets generated by the Company or any Restricted Subsidiary and transferred to such Person in connection with a Receivables Transaction.

“*Permitted Liens*” means any of the following:

- (1) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;
- (2) Liens Incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);
- (3) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person’s obligations in respect of bankers’ acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (4) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;
- (5) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or a Restricted Subsidiary, including rights of offset and set-off;

- (6) Liens securing Hedging Obligations that relate to Indebtedness that is Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” and that are secured by the same assets as secure such Hedging Obligations;
- (7) Liens existing on the Issue Date and Liens to secure any Refinancing Indebtedness which is Incurred to Refinance any Indebtedness below which has been secured by a Lien permitted under the covenant described under “—Certain Covenants—Limitation on Liens” not Incurred pursuant to clause (10), (11) or (12) and which Indebtedness has been Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”; *provided*, that such new Liens:
  - (a) are no less favorable to the holders of notes and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced and
  - (b) do not extend to any property or assets other than the property or assets securing the Indebtedness Refinanced by such Refinancing Indebtedness;
- (8) Liens securing Indebtedness under the Credit Facilities (or Guarantees thereof) in an aggregate principal amount outstanding at any one time not to exceed the greater of (x) U.S.\$50.0 million or (y) 2.5% of Consolidated Tangible Assets of the Company and its Restricted Subsidiaries;
- (9) Liens securing Acquired Indebtedness Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; *provided*, that
  - (a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and
  - (b) such Liens do not extend to or cover any property of the Company or any Restricted Subsidiary other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Restricted Subsidiary and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary;
- (10) purchase money Liens securing Purchase Money Indebtedness or Capitalized Lease Obligations Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”; *provided*, that:
  - (a) the related Purchase Money Indebtedness does not exceed the cost of such property and shall not be secured by any property of the Company or any Restricted Subsidiary other than the property so acquired, and
  - (b) the Lien securing such Indebtedness will be created within 90 days of such acquisition;
- (11) Liens securing Indebtedness Incurred by a Bank Regulated Subsidiary pursuant to clause (m) of paragraph (2) under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”;
- (12) Liens securing an amount of Indebtedness (including all Refinancing thereof) outstanding at any one time not to exceed U.S.\$30.0 million;

- (13) any pledge or deposit of cash or property in conjunction with obtaining surety and performance bonds and letters of credit required to engage in constructing on-site and off-site improvements required by municipalities or other governmental authorities in the ordinary course of business;
- (14) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;
- (15) Liens encumbering customary initial deposits and margin deposits, and other Liens that are customary in the industry and incurred in the ordinary course of business securing Indebtedness under Hedging Obligations and forward contracts, options, futures contracts, futures options or similar agreements or arrangement designed to protect the Company and its Restricted Subsidiaries from fluctuations in the price of commodities;
- (16) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;
- (17) licenses of intellectual property in the ordinary course of business;
- (18) Liens to secure a defeasance trust;
- (19) easements, rights of way zoning and similar restrictions, reservations, restrictions or encumbrances in respect of real property or title defects that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties (as such properties are used by the Company or its Restricted Subsidiaries) or materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;
- (20) Liens arising from precautionary Uniform Commercial Code financing statement filings regarding operating leases entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business;
- (21) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings that may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such legal proceedings may be initiated shall not have expired;
- (22) Liens on Capital Stock of an Unrestricted Subsidiary that secure Indebtedness or other obligations of such Unrestricted Subsidiary; or
- (23) Liens on accounts receivable or related assets incurred in connection with a Receivables Transaction.

“*Person*” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“*Post-Petition Interest*” means all interest accrued or accruing after the commencement of any insolvency or liquidation proceeding (and interest that would accrue but for the commencement of any insolvency or liquidation proceeding) in accordance with and at the contract rate (including, without limitation, any rate applicable upon default) specified in the agreement or instrument creating, evidencing or governing any Indebtedness, whether or not, pursuant to applicable law or otherwise, the claim for such interest is allowed as a claim in such insolvency or liquidation proceeding.

“*Preferred Stock*” of any Person means any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

*“Purchase Money Indebtedness”* means Indebtedness Incurred for the purpose of financing all or any part of the purchase price, or other cost of construction or improvement of any property (other than Capital Stock); *provided*, that the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property or such purchase price or cost, including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of Refinancing.

*“Qualified Capital Stock”* means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

*“Rating Agencies”* means S&P and Fitch or, if S&P or Fitch or both shall not make a rating publicly available on the notes, or, in the case of the definition of “Cash Equivalents,” the relevant security, a nationally recognized United States securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Fitch or both, as the case may be.

*“Receivables Entity”* means a Person in which the Company or any Restricted Subsidiary makes an Investment and:

- (1) to which the Company or any Restricted Subsidiary transfers receivables and related assets in connection with a Receivables Transaction;
- (2) which engages in no activities other than in connection with the Receivables Transaction;
- (3) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:
  - (a) is guaranteed by the Company or any Restricted Subsidiary (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings);
  - (b) is recourse to or obligates the Company or any Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings; or
  - (c) subjects any property or asset of the Company or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;
- (4) with which neither the Company nor any Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Receivables Transaction) other than on terms no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company, other than fees payable in the ordinary course of business in connection with servicing receivables; and
- (5) to which neither the Company nor any Restricted Subsidiary has any obligation to maintain or preserve such entity’s financial condition or cause such entity to achieve certain levels of operating results.

*“Receivables Transaction”* means any securitization, factoring, discounting or similar financing transaction or series of transactions that may be entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business pursuant to which the Company or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to any Person (including a Receivables Entity), or may grant a security interest in, any receivables (whether now existing or arising in the future) of the Company or any of its Restricted Subsidiaries, and any assets related thereto, including all collateral securing such receivables, all contracts and all guarantees or other obligations in respect of such receivables, the proceeds of such receivables and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with securitization, factoring or discounting involving receivables.



*“Receivables Transaction Amount”* means the amount of obligations outstanding under the legal documents entered into as part of a Receivables Transaction on any date of determination that would be characterized as principal if such Receivables Transaction were structured as a secured lending transaction rather than a purchase.

*“Refinance”* means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part. “Refinanced” and “Refinancing” will have correlative meanings.

*“Refinancing Indebtedness”* means Indebtedness of the Company or any Restricted Subsidiary issued to Refinance any other Indebtedness of the Company or a Restricted Subsidiary so long as:

- (1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable expenses incurred by the Company in connection with such Refinancing);
- (2) such new Indebtedness has:
  - (a) a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced, and
  - (b) a final maturity that is equal to or later than the final maturity of the Indebtedness being Refinanced; and
- (3) if the Indebtedness being Refinanced is:
  - (a) Indebtedness of the Company, then such Refinancing Indebtedness will be Indebtedness of the Company,
  - (b) Indebtedness of a Subsidiary Guarantor, then such Refinancing Indebtedness will be Indebtedness of the Company and/or such Subsidiary Guarantor, and
  - (c) Subordinated Indebtedness, then such Refinancing Indebtedness shall be subordinate to the notes or the relevant Note Guarantee, if applicable, at least to the same extent and in the same manner as the Indebtedness being Refinanced.

*“Representative”* means any trustee, agent or representative (if any) for an issue of Senior Indebtedness of the Company.

*“Restricted Payment”* has the meaning set forth under “—Certain Covenants—Limitation on Restricted Payments.”

*“Restricted Subsidiary”* means any Subsidiary of the Company which at the time of determination is not an Unrestricted Subsidiary.

*“Revocation”* has the meaning set forth under “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries.”

*“S&P”* means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., and any successor to its rating agency business.

*“Sale and Leaseback Transaction”* means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or

is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such Property.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute or statutes thereto.

“*Senior Indebtedness*” means the notes and the Note Guarantees and any other Indebtedness of the Company or any Subsidiary Guarantor that ranks equal in right of payment with the notes or the relevant Note Guarantee, as the case may be.

“*Shareholder Loan*” means one or more loans by Mr. Humberto Garza González, the controlling shareholder, to the Company, as amended, extended, renewed, restated, Refinanced, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time.

“*Significant Subsidiary*” means a Subsidiary of the Company constituting a “Significant Subsidiary” of the Company in accordance with Rule 1-02(w) of Regulation S-X under the Securities Act in effect on the date hereof.

“*Standard Securitization Undertakings*” means representations, warranties, covenants and indemnities entered into by the Company or any Restricted Subsidiary which are reasonably customary in securitization of receivables transactions.

“*Stated Maturity*” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“*Subordinated Indebtedness*” means, with respect to the Company or any Subsidiary Guarantor, any Indebtedness of the Company or such Subsidiary Guarantor, as the case may be which is expressly subordinated in right of payment to the notes or the relevant Note Guarantee, as the case may be.

“*Subsidiary*” means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50% of the voting power of the other Person’s outstanding Voting Stock.

“*Subsidiary Guarantor*” means any Restricted Subsidiary which provides a Note Guarantee pursuant to the Indenture until such time as its Note Guarantee is released in accordance with the Indenture; *provided* that a Restricted Subsidiary that is a Bank Regulated Subsidiary shall not provide a Note Guarantee hereunder.

“*Surviving Entity*” has the meaning set forth under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets.”

“*Transactions*” means the repayment, directly or indirectly by the Company or through any of its affiliates, of the amounts payable to the lender under the Shareholder Loan and the other transactions, each as described under “Use of Proceeds” in the Offering Circular.

“*Unrestricted Subsidiary*” means any Subsidiary of the Company Designated as such pursuant to “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries.” Any such Designation may be revoked by a Board Resolution of the Company, subject to the provisions of such covenant.

“*U.S. Dollar Equivalent*” means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such non-U.S. dollar currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable non-U.S. dollar currency as published in The Wall Street Journal in the “Exchange Rates” column under the heading “Currency Trading” on the date two Business Days prior to such determination.

“*U.S. Government Obligations*” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the

payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer's option.

*"Voting Stock"* with respect to any Person, means securities of any class of Capital Stock of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person.

*"Weighted Average Life to Maturity"* means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

- (1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into
- (2) the sum of the products obtained by multiplying:
  - (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by
  - (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

*"Wholly Owned Subsidiary"* means, for any Person, any Subsidiary (Restricted Subsidiary in the case of the Company) of which all the outstanding Capital Stock (other than, in the case of a Subsidiary not organized in the United States, directors' qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) is owned by such Person or any other Person that satisfies this definition in respect of such Person.

## **BOOK-ENTRY; DELIVERY AND FORM**

### **General**

The notes are being offered and sold only:

- to qualified institutional buyers (“QIBs”) in reliance on Rule 144A (the “Rule 144A Notes”), or
- to persons other than “U.S. persons” (as defined in Regulation S) in offshore transactions in reliance on Regulation S (the “Regulation S Notes”).

The notes will be issued in fully registered global form in minimum denominations of U.S.\$2,000 and integral multiples of U.S.\$1,000 in excess thereof. The notes will be issued on the issue date therefor only against payment in immediately available funds.

Rule 144A Notes initially will be represented by a single permanent global certificate (which may be subdivided) without interest coupons (the “Rule 144A Global Note”). Regulation S Notes initially will be represented by a single permanent global certificate (which may be subdivided) without interest coupons (the “Regulation S Global Note” and together with the Rule 144A Global Note, the “Global Notes”).

The Global Notes will be deposited upon issuance with the Trustee as custodian for The Depository Trust Company (“DTC”), in New York, New York, and registered in the name of DTC or its nominee for credit to an account of a direct or indirect participant in DTC, including the Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, société anonyme (“Clearstream”), as described below under “—Depository Procedures.”

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for notes in certificated form except in the limited circumstances described below under “—Exchange of Book-Entry Notes for Certificated Notes.”

The notes will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “Notice to Investors.” In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

### **Depository Procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. The Company takes no responsibility for these operations and procedures and urges investors to contact the systems or their participants directly to discuss these matters.

DTC has advised that Company that it is:

- a limited purpose trust company organized under the New York State Banking Law;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934.

DTC was created to hold securities for its participating organizations (collectively, the “Participants”) and facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchaser), banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the “Indirect Participants”). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through Participants or Indirect Participants. DTC has no knowledge of the identity of beneficial owners of securities held by or on behalf of DTC. DTC’s records reflect only the identity of Participants to whose accounts securities are credited. The ownership interests and transfer of ownership interests of each beneficial owner of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Company that, pursuant to procedures established by DTC:

- upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the initial purchaser with portions of the principal amount of the Global Notes; and
- ownership of such interests in the Global Notes will be shown on, and the transfer of ownership of such interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Global Notes may hold their interests therein directly through DTC, if they are Participants in such system, or indirectly through organizations (including Euroclear and Clearstream) that are Participants or Indirect Participants in such system. Euroclear and Clearstream will hold interests in the notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories. The depositories, in turn, will hold interests in the notes in customers’ securities accounts in the depositories’ names on the books of DTC.

All interests in a Global Note, including those held through Euroclear or Clearstream, will be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream will also be subject to the procedures and requirements of these systems. The laws of some states require that certain persons take physical delivery of certificates evidencing securities they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants, the ability of beneficial owners of interests in a Global Note to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the notes, see “—Exchange of Book-Entry Notes for Certificated Notes.”

**Except as described below, owners of interests in the Global Notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or holders thereof under the Indenture for any purpose.**

Payments in respect of the principal of and premium, if any, and interest on a Global Note registered in the name of DTC or its nominee will be payable by the Trustee (or the paying agent if other than the Trustee) to DTC in its capacity as the registered holder under the Indenture. The Company and the Trustee will treat the persons in whose names the notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, none of the Company, the Trustee or any agent of the Company or the Trustee has or will have any responsibility or liability for:

- any aspect of DTC’s records or any Participant’s or Indirect Participant’s records relating to or payments made on account of beneficial ownership interests in the Global Notes, or for maintaining, supervising or reviewing any of DTC’s records or any Participant’s or Indirect Participant’s records relating to the beneficial ownership interests in the Global Notes; or

- any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Company that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date in amounts proportionate to their respective holdings in the principal amount of the relevant security as shown on the records of DTC, unless DTC has reason to believe it will not receive payment on such payment date. Payments by the Participants and the Indirect Participants to the beneficial owners of the notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or the Company. Neither the Company nor the Trustee nor any agent of the Company or the Trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the notes, and the Company and the Trustee and their respective agents may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Except for trades involving only Euroclear and Clearstream participants, interests in the Global Notes are expected to be eligible to trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its Participants.

Subject to the transfer restrictions described under "Notice to Investors," transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to the transfer restrictions described under "Notice to Investors," cross-market transfers between Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by their depositaries. Cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in that system in accordance with the rules and procedures and within the established deadlines (Brussels time) of that system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositaries to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant in DTC will be credited and reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised the Company that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

DTC has advised the Company that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and the procedures may be discontinued at any time. Neither the Company nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

The information in this section concerning DTC, Euroclear and Clearstream and their book-entry systems has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof.

### **Exchange of Book-Entry Notes for Certificated Notes**

The Global Notes are exchangeable for certificated notes in definitive, fully registered form without interest coupons (“Certificated Notes”) only in the following limited circumstances:

- DTC notifies the Company that it is unwilling or unable to continue as depositary for the Global Note or DTC ceases to be a clearing agency registered under the Exchange Act, at a time when DTC is required to be so registered in order to act as depositary, and in each case the Company fails to appoint a successor depositary within 90 days of such notice; or
- upon the request of a holder, if there shall have occurred and be continuing an Event of Default with respect to the notes.

In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “Notice to Investors,” unless the Company determines otherwise in accordance with the Indenture and in compliance with applicable law.

### **Transfers Within and Between Global Notes**

Through and including the 40th day after the later of the commencement of the offering of the notes and the closing of the offering (the “40-day Period”), beneficial interests in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Trustee a certificate (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions. After the expiration of the 40-day Period, beneficial interests in the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note without compliance with these certification requirements.

Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note only upon receipt by the Trustee of a written certification (in the form provided in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act (if available).

Transfers of beneficial interests within a Global Note may be made without delivery of any written certification or other documentation from the transferor or the transferee.

Transfers of beneficial interests in the Regulation S Global Note for beneficial interests in the Rule 144A Global Note or vice versa will be effected by DTC by means of an instruction originated by the Trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

## **TAXATION**

### **General**

The following is a general summary of the principal Mexican federal and U.S. federal income tax consequences of the purchase, ownership and disposition of the notes, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own and dispose of the notes. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than Mexico and the United States.

This summary is for general information only and is based on the tax laws of Mexico and the United States as in effect on the date of this offering circular, as well as rules and regulations of Mexico and regulations, rulings and decisions of the United States available on or before that date and now in effect. All of the foregoing are subject to change, possibly with retroactive effect, which could affect the continued validity of this summary.

**Prospective purchasers of the notes should consult their own tax advisors as to the Mexican, U.S. or other tax consequences of the purchase, ownership and disposition of the notes, including the particular tax consequences to them in light of their particular investment circumstances.**

### **United States/Mexico Tax Treaty**

A convention for the Avoidance of Double Taxation and protocols to that convention (collectively referred to herein as the “U.S.-Mexico treaty”) are in effect. However, as discussed below under “— Federal Mexican Taxation”, as of the date of this offering memorandum, the U.S.-Mexico treaty is not generally expected to have any material effect on the Mexican income tax consequences described in this offering memorandum. The United States and Mexico have also entered into an agreement that covers the exchange of information with respect to tax matters.

Mexico has also entered into, and is negotiating, several other tax treaties with various countries that also, as of the date of this offering memorandum, are not generally expected to have any material effect on the Mexican income tax consequences described in this offering memorandum, but could have an impact on the tax treatment of the purchase, ownership or disposition of the notes.

### **Mexican Federal Taxation**

The below discussion does not address all Mexican tax considerations that may be relevant to particular investors, nor does it address the special tax rules applicable to certain categories of investors or any tax consequences under the tax laws of any state or municipality of Mexico.

The following is a general summary of the principal consequences, under the Mexican Income Tax Law, Federal Tax Code and rules as currently in effect, all of which are subject to change or interpretation, and under the U.S.-Mexico treaty, of the purchase, ownership and disposition of the notes by a foreign holder that acquires the notes in this offering at the price at which the notes are sold in this offering. As used in this offering memorandum, a “foreign holder” means a beneficial owner of the notes that:

- is not a resident of Mexico for tax purposes;
- does not hold the notes or a beneficial interest in the notes in connection with the conduct of a trade or business through a permanent establishment in Mexico; and
- is not (a) a holder of more than 10% of our voting stock, directly or indirectly, jointly with persons related to us or individually, or (b) a corporation or other entity, more than 20% of whose stock is owned, directly or indirectly, jointly by persons related to us or individually (each a “Related Party”), that in the case of either (a) or (b), is the effective beneficiary, directly or indirectly, jointly with persons related to us or individually, of more than 5% of the aggregate amount of any interest payment on the notes.

For these purposes, persons will be related if:



- one person holds an interest in the business of the other person;
- both persons have common interests; or
- a third party has an interest in the business or assets of both persons.

According to the Federal Tax Code:

- an individual is a Mexican tax resident if the individual has established his permanent home in Mexico. When an individual, in addition to his permanent home in Mexico, has a permanent home in another country, the individual will be a Mexican tax resident if his center of vital interests is located in Mexico. This will be deemed to occur if, among other circumstances, either (i) more than 50% of the total income obtained by the individual in the calendar year is Mexican source income or (ii) when the individual's center of professional activities is located in Mexico. Mexican residents who filed a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico in which her/his income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law and does not have a comprehensive exchange of information agreement with Mexico, will be considered Mexican residents for tax purposes during the year of filing of the notice of such residence change and the following three years. Unless otherwise proven, a Mexican national is considered a Mexican tax resident;
- a legal entity is considered a Mexican tax resident if it maintains the main administration of its head office, business or the effective location of its management in Mexico;
- a foreign person with a permanent establishment in Mexico will be required to pay taxes in Mexico in accordance with the Mexican Income Tax Law for all income attributable to such permanent establishment;
- a foreign person without a permanent establishment in Mexico will be required to pay taxes in Mexico in respect of revenues proceeding from sources of wealth located in Mexico; and
- a foreign person with a permanent establishment in Mexico will be required to pay taxes in Mexico in respect of revenues proceeding from a source of wealth located in Mexico not attributable to the permanent establishment.

Each foreign holder should consult a tax advisor as to the particular Mexican or other tax consequences to that foreign holder of purchasing, owning and disposing of the notes, including the applicability and effect of any federal, state, local or foreign tax laws or under any applicable treaty.

### ***Interest and Principal***

Payments of interest on the notes (including payments of principal in excess of the issue price of the notes, which under the Mexican Income Tax Law are deemed to be interest) made by us to a foreign holder will be subject to a Mexican withholding tax assessed at a rate of 4.9% if all of the following requirements are met:

- the notes, as expected, are placed outside of Mexico through banks or brokerage houses, in a country with which Mexico has entered into a treaty for the avoidance of double taxation and such treaty is in effect;
- regarding the notes, as expected, the notice referred to in the second paragraph of Article 7 of the Securities Market Law is filed with the National Banking and Securities Commission, and a copy of that notice is provided to the Mexican Ministry of Finance and Public Credit;
- we timely file with the Mexican Ministry of Finance and Public Credit 15 days after placement of the notes according to this offering memorandum, certain information relating to the issuance of the notes and this offering memorandum, as well as, if applicable, we file information regarding any modification in connection with the issuance of the notes within 30 days following the date in which such modification was made; and

- we timely file with the Mexican Ministry of Finance and Public Credit, on a quarterly basis, information representing (a) the amount and the payment date of interest, and (b) that no Related Party jointly or individually, directly or indirectly, is the effective beneficiary of more than 5% of the aggregate amount of each interest payment, and we maintain records that evidence compliance with this requirement.

We expect that all of the foregoing requirements will be met and, accordingly, we expect to withhold Mexican income tax from interest payments on the notes made to foreign holders at the 4.9% rate in accordance with the Mexican Income Tax Law. In the event that any of the foregoing requirements are not met, under the Mexican Income Tax Law, payments of interest on the notes made by us to a foreign holder will be subject to Mexican withholding tax assessed at a rate of 10% or higher, if certain other requirements are not complied with.

Neither the 4.9% rate nor the 10% rate would apply and, therefore, higher withholding tax rates would apply, if the beneficial owner, directly or indirectly, individually or jointly, with related parties, that receives more than 5% of the interest paid on the notes (1) owns directly or indirectly, individually or jointly with related parties, more than 10% of the company's voting stock or (2) is an entity 20% or more of whose stock is owned directly or indirectly, individually or jointly by parties related to the company.

As of the date of this offering memorandum, neither the U.S.-Mexico treaty nor any other tax treaty entered into by Mexico is expected generally to have any material effect on the Mexican income tax consequences described in this offering memorandum, because, as discussed above, it is expected that the 4.9% rate will apply in the future and, therefore, that we will be entitled to withhold taxes in connection with interest payments under the notes at the 4.9% rate.

Foreign holders residing in the United States should nonetheless be aware that Mexico presently has a treaty for the avoidance of double taxation with the United States. Under the U.S.-Mexico treaty, the Mexican withholding tax rate applicable to interest payments made to U.S. holders which are eligible for benefits under the U.S.-Mexico treaty will be limited to either:

- 15% generally; or
- 4.9% in the event that the notes are considered to be "regularly and substantially traded on a recognized securities market."

Other foreign holders should consult their tax advisors regarding whether they reside in a country that has entered into a treaty for the avoidance of double taxation with Mexico and, if so, the conditions and requirements for obtaining benefits under that treaty. The Mexican Income Tax Law provides that in order for a foreign holder to be entitled to the benefits under a treaty entered into by Mexico, it is necessary for the foreign holder to meet the procedural requirements established in the Mexican Income Tax Law.

Holders or beneficial owners of the notes may be requested, subject to specified exceptions and limitations, to provide certain information or documentation necessary to enable us to apply the appropriate Mexican withholding tax rate applicable to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not provided prior to the payment of any interest to that holder or beneficial owner, we may withhold Mexican tax from that interest payment to that holder or beneficial owner at the maximum applicable rate, but our obligation to pay Additional Amounts relating to those withholding taxes will be limited as described under "Description of the Notes—Additional Amounts."

Under the Mexican Income Tax Law, payments of interest made by us with respect to the notes to non-Mexican pension or retirement funds will be exempt from Mexican withholding taxes, provided that the fund:

- is the effective beneficiary of each interest payment;
- is duly organized under the laws of its country of origin;
- is exempt from income tax in that country in respect of such interest payment; and
- is registered with the Mexican Ministry of Finance and Public Credit for that purpose.

We have agreed, subject to specified exceptions and limitations, to pay Additional Amounts relating to the above-mentioned Mexican withholding taxes to foreign holders of the notes. See “Description of the Notes—Additional Amounts.”

Under the Mexican Income Tax Law, a foreign holder will not be subject to any Mexican withholding or similar taxes on payments of principal on the notes made by us (except for payments of principal in excess of the issue price of the notes, which under the Mexican Income Tax Law are deemed to be interest subject to the Mexican withholding taxes described above).

#### ***Purchase and Dispositions***

Pursuant to Mexican Income Tax Law, a tax is imposed upon the acquisition at a discount of a note by a purchaser that is a non-resident of Mexico for tax purposes, to the extent that the seller is a resident of Mexico or a non-resident with a permanent establishment in Mexico. In such case, the difference between the sale price and the aggregate face value and accrued but unpaid interest not previously subject to withholding tax will be deemed interest for Mexican tax purposes and thereby subject to 10% tax. The seller resident of Mexico or a non-resident with a permanent establishment in Mexico will be required to collect the 10% tax over the deemed interest income from the purchaser and remit it to the Tax Administration Service.

Under the Mexican Income Tax Law, gains resulting from the sale of the notes by a foreign holder to a Mexican resident or permanent establishment of a foreign holder, or by the sale of a permanent establishment of a foreign holder, will be treated as interest and therefore be subject to the Mexican withholding tax rules described above.

#### ***Other Taxes***

A foreign holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to its holding or disposition of the notes, nor will it be liable for Mexican stamp, issuer registration or similar taxes or duties.

### **United States Federal Income Taxation**

This summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the notes is limited to beneficial owners of the notes that:

- acquire the notes in this offering at a price equal to the issue price of the notes (i.e., the first price at which a substantial amount of the notes is sold, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers);
- are U.S. Holders (as defined below); and
- will hold the notes as capital assets.

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect on the date hereof. All of the foregoing is subject to change, and any such change may apply retroactively and could affect the tax consequences described below.

As used in this offering memorandum, a “U.S. Holder” means a beneficial owner of notes that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or entity treated as a corporation for such purposes) created or organized in or under the laws of the United States, or any State thereof or the District of Columbia;

- an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source;
- a trust, if either (x) it is subject to the primary supervision of a court within the United States and one or more United States persons has the authority to control all substantial decisions of the trust or (y) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person; or
- otherwise subject to U.S. federal income taxation on a net income basis in respect of the notes.

This summary does not discuss considerations or consequences relevant to persons subject to special provisions of U.S. federal income tax law, such as:

- entities that are tax-exempt for U.S. federal income tax purposes and retirement plans, individual retirement accounts and tax-deferred accounts;
- pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities;
- certain U.S. expatriates;
- persons that are subject to the alternative minimum tax;
- banks or other financial institutions;
- insurance companies;
- brokers or dealers in securities or currencies or traders in securities electing to mark to market;
- persons that own (or are deemed to own) 10% or more of our voting shares;
- U.S. Holders having a “functional currency” other than the U.S. dollar; and
- persons that will hold the notes as part of a constructive sale, wash sale, conversion transaction or other integrated transaction or a straddle, hedge or synthetic security.

If a partnership (or an entity or arrangement classified as a partnership for U.S. federal income tax purposes) holds the notes, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership, and partnerships holding the notes should consult their own tax advisors regarding the U.S. federal income tax consequences of purchasing, owning and disposing of the notes. This summary does not address the effect of any U.S. federal tax laws other than the U.S. federal income tax laws (e.g., U.S. federal estate or gift tax laws) or any U.S. state or local tax laws on a beneficial owner of the notes.

Persons considering the purchase of the notes should consult a tax advisor as to the particular tax consequences to it of purchasing, owning and disposing of the notes, including the applicability and effect of any state, local or foreign tax laws.

### ***Interest and Additional Amounts***

Interest on the notes and Additional Amounts paid in respect of Mexican withholding taxes imposed on interest payments on the notes (as described in “Description of the Notes—Additional Amounts”) will be taxable to a U.S. Holder as ordinary interest income at the time they are paid or accrued in accordance with the U.S. Holder’s usual method of accounting for U.S. federal income tax purposes. The amount of income taxable to a U.S. Holder will include the amount of all Mexican taxes that we withhold (as described below under “—Federal Mexican

Taxation”) from these payments made on the notes. Thus, a U.S. Holder will have to report income in an amount that is greater than the amount of cash it receives from these payments on its note. For purposes of the following discussion, references to interest include Additional Amounts.

A U.S. Holder may, subject to certain limitations, be eligible to claim any Mexican income taxes withheld from interest payments as a credit or deduction for purposes of computing its U.S. federal income tax liability, even though we will remit these Mexican withholding tax payments. Interest paid on the notes will constitute income from sources without the United States for foreign tax credit purposes. Such income generally will constitute “passive category income” for foreign tax credit purposes. The rules relating to the calculation and timing of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign taxes, the rules relating to the availability of deductions, are complex and their application depends upon a U.S. Holder’s particular circumstances. In addition, foreign tax credits generally will not be allowed for Mexican taxes withheld from interest on certain short-term or hedged positions in the notes. U.S. Holders should consult with their own tax advisors with regard to the availability of a credit or deduction in respect of foreign taxes and, in particular, the application of the foreign tax credit rules to their particular situations.

### ***Dispositions of Notes***

Upon the sale, exchange, redemption, retirement or other taxable disposition of a note, a U.S. Holder will recognize taxable gain or loss in an amount equal to the difference, if any, between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (other than amounts attributable to accrued interest that was not previously included in income, which will be taxable as ordinary interest income) and the U.S. Holder’s tax basis in the note. A U.S. Holder’s tax basis in a note generally will be its cost for the note.

Gain or loss recognized by a U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of a note generally will be capital gain or loss. The gain or loss recognized by a U.S. Holder will be long-term capital gain or loss if the note has been held for more than one year at the time of the disposition. Long-term capital gains recognized by individual and certain other non-corporate U.S. Holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Capital gain or loss recognized by a U.S. Holder generally will be U.S. source gain or loss for foreign tax credit purposes. Therefore, if any such gain is subject to Mexican income tax, a U.S. Holder may not be able to credit the Mexican income tax against its U.S. federal income tax liability. U.S. Holders should consult their own tax advisors as to the foreign tax credit implications of a disposition of the notes.

### ***Information Reporting Requirements and Backup Withholding***

In general, information reporting requirements will apply to payments of principal and interest made on a note, and to the proceeds of a disposition of a note before maturity within the United States, that are made to a beneficial owner of the notes who is not an exempt recipient, and backup withholding may apply to such payments if that beneficial owner fails to provide an accurate taxpayer identification number or otherwise comply with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and generally will be allowed as a refund or credit against a beneficial owner’s U.S. federal income tax liability, provided that the required information is timely furnished to the U.S. Internal Revenue Service.

Recently enacted legislation requires certain U.S. Holders to report information with respect to their investment in notes not held through a custodial account with a U.S. financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in notes.

### ***Non-U.S. Holders***

For purposes of the following discussion a “Non-U.S. Holder” means a beneficial owner of the notes that is not, for U.S. federal income tax purposes, a U.S. Holder or a partnership (or entity or arrangement classified as a partnership for such purposes). A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on:

- interest and Additional Amounts received in respect of the notes, unless those payments are effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States; or
- gain realized on the sale, exchange, redemption, retirement or other taxable disposition of the notes, unless that gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or, in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

PURSUANT TO U.S. TREASURY DEPARTMENT CIRCULAR 230, WE ARE INFORMING YOU THAT (A) THIS SUMMARY IS NOT INTENDED AND WAS NOT WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE U.S. FEDERAL TAX LAWS THAT MAY BE IMPOSED ON THE TAXPAYER, (B) THIS SUMMARY WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY US AND THE INITIAL PURCHASERS OF THE NOTES, AND (C) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

### **European Union Directive on the Taxation of Savings Income**

On July 1, 2005 a new European Union directive regarding the taxation of savings income payments came into effect. The directive obliges a Member State of the European Union, or Member State, to provide to the tax authorities of another Member State details of payments of interest and other similar income payments made by a person within its jurisdiction for the immediate benefit of an individual or to certain non corporate entities resident in that other Member State (or for certain payments secured for their benefit). However, Austria, Belgium and Luxembourg have opted out of the reporting requirements and are instead applying a special withholding tax for a transitional period in relation to such payments of interest, deducting tax at rates rising over time to 35 percent. This transitional period commenced on July 1, 2005 and will terminate at the end of the first fiscal year following agreements by certain non European Union countries to the exchange of information relation to such payments.

Also with effect from July 1, 2005, a number of non European Union countries and certain dependent or associated territories of Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments of interest or other similar income payments made by a person in that jurisdiction for the immediate benefit of an individual or to certain non corporate entities in any Member State. The Member States have entered into reciprocal provision of information or transitional special withholding tax arrangements with certain of those dependent or associated territories. These apply in the same way to payments by persons in any Member State to individuals or certain non-corporate residents of those territories.

If a payment were to be made or collected through a Member State (or such a non-European Union country or territory) which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the issuer nor any paying agent nor any other person would be obliged to pay additional amounts to the holders of the notes or to otherwise compensate the holders of the notes for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax. However, we have undertaken that, to the extent permitted by law, we will maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the directive (if such a state exists).

## NOTICE TO INVESTORS

The notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered hereby only (a) to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act), or QIBs, in compliance with Rule 144A under the Securities Act and (b) in offers and sales that occur outside the United States to persons other than U.S. persons (“non-U.S. purchasers,” which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)), in offshore transactions meeting the requirements of Rule 903 of Regulation S. As used herein, the terms “offshore transactions,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

Each purchaser of notes will be deemed to have represented and agreed with us and the initial purchaser as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or (b) a non-U.S. purchaser that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);
- (2) It understands that the notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the notes have not been and will not be registered under the Securities Act, and that the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) It shall not resell or otherwise transfer any of such notes prior to (a) the date which is one year (or such shorter period of time as permitted by Rule 144(d)(1) under the Securities Act or any successor provision thereunder) after the later of the date of original issuance of the notes and (b) such later date, if any, as may be required by applicable laws except:
  - to the Company or any of its subsidiaries;
  - pursuant to a registration statement which has been declared effective under the Securities Act;
  - within the United States to a QIB in compliance with Rule 144A under the Securities Act;
  - outside the United States to non-U.S. purchasers in offshore transactions meeting the requirements of Rule 904 of Regulation S under the Securities Act; or
  - pursuant to another available exemption from the registration requirements of the Securities Act;

It agrees that it will give notice of any restrictions on transfer of such notes to each person to whom it transfers the notes;

It understands that the certificates evidencing the notes (other than the Regulation S global notes) will bear a legend substantially to the following effect unless otherwise agreed by us and the trustee:

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO

SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE RESALE RESTRICTION TERMINATION DATE (AS DEFINED IN THE NEXT PARAGRAPH), EXCEPT (A) (I) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

THE RESALE RESTRICTION TERMINATION DATE WILL BE THE DATE:

(1) THAT IS AT LEAST ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF; AND (2) ON WHICH THE COMPANY INSTRUCTS THE TRUSTEE THAT THIS LEGEND (OTHER THAN THE FIRST PARAGRAPH HEREOF) SHALL BE DEEMED REMOVED FROM THIS SECURITY, IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE RELATING TO THIS SECURITY.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH THE ABOVE PARAGRAPHS, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.\*

---

\* This legend (other than the first paragraph hereof) shall be deemed removed from the face of this Security without further action of the Company, the Trustee, or the holders of this Security at such time as the Company instructs the Trustee to remove such legend pursuant to the Indenture.



If it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering circular, it acknowledges and agrees that, until the expiration of the 40 day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a U.S. global note, and that each Regulation S global note will contain a legend to substantially the following effect:

PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)), THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

THIS GLOBAL NOTE IS A TEMPORARY GLOBAL NOTE FOR PURPOSES OF REGULATION S UNDER THE SECURITIES. NEITHER THIS TEMPORARY GLOBAL NOTE NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD OR DELIVERED, EXCEPT AS PERMITTED ABOVE.

NO BENEFICIAL OWNERS OF THIS TEMPORARY GLOBAL NOTE SHALL BE ENTITLED TO RECEIVE PAYMENT OF PRINCIPAL HEREOF OR INTEREST HEREON UNLESS THE REQUIRED CERTIFICATIONS HAVE BEEN DELIVERED PURSUANT TO THE TERMS OF THE INDENTURE.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH THE ABOVE PARAGRAPHS, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

It acknowledges that the foregoing restrictions apply to holders of beneficial interests in the notes, as well as holders of the notes;

It acknowledges that the trustee will not be required to accept for registration of transfer any notes acquired by it, except upon presentation of evidence satisfactory to the Issuer and the trustee that the restrictions set forth herein have been complied with; and

It acknowledges that the Company, the trustee, the initial purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify the Issuer, the trustee and the initial purchaser. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

## **PLAN OF DISTRIBUTION**

Under the terms and subject to the conditions contained in a purchase agreement dated July 15, 2010 we have agreed to sell to Credit Suisse Securities (USA) LLC, as initial purchaser, U.S.\$200,000,000 principal amount of notes.

The purchase agreement provides that the initial purchaser is obligated to purchase all of the notes if any are purchased.

The initial purchaser proposes to offer the notes initially at the offering price on the cover page of this offering circular and may also offer the notes to selling group members at the offering price less a concession. After the initial offering, the offering price may be changed.

The notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act. The initial purchaser has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of the notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the notes are restricted as described under “Notice to Investors.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

### ***European Economic Area***

The initial purchaser represents and agrees that, in relation to each member state of the EEA which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of the notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the

notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. The EEA selling restriction is in addition to any other selling restrictions set out below.

### ***United Kingdom***

The initial purchaser represents and agrees that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or FSMA), received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

### ***General***

The initial purchaser has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any notes directly or indirectly, or distribute this offering circular or any other offering material relating to the notes in or from any jurisdiction, except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Purchasers of notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering circular.

The initial purchaser or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business. Certain of our affiliates may purchase Notes in the offering for the account of their clients.

We have agreed to indemnify the initial purchaser against certain liabilities or to contribute to payments which it may be required to make in that respect.

The notes are a new issue of securities for which there currently is no market. We expect to apply to have the notes admitted for listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. The initial purchaser has advised us that it intends to make a market in the notes as permitted by applicable law. It is not obligated, however, to make a market in the notes and any market-making may be discontinued at any time at its sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the notes.

We expect that delivery of the notes will be made against payment for the notes on July 20, 2010, which will be the third business day following the date of the pricing of the notes. The initial purchaser may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchaser.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.

- Penalty bids permit the initial purchaser to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

## NOTICE TO CANADIAN INVESTORS

### Resale Restrictions

The distribution of the notes in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the notes are made. Any resale of the notes in Canada must be made under applicable securities laws which may vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the notes.

### Representations of Purchasers

By purchasing the notes in Canada and accepting delivery of a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the notes without the benefit of a prospectus qualified under those securities laws as it is an “accredited investor” as defined under National Instrument 45-106-*Prospectus and Registration Exemption*,
- the purchaser is a “permitted client” as defined in national Instrument 31-103-*Prospectus and Registration Exemption*,
- where required by law, the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text above under “Resale Restrictions,” and
- the purchaser acknowledges and consents to the provision of specified information concerning the purchase of the notes to the regulatory authority that by law is entitled to collect the information, including certain personal information. For purchasers in Ontario, questions about such indirect collection of personal information should be directed to Administrative Support Clerk, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8 or on (416) 593-3684.

### Rights of Action—Ontario Purchasers Only

Under Ontario securities legislation, certain purchasers who purchases a security offered by this circular during the period of distribution will have a statutory right of action for damages, or while still the owner of the notes, for rescission against us in the event that this offering circular contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the notes. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the notes. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the notes were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the notes as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

### Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of

Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

**Taxation and Eligibility for Investment**

Canadian purchasers of the notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the notes in their particular circumstances and about the eligibility of the notes for investment by the purchaser under relevant Canadian legislation.

## **GENERAL INFORMATION**

### **Clearing Systems**

Application has been made to have the notes accepted for clearance through Euroclear and Clearstream. In addition, application has been made to have the notes accepted for trading in book-entry form by DTC. For the Rule 144A notes, the ISIN number is US40052WAA09, the CUSIP number is 40052W AA0 and the Common Code is 052801834. For the Regulation S notes, the ISIN number is USP7700WCF51, the CUSIP number is P7700W CF5 and the Common Code is 052801885.

### **Listing**

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Copies of our by-laws, the indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the trustee, registrar, paying agent and transfer agent, and at the offices of the Luxembourg listing agent, paying agent and transfer agent, as such addresses are set forth in this offering circular. Our subsidiary guarantors do not publish separate non-consolidated financial statements. We do not publish unconsolidated financial statements. We will maintain a paying and transfer agent in Luxembourg for so long as any of the notes are listed on the Luxembourg Stock Exchange.

The notes have not been and will not be listed in the BMV or registered with the Mexican National Securities Registry and therefore the notes may not be offered or sold publicly, or otherwise be the subject of brokerage activities in Mexico, except pursuant to a private placement exemption set forth under Article 8 of the Mexican Securities Market Law.

### **Authorization**

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the notes. The issuance of the notes was authorized by the Board of Directors of Grupo Famsa on February 16, 2010.

### **No Material Adverse Change**

Except as disclosed in this offering circular, there has been no material adverse change in the financial position or prospectus of us and our subsidiaries taken as a whole since December 31, 2009.

### **Litigation**

We are from time to time involved in certain legal proceedings not described herein that are incidental to the normal conduct of our business. We do not believe that the outcome of any such proceedings, if decided adversely to our interests, will have a material effect on our financial condition, cash flows or results of operations.

## **LEGAL MATTERS**

Certain matters relating to the validity of the notes will be passed upon for us by Mijares, Angoitia, Cortés y Fuentes, S.C., Mexico City, Mexico, our special Mexican counsel, and for the initial purchaser by Creel, García-Cuellar, Aiza y Enríquez, S.C., Mexico City, Mexico. Certain legal matters in connection with this offering of the notes are being passed upon for us by Milbank, Tweed, Hadley & McCloy LLP, and for the initial purchaser by Cleary Gottlieb Steen & Hamilton LLP.

## **INDEPENDENT ACCOUNTANTS**

The consolidated financial statements of Grupo Famsa, S.A.B. de C.V. as of December 31, 2008 and 2009 and for the three years ended December 31, 2007, 2008 and 2009, included in this offering circular, have been audited by PricewaterhouseCoopers, S.C., independent accountants.



## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN MFRS AND U.S. GAAP

Our financial statements are prepared and presented in accordance with Mexican Financial Reporting Standards (“MFRS”) issued by the Mexican Financial Reporting Standards Board (“*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*” or “CINIF”). MFRS differ in certain significant respects from generally accepted accounting principles as applied in the United States (“U.S. GAAP”), which might be material to the financial information contained herein.

We have not prepared a reconciliation of our financial statements and related notes appearing in the offering circular, from MFRS to U.S. GAAP, and we have not quantified those differences. Accordingly, no assurance is provided that the following summary of differences between MFRS and U.S. GAAP is complete. In making an investment decision, investors must rely upon their own examination of our company, the terms of the offering and the financial information included in the offering circular. In addition, no attempt has been made to identify future differences between MFRS and U.S. GAAP that may affect the financial statements as a result of transactions or events that may occur in the future, including the issuance of new accounting standards either in the United States or Mexico. Potential investors should consult their professional advisors for an understanding of the differences between MFRS and U.S. GAAP, and how those differences might affect the financial information included in this offering circular.

### Accounting for the Effects of Inflation

#### *Mexico*

Through December 31, 2007, MFRS required that the comprehensive effects of price level changes due to inflation be recorded in the basic financial statements for all non-monetary and monetary items. MFRS required the recognition of the effects of inflation on non-monetary assets and expenses including inventories, cost of sales, property, plant and equipment, accumulated depreciation and depreciation, and other non-monetary assets, as well as stockholders’ equity.

Non-monetary assets and stockholders’ equity were generally restated for inflation using factors derived from the NCPI, except that inventory and cost of sales may be adjusted to their replacement cost, not to exceed net realizable value. MFRS also required the determination of an inflationary gain or loss arising from a company’s net monetary asset or liability position, and the adjustment or restatement of income statement amounts for the year in constant pesos of purchasing power as of the date of the most recent balance sheet presented, as well as the presentation of financial statement amounts from prior years in constant pesos of purchasing power as of the date of the most recent balance sheet presented.

Accounting for the effects of inflation under MFRS was considered a more meaningful presentation than historical cost based financial reporting for Mexican companies.

Through December 31, 2007, under MFRS, equipment of non-Mexican origin could be restated by applying the inflation rate of the country of origin, and then translated at the year-end exchange rate of the Mexican peso.

Starting January 1, 2008, MFRS establishes new standards for recognizing the effects of inflation in an entity’s financial statements as measured by changes in a general price index only. MFRS provides criteria for identifying both inflationary and non-inflationary environments, and provides guidelines to cease or start recognizing the effects of inflation in financial statements when the general price index in a cumulative three-year period exceeds 26% in the countries of the functional currency where the company and subsidiaries operate. Restatement of financial statements for earlier periods presented is not permitted by MFRS.

#### *United States*

Under U.S. GAAP, companies are generally required to prepare financial statements using historical costs that are not subsequently adjusted for inflation. However, the application of MFRS B-10 represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy and, as such, is considered a more meaningful presentation than historical, cost-based financial reporting for both Mexican and U.S. accounting purposes.

Under U.S. GAAP, the effect of applying the option provided by the MFRS B-10, “Recognition of the Effects of Inflation on Financial Information,” for the restatement of equipment of non-Mexican origin does not meet the consistent reporting currency requirement of Regulation S-X of the SEC.

### **Functional Currency and Reporting Currency**

#### *Mexico*

Through December 31, 2007, MFRS did not incorporate the concept of functional currency, and, therefore, entities were allowed to have a reporting and accounting currency different from the functional currency, without the need to perform a translation process.

Starting January 1, 2008, MFRS incorporates the concepts of accounting currency, functional currency and reporting currency and establishes the procedures to translate and re-measure the financial information, similar to U.S. GAAP except for example, if an inflationary environment is identified.

#### *United States*

Under U.S. GAAP, historically, if an entity’s books of record are not maintained in its functional currency, re-measurement into the functional currency is required. That re-measurement is required before translation into the reporting currency. The re-measurement process is intended to produce the same result as if the entity’s books of record had been maintained in the functional currency. To accomplish that result, it is necessary to use historical exchange rates between the functional currency and another currency in the re-measurement process for certain accounts. The re-measurement effects are recognized in earnings.

### **Consolidation Criteria**

#### *Mexico*

Through December 31, 2007, MFRS required consolidation of all subsidiaries over which a company exercises control, despite not holding a majority of the voting common stock of the subsidiary.

Control over another company is considered to exist when more than 50% of a company’s outstanding shares, with voting rights, are held directly or indirectly through a subsidiary, unless the holder can demonstrate that control to govern the company has been yielded.

Starting January 1, 2009, MFRS incorporates the concept of special purpose entities and guidance indicating how to identify and consolidate those, potential voting rights and possible impact over control and establishes the basis for reporting and accounting in the case of losing control in a subsidiary.

#### *United States*

U.S. GAAP generally only requires consolidation when a company has a controlling financial interest, either through a majority voting interest or through the existence of other control factors.

Additionally, it requires consolidation of variable interest entities for which the company is the primary beneficiary, will absorb a majority of the investee’s expected losses, and is entitled to receive a majority of the entity’s expected residual returns or both.

### **Non-Controlling Interest**

#### *Mexico*

Under MFRS, minority interest in consolidated subsidiaries is presented as a separate component of stockholders’ equity in the balance sheet; in the statement of income it is included in consolidated net income, and the distribution between majority and minority interests is presented below consolidated net income.

Beginning January 1, 2009, MFRS establishes new accounting and measurement for the non-controlling interest in a subsidiary, which are consistent with U.S. GAAP.

### *United States*

In the past, under U.S. GAAP, minority interest was excluded from stockholders' equity and it was presented between liabilities and equity in the balance sheet. In the statement of income, it is presented as a reduction of consolidated net income.

For fiscal years, or interim periods within those periods, beginning on or after December 15, 2008, U.S. GAAP prescribes new guidelines (a) to establish accounting and reporting standards for the non-controlling interest in a subsidiary (previously referred to as "minority interest") and the deconsolidation of a subsidiary; (b) changes the way the consolidated income statement is presented as the non-controlling interest will be presented within equity; (c) establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation; (d) requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated; and (e) requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the non-controlling owners of a subsidiary.

### **Capitalized Comprehensive Financing Cost**

#### *Mexico*

Under MFRS, up until December 31, 2006, an entity was allowed, but not required, to capitalize certain comprehensive financing costs on assets under construction. Effective January 1, 2007, MFRS requires certain comprehensive financing costs to be capitalized on qualifying assets (assets that require a period of time to be ready to use). Comprehensive financial results to be capitalized include interest expense, foreign currency exchange gains and losses, and inflationary monetary gain or loss related to financial liabilities.

#### *United States*

Under U.S. GAAP, interest expense incurred during the construction (development) period on qualifying assets must be considered as an additional cost to be capitalized. In all instances, foreign exchange and inflationary monetary gains and losses (if applicable) are excluded.

### **Impairment of Long-Lived Assets**

#### *Mexico*

MFRS requires that all long-lived assets be evaluated periodically in order to determine whether there is an indication of potential impairment. The calculation of impairment losses requires the determination of the recoverable value of such assets, which is defined as the greater of the net selling price of a cash-generating unit and its value in use, which is the present value of discounted future net cash flows. In addition, under certain limited circumstances, the reversal of previously recognized impairment losses is permitted. Any recorded impairment losses are presented in other expenses.

#### *United States*

U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Assets are considered impaired when the fair value is less than the carrying value of the asset (asset group). An impairment loss is to be recorded only when the recoverable amount of the asset (asset group), defined as the estimated future undiscounted cash flows expected to result from the use of the asset (asset group), is less than the carrying value of the asset (asset group), and is measured by the difference between the carrying value of the asset and its fair value. Any impairment loss recorded for an asset (asset group) to be held and used establishes a new cost basis and, therefore, cannot be reversed in the future. Any recorded impairment losses are presented in operating expenses.

## **Impairment of goodwill**

### *Mexico*

Under Mexican FRS, the Company is allowed to evaluate the carrying value of goodwill and other long-lived assets in the aggregate, recording any potential impairment loss first to goodwill and then to the remaining long-lived assets evaluated. An impairment loss is recognized whenever the carrying value of these assets exceeds their recoverable value, which is the greater of its net selling price (if it can be readily obtained) and its value in use. These values can be determined through valuation techniques or, in a more practical manner, through a perpetuity value.

### *United States*

Under U.S. GAAP, separate impairments analyses are performed for both, goodwill, indefinite lived intangible assets, and other long-lived assets. U.S. GAAP requires a two-step process to identify and quantify the amount of impairment loss to be recognized for goodwill. The first step requires the comparison of the fair value of the reporting unit against its carrying value. The fair value of a reporting unit is the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. If fair value of the reporting unit is less than its carrying value, a second step is performed to measure the amount of impairment based on cash-flows.

## **Deferred Income Tax**

### *Mexico*

Under MFRS, deferred tax assets and liabilities are recognized for all significant temporary differences between the carrying amounts of existing assets and liabilities as of the balance sheet date and their respective tax bases. MFRS is similar to U.S. GAAP with respect to accounting for current and deferred income taxes, except that MFRS establishes that any deferred tax assets recorded must be reduced by a valuation allowance if it is “highly probable” that all or a portion of the deferred tax assets will not be realized.

### *United States*

Under U.S. GAAP, deferred income taxes are accounted for under the balance sheet method. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as the recognition of operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized if, based on the weight of available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

U.S. GAAP requires separate presentation of current and non-current income tax assets or liabilities, depending on the classification of the asset or liability to which the deferred tax item relates.

U.S. GAAP also prescribes a comprehensive model for the recognition, measurement, financial statement presentation and disclosure of uncertain tax positions taken or expected to be taken in a tax return. ASC 740 – 25 Income taxes - Recognition provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

## **Statement of Cash Flows**

### *Mexico*

Through December 31, 2007, MFRS specified the appropriate presentation of the statement of changes in financial position be based on financial statements restated in constant Pesos. MFRS identifies the sources and applications of resources representing differences between beginning and ending financial statement balances in constant Pesos. Monetary and foreign exchange gains and losses are not treated as non-cash items in the determination of resources provided by operations.

Starting January 1, 2008 MFRS requires to present a cash flow statement describing the cash flow provided by or used in operating, investing and financing activities similar to U.S. GAAP. Under MFRS, restricted cash is part of cash and cash equivalents, with a separate disclosure of restricted cash. Entities are required to classify interest paid as cash outflows for financing activities. Interest expense of the period is reconciled from the Net Income before taxes and Interest paid during the period is included as financing activities. MFRS requires classifying interest received within the same group of activity as the operation to which they are associated.

#### *United States*

U.S. GAAP requires a statement of cash flows describing the cash flows provided by or used in operating, investing and financing activities. Non-cash transactions are excluded from the statement of cash flows.

### **Fair value measurements**

#### *Mexico*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The use of either an exit or entry price is not specified. Mexico has no definition of what constitutes a Principal (or most advantageous) market.

There is no guidance as to the use of a fair value measurement within a bid-ask spread, but it does not preclude its use.

#### *United States*

U.S. GAAP requires all financial and non-financial assets and liabilities recognized at fair value in the financial statements to be measured on a recurring basis. U.S. GAAP clarifies that fair value is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. This Statement also emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

### **Labor Obligations**

#### *Mexico*

Through December 31, 2007, companies were required to account for an additional liability and the corresponding intangible assets and separate equity component when an unfunded accumulated benefit obligation existed.

Starting January 1, 2008 accounting for labor obligations was amended. The most important changes are the reduction to a maximum five-year period to amortize prior year items, the effects of the salary growth in the calculation of the Obligation for Defined Benefits (formerly known as Obligations for Projected Benefits), the elimination of the accounting treatment for the additional liability and its corresponding intangible asset and the separate equity component. Companies are required to present the full funded status only within the footnotes.

#### *United States*

Under U.S. GAAP, an employer is required to accrue a liability and recognize an expense during the period in which the employee earns paid absences. In addition, under U.S. GAAP entities must apply the provisions of ASC 715 Compensation – Retirement Benefits.

This statement requires companies to (i) fully recognize, as an asset or liability, the overfunded or underfunded status of defined pension and other postretirement benefit plans; (ii) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; (iii) measure the funded status of defined pension and other postretirement benefit plans as of the date of the company's fiscal year-end; and (iv) provide enhanced disclosures. In addition, a company must now measure the fair value of its plan assets and benefit obligations as of the date of its year-end balance sheet.

**Pre-operating costs***Mexico*

Through December 31, 2002, all start-up costs were to be deferred and amortized over a defined period. Through December 31, 2008, MFRS only permitted the capitalization and amortization of start-up costs if are clearly identified with development activities.

Starting January 1, 2009, MFRS requires that such costs are expensed as incurred. Any remaining balance at the adoption of the standard should be adjusted to retained earnings.

*United States*

Under U.S. GAAP, such costs are expensed as incurred.

**Revenue Recognition***Mexico*

MFRS does not have specific accounting guidance for multiple-deliverable revenue arrangements.

*United States*

U.S. GAAP has prescriptive accounting guidance which addresses how to separate a multiple deliverable revenue arrangement into separate units of accounting and how to allocate an arrangement's total consideration to each unit of accounting. Revenue recognition related to each unit of accounting is then based on other specific guidance which may exist, such as percentage of completion accounting, or general revenue recognition principles.

## **INDEX TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

### **Grupo Famsa, S.A.B. de C.V. and Subsidiaries Consolidated Financial Statements December 31, 2009, 2008 and 2007**

	<b>Page</b>
Report of Independent Auditors .....	F-2
Balance Sheets.....	F-3
Statements of Income .....	F-4
Statements of Change in Stockholders' Equity .....	F-5
Statements of Cash Flows.....	F-6
Statement of Changes in Financial Position .....	F-7
Notes to Financial Statements .....	F-8

## REPORT OF INDEPENDENT AUDITORS

To the Stockholders of  
Grupo Famsa, S. A. B. de C. V.

Monterrey, N. L., April 13, 2010

We have audited the consolidated balance sheets of Grupo Famsa, S. A. B. de C. V. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, for the three years ended December 31, 2009, 2008 and 2007, of changes in stockholders' equity and of cash flows for the years ended December 31, 2009 and 2008, and of changes in financial position for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial reporting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Famsa, S. A. B. de C. V. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations for the three years ended December 31, 2009, 2008 and 2007, the changes in their stockholders' equity and their cash flows for the years ended December 31, 2009 and 2008, and the changes in their financial position for the year ended December 31, 2007, in conformity with Mexican Financial Reporting Standards.

PricewaterhouseCoopers

Hector Puente Segura  
Audit Partner



GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2009 AND 2008

Thousands of Mexican Pesos

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3.d)	Ps 1,514,218	Ps 1,011,628
Restricted cash (Note 3.d)	191,868	436,907
Trade accounts receivable (Note 4)	14,131,100	12,936,952
Taxes recoverable	573,601	217,068
Other accounts receivable	538,891	479,497
Inventories (Notes 3.g and 5)	<u>2,118,045</u>	<u>2,434,034</u>
Total current assets	19,067,723	17,516,086
PROPERTY, LEASEHOLD IMPROVEMENTS AND FURNITURE AND EQUIPMENT (Note 6)	2,731,880	2,868,954
GOODWILL (Note 3.j)	241,096	241,096
DEFERRED CHARGES (Note 3.l)	102,559	274,611
OTHER ASSETS (Note 3.m)	97,551	88,052
DEFERRED INCOME TAX (Note 12)	327,517	
DEFERRED EMPLOYEES' PROFIT SHARING (Notes 3.s and 12)	<u>36,117</u>	<u>18,775</u>
Total assets	<u>Ps 22,604,443</u>	<u>Ps 21,007,574</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES WITH FINANCIAL COST:		
Interest-bearing demand deposits and time-deposits (Note 3.o)	Ps 7,376,769	Ps 3,131,671
Short-term debt (Note 8)	<u>2,889,947</u>	<u>6,922,706</u>
	10,266,716	10,054,377
CURRENT LIABILITIES WITHOUT FINANCIAL COST:		
Suppliers	1,729,420	1,941,659
Accounts payable and accrued expenses	897,876	714,294
Deferred value added tax		417,859
Income tax payable	<u>182,948</u>	<u>150,837</u>
	2,810,244	3,224,649
Total current liabilities	<u>13,076,960</u>	<u>13,279,026</u>
LONG-TERM LIABILITIES:		
Long-term debt (Note 8)	1,009,640	
Deferred income tax (Note 12)		282,755
Estimated liability for labor benefits (Notes 3.p and 9)	<u>150,477</u>	<u>150,824</u>
Total long-term liabilities	<u>1,160,117</u>	<u>433,579</u>
Total liabilities	<u>14,237,077</u>	<u>13,712,605</u>
STOCKHOLDERS' EQUITY (Note 10):		
Capital stock	2,472,600	2,252,187
Additional paid-in capital	3,068,488	2,078,758
Retained earnings	2,589,682	2,633,104
Cumulative translation adjustment	<u>219,437</u>	<u>316,675</u>
Total majority interest	8,350,207	7,280,724
Minority interest	<u>17,159</u>	<u>14,245</u>
Total stockholders' equity	8,367,366	7,294,969
COMMITMENTS (Note 13)		
Total liabilities and stockholders' equity	<u>Ps 22,604,443</u>	<u>Ps 21,007,574</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

Thousands of Mexican Pesos

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net sales	Ps 14,946,922	Ps 14,762,221	Ps 14,181,236
Cost of sales	<u>(7,355,212)</u>	<u>(7,533,555)</u>	<u>(7,692,122)</u>
Gross margin	7,591,710	7,228,666	6,489,114
Operating expenses	<u>(6,468,548)</u>	<u>(6,192,026)</u>	<u>(5,160,349)</u>
Operating income	1,123,162	1,036,640	1,328,765
Comprehensive financing expense, net (Note 11)	<u>(1,235,556)</u>	<u>(421,926)</u>	<u>(680,289)</u>
	(112,394)	614,714	648,476
Other income (expenses), net (Note 12)	<u>1,926</u>	<u>(66,427)</u>	<u>(4,921)</u>
(Loss) income before income tax	(110,468)	548,287	643,555
Income tax (Note 12)	<u>210,128</u>	<u>15,136</u>	<u>(125,344)</u>
Consolidated net income	99,660	563,423	518,211
Net income corresponding to minority interest	<u>2,305</u>	<u>2,558</u>	<u>259</u>
Net income corresponding to majority interest	<u>Ps 97,355</u>	<u>Ps 560,865</u>	<u>Ps 517,952</u>
Earnings per share corresponding to majority interest, in pesos	<u>Ps 0.22</u>	<u>Ps 1.70</u>	<u>Ps 1.57</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS 2009 AND 2008

Thousands of Mexican Pesos

	<u>Capital stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Deficit on restatement of capital</u>	<u>Cumulative translation adjustment</u>	<u>To major inter-</u>
Balances at December 31, 2007	<u>Ps 2,254,937</u>	<u>Ps 2,111,763</u>	<u>Ps 4,001,181</u>	<u>(Ps 1,946,792)</u>	<u>Ps 46,556</u>	<u>Ps 6,4</u>
Changes in 2008:						
Net income			560,865			5
Adjustments in stockholders' equity in subsidiaries for adoption of new accounting standards			6,748			2
Cumulative translation adjustment					270,119	2
Comprehensive income			567,613		270,119	8
Repurchase of own shares	(2,750)	(33,005)	11,102			0
Reclassification of accumulated loss from holding nonmonetary assets			(1,946,792)	1,946,792		
	<u>(2,750)</u>	<u>(33,005)</u>	<u>(1,935,690)</u>	<u>1,946,792</u>		
Balances at December 31, 2008	<u>2,252,187</u>	<u>2,078,758</u>	<u>2,633,104</u>	<u>-</u>	<u>316,675</u>	<u>7,2</u>
Changes in 2009:						
Net income			97,355			(1
Write-off of preoperating expenses (Note 3.1)			(134,167)			0
Cumulative translation adjustment					(97,238)	(1
Comprehensive loss			(36,812)		(97,238)	(1
Increase in capital stock and paid-in capital	218,182	962,958				1,1
Resale of own shares	2,231	26,772	(6,610)			
	<u>220,413</u>	<u>989,730</u>	<u>(6,610)</u>			<u>1,2</u>
Balances at December 31, 2009 (Note 10)	<u>Ps 2,472,600</u>	<u>Ps 3,068,488</u>	<u>Ps 2,589,682</u>	<u>Ps -</u>	<u>Ps 219,437</u>	<u>Ps 8,3</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS 2009 AND 2008

Thousands of Mexican Pesos

	<u>2009</u>	<u>2008</u>
<u>Operations</u>		
Net (loss) income before income tax	(Ps 110,468)	Ps 548,287
Items relating to investing activities:		
Depreciation and amortization	431,267	419,389
Allowance for doubtful accounts	1,225,817	610,450
Gain on sale of property, plant and equipment	(1,735)	(70)
Estimated liability for labor benefits	30,848	79,768
Deferred employees profit sharing	(17,342)	(3,171)
Interest gain	(15,935)	(13,094)
Items relating to financing activities:		
Interest expense	1,125,446	871,166
Exchange loss (gain)	8,911	(42,363)
Other, net		245
Changes in working capital other than investing and financing:		
Accounts receivable	(2,419,965)	(3,753,544)
Inventories	43,445	(41,833)
Other accounts receivable, deferred charges and other assets	(448,584)	(60,915)
Suppliers	(203,829)	57,084
Other accounts payable and accrued expenses	(235,509)	(60,388)
Income tax paid	<u>(405,736)</u>	<u>(212,522)</u>
Net cash flow used in operating activities	<u>(993,369)</u>	<u>(1,601,511)</u>
<u>Investment</u>		
Acquisition of property, leasehold improvements, furniture and equipment	(280,742)	(700,682)
Sale of property, leasehold improvements, furniture and equipment	11,234	12,485
Interest collected	<u>15,935</u>	<u>13,094</u>
Net cash flow used in investing activities	<u>(253,573)</u>	<u>(675,103)</u>
Resources to be provided by financing activities	<u>(1,246,942)</u>	<u>(2,276,614)</u>
<u>Financing</u>		
Interest paid	(1,132,510)	(855,946)
New short-term debt and bank loans	2,991,136	4,051,233
Payments of short-term debt and bank loans	(5,999,529)	(2,922,630)
Bank customers' deposits	4,245,098	2,874,096
Increase in capital stock and paid-in capital	1,181,140	
Resale (reacquisition) of own shares	22,393	(24,653)
Other capital adjustments	<u>8,856</u>	<u>8,856</u>
Net cash flow from financing activities	<u>1,307,728</u>	<u>3,130,956</u>
Increase in net cash and cash equivalent	60,786	854,342
Adjustments to cash flow as a result of changes in exchange rates	196,765	270,119
Cash and cash equivalent at beginning of year	<u>1,448,535</u>	<u>324,074</u>
Cash and cash equivalent at end of year	<u>Ps 1,706,086</u>	<u>Ps 1,448,535</u>
Cash and cash equivalent	Ps 1,514,218	Ps 1,011,628
Restricted cash	<u>191,868</u>	<u>436,907</u>
	<u>Ps 1,706,086</u>	<u>Ps 1,448,535</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR 2007

Thousands of Mexican Pesos of December 31, 2007 Purchasing Power

Operations

Net income	Ps 517,952
Items not affecting resources:	
Depreciation and amortization	325,482
Allowance for doubtful accounts	367,742
Deferred income tax	(72,354)
Estimated liability for labor benefits	<u>30,287</u>
	<u>1,169,109</u>
Changes in working capital other than financing:	
Trade accounts receivable	(2,296,025)
Inventories	(95,241)
Suppliers	(112,865)
Other, net	<u>440,046</u>
	<u>(2,064,085)</u>
Resources used in operating activities	<u>(894,976)</u>

Financing

Bank loans and long-term debt, net	1,527,570
Increase in capital stock	60,904
Minority interest	<u>309</u>
Resources provided by financing activities	<u>1,588,783</u>

Investment

Property, leasehold improvements and furniture and equipment, net	<u>(911,193)</u>
Decrease in cash and cash equivalent	(217,386)
Cash and cash equivalent at beginning of year	<u>541,460</u>
Cash and cash equivalent at end of year	<u>Ps 324,074</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009, 2008 AND 2007

Thousands of Mexican Pesos (see Note 3)  
(except where otherwise indicated)

NOTE 1 - ACTIVITIES OF THE COMPANIES

The main activities of Grupo Famsa, S. A. B. de C. V. and its subsidiaries (“Grupo Famsa” or the “Company”) consist of the purchase and sale of household appliances, furniture, clothing, cellular telephones and other durable consumer products (“retail operations”), as well as the manufacture of furniture. The Company is also engaged in the consumer finance sector by providing banking and credit services to its retail customers, in conformity with the Mexican Law of Credit Institutions (“LIC”). The Company’s sales are made on credit and in cash to both wholesale and retail customers.

Grupo Famsa carries out its activities through retail stores and wholesale warehouses. The Company’s principal subsidiaries and its ownership percentage are:

	<u>Ownership %</u> <u>at December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Retail sales:</u>			
Fabricantes Muebleros, S. A. de C. V.	99.87	99.87	99.87
Famsa del Centro, S. A. de C. V.	100.00	100.00	100.00
Famsa del Pacífico, S. A. de C. V.	99.99	99.99	99.99
Famsa Metropolitano, S. A. de C. V.	99.94	99.94	99.94
Impulsora Promobien, S. A. de C. V.	99.04	99.04	99.04
Famsa, Inc., a subsidiary organized under the laws of California and headquartered in California, U.S.A. (“Famsa USA”)	100.00	100.00	100.00

	Ownership % at December 31,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Services, manufacturing and other:</u>			
Corporación de Servicios Ejecutivos Famsa, S. A. de C. V.	100.00	100.00	100.00
Corporación de Servicios Ejecutivos, S. A. de C. V.	99.21	99.21	99.21
Promotora Sultana, S. A. de C. V.	99.99	99.99	99.99
Suministro Especial de Personal, S. A. de C. V.	99.99	99.99	99.99
Auto Gran Crédito Famsa, S. A. de C. V.	99.99	99.99	99.99
Expormuebles, S. A. de C. V.	99.90	99.90	99.90
Mayoramsa, S. A. de C. V.	99.89	99.89	99.89
Verochi, S. A. de C. V.	99.92	99.92	99.92
Geografía Patrimonial, S. A. de C. V. (1)	53.75	-	-
<u>Financial entities supporting retail sales:</u>			
Banco Ahorro Famsa, S. A., Institución de Banca Múltiple (2)	99.79	99.48	99.23

- (1) Geografía Patrimonial, S. A. de C. V., located in Monterrey, N. L., was incorporated in November 2009 and began operations in that month. Its main activity consists of leasing real estate to related parties.
- (2) In January 2007, the Company obtained authorization from the Ministry of Finance and Public Credit ("SHCP") to operate Banco Ahorro Famsa, S. A., Institución de Banca Múltiple ("BAF" or the "Bank"). BAF is subject to inspection and supervision by the National Banking and Securities Commission ("CNBV") and Banco de México ("Banxico").

## NOTE 2 - SIGNIFICANT EVENT

Since 2007, Grupo Famsa has sought to enhance its Mexican consumer finance operations by obtaining access to a more stable and less expensive source of short-term funding through the development of BAF. During 2009, bank deposit growth and the development of BAF allowed Grupo Famsa to transfer to the Bank most of the credit accounts granted to customers in Mexico. As a result of the integration of BAF into Grupo Famsa's operations and the related separation of business and credit functions, customers benefit from more efficient credit processing services. More than 467,000 customers' credit lines are already managed through the Famsa private label card issued by BAF. In addition, Grupo Famsa has transferred its existing consumer finance operations to BAF, which will eventually absorb all Grupo Famsa's Mexican store customer accounts. At the end of 2009, BAF operated 276 full-format banking branches that meet the requirements of functionality and security established by the CNBV, which were fully integrated into Famsa's Mexican stores.

### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of the most significant accounting policies followed by Grupo Famsa and its subsidiaries:

a. Basis of presentation and disclosures

The accompanying consolidated financial statements were approved for issuance on April 13, 2010 by Humberto Garza Valdez (Chief Executive Officer) and Abelardo García Lozano (Chief Financial Officer), have been prepared in accordance with Mexican Financial Reporting Standards (“MFRS”), present fairly the Company’s financial position, and assume that the Company will continue as a going concern.

In accordance with MFRS B-3 “Income statement”, the Company’s management adopted the policy of presenting the statement of income based on function, since grouping costs and expenses on this basis allows the various levels of income to be presented. In addition, for convenience of the reader, operating income is presented separately since it is a relevant analytical component of the financial information of the Company and has been disclosed by the Company on a regular basis in accordance with industry practice.

The financial statements of Famsa USA, which are prepared in accordance with the United States Generally Accepted Accounting Principles, and the financial statements of BAF, which are prepared in accordance with accounting rules and practices established by the CNBV, are both conformed to MFRS for consolidation purposes.

Commencing January 1, 2008, the Company adopted the provisions established in the new MFRS B-15 “Foreign Currency Translation”, under which the Mexican peso is defined as the Company’s functional currency as well as its reporting currency. Based on this standard, the financial statements of Famsa USA, which operates in a non-hyperinflationary environment, were translated to Mexican pesos as follows: a) as of December 31, 2009, 2008 and 2007, assets and liabilities were translated using the year-end exchange rate, b) stockholders’ equity was translated using historical exchange rates, c) revenues, costs and expenses for the years 2009, 2008 and 2007 were translated using the historical exchange rate (or average in the event of no significant change); the effects of translation are recognized as a component of stockholders’ equity titled “Cumulative translation adjustment”.

Commencing January 1, 2008, the provisions of MFRS B-10 “Effects of inflation” became effective. This standard establishes the guidelines for recognizing the effects of inflation based on the inflationary environment of the country. According to the provisions of MFRS B-10, as long as the accumulated inflation the last three years does not exceed 26%, the effects of inflation in the financial information will not be recognized. Since the accumulated inflation for the years ended December 31, 2009, 2008 and 2007 did not exceed 26%, the financial statements as of December 31, 2009 and 2008 have been prepared based on the modified historical cost model (that is, the effects of transactions recognized as of December 31, 2007 are expressed in Mexican pesos of constant purchasing power at that date, and the effects of transactions that occurred after that date are expressed in nominal Mexican pesos). Financial statements for the year ended December 31, 2007, which are presented for



comparative purposes, are expressed in constant Mexican pesos of December 31, 2007 purchasing power, based on factors derived from the National Consumer Price Index (“INPC”), published by Banxico for domestic companies, and by the General Consumer Price Index of the countries in which the foreign subsidiaries operate.

The Mexican inflation rates for the years ended December 31 are shown below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
For the year	3.57%	6.53%	3.76%
For the three most recent years	14.48%	15.01%	11.56%

b. Use of estimates

The preparation of the financial information in accordance with MFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and reported revenues, costs and expenses for the reporting years. Actual results could differ from those estimates. The main captions subject to these estimates include the following: impairment of long-lived assets, allowances for doubtful accounts, allowance for deferred income tax asset and labor obligations (assets and liabilities).

c. Basis for consolidation

The consolidated financial statements comprise the accounts of Grupo Famsa and all subsidiaries in which the majority of the common shares are owned directly or indirectly by the Company or over which it otherwise has control (see Note 1). All significant intercompany transactions and balances between Grupo Famsa and its subsidiaries have been eliminated in consolidation.

d. Cash and cash equivalents

Cash equivalents are highly liquid investments with maturities of less than one year from the date of the balance sheet and are stated at cost, which approximates market value. The interest earned from cash and cash equivalents is recognized in income on an accrual basis.

Restricted cash in BAF comprises: a) deposits required by monetary regulation and made with Banxico, which earn a funding rate, b) inter-bank short-term loans, which do not exceed more than three working days, and c) purchased foreign currency, whose agreed settlement date is subsequent to the transaction date.

The restricted cash from Famsa USA is cash maintained due to down payments received from customers.

At December 31, 2009 and 2008, this caption includes restricted cash from BAF amounting to Ps182,733 and Ps427,005, respectively, and from Famsa USA amounting to Ps9,135 and Ps9,902, respectively.

e. Revenue recognition

The Company derives revenues from retail operations primarily through the sale of products such as household appliances, furniture, clothing, electronics and cellular telephones, as well as the granting of personal loans and issuance of other financial services products offered through the subsidiary BAF.

Revenue from retail sales is recognized upon completion of the revenue recognition process, which occurs when merchandise is shipped or delivered to customers in accordance with the terms of an agreement of sale, there is a fixed or determinable selling price, title and risk of loss have been transferred, and collectability is reasonably assured. Most of these conditions are satisfied at the time of delivery to customers and at the issuance of the sales receipt. Allowances for estimated returns and discounts are provided when sales are recorded. Revenue originated from the sale of extended warranties is recognized at the time of sale since the amount is not significant.

The Company offers to customers an option to pay in installments (weekly, bi-weekly or monthly) rather than in cash at the time of purchase. Revenues from installment sales are recognized at the date of sale, since the average period for the recovery in full of the amount of these sales is less than one year.

f. Trade accounts receivable and allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts related to customers' receivables for estimated losses resulting from customers' inability to make timely payments, including interest on finance receivables. The amount of the allowance for doubtful accounts is based on various factors including the length of past due payments, the current business environment, past practices (represented as a percentage of sales), historical experience and the estimated recoverable value of the related sold item, since, in some cases, the sold item is treated as collateral under the sale contract. The Company's management believes that the allowance for doubtful accounts is adequate and sufficient to cover any losses associated with the accounts receivable and loan portfolio.

g. Inventories and cost of sales

Inventories of household appliances, furniture, clothes and other products for sale to third parties are stated at the lower of historical cost or market value; cost is determined using the average cost method.

The cost of sales recognizes the historical cost determined under the valuation method described in the paragraph above.

h. Shipment and handling of merchandise

Shipping and handling fees paid by customers are included in net sales. Costs associated with handling the Company's products and shipping them to customers is classified in cost of sales when incurred.

i. Advance payments for advertising

The Company contracts its media advertising, mainly television and press, directly and through its subsidiaries. The related agreements stipulate payments for these services which are charged to income as they are accrued. The services are rendered in the course of one year. At December 31, 2009, prepaid advertising costs amounted to Ps132,441 (Ps109,671 at December 31, 2008); this amount is included in the balance sheet under “Other accounts receivable”.

j. Business acquisitions, goodwill and intangible assets

In accordance with the standards in effect, Grupo Famsa has adopted the following accounting guidelines for business acquisitions: (a) all acquisitions are accounted for as purchases; the purchase price of assets acquired and related liabilities is allocated based on their fair value at the date of acquisition; (b) intangible assets acquired are subject to identification, valuation and recognition; and (c) goodwill represents the purchase price portion not so allocated.

Goodwill is not amortized and is subject to periodic testing for impairment.

In order to be recognized, intangible assets must be identifiable and must provide future economic benefits; in addition, control over such benefits is also required. They are classified as having:

- i) Indefinite useful life - These are not amortized and are subject to annual impairment testing; through December 31, 2009 no circumstances that might affect their useful lives have been identified.
- ii) Finite useful life - These are amortized by applying the straight-line method, based on the estimated useful lives determined in accordance with the expected future economic benefits, and are subject to impairment tests, when appropriate.

k. Property, leasehold improvements, furniture and equipment and depreciation

At December 31, 2009 and 2008, property, leasehold improvements, furniture and equipment and the related accumulated depreciation are stated as follows: (a) acquisitions from January 1, 2008 at historical cost; (b) acquisitions of domestic origin carried out up to December 31, 2007 at restated value determined by applying factors derived from the INPC through December 31, 2007 to the acquisition cost; and (c) acquisitions of assets of foreign origin at historical cost stated in the currency of the country of origin by applying factors derived from the general inflation index of the country of origin through December 31, 2007, translated to Mexican pesos using the exchange rate prevailing at December 31, 2007. Consequently, property, leasehold improvements, furniture and equipment are stated at modified historical cost.

Depreciation is calculated by the straight-line method based on the estimated useful lives of the assets as determined by the companies. The amortization period for leasehold improvements is determined based on the term of the lease agreement.

Property, leasehold improvements, furniture and equipment are subject to recognition impairment testing. Impairment charged is reversed when applicable.

l. Deferred charges

Since January 1, 2008, deferred charges are stated at historical cost. They comprise principally costs related to the development and implementation of integrated computer systems and installation, preoperating and start-up expenses of Famsa USA, all of which are subject to amortization. Since MFRS C-8 “Intangible assets” became effective, the Company wrote-off all unamortized preoperating expenses relating to the year 2002 and prior years of Famsa USA, amounting to approximately Ps134,167, to retained earnings.

m. Other assets

This item comprises mainly guarantee deposits.

n. Transactions in foreign currency and exchange differences

Monetary assets and liabilities in foreign currencies, mainly U.S. dollars (US\$), are stated in Mexican currency at the rates of exchange in effect at the balance-sheet date. Exchange differences arising from changes in exchange rates between the transaction and settlement dates or the balance-sheet date are charged or credited to comprehensive financing (expense) income.

o. Demand deposits and time-deposits

The Company’s liabilities include BAF’s funding liabilities, including interest-bearing demand deposits (savings, deposits and checking accounts) as well as time-deposits (certificates of deposits and promissory notes). These liabilities are recorded at the contracted transaction value plus accrued interest. At December 31, 2009 and 2008, BAF’s funding liabilities with third parties were as follows:

	<u>2009</u>	<u>2008</u>
Demand deposits:		
Savings deposits (interest-bearing)	Ps 1,423,699	Ps 535,862
Checking accounts (non-interest-bearing)	138,063	63,202
Time-deposits:		
From the general public	5,881,238	879,543
Money market	<u>-</u>	<u>1,744,757</u>
	7,443,000	3,223,364
Less demand and term deposits of subsidiary companies	<u>66,231</u>	<u>91,693</u>
Total	<u>Ps 7,376,769</u>	<u>Ps 3,131,671</u>

p. Estimated liability for labor benefits (employees' benefits)

The benefits granted by the Company to its employees, including defined benefit plans, are summarized as follows: direct benefits (salaries, over-time, vacations, holidays and paid absences, etc.) are expensed as incurred and the liabilities are expressed at nominal value, due to their short-term nature. Compensated absences according to legal or contractual provisions are not cumulative. The Company does not have any long-term direct benefit plans.

The Company does not have any employees' defined contribution benefit plans, except for those required by the Social Security laws.

The benefits at the end of the labor relationship, other than those caused by restructuring (legal indemnities for dismissal, seniority premium plan, voluntary separation, etc.), are recognized based on studies by independent actuaries using the projected unit credit method.

Beginning on January 1, 2008, the Company began applying the requirements of MFRS D-3 "Employee benefits", which provisions require a maximum five-year amortization period calculation for items related to past services, the incorporation of the effects of salary growth in the calculation of the defined benefit obligation, as well as the elimination of any additional liability and corresponding intangible assets, and, if applicable, any amount recorded in stockholders' equity under reporting standards effective through December 31, 2007.

The accumulated effect of the adoption of MFRS D-3 was recognized in retained earnings in the statement of changes in stockholders' equity in 2008.

Beginning January 1, 2008, the transition liability is amortized over the lesser of the period pending to be amortized or five years. Until December 31, 2007, past services were amortized over the employees' estimated remaining working life.

q. Comprehensive financing income (expense)

This item is determined by grouping in the statement of income all interest and other financial income and expense, exchange gains and losses, and the gain or loss on monetary position.

The gain or loss on monetary position represents the effects of inflation, as measured by the NCPI, on the Company's monthly net monetary assets or liabilities during the year. In accordance with the standards of MFRS B-10, its recognition is required from January 1, 2008, only if the accumulated inflation exceeds 26% in the three most recent years.

r. Income tax

The Company uses the comprehensive asset and liability method to determine the deferred tax asset or liability, and related income/expense for deferred income taxes, for all the temporary differences between the carrying values for financial reporting and tax values of assets and liabilities. Valuation allowances are provided if, based upon the weight of

available evidence, it is more likely than not that some or all of the deferred tax assets will not be realizable. The Company recognized deferred income tax rather than deferred flat tax since financial and tax projections prepared by the Company show that it will be paying income tax in the foreseeable future.

s. Employees' profit sharing

Deferred profit sharing is recorded based on the method described in paragraph r. above, when related payment or recovery is likely to occur.

The current and deferred profit sharing expenses or benefits are included in other expenses in the income statement.

t. Shares held in treasury

The maximum limit for the acquisition of the Company's own shares is determined based on stockholders' resolutions. Shares acquired are held in treasury and their acquisition cost is charged to stockholders' equity as follows: a portion is charged to capital stock at its modified historical cost and the excess to the reserve of repurchase for shares (included in the retained earnings caption). These amounts are stated at historical cost.

u. Stockholders' equity

The capital stock, paid-in capital, retained earnings and cumulative translation adjustment are stated as follows: i) movements in these accounts occurring after January 1, 2008, are stated at historical value, and ii) movements occurring before January 1, 2008 are stated at their restated historical cost, determined by the application to their originally-determined values of factors derived from the NCPI up to December 31, 2007. Consequently, the different stockholders' equity concepts are stated at modified historical cost.

The additional paid-in capital represents the excess of the payment for subscribed shares over their nominal value.

v. Comprehensive (loss) income

Comprehensive (loss) income is represented by the net income and items required by specific accounting standards to be reflected in stockholders' equity but which do not constitute capital contributions, reductions or distributions. The amounts of comprehensive (loss) income in 2009 and 2008 are stated in modified historical pesos, and the amounts for 2007 are stated in pesos of purchasing power of December 31, 2007.

w. Earnings per share

Earnings per share are computed by dividing the net income for the year by the weighted average number of common shares outstanding during the year. There are no effects arising from potentially dilutive shares.

x. Foreign currency operations

The financial statements of Famsa USA (a foreign currency operation) have the same recording currency as the functional currency (U.S. dollar). Those financial statements were therefore translated to the Company's reporting currency (Mexican pesos), considering a non-inflationary economic environment, as follows:

- Assets and liabilities at December 31, 2009 and 2008 using the exchange rates prevailing at each closing date (Ps13.04 and Ps13.77, respectively).
- Stockholders' equity was converted using historical exchange rates.
- Revenues, costs and expenses of 2009 and 2008 were converted using the monthly average exchange rates of each year, which were Ps13.62 and Ps12.18, respectively.

The change in the net investment in the U.S. subsidiary resulting from the fluctuation in the exchange rate is included in stockholders' equity as cumulative translation adjustment.

y. Business segment information

The standards of MFRS B-5 "Financial information by segments" require the Company to analyze its organizational structure and its reporting system for the purpose of identifying segments. In practice, the Company distinguishes business segments by geographical area.

These segments are managed independently since the goods, services and the markets are different. Resources are allocated to the segments considering management strategies. The Company's activities are performed through different subsidiaries (see Note 1). Operations among segments are recorded at market value.

Note 14 shows the information by segment which management uses to analyze, manage and control the business and evaluate its operating income. The information by segment required by MFRS B-5 is also shown.

z. Risk concentration

The principal financial instruments maintained by the Company under a credit risk concentration correspond to cash in banks and cash equivalents, as well as trade accounts receivable. Cash and cash equivalents are maintained in recognized financial institutions. The relative investments are in fixed interest and money market securities. The risk concentration regarding trade accounts receivable is significant since the Company managed a credit portfolio of approximately 1,670,000 accounts (unaudited) at December 31, 2009 (1,687,000 in 2008). However, there is an allowance for doubtful accounts based on a percentage of the net credit sales. Additionally, in order to reduce risks, the Company in Mexico requires that all credit granted must be secured by the goods purchased and by a guarantor.

#### NOTE 4 - TRADE ACCOUNTS RECEIVABLE

At December 31 this caption comprised the following:

	<u>2009</u>	<u>2008</u>
Trade accounts receivable (see Note 2):		
Commercial business	Ps 4,950,949	Ps 9,473,624
Financial sector	<u>9,903,712</u>	<u>3,589,763</u>
	14,854,661	13,063,387
Less - Allowance for doubtful accounts (1)	<u>723,561</u>	<u>126,435</u>
Net	<u>Ps 14,131,100</u>	<u>Ps 12,936,952</u>

(1) In 2009, 2008 and 2007, the allowance charged to income was Ps1,225,817, Ps610,450 and Ps367,742, respectively.

At December 31, 2008 and 2007 trade accounts receivable in respect of retail customers from the commercial business in Mexico and the United States were pledged as security for a line of credit; however, at December 31, 2009, only the trade accounts receivable from retail customers in the United States were pledged as security for a line of credit (see Note 8).

#### NOTE 5 - INVENTORIES

Inventories consisted of the following:

	<u>2009</u>	<u>2008</u>
Products (*)	Ps 1,767,294	Ps 2,061,722
Clothing, footwear and jewelry	329,988	351,556
Merchandise in transit, advances to suppliers and others	<u>20,763</u>	<u>20,756</u>
Total	<u>Ps 2,118,045</u>	<u>Ps 2,434,034</u>

(\*) Comprises mainly electronic products, household appliances and furniture.



## NOTE 6 - PROPERTY, LEASEHOLD IMPROVEMENTS AND FURNITURE AND EQUIPMENT

At December 31 this item comprised the following:

	<u>2009</u>	<u>2008</u>	<u>Depreciation rate</u>
Land	Ps 326,252	Ps 240,394	
Construction in progress	<u>17,596</u>	<u>74,266</u>	
	<u>343,848</u>	<u>314,660</u>	
Buildings and construction (1)	361,483	243,811	3%
Leasehold improvements	2,406,634	2,432,960	8%
Furniture and equipment	1,070,029	1,007,044	10%
Transportation equipment	253,640	259,749	22%
Data-processing equipment	<u>489,867</u>	<u>463,394</u>	24%
	4,581,653	4,406,958	
Accumulated depreciation	<u>(2,193,621)</u>	<u>(1,852,664)</u>	
	<u>2,388,032</u>	<u>2,554,294</u>	
Net carrying value	<u>Ps 2,731,880</u>	<u>Ps 2,868,954</u>	

(1) At December 31, 2009, some building and construction are pledged as collateral (see Note 8).

Depreciation charged to income represented annual average rates of 9.4% in 2009, 9.4% in 2008 and 8.7% in 2007.

In accordance with the lease agreements, the leasehold improvements will become the property of the lessor at the termination of the agreements.

## NOTE 7 - FOREIGN CURRENCY POSITION

At December 31, 2009 and 2008, the exchange rates were 13.04 and 13.77 nominal pesos to the U.S. dollar, respectively, according to Banxico. At April 13, 2010, the dates of issuance of the audited financial statements, the exchange rate was 12.18 nominal pesos to the U.S. dollar.

Amounts shown in this note are expressed in thousands of U.S. dollars (US\$), since this is the currency in which most of the Company's foreign currency transactions are carried out.

At December 31 the Company had the following foreign currency assets and liabilities:

	<u>2009</u>	<u>2008</u>
Monetary assets	US\$ 263,617	US\$ 258,468
Monetary liabilities	<u>114,227</u>	<u>78,021</u>
Monetary position in foreign currency	<u>US\$ 149,390</u>	<u>US\$ 180,447</u>
Nonmonetary assets (inventories)	<u>US\$ 46,352</u>	<u>US\$ 59,708</u>

In the years ended December 31, 2009, 2008 and 2007, the Company had direct imports of inventories totaling US\$8.6 million, US\$27.7 million and US\$29.1 million, respectively.

## NOTE 8 - SHORT-TERM LOANS AND LONG-TERM DEBT

At December 31 the total consolidated debt was as follows:

	<u>2009</u>	<u>2008</u>	<u>Interest rate (*)</u>
<u>Grupo Famsa</u>			
Mexican pesos:			
Amounts drawn down from short-term revolving credit lines:			
Banco Inbursa, S. A.	Ps 450,000	Ps 500,000	9.91%
Banca del Bajío, S. A.	100,000	100,000	8.48%
Banco Santander Serfin, S. A.	100,000	175,000	8.92%
IXE Banco, S. A.	-	250,000	12.27%
Banorte, S. A.	299,996	-	8.95%
Issuance of debt certificates (1):			
Short-term	567,700	2,277,430	8.22%
Long-term	<u>1,000,000</u>	<u>-</u>	8.50%
	<u>2,517,696</u>	<u>3,302,430</u>	
Amounts drawn down from revolving credit lines:			
GE Capital Bank, S. A.	-	199,425	
GE Capital Corporation	<u>-</u>	<u>2,252,364</u>	
	<u>-</u>	<u>2,451,789</u>	15.97%
U.S. dollars:			
Euro-commercial paper (2)	<u>926,103</u>	<u>-</u>	8.00%
<u>Banco Ahorro Famsa, S. A., Institución de Banca Múltiple:</u>			
Mexican pesos:			
Banco Inbursa, S. A.	-	300,000	11.00%
Nacional Financiera, S. N. C. (3)	<u>9,640</u>	<u>29,346</u>	9.57%
	<u>9,640</u>	<u>329,346</u>	
<u>Famsa USA:</u>			
U.S. dollars:			
Amounts drawn down from credit line with:			
Deutsche Bank N.Y. (4)	182,611	-	2.75%
GE Capital Corporation (5)	<u>263,537</u>	<u>839,141</u>	10.63%
	<u>446,148</u>	<u>839,141</u>	
Total debt	3,899,587	6,922,706	
Short-term debt	<u>(2,889,947)</u>	<u>(6,922,706)</u>	
Long-term debt	<u>Ps 1,009,640</u>	<u>Ps -</u>	

(\*) Nominal rates at December 31, 2009.

- (1) Both the long- and short-term local bonds have been registered with the “Registro Nacional de Valores” maintained by the CNBV.

A portion of the short-term local bonds are guaranteed by 16 real properties, which have been mortgaged in favor of the bondholders. Of the 16 real properties, 12 are properties of the subsidiary Geografía Patrimonial, S. A. de C. V. (“Geografía Patrimonial”), and four are directly owned by Grupo Famsa. These mortgages contain certain restrictive covenants which, among other things, limit the ability to:

- Create any other lien or encumbrance in connection with the properties.
- Decrease Geografía Patrimonial’s or the capital stock under Ps400 million.
- Pledge or guaranty in any way the shares representing the capital stock.

In addition, the short-term local bonds programs contain standard default provisions, including a change of control provision, as well as cross-default provisions.

On September 11, 2009, the Company issued, through a public offering on the Mexican stock exchange (Bolsa Mexicana de Valores S. A. B. de C. V.), a series of commercial paper (certificados bursátiles) in the aggregate principal amount of Ps1,000 million. This commercial paper was priced at a spread of 250 bps over the 28-day THIE interbank rate, matures on August 12, 2011, and was assigned “A(mex)” and “HRA” ratings by Fitch México, S. A. de C. V. and HR Ratings de México, S. A. de C. V., respectively. The net proceeds of this issue were used by the Company for working capital and to pay off short-term debt. The debt certificates are payable in monthly installments starting in March 2011 and ending in August 2011.

Long-term local bonds issued pursuant to this program are partially guaranteed by Nacional Financiera, S. N. C. (“NAFIN”) as part of a credit agreement with NAFIN. NAFIN is obliged to pay up to 50% of the outstanding amount of principal and ordinary interest due and unpaid on the bonds should Grupo Famsa default, provided that, at no time will NAFIN pay more than Ps500 million. The note by which this bond was issued was also executed by NAFIN as guarantor.

Additionally, the long-term local bonds contain certain restrictive covenants which, among other things, limit the ability to:

- Change or modify the main business purpose or activities of the Company.
- Incur additional debt in an amount higher than three times the stockholders’ equity as of the date of issuance of the bonds.
- Pay dividends or reduce the capital stock without the prior written consent of NAFIN.
- Guarantee third party obligations, except for obligations assumed by the employees, subsidiaries and affiliates.
- Enter into or carry out any transaction with financial derivative instruments.

- (2) During October and December 2009, the Company issued aggregate principal amounts of US\$44 and US\$27 million, respectively of discounted short-term notes pursuant to commercial paper programs amounting to US\$50 million and US\$100 million, respectively. These commercial paper programs have a CD equivalent yield of 8.00% and mature on October 6, 2010 and December 23, 2010, respectively. The net proceeds of these issues were used by the Company for working capital and to refinance existing debt.
- (3) Loan contracted with NAFIN and payable in full in 2014.
- (4) In 2009, Famsa USA contracted a line of credit with Deutsche Bank AG for US\$14 million, with final maturity in 2010, which was fully drawn down.
- (5) At December 31, 2009, Famsa USA had contracted with GE Capital Corporation a revolving credit line for one year of up to an equivalent of US\$34.2 million (US\$60.9 million in 2008) at a fixed interest rate and maturing in April 30, 2010. The credit line is secured by Famsa USA's trade accounts receivable and guaranteed by Grupo Famsa, S. A. B. de C. V.

At December 31, 2009, and at the date of issuance of these financial statements, the Company had satisfactorily complied with such covenants and restrictions.

#### NOTE 9 - ESTIMATED LIABILITY FOR LABOR BENEFITS

The liabilities and costs relating to seniority premiums and pension plans to which employees are entitled after 15 years of service, are recognized on the basis of actuarial studies performed by independent actuaries. The Company has also established plans to cover compensation in the event of dismissal, based on actuarial studies made by independent actuaries.

The reconciliation between the initial and final balances of the defined benefit obligations (DBO) present value for the year 2009 is as follows:

	<u>Pension plan</u>	<u>Severance compensations</u>	<u>Seniority premiums</u>	<u>Total</u>
DBO at January 1, 2009	Ps 3,549	Ps 109,606	Ps 37,669	Ps 150,824
Add (less):				
Net cost for the period	675	13,077	13,543	27,295
Payments charged to liability for labor benefits	-	(24,282)	(5,662)	(29,944)
Cost of obligation settlements	-	2,046	4	2,050
Actuarial losses (earnings)	(424)	4,544	(3,870)	250
Others	<u>-</u>	<u>(213)</u>	<u>215</u>	<u>2</u>
DBO at December 31, 2009	<u>Ps 3,800</u>	<u>Ps 104,778</u>	<u>Ps 41,899</u>	<u>Ps 150,477</u>

The reconciliation between the present value of the DBO and the fair value of Plan Assets (PA) and the Net Projected Liability (NPL) recognized in the balance sheet is as follows:

<u>Item</u>	<u>2009</u>				<u>2008</u>
	<u>Pension plan</u>	<u>Severance compensation</u>	<u>Seniority premiums</u>	<u>Total</u>	<u>Total</u>
DBO	Ps 3,800	Ps 106,374	Ps 41,746	Ps 151,920	Ps 153,718
Less: PA	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funding status	3,800	106,374	41,746	151,920	153,718
Less:					
Net transition liability	463	1,971	62	2,496	3,746
Actuarial losses (earnings)	(463)	(557)	-	(1,020)	(821)
Others	<u>-</u>	<u>182</u>	<u>(215)</u>	<u>(33)</u>	<u>(31)</u>
NPL at December 31, 2009	<u>Ps 3,800</u>	<u>Ps 104,778</u>	<u>Ps 41,899</u>	<u>Ps 150,477</u>	<u>Ps 150,824</u>

An analysis of the net period costs is as follows.

<u>Item</u>	<u>2009</u>				<u>2008</u>	<u>2007</u>
	<u>Pension plan</u>	<u>Severance compensation</u>	<u>Seniority premiums</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
Labor cost	Ps 247	Ps 3,815	Ps 10,671	Ps 14,733	Ps 12,469	Ps 11,766
Financing cost	273	8,410	2,851	11,534	10,020	4,373
Net transition liability	155	853	20	1,028	1,322	-
Actuarial losses (earnings)	-	-	-	-	27,259	-
Transition cost for acquired rights	-	-	-	-	1,384	-
Cost of early settlement of obligations (1)	-	2,046	4	2,050	4,125	-
Cost of recognition of actuarial losses (earnings) of the year	(424)	4,544	(3,870)	250	14,596	-
Other	<u>89</u>	<u>953</u>	<u>211</u>	<u>1,253</u>	<u>8,593</u>	<u>14,148</u>
Total	<u>Ps 340</u>	<u>Ps 20,621</u>	<u>Ps 9,887</u>	<u>Ps 30,848</u>	<u>Ps 79,768</u>	<u>Ps 30,287</u>

(1) This concept relates to cost of early settlement of obligations, different than restructuring or discontinuing operations.

Rates used in the calculation of projected obligations for benefits and plan yields:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Discount rate (%)	8.25%	8.25%	4.00%
Salary increase rate (%)	5.00%	5.00%	1.00%

## NOTE 10 - STOCKHOLDERS' EQUITY

Since January 1, 2008 the capital stock, the additional paid-in capital and retained earnings are stated in modified historical Mexican pesos (see Note 3.u).

In the Ordinary General Meeting held on April 29, 2009, the stockholders agreed that the fund created for the purchase and sale of Company's own shares will be up to a maximum amount of Ps110,000. At December 31, 2009, the Company had 259,700 shares held in treasury and the market value per share at that date was Ps25.03.

On July 17, 2009, the existing stockholders approved the following:

- i. An increase in the capital stock through the issuance of 109,090,909 Series A, Class II shares of common stock, with no par value, corresponding to the variable portion of the capital stock of the Company.
- ii. In connection with the pre-emptive rights afforded to the stockholders by Mexican law, the existing stockholders subscribed and paid for 101,454,329, or 93% of such new shares.
- iii. In addition, a number of the existing stockholders expressed interest in purchasing any new shares that remained unsubscribed.
- iv. The number of shares in respect of which additional purchase offers were received exceeded the 7,636,580 new shares that remained unsubscribed.

On August 13, 2009, the Board of Directors allocated such shares to the prospective purchasers on a pro rata basis based upon the number of shares subject to their purchase offers. The shares so allocated were then subscribed and paid by these stockholders in accordance with the procedure established by the Board of Directors.

Subsequent to the above-mentioned changes the amounts of stockholders' equity, at December 31, 2009 were as follows:

<u>Description</u>	<u>Number of shares</u>	<u>Amount</u>
Fixed capital (minimum): Series "A" Class "I", common, nominative shares, without par value	330,097,385	Ps 660,195
Variable capital: Series "A" Class "II", common, nominative shares, without par value	109,090,909	218,182
Restatement for inflation through December 31, 2007		<u>1,594,223</u>
Capital stock	<u>439,188,294</u>	<u>Ps 2,472,600</u>

The net income for the period is subject to the legal provision requiring at least 5% of the income for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock. At December 31, 2009 the retained earnings include Ps255,415 and Ps510,830, applicable to the legal reserve and to the reinvestment reserve, respectively.

Dividends paid are not subject to income tax if they are paid from the after-tax earnings account ("CUFIN"). Dividends paid in excess of this account are subject to a tax equivalent to 42.86% if paid in 2010. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years or, if appropriate, against the flat tax of the year. Dividends, which are paid from retained earnings previously taxed, are not subject to any tax withholding or payment. For the years ended December 31, 2009, 2008 and 2007 no dividend was paid.

In the event of a capital reduction, any excess of stockholders' equity over capital contribution accounts ("CUCA"), the latter restated in accordance with the provisions of the Income Tax Law, is accorded the same tax treatment as dividends. At December 31, 2009 and 2008, the CUCA amounted to Ps6,014,581 and Ps4,619,836, respectively.

#### NOTE 11 - COMPREHENSIVE FINANCING INCOME (EXPENSE), NET

This caption comprised the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Financial expense	(Ps 1,125,446)	(Ps 871,166)	(Ps 612,593)
Financial income	15,935	13,094	17,379
Exchange gain (loss), net	(126,045)	436,146	(3,970)
Loss on monetary position			(81,105)
	<u>(Ps 1,235,556)</u>	<u>(Ps 421,926)</u>	<u>(\$ 680,289)</u>

#### NOTE 12 - INCOME TAX, ASSET TAX, FLAT TAX AND EMPLOYEES' PROFIT SHARING

Grupo Famsa determines its taxable income (loss) and employees' profit sharing on an individual Company stand-alone basis. The tax result differs from the accounting result due to the temporary differences arising from comparing the book value and the tax value of each asset and liability account in the balance sheet, as well as items only affecting the net income or the taxable income of the year.

In accordance with the changes to the Mexican Income Tax Law published on December 7, 2009, the income tax rate for the years 2010 through 2012 will be 30%, for 2013 29% and from 2014 onwards 28%. At December 31, 2009 the aforementioned changes in tax rates gave rise to a net increase in deferred income tax of Ps12,372 with the corresponding effect on income for the year, which was determined based on the expected reversal of temporary items at the rates which will be in effect.

The net credit (charge) to consolidated income for Income Tax and Flat Tax were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Income tax:			
Current	(Ps 94,860)	(Ps 331,385)	(Ps 197,698)
Deferred	<u>625,177</u>	<u>346,521</u>	<u>72,354</u>
Total income tax	530,317	15,136	(125,344)
Flat tax:			
Current	<u>(320,189)</u>	<u>                    </u>	<u>                    </u>
Total tax on profits	<u>Ps 210,128</u>	<u>Ps 15,136</u>	<u>(Ps 125,344)</u>

The reconciliation between the statutory and effective income tax rates is shown below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Income tax at statutory rate	28%	28%	28%
Add (deduct) effect of income tax on:			
Inflationary component, net			(6%)
Permanent nondeductible differences	7%	2%	4%
Effect inflationary adjustment for tax purposes	15%	11%	4%
Other permanent differences	<u>140%</u>	<u>(38%)</u>	<u>(11%)</u>
Effective income tax rate	<u>190%</u>	<u>3%</u>	<u>19%</u>

The movement of deferred income tax at December 31 was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year	Ps 469,191	Ps 815,712	Ps 888,066
Change in the year	<u>(625,177)</u>	<u>(346,521)</u>	<u>(72,354)</u>
Balance at end of year	<u>(Ps 155,986)</u>	<u>Ps 469,191</u>	<u>Ps 815,712</u>



At December 31 the principal temporary differences requiring recognition of deferred income tax were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Trade accounts receivable	Ps 591,464	Ps 3,215,598	Ps 4,739,799
Advance payments and others provisions, net	287,025	144,493	179,113
Inventories	643,058	826,236	1,026,679
Property, furniture and equipment, net	(129,574)	(20,806)	110,677
Allowance for doubtful accounts	(357,088)	(135,515)	(80,656)
Estimated liability for labor benefits	(150,477)	(150,824)	(139,897)
Tax effect of credit sales	(230,880)	(2,015,863)	(2,654,438)
Employees' profit sharing payable	(2,898)	(4,823)	
Deferred employees' profit sharing	36,117	18,775	
Tax loss carryforwards	<u>(2,059,828)</u>	<u>(905,282)</u>	<u>(751,461)</u>
	(1,373,081)	971,989	2,429,816
Less - Allowance for deferred income tax	<u>(860,172)</u>	<u>(703,692)</u>	<u>(483,442)</u>
	(512,909)	1,675,681	2,913,258
Income tax rate (*)	<u>30%</u>	<u>28%</u>	<u>28%</u>
Deferred income tax (asset) liability	(155,986)	469,191	815,712
Recoverable asset tax	<u>(171,531)</u>	<u>(186,436)</u>	<u>(197,448)</u>
Deferred income tax (asset) liability, net	<u>(Ps 327,517)</u>	<u>Ps 282,755</u>	<u>Ps 618,264</u>

(\*) Weighted average rate at the date temporary differences are expected to be realized.

The Company had unused tax loss carryforwards in México (which may be restated for inflation through the date they are applied against future taxable profits) and the United States, expiring in the following years:

2010	Ps 27,460
2011	84,593
2012	11,190
2017	26,789
2018	51,537
2019	<u>998,087</u>
	1,199,656 (1)
2020 to 2029	<u>860,172</u>
	<u>Ps 2,059,828</u>

(1) The foregoing amounts are shown at their inflation-indexed amount through December 31, 2009.

Famsa USA has tax loss carryforwards totaling US\$66 million (equivalent to Ps860,172), expiring in 2029; however, the Company has created an allowance covering such tax loss carryforwards since the U.S. operations have not historically generated taxable income.

On October 1, 2007, the Flat Tax Law was issued, which became effective as of January 1, 2008. This law requires individuals and corporations residing in Mexico, as well as those residing abroad with permanent establishment in Mexico, to determine the flat tax payable. The flat tax of the period is calculated by applying a 17% rate to net income based on cash flows. Such net income represents the difference between the total income collected from taxable activities, less the authorized tax deductions paid. In addition, this amount can be further reduced by flat tax credits, based on the procedures established in the law. Flat tax is paid only when it exceeds the income tax payable.

Any asset tax exceeding the income tax effectively paid up to December 31, 2007 (the date when asset tax was abrogated) is susceptible of reimbursement according to the Flat Tax Law. The Company has the right to recover the asset tax paid for a cumulative amount of Ps171,531, which is composed as follows:

2010	Ps 6,101
2011	7,415
2012	14,256
2013	15,734
2014	18,679
2015	10,661
2016	40,247
2017	<u>58,438</u>
	<u>Ps 171,531</u>

Employees' profit sharing was determined at the rate of 10% on taxable income adjusted as prescribed by the Income Tax Law. Tax loss carryforwards and asset tax credits are not available for purposes of reducing employees' profit sharing.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Employees' profit sharing:			
Current	(Ps 1,933)	(Ps 4,387)	(Ps 965)
Deferred	<u>17,342</u>	<u>3,171</u>	<u>          </u>
Total profit sharing (1)	<u>Ps 15,409</u>	<u>(Ps 1,216)</u>	<u>(Ps 965)</u>

(1) Profit sharing is included in the consolidated statement of income in "Other expenses, net".

At December 31 the principal temporary differences requiring recognition of deferred employees' profit sharing were as follows:

	<u>2009</u>	<u>2008</u>
Estimated liability for labor benefits	(Ps 150,477)	(Ps 150,824)
Advance payments	(141,390)	3,677
Property, furniture and equipment, net	<u>(69,300)</u>	<u>(40,601)</u>
	(361,167)	(187,748)
Profit sharing rate	<u>10%</u>	<u>10%</u>
Deferred profit sharing asset	<u>(Ps 36,117)</u>	<u>(Ps 18,775)</u>

#### NOTE 13 - COMMITMENTS

The majority of the subsidiary companies have entered into long-term lease agreements (some with related parties) covering properties occupied by their stores. Following is a description of the main agreements entered into with related parties:

##### a) Real Property Leases

As of December 31, 2009, the Company had 40 long-term lease agreements in place with the controlling shareholders and various entities controlled by them, in respect of the retail space used by several of the stores. The terms of all such agreements are substantially identical and are consistent with standard industry practices and real estate market prices.

Rentals payable related to lease agreements are as follows:

	<u>Other</u>	<u>Related parties</u>	<u>Total</u>
2010	Ps 848,668	Ps 100,743	Ps 949,411
2011 a 2014	<u>3,394,673</u>	<u>402,971</u>	<u>3,797,644</u>
	<u>Ps 4,243,341</u>	<u>Ps 503,714</u>	<u>Ps 4,747,055</u>

In 2009, 2008 and 2007 total rental expense was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Third parties	Ps 808,255	Ps 715,979	Ps 608,531
Related parties	<u>95,946</u>	<u>89,584</u>	<u>84,473</u>
Total	<u>Ps 904,201</u>	<u>Ps 805,563</u>	<u>Ps 693,004</u>

b) Asset management

The Company has entered into various asset management agreements with affiliates and other entities controlled by the principal shareholders, covering account collection services and the management and investment of the proceeds of such collections, in exchange for a commission payable on an annual basis. In addition, pursuant to these agreements the Company is required to make available to such entities every year a revolving credit facility that bears interest at the rate of 9.6% per annum, payable in arrears at the end of each such year. The Company has entered into this type of agreement with certain entities that are directly or indirectly controlled by the controlling shareholders, including Inmobiliaria Garza Valdez, S. A. de C. V., Inmobiliaria Garza Valdez de la Laguna, S. A. de C. V., Inmobiliaria Logar de Monterrey, S. A. de C. V., and Desarrollos Inmobiliarios Garza Valdez, S. A. de C. V., among others.

Other commitments

At December 31, 2009, the Company had a credit balance with related parties amounting to Ps230,269, bearing interest at TIIE plus 2 points and maturing in June 2010. This item is included within "Accounts payable and accrued expenses" balance sheet line item.

NOTE 14 - INFORMATION BY BUSINESS SEGMENT

The Company manages and evaluates its continuing operations through three business segments: Mexico (national retail stores, personal car financing and financial sector), U.S.A. (foreign retail stores) and other businesses in Mexico (wholesale, manufacturing of furniture and footwear catalog business). The Company controls and evaluates its continuing operations on a consolidated basis. Its activities are carried out through its subsidiary companies.

Company management uses operating income before depreciation as the measurement of segment performance as well as to evaluate development, make general operating decisions and assign resources.

The information by business segment is as follows:

## 2009

	<u>México</u>	<u>USA</u>	<u>Other</u>	<u>Subtotal</u>	<u>Intersegment</u>	<u>Consolidated</u>
Net sales (1)	Ps 10,832,302	Ps 4,096,420	Ps 763,259	Ps 15,691,981	(Ps 745,059)	Ps 14,946,922
Cost of sales	<u>(5,442,821)</u>	<u>(1,979,884)</u>	<u>(736,038)</u>	<u>(8,158,743)</u>	<u>803,531</u>	<u>(7,355,212)</u>
Gross margin	5,389,481	2,116,536	27,221	7,533,238	58,472	7,591,710
Operating expenses (2)	<u>(3,730,026)</u>	<u>(2,244,221)</u>	<u>(115,901)</u>	<u>(6,090,148)</u>	<u>52,867</u>	<u>(6,037,281)</u>
Operating income before depreciation and amortization	1,659,455	(127,685)	(88,680)	1,443,090	111,339	1,554,429
Depreciation and amortization	<u>(279,406)</u>	<u>(147,827)</u>	<u>(4,034)</u>	<u>(431,267)</u>		<u>(431,267)</u>
Operating income	<u>Ps 1,380,049</u>	<u>(Ps 275,512)</u>	<u>(Ps 92,714)</u>	<u>Ps 1,011,823</u>	<u>Ps 111,339</u>	<u>Ps 1,123,162</u>
Additional segmental disclosure:						
Total assets	<u>Ps 19,748,208</u>	<u>Ps 4,356,669</u>	<u>Ps 501,473</u>	<u>Ps 24,606,350</u>	<u>(Ps 2,001,907)</u>	<u>Ps 22,604,443</u>
Total liabilities	<u>Ps 13,681,730</u>	<u>Ps 2,444,816</u>	<u>Ps 112,438</u>	<u>Ps 16,238,984</u>	<u>(Ps 2,001,907)</u>	<u>Ps 14,237,077</u>
Capital expenditure	<u>Ps 290,737</u>	<u>Ps 29,889</u>	<u>Ps 3,157</u>	<u>Ps 323,783</u>	<u>Ps -</u>	<u>Ps 323,783</u>

## 2008

	<u>México</u>	<u>USA</u>	<u>Other</u>	<u>Subtotal</u>	<u>Intersegment</u>	<u>Consolidated</u>
Net sales (1)	Ps 11,132,989	Ps 3,593,947	Ps 848,721	Ps 15,575,657	(Ps 813,436)	Ps 14,762,221
Cost of sales	<u>(5,979,933)</u>	<u>(1,702,473)</u>	<u>(733,871)</u>	<u>(8,416,277)</u>	<u>882,722</u>	<u>(7,533,555)</u>
Gross margin	5,153,056	1,891,474	114,850	7,159,380	69,286	7,228,666
Operating expenses (2)	<u>(4,036,948)</u>	<u>(1,673,984)</u>	<u>(119,652)</u>	<u>(5,830,584)</u>	<u>57,947</u>	<u>(5,772,637)</u>
Operating income before depreciation and amortization	1,116,108	217,490	(4,802)	1,328,796	127,233	1,456,029
Depreciation and amortization	<u>(244,827)</u>	<u>(170,361)</u>	<u>(4,201)</u>	<u>(419,389)</u>		<u>(419,389)</u>
Operating income	<u>Ps 871,281</u>	<u>Ps 47,129</u>	<u>(Ps 9,003)</u>	<u>Ps 909,407</u>	<u>Ps 127,233</u>	<u>Ps 1,036,640</u>
Additional segmental disclosure:						
Total assets	<u>Ps 18,386,641</u>	<u>Ps 4,841,163</u>	<u>Ps 530,062</u>	<u>Ps 23,757,866</u>	<u>(Ps 2,750,292)</u>	<u>Ps 21,007,574</u>
Total liabilities	<u>Ps 12,720,549</u>	<u>Ps 3,644,423</u>	<u>Ps 97,925</u>	<u>Ps 16,462,897</u>	<u>(Ps 2,750,292)</u>	<u>Ps 13,712,605</u>
Capital expenditure	<u>Ps 647,486</u>	<u>Ps 286,894</u>	<u>Ps 3,052</u>	<u>Ps 937,432</u>	<u>Ps -</u>	<u>Ps 937,432</u>

## 2007

	<u>México</u>	<u>USA</u>	<u>Other</u>	<u>Subtotal</u>	<u>Intersegment</u>	<u>Consolidated</u>
Net sales (1)	Ps 11,326,452	Ps 2,808,221	Ps 969,319	Ps 15,103,992	(Ps 922,756)	Ps 14,181,236
Cost of sales	<u>(6,485,043)</u>	<u>(1,368,916)</u>	<u>(817,803)</u>	<u>(8,671,762)</u>	<u>979,640</u>	<u>(7,692,122)</u>
Gross margin	4,841,409	1,439,305	151,516	6,432,230	56,884	6,489,114
Operating expenses (2)	<u>(3,575,560)</u>	<u>(1,193,135)</u>	<u>(134,630)</u>	<u>(4,903,325)</u>	<u>68,458</u>	<u>(4,834,867)</u>
Operating income before depreciation and amortization	1,265,849	246,170	16,886	1,528,905	125,342	1,654,247
Depreciation and amortization	<u>(218,703)</u>	<u>(102,480)</u>	<u>(4,299)</u>	<u>(325,482)</u>		<u>(325,482)</u>
Operating income	<u>Ps 1,047,146</u>	<u>Ps 143,690</u>	<u>Ps 12,587</u>	<u>Ps 1,203,423</u>	<u>Ps 125,342</u>	<u>Ps 1,328,765</u>
Additional segmental disclosure:						
Total assets	<u>Ps 13,968,558</u>	<u>Ps 2,907,859</u>	<u>Ps 491,306</u>	<u>Ps 17,367,723</u>	<u>(Ps 1,050,260)</u>	<u>Ps 16,317,463</u>
Total liabilities	<u>Ps 9,045,860</u>	<u>Ps 1,736,960</u>	<u>Ps 105,468</u>	<u>Ps 10,888,288</u>	<u>(Ps 1,050,260)</u>	<u>Ps 9,838,028</u>
Capital expenditure	<u>Ps 706,416</u>	<u>Ps 214,306</u>	<u>Ps 17,509</u>	<u>Ps 938,231</u>	<u>Ps -</u>	<u>Ps 938,231</u>

(1) Net sales are realized in the respective countries disclosed above.

(2) Depreciation and amortization are not included.

## NOTE 15 - NEW FINANCIAL REPORTING STANDARDS

In 2009 the Mexican Financial Reporting Standards Board (“CINIF”) issued the following MFRS and Interpretations which are effective starting January 1, 2010, except for Interpretation 18, which became effective on December 7, 2009, and MFRS B-5 and B-9 which are effective from January 1, 2011 onwards. The Company’s management considers that these MFRS and Interpretations will have no significant effect on the financial information presented. Following are brief details of the new standards:

MFRS B-5 “Financial information by segment” sets forth the general standards for disclosure of financial information by segments, allowing the presentation of information by segment in a manner more consistent with the related financial statements; additionally, it also allows the user of such information to analyze the entity from a management approach. This standard will replace Statement B-5 “Financial information by segment”, in force until December 31, 2010.

MFRS B-9 “Interim financial information” sets forth the standards for the determination and presentation of interim financial information for external purposes and, among other changes, requires presentation of the statements of changes in stockholders’ equity and of cash flows; these statements were not required by Statement B-9 “Interim financial information”, in effect until December 31, 2010.

MFRS C-1 “Cash and cash equivalents” stipulates the standards for the accounting treatment and disclosure of cash, restricted cash and investments available for sale; it also provides new terminology to make it consistent with other MFRSs previously issued. This MFRS supersedes Statement C-1 “Cash”, in force until December 31, 2009.

Interpretation 17 “Service concession arrangements”- It eliminates the inconsistency between MFRS D-6 “Capitalization of comprehensive financing income (expense)” and Statement D-7 “Construction and manufacture of certain capital goods”, concerning the accounting treatment of comprehensive financing income (expense) applicable to service concession arrangements in the event of recognition of an intangible asset during the construction phase.

Interpretation 18 “Recognition of the effects of the 2010 tax reforms on income tax” was issued in response to various doubts raised over the 2010 tax reforms, mainly in connection with the changes to tax consolidation requirements and income tax rates.

**GRUPO FAMSA. S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING BALANCE SHEET AS OF DECEMBER 31, 2015**

**Thousands of Mexican Pesos**

<u>ASSETS</u>	<u>Parent company</u>			<u>Combined guarantors</u>			<u>Eliminations</u>	<u>Parent company and combined guarantors</u>			<u>Non-Guarantors</u>			<u>Eliminations</u>
CURRENT ASSETS:														
Cash and cash equivalents	Ps	748,192	4.7%	Ps	70,380	0.5%		Ps	818,572	4.6%	Ps	284,749	5.0%	Ps
Restricted cash					9,902	0.1%			9,902	0.1%		427,005	7.6%	
Trade accounts receivable					8,892,416	66.6%			8,892,416	50.2%		4,159,520	73.7%	
Accounts receivable to affiliated companies		5,087,875	31.9%		802,573	6.0%	Ps (5,698,289)		192,159	1.1%		322,256	5.7%	
Taxes recoverable		(19,127)	-0.1%		247,178	1.9%			228,051	1.3%		(10,983)	-0.2%	
Other accounts receivable		287,173	1.8%		147,390	1.1%			434,563	2.5%		44,934	0.8%	
Inventories		1,807,253	11.3%		626,781	4.7%			2,434,034	13.7%				
Total current assets		7,911,366	49.6%		10,796,620	80.9%	(5,698,289)		13,009,697	73.5%		5,227,481	92.7%	
PROPERTY, LEASEHOLD IMPROVEMENTS AND FURNITURE AND EQUIPMENT		242,447	1.5%		2,328,934	17.5%			2,571,381	14.5%		324,652	5.8%	
INVESTMENT IN SUBSIDIARIES		7,471,417	46.9%		3,163	0.0%	(5,880,845)		1,593,735	9.0%				
GOODWILL		241,096	1.5%						241,096	1.4%				
DEFERRED CHARGES		77,473	0.5%		127,652	1.0%			205,125	1.2%		69,486	1.2%	
OTHER ASSETS					87,871	0.7%			87,871	0.5%		181	0.0%	
DEFERRED EMPLOYEES' PROFIT SHARING					20	0.0%			20	0.0%		18,755	03%	
Total assets	Ps	15,943,799	100.0%	Ps	13,344,260	100.0%	Ps (11,579,134)	Ps	17,708,925	100.0%	Ps	5,640,555	100.0%	Ps

**GRUPO FAMSA. S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING BALANCE SHEET AS OF DECEMBER 31, 2017**

Thousands of Mexican Pesos

	Parent company		Combined guarantors		Eliminations		Parent company and combined guarantors		Non-Guarantors		Eliminations	
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>												
<b>CURRENT LIABILITIES WITH FINANCIAL COST</b>												
Interest-bearing demand deposits and time-deposits									Ps	3,223,364	57.1%	Ps
Bank debt	Ps	3,590,788	22.5%	Ps	839,142	6.3%		Ps	4,429,930	25.0%	329,346	5.8%
Commercial paper		2,277,430	14.3%						2,277,430	12.9%		
		<u>5,868,218</u>	<u>36.8%</u>		<u>839,142</u>	<u>6.3%</u>			<u>6,707,360</u>	<u>37.9%</u>	<u>3,552,710</u>	<u>63.0%</u>
<b>CURRENT LIABILITIES WITHOUT FINANCIAL COST:</b>												
Suppliers		1,765,472	11.1%		176,187	1.3%			1,941,659	11.0%		
Accounts payable to affiliated companies		580,135	3.6%		5,428,369	40.7%	(5,698,289)		310,215	1.8%	204,200	3.6%
Accounts payable and accrued expenses		177,529	1.1%		390,955	2.9%			568,484	3.2%	146,793	2.6%
Deferred value added tax		(58,124)	-0.4%		430,093	3.2%			371,969	2.1%	45,890	0.8%
Income tax and asset tax payable		78,986	0.5%		42,451	0.3%			121,437	0.7%	29,400	0.5%
		<u>2,543,998</u>	<u>16.0%</u>		<u>6,468,055</u>	<u>48.5%</u>	<u>(5,698,289)</u>		<u>3,313,764</u>	<u>18.7%</u>	<u>426,283</u>	<u>7.6%</u>
Total current liabilities		<u>8,412,216</u>	<u>52.8%</u>		<u>7,307,197</u>	<u>54.8%</u>	<u>(5,698,289)</u>		<u>10,021,124</u>	<u>56.6%</u>	<u>3,978,993</u>	<u>70.5%</u>
<b>LONG-TERM LIABILITIES:</b>												
Deferred income tax		223,778	1.4%		144,544	1.1%			368,322	2.1%	(85,567)	-1.5%
Estimated liability for labor benefits					1,850	0.0%			1,850	0.0%	148,974	2.6%
Total long-term liabilities		<u>223,778</u>	<u>1.4%</u>		<u>146,394</u>	<u>1.1%</u>			<u>370,172</u>	<u>2.1%</u>	<u>63,407</u>	<u>1.1%</u>
Total liabilities		<u>8,635,994</u>	<u>54.2%</u>		<u>7,453,591</u>	<u>55.9%</u>	<u>(5,698,289)</u>		<u>10,391,296</u>	<u>58.7%</u>	<u>4,042,400</u>	<u>71.7%</u>
<b><u>STOCKHOLDERS' EQUITY:</u></b>												
Capital stock		2,252,187	14.1%		5,704,142	42.7%	(5,704,142)		2,252,187	12.7%	905,146	16.0%
Additional paid-in capital		2,078,758	13.0%						2,078,758	11.7%		
Retained earnings		1,951,137	12.2%		447,332	3.4%	(447,332)		1,951,137	11.0%	(51,289)	-0.9%
Stock Repurchase Reserve		121,102	0.8%						121,102	0.7%		
Net income		587,946	3.7%		(577,480)	-4.3%	577,480		587,946	33%	744,298	13.2%
Cumulative translation adjustment		316,675	2.0%		316,675	2.4%	(316,675)		316,675	1.8%		
Total majority interest		<u>7,307,805</u>	<u>45.8%</u>		<u>5,890,669</u>	<u>44.1%</u>	<u>(5,890,669)</u>		<u>7,307,805</u>	<u>41.3%</u>	<u>1,598,155</u>	<u>28.3%</u>
Minority interest							9,824		9,824	0.1%		
Total stockholders' equity		<u>7,307,805</u>	<u>45.8%</u>		<u>5,890,669</u>	<u>44.1%</u>	<u>(5,880,845)</u>		<u>7,317,629</u>	<u>41.3%</u>	<u>1,598,155</u>	<u>28.3%</u>
Total liabilities and stockholders' equity	Ps	<u>15,943,799</u>	<u>100.0%</u>	Ps	<u>13,344,260</u>	<u>100.0%</u>	Ps (11,579,134)	Ps	<u>17,708,925</u>	<u>100.0%</u>	Ps 5,640,555	100.0% Ps



**GRUPO FAMSA. S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING STATEMENT OF OPERATIONS**  
**FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2008**

Thousands of Mexican Pesos

	Parent company		Combined guarantors		Eliminations		Parent company and combined guarantors		Non-Guarantors		Eliminations		
Net sales	Ps	6,141,339	100.0%	Ps	13,818,934	100.0%	Ps	(6,255,536)	Ps	13,704,737	100.0%	Ps	(6,255,536)
Cost of sales		(5,505,678)	-89.6%		(8,416,606)	-60.9%		6,388,729		(7,533,555)	-55.0%		6,388,729
Gross margin		635,661	10.4%		5,402,328	39.1%		133,193		6,171,182	45.0%		133,193
Operating expenses		(378,751)	-6.2%		(5,865,445)	-42.4%		459,507		(5,784,689)	-42.2%		459,507
Operating income		256,910	4.2%		(463,117)	-3.4%		592,700		386,493	2.8%		592,700
Comprehensive financing expense, net		194,203	3.2%		(774,843)	-5.6%				(580,640)	-4.2%		
		451,113	7.3%		(1,237,960)	-9.0%		592,700		(194,147)	-1.4%		592,700
Other expenses, net		163,619	2.7%		425,410	3.1%		(592,700)		(3,671)	0.0%		(592,700)
Income before income tax		614,732	10.0%		(812,550)	-5.9%				(197,818)	-1.4%		
Income tax		(191,046)	-3.1%		235,070	1.7%				44,024	0.3%		
Income before participation in the results of subsidiaries		423,686	6.9%		(577,480)	-4.2%				(153,794)	-1.1%		
Participation in the results of subsidiaries		164,260	2.7%					575,982		740,242	5.4%		575,982
Consolidated net income	Ps	587,946	9.6%	Ps	(577,480)	-4.2%	Ps	575,982	Ps	586,448	4.3%	Ps	575,982
Distribution of consolidated net income:													
Net income of majority stockholders	Ps	587,946	9.6%	Ps	(577,480)	-4.2%	Ps	577,480	Ps	587,946	4.3%	Ps	577,480
Net income of minority stockholders								(1,498)		(1,498)	0.0%		(1,498)
Consolidated net income	Ps	587,946	9.6%	Ps	(577,480)	-4.2%	Ps	575,982	Ps	586,448	4.3%	Ps	575,982

**GRUPO FAMSA. S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING STATEMENT OF CASH FLOW**  
**FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2008**

Thousands of Mexican Pesos

	Parent company		Combined guarantors		Eliminations		Parent company and combined guarantors		Non-Guarantors	
<b>Operations</b>	Ps		Ps		Ps		Ps		Ps	
Net income before income tax	778,992		(812,550)		575,982		542,424		773,186	
Items relating to investing activities:										
Participation in the results of subsidiaries	(164,260)				(575,982)		(740,242)			
Depreciation and amortization	16,846		336,406				353,252		66,137	
Allowance for doubtful accounts			521,602				521,602		88,848	
Gain on sale of property, plant and equipment			(17,487)				(17,487)		(9,663)	
Estimated liability for labor benefits			1,400				1,400		78,368	
Deterred employees profit sharing			(83)				(83)		(3,087)	
Interest gain	(459,281)		(15,897)		440,372		(34,806)		(3,539)	
Items relating to financing activities:										
Interest expense	700,722		794,541		(440,372)		1,054,891		132,803	
Exchange gain	(423,633)		(3,810)		512		(45,661)		3,298	
Other, net	245						245			
Changes in working capital other than investing and financing:										
Accounts receivable			(171,839)				(171,839)		(3,696,689)	
Accounts receivable to affiliated companies, net	(551,954)		328,161		249,913		26,120		155,406	
Inventories	135,795		(177,628)				(41,833)			
Other accounts receivable, deferred charges and other assets	16,088		(146,993)				(130,905)		(203,133)	
Suppliers	36,586		20,498				57,084			
Other accounts payable and accrued expenses	84,544		51,450				135,994		821	
Income tax paid	(163,107)		(46,852)				(209,959)		(2,563)	
Net cash flow used in operating activities	388,853		660,919		250,425		1300,197		(2,436,987)	
<b>Investment</b>										
Acquisition of property, plant and equipment			(646,092)				(646,092)		(282,939)	
Sale of plant and equipment			169,145				169,145		76,231	
Interest collected	459,281		15,897		(440,372)		34,806		3,539	
Investment in subsidiaries	(200,000)				(51,209)		(251,209)			
Net cash flow used in investing activities	259,281		(461,050)		(491,581)		(693,350)		(203,169)	
Resources to be provided by financing activities	648,134		199,869		(241,156)		606,847		(2,640,156)	
<b>Financing</b>										
Interest paid	(687,175)		(634,223)		440,372		(881,026)		(132,468)	
New short-term debt and bank loans	3,716,429		119,458				3,835,887		329,346	
Payments of short-term debt and bank loans	(2,922,630)						(2,922,630)			
Bank customers' deposits									2,953,147	
Reacquisition of own shares	(24,653)						(24,653)			
Other capital adjustments	8,856						8,856			
Net cash flow from financing activities	90,827		(514,765)		440,372		16,434		3,150,025	
Increase in net cash and cash equivalent	738,961		(314,896)		199,216		623,281		509,869	
Adjustments to cash flow as a result of changes in exchange rates			270,119				270,119			
Cash and cash equivalent at beginning of period	9,231		125,060		(199,216)		(64,926)		201,885	
Cash and cash equivalent at end of period	Ps 748,192		Ps 80,282				Ps 828,474		Ps 711,754	

**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING BALANCE SHEET AS OF DECEMBER 31, 2017**

**Thousands of Mexican Pesos**

	Parent company			Combined guarantors			Eliminations	Parent company and combined guarantors			Non-Guarantors		Eliminations	
<u>ASSETS</u>														
CURRENT ASSETS:														
Cash and cash equivalents	Ps	376,165	2.4%	Ps	105,927	1.0%		Ps	482,092	3.0%	Ps	1,098,357	8.6%	Ps
Restricted cash					9,135	0.1%			9,135	0.1%		182,733	1.4%	
Trade accounts receivable					4,660,501	46.0%			4,660,501	29.4%		9,821,626	77.2%	
Accounts receivable to affiliated companies		2,962,986	19.1%		1,330,618	13.1%	Ps (4,141,252)		152,352	1.0%		901,402	7.1%	
Taxes recoverable		258,613	1.7%		347,647	3.4%			606,260	3.8%		(32,660)	-0.3%	
Other accounts receivable		308,587	2.0%		136,805	1.4%			445,392	2.8%		93,499	0.7%	
Inventories		1,614,904	10.4%		503,141	5.0%			2,118,045	13.4%				
Total current assets		5,521,255	35.6%		7,093,774	70.0%	(4,141,252)		8,473,777	53.5%		12,064,958	94.8%	
PROPERTY, LEASEHOLD IMPROVEMENTS AND FURNITURE AND EQUIPMENT														
		142,246	0.9%		2,337,657	23.1%	(173,180)		2,306,723	14.6%		458,228	3.6%	
INVESTMENT IN SUBSIDIARIES		9,795,075	63.1%		152,694	1.5%	(5,500,616)		4,447,153	28.1%				
GOODWILL		241,096	1.6%						241,096	1.5%				
DEFERRED CHARGES												115,996	0.9%	
OTHER ASSETS					97,370	1.0%			97,370	0.6%		181	0.0%	
DEFERRED INCOME TAX		(172,383)	-1.1%		448,514	4.4%			276,131	1.7%		51,386	0.4%	
DEFERRED EMPLOYEES' PROFIT SHARING					342	0.0%			342	0.0%		35,775	0.3%	
Total assets	Ps	15,527,289	100.0%	Ps	10,130,351	100.0%	Ps (9,815,048)	Ps	15,842,592	100.0%	Ps	12,726,524	100.0%	Ps

**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING BALANCE SHEET AS OF DECEMBER 31, 2017**

Thousands of Mexican Pesos

	<u>Parent company</u>		<u>Combined guarantors</u>		<u>Eliminations</u>	<u>Parent company and combined guarantors</u>		<u>Non-Guarantors</u>		<u>Eliminations</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>										
CURRENT LIABILITIES WITH FINANCIAL COST:										
Interest-bearing demand deposits and time-deposits								Ps	7,443,000	58.5% Ps
Bank debt	Ps	1,296,870	8.4%	Ps	446,149	4.4%	Ps	1,743,019	11.0%	
Commercial paper		1,493,803	9.6%					1,493,803	9.4%	
		<u>2,790,673</u>	<u>18.0%</u>		<u>446,149</u>	<u>4.4%</u>		<u>3,236,822</u>	<u>20.4%</u>	
								<u>7,443,000</u>	<u>58.5%</u>	
CURRENT LIABILITIES WITHOUT FINANCIAL COST:										
Suppliers		1,628,038	10.5%		101,382	1.0%		1,729,420	10.9%	
Accounts payable to affiliated companies		1,385,688	8.9%		3,505,194	34.6%	(4,141,252)	749,630	4.7%	304,124 2.4%
Accounts payable and accrued expenses		372,683	2.4%		340,024	3.4%		712,707	4.5%	189,321 1.5%
Income tax and asset tax payable					53,893	0.5%		53,893	0.3%	129,055 1.0%
		<u>3,386,409</u>	<u>21.8%</u>		<u>4,000,493</u>	<u>39.5%</u>	<u>(4,141,252)</u>	<u>3,245,650</u>	<u>20.5%</u>	<u>622,500</u> 4.9%
Total current liabilities		<u>6,177,082</u>	<u>39.8%</u>		<u>4,446,642</u>	<u>43.9%</u>	<u>(4,141,252)</u>	<u>6,482,472</u>	<u>40.9%</u>	<u>8,065,500</u> 63.4%
LONG-TERM LIABILITIES:										
Bank debt									9,640	0.1%
Commercial paper		1,000,000	6.4%					1,000,000	6.3%	
Estimated liability for labor benefits					2,133	0.0%		2,133	0.0%	148,344 1.2%
Total long-term liabilities		<u>1,000,000</u>	<u>6.4%</u>		<u>2,133</u>	<u>0.0%</u>		<u>1,002,133</u>	<u>6.3%</u>	<u>157,984</u> 1.2%
Total liabilities		<u>7,177,082</u>	<u>46.2%</u>		<u>4,448,775</u>	<u>43.9%</u>	<u>(4,141,252)</u>	<u>7,484,605</u>	<u>47.2%</u>	<u>8,223,484</u> 64.6%
STOCKHOLDERS' EQUITY:										
Capital stock		2,472,600	15.9%		7,453,430	73.6%	(7,453,430)	2,472,600	15.6%	1,822,146 14.3%
Additional paid-in capital		3,068,488	19.8%					3,068,488	19.4%	
Retained earnings		2,382,327	15.3%		(264,316)	-2.6%	264,316	2,382,327	15.0%	693,005 5.4%
Stock Repurchase Reserve		110,000	0.7%					110,000	0.7%	
Net income		97,355	0.6%		(1,726,975)	-17.0%	1,726,975	97,355	0.6%	1,987,889 15.6%
Cumulative translation adjustment		219,437	1.4%		219,437	2.2%	(219,437)	219,437	1.4%	
Total majority interest		8,350,207	53.8%		5,681,576	56.1%	(5,681,576)	8,350,207	52.7%	4,503,040 35.4%
Minority interest							7,780	7,780	0.0%	
Total stockholders' equity		<u>8,350,207</u>	<u>53.8%</u>		<u>5,681,576</u>	<u>56.1%</u>	<u>(5,673,796)</u>	<u>8,357,987</u>	<u>52.8%</u>	<u>4,503,040</u> 35.4%
Total liabilities and stockholders' equity	Ps	<u>15,527,289</u>	<u>100.0%</u>	Ps	<u>10,130,351</u>	<u>100.0%</u>	Ps (9,815,048)	Ps 15,842,592	<u>100.0%</u>	Ps 12,726,524 100.0% Ps

**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING STATEMENT OF OPERATIONS**  
**FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2009**

**Thousands of Mexican Pesos**

	<u>Parent company</u>		<u>Combined guarantors</u>		<u>Eliminations</u>	<u>Parent company and combined guarantors</u>		<u>Non- Guarantors</u>		
Net sales	Ps 5,218,592	100.0%	Ps 11,874,159	100.0%	Ps (5,314,327)	Ps 11,778,424	100.0%	Ps 2,737,061	100.0%	Ps 11,778,424
Cost of sales	(4,648,246)	-89.1%	(7,877,902)	-66.3%	5,399,147	(7,127,001)	-60.5%	(228,211)	-8.3%	(7,127,001)
Gross margin	570,346	10.9%	3,996,257	33.7%	84,820	4,651,423	39.5%	2,508,852	91.7%	4,651,423
Operating expenses	(466,956)	-8.9%	(5,820,294)	-49.0%	639,726	(5,647,524)	-47.9%	(2,491,867)	-91.0%	(5,647,524)
Operating income	103,390	2.0%	(1,824,037)	-15.4%	724,546	(996,101)	-8.5%	16,985	0.6%	(996,101)
Comprehensive financing expense, net	(388,210)	-7.4%	(1,000,980)	-8.4%		(1,389,190)	-11.8%	(583,142)	-21.3%	(1,389,190)
	(284,820)	-5.5%	(2,825,017)	-23.8%	724,546	(2,385,291)	-20.3%	(566,157)	-20.7%	(2,385,291)
Other income, net	296,791	5.7%	716,154	6.0%	(897,727)	115,218	1.0%	2,745,192	100.3%	115,218
Loss before income tax	11,971	0.2%	(2,108,863)	-17.8%	(173,181)	(2,270,073)	-19.3%	2,179,035	79.6%	(2,270,073)
Income tax	(12,926)	-0.2%	414,200	3.5%		401,274	3.4%	(191,146)	-7.0%	401,274
Income (loss) before participation in the results of subsidiaries	(955)	0.0%	(1,694,663)	-14.3%	(173,181)	(1,868,799)	-15.9%	1,987,889	72.6%	(1,868,799)
Participation in the results of subsidiaries	98,310	1.9%	(32,312)	-0.3%	1,902,372	1,968,370	16.7%			1,968,370
Consolidated net (loss) income	Ps 97,355	1.9%	Ps (1,726,975)	-14.5%	Ps 1,729,191	Ps 99,571	0.8%	Ps 1,987,889	72.6%	Ps 99,571
Distribution of consolidated net income:										
Net (loss) income of majority stockholders	Ps 97,355	1.9%	Ps (1,726,975)	-14.5%	Ps 1,726,975	Ps 97,355	0.8%	Ps 1,987,889	72.6%	Ps 97,355
Net (loss) income of minority stockholders					2,216	2,216				2,216
Consolidated net (loss) income	Ps 97,355	1.9%	Ps (1,726,975)	-14.5%	Ps 1,729,191	Ps 99,571	0.8%	Ps 1,987,889	72.6%	Ps 99,571

**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING STATEMENT OF CASH FLOW**  
**FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2009**

**Thousands of Mexican Pesos**

	<b>Parent company</b>		<b>Combined guarantors</b>		<b>Eliminations</b>		<b>Parent company and combined guarantors</b>		<b>Non-Guarantors</b>	
<b><u>Operations</u></b>										
Loss income before income tax	Ps	110,281	Ps	(2,141,175)	Ps	1,729,191	Ps	(301,703)	Ps	2,179,035
Items relating to investing activities:										
Participation in the results of subsidiaries		(98,310)		32,312		(1,902,372)		(1,968,370)		
Depreciation and amortization		1,935		329,815				331,750		99,517
Allowance for doubtful accounts				997,606				997,606		228,211
Gain on sale of property, plant and equipment		(129,051)		(64,638)		173,181		(20,508)		(656)
Estimated liability for labor benefits				681				681		30,167
Deferred employees profit sharing				(322)				(322)		(17,020)
Interest gain		(347,222)		(110,518)		428,644		(29,096)		(3,510)
Items relating to financing activities:										
Interest expense		588,554		1,132,391		(428,644)		1,292,301		586,595
Exchange gain		127,107		(20,897)		(97,356)		8,854		57
Changes in working capital other than investing and financing:										
Accounts receivable				3,234,309				3,234,309		(5,890,317)
Accounts receivable to affiliated companies, net		2,819,909		(1,270,561)		(1,070,127)		479,221		508,657
Inventories		160,601		(117,156)				43,445		
Other accounts receivable, deferred charges and other assets		(329,410)		(142,211)				(471,621)		(230,116)
Suppliers		(129,023)		(74,806)				(203,829)		
Other accounts payable and accrued expenses		261,518		(499,477)				(237,959)		15,303
Income tax paid		(143,305)		(204,813)				(348,118)		(57,618)
Net cash flow (used in) provided by operating activities		2,893,584		1,080,540		(1,167,483)		2,806,641		(2,551,695)
<b><u>Investment</u></b>										
Acquisition of property, plant and equipment				(104,591)				(104,591)		(218,530)
Sale of plant and equipment				44,821				44,821		22,719
Interest collected		347,222		110,518		(428,644)		29,096		3,510
Investment in subsidiaries		(2,134,658)				1,215,100		(919,558)		
Net cash flow used in investing activities		(1,787,436)		50,748		786,456		(950,232)		(192,301)
Resources to be (provided by) used in financing activities		1,106,148		1,131,288		(381,027)		1,856,409		(2,743,996)
<b><u>Financing</u></b>										
Interest paid		(618,889)		(914,718)		428,644		(1,104,963)		(586,595)
New short-term debt and bank loans		3,041,400		182,611				3,224,011		
Payments of short-term debt and bank loans		(5,104,219)		(575,604)				(5,679,823)		(319,706)
Bank customers' deposits										4,219,637
Increase in capital stock and paid-in capital		1,181,140						1,181,140		
Resale (reacquisition) of own shares		22,393						22,393		
Net cash flow from financing activities		(1,478,175)		(1,307,711)		428,644		(2,357,242)		3,313,336
Decrease in net cash and cash equivalent		(372,027)		(176,423)		47,617		(500,833)		569,340
Adjustments to cash flow as a result of changes in exchange rates				196,765				196,765		
Cash and cash equivalent at beginning of period		748,192		94,720		(47,617)		795,295		711,750
Cash and cash equivalent at end of period	Ps	376,165	Ps	115,062	Ps	0	Ps	491,227	Ps	1,281,090

**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING BALANCE SHEET**  
**AS OF MARCH 31, 2010**

Thousands of Mexican Pesos

	<u>Parent company</u>			<u>Combined guarantors</u>			<u>Eliminations</u>	<u>Parent company and combined guarantors</u>			<u>Non-Guarantors</u>			
<u>Assets</u>														
Current assets:														
Cash and cash equivalents	Ps	(15,999)	-0.1%	Ps	82,201	0.9%	Ps	—	Ps	66,202	0.4%	Ps	913,455	6.8%
Restricted cash					9,935	0.1%				9,935	0.1%		298,669	2.2%
Trade accounts receivable					3,827,685	40.0%				3,827,685	24.9%		10,284,393	76.9%
Accounts receivable to affiliated companies		3,087,215	20.2%		1,466,090	15.3%	(4,355,186)			198,119	1.3%		1,103,715	8.3%
Taxes recoverable		268,584	1.8%		444,948	4.7%				713,531	4.6%		(56,192)	-0.4%
Other accounts receivable		290,791	1.9%		158,122	1.7%				448,913	2.9%		190,140	1.4%
Inventories		1,629,092	10.7%		448,246	4.7%				2,077,338	13.5%			
Total current assets		5,259,683	34.4%		6,437,226	67.3%	(4,355,186)			7,341,723	47.7%		12,734,180	95.3%
Property, leasehold improvements and furniture and equipment		142,043	0.9%		2,272,555	23.8%	(173,180)			2,241,418	14.6%		448,838	3.4%
Investment in subsidiaries		9,690,594	63.4%		145,285	1.5%	(4,940,766)			4,895,113	31.8%			
Goodwill		241,096	1.6%							241,096	1.6%			
Deferred charges													108,475	0.8%
Other assets					94,794	1.0%				94,794	0.6%		181	0.0%
Deferred income tax		(43,980)	-0.3%		616,150	6.4%				572,170	3.7%		37,432	0.3%
Deferred employees' Profit sharing					378	0.0%				378	0.0%		36,250	0.3%
Total assets	Ps	15,289,436	100.0%	Ps	9,566,388	100.0%	Ps(9,469,132)			Ps15,386,692	100.0%	Ps	13,365,356	100.0%

**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING BALANCE SHEET**  
**AS OF MARCH 31, 2010**

Thousands of Mexican Pesos

	Parent company		Combined guarantors		Eliminations		Parent company and combined guarantors		Non-Guarantors		E			
<b>Liabilities And Stockholders' Equity</b>														
Current liabilities with financial cost:														
Interest-bearing demand deposits and time-deposits									7,634,241	57.1%				
Bank debt	Ps	1,086,870	7.1%	Ps	234,911	2.5%	Ps	—	Ps	1,321,781	8.6%	Ps	—	Ps
Commercial paper		1,443,173	9.4%					1,443,173	9.4%					
		2,530,043	16.5%		234,911	2.5%		2,764,954	18.0%		7,634,241	57.1%		
Current liabilities without financial cost:														
Suppliers		1,648,374	10.8%		50,642	0.5%		1,699,016	11.0%					
Accounts payable to affiliated companies		1,467,424	9.6%		3,747,275	39.2%	(4,355,186)	859,513	5.6%		359,970	2.7%		
Accounts payable and accrued expenses		335,095	2.2%		349,609	3.7%		684,704	4.4%		241,756	1.8%		
Income tax and asset tax payable		8,191	0.1%		60,411	0.6%		68,602	0.4%		17,085	0.1%		
		3,459,084	22.6%		4,207,937	44.0%	(4,355,186)	3,311,835	21.5%		618,811	4.6%		
Total current liabilities		5,989,127	39.2%		4,442,848	46.4%	(4,355,186)	6,076,789	39.5%		8,253,052	61.7%		
Long-term liabilities:														
Bank debt											9,279	0.1%		
Commercial paper		1,000,000	6.5%					1,000,000	6.5%					
Estimated liability for labor benefits					2,176	0.0%		2,176	0.0%		151,120	1.1%		
Total long-term liabilities		1,000,000	6.5%		2,176	0.0%		1,002,176	6.5%		160,399	1.2%		
Total liabilities		6,989,127	45.7%		4,445,024	46.5%	(4,355,186)	7,078,965	46.0%		8,413,451	62.9%		
<b>Stockholders' equity:</b>														
Capital stock		2,472,600	16.2%		7,453,430	77.9%	(7,453,430)	2,472,600	16.1%		1,822,146	13.6%		
Additional paid-in capital		3,068,488	20.1%					3,068,488	19.9%					
Retained earnings		2,479,682	16.2%		(1,991,291)	-20.8%	1,991,291	2,479,682	16.1%		2,680,894	20.1%		
Stock Repurchase Reserve		110,000	0.7%					110,000	0.7%					
Net income		50,338	0.3%		(459,976)	-4.8%	459,976	50,338	0.3%		448,865	3.4%		
Cumulative translation adjustment		119,201	0.8%		119,201	1.2%	(119,201)	119,201	0.8%					
Total majority interest		8,300,309	54.3%		5,121,364	53.5%	(5,121,364)	8,300,309	53.9%		4,951,905	37.1%		
Minority interest							7,418	7,418	0.0%					
Total stockholders' equity		8,300,309	54.3%		5,121,364	53.5%	(5,113,946)	8,307,727	54.0%		4,951,905	37.1%		
Total liabilities and stockholders' equity	Ps	15,289,436	100.0%	Ps	9,566,388	100.0%	Ps (9,469,132)	Ps 15,386,692	100.0%	Ps	13,365,356	100.0%	Ps	



**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING STATEMENT OF OPERATIONS**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2010**

Thousands of Mexican Pesos

	<b>Parent company</b>		<b>Combined guarantors</b>		<b>Eliminations</b>	<b>Parent company and combined guarantors</b>		<b>Non- Guarantors</b>	
Net sales	PS1,190,382	100.0%	PS 2,509,219	100.0%	PS (1,215,363)	PS 2,484,238	100.0%	PS 481,141	100.0%
Cost of sales	(1,102,115)	-92.6%	(1,733,905)	-69.1%	1,260,393	(1,575,627)	-63.4%	(64,508)	-13.4%
Gross margin	88,267	7.4%	775,314	30.9%	45,030	908,611	36.6%	416,633	86.6%
Operating expenses	(72,259)	-6.1%	(1,257,898)	-50.1%	112,906	(1,217,251)	-49.0%	(677,922)	-140.9%
Operating income	16,008	1.3%	(482,584)	-19.2%	157,936	(308,640)	-12.4%	(261,289)	-54.3%
Comprehensive financing expense, net	(123,931)	-10.4%	(284,068)	-11.3%		(407,999)	-16.4%	(141,396)	-29.4%
	(107,923)	-9.1%	(766,652)	-30.6%	157,936	(716,639)	-28.8%	(402,685)	-83.7%
Other income, net	76,524	6.4%	158,807	6.3%	(157,936)	77,395	3.1%	868,123	180.4%
Loss before income tax	(31,399)	-2.6%	(607,845)	-24.2%		(639,244)	-25.7%	465,438	96.7%
Income tax	85,981	7.2%	155,273	6.2%		241,254	9.7%	(16,573)	-3.4%
Income (loss) before participation in the results of subsidiaries	54,582	4.6%	(452,572)	-18.0%		(397,990)	-16.0%	448,865	93.3%
Participation in the results of subsidiaries	(4,244)	-0.4%	(7,404)	-0.3%	459,536	447,888	18.0%		
Consolidated net (loss) income	PS 50,338	4.2%	PS (459,976)	-18.3%	PS 459,536	PS 49,898	2.0%	PS 448,865	93.3%
Distribution of consolidated net income:									
Net (loss) income of majority stockholders	PS 50,338	4.2%	PS (459,976)	-18.3%	PS 459,976	PS 50,338	2.0%	PS 448,865	93.3%
Net (loss) income of minority stockholders					(440)	(440)	0.0%		
Consolidated net (loss) income	PS 50,338	4.2%	PS (459,976)	-18.3%	PS 459,536	PS 49,898	2.0%	PS 448,865	93.3%

**GRUPO FAMSA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**SUPPLEMENTAL UNAUDITED CONDENSED COMBINING STATEMENT OF OPERATIONS**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2010**

Thousands of Mexican Pesos

	<b>Parent company</b>		<b>Combined guarantors</b>		<b>Eliminations</b>		<b>Parent company and combined guarantors</b>		<b>Non-Guarantors</b>	
<b><u>Operations</u></b>										
Loss income before income tax	Ps	(35,643)	Ps	(615,249)	Ps	459,536	Ps	(191,356)	Ps	465,438
Items relating to investing activities:										
Participation in the results of subsidiaries		4,243		7,404		(459,536)		(447,889)		
Depreciation and amortization		203		81,539				81,742		29,527
Allowance for doubtful accounts				152,338				152,338		64,511
Gain on sale of property, plant and equipment				(180)				(180)		(113)
Estimated liability for labor benefits				91				91		10,559
Deferred employees profit sharing				(35)				(35)		(476)
Interest gain		(52,179)		(15,203)		66,898		(484)		(514)
Items relating to financing activities:										
Interest expense		119,211		303,787		(308,839)		114,159		141,903
Exchange gain		52,694		(4,509)		(92,335)		(44,150)		5
Changes in working capital other than investing and financing:										
Accounts receivable				680,477				680,477		(527,276)
Accounts receivable to affiliated companies, net		(150,738)		78,203		136,216		63,681		(217,620)
Inventories		(21,482)		54,895				33,413		
Other accounts receivable, deferred charges and other assets		1,518		(112,383)				(110,865)		(43,847)
Suppliers		21,366		(50,740)				(29,374)		
Other accounts payable and accrued expenses		(21,524)		(1,831)				(23,355)		82,725
Income tax paid		(34,231)		(5,844)				(40,075)		(114,590)
Net cash flow (used in) provided by operating activities		(116,562)		552,760		(198,060)		238,138		(109,768)
<b><u>Investment</u></b>										
Acquisition of property, plant and equipment				(17,346)				(17,346)		(8,957)
Sale of plant and equipment				916				916		268
Interest collected		52,179		15,203		(66,898)		484		514
Net cash flow used in investing activities		52,179		(1,227)		(66,898)		(15,946)		(8,175)
Resources to be (provided by) used in financing activities		(64,383)		551,533		(264,958)		222,192		(117,943)
<b><u>Financing</u></b>										
Interest paid		(117,781)		(261,095)		267,085		(111,791)		(141,903)
New short-term debt and bank loans		926,103						926,103		
Payments of short-term debt and bank loans		(1,136,103)		(211,238)				(1,347,341)		(361)
Bank customers' deposits										191,240
Net cash flow from financing activities		(327,781)		(472,333)		267,085		(533,029)		48,976
Decrease in net cash and cash equivalent		(392,164)		79,200		2,127		(310,837)		(68,967)
Adjustments to cash flow as a result of changes in exchange rates				(109,146)				(109,146)		
Cash and cash equivalent at beginning of period		376,165		122,082		(2,127)		496,120		1,281,091
Cash and cash equivalent at end of period	Ps	(15,999)	Ps	92,136	Ps		Ps	76,137	Ps	1,212,124

**EXHIBIT A**  
**UNAUDITED INCOME STATEMENT AND BALANCE SHEET DATA AND FINANCIAL STATEMENTS**  
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009**

Set forth below are our unaudited consolidated income statement and balance sheet data and financial statements as of and for the three months ended March 31, 2010 and 2009. Results included in this Exhibit A have been prepared in accordance with MFRS. In the opinion of management, the unaudited financial information set forth in this Exhibit A includes all adjustments, consisting of only normally recurring adjustments, necessary for a fair statement of this financial information. The unaudited financial information set forth in this Exhibit A should be read in conjunction with our audited consolidated financial statements as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007, which are included elsewhere in this offering circular.

**Income Statement and Balance Sheet Data**

	Three Months Ended March 31,	
	2009	2010
	(millions of Pesos)	
Income Statement Data:		
Net sales.....	3,377.3	3,213.8
Cost of sales.....	1,682.9	1,640.1
Gross margin.....	1,694.4	1,573.7
Operating expenses.....	1,600.5	1,442.4
Operating income.....	93.9	131.3
Net comprehensive financing cost.....	(214.0)	(306.3)
Other income, net.....	23.4	1.2
Loss before income tax.....	(96.7)	(173.8)
Income tax expense.....	154.2	224.7
Consolidated net income.....	57.5	50.9
Minority net income.....	3.0	0.5
Majority net income.....	54.5	50.4
	As of March 31,	
	2009	2010
	(millions of Pesos)	
Balance Sheet Data:		
Cash and cash equivalent.....	935.7	275.9
Restricted cash.....	308.6	692.4
Trade accounts receivable.....	12,764.3	13,758.9
Inventories.....	2,277.3	2,077.3
Total current assets.....	16,608.7	18,377.0
Property, leasehold improvements and furniture and equipment.....	2,813.3	2,657.2
Total assets.....	20,078.0	22,111.6
Short-term debt.....	4,798.4	2,418.1
Interest-bearing demand deposits and time-deposits.....	5,327.6	7,590.3
Suppliers.....	1,482.8	1,699.0
Total current liabilities.....	12,551.7	12,630.9
Long-term debt.....	0.0	1,009.3
Total long-term liabilities.....	150.9	1,162.6
Total liabilities.....	12,702.6	13,793.4
Total stockholders' equity.....	7,375.4	8,318.1
Total liabilities and stockholders' equity.....	20,078.0	22,111.6

## **Results of Operations for the Quarter ended March 31, 2010 compared with our Results of Operations for the Quarter ended March 31, 2009**

### *Net Sales*

During the first quarter in 2010, our net sales decreased 4.8%, to Ps.3,214 million, from Ps.3,377 million during the first quarter in 2009 driven primarily by a decrease in sales volume in Famsa USA and to a lesser extent due to the effects of the appreciation of the Peso against the U.S. Dollar and the closure of some stores in the United States. Famsa Mexico reported net sales of Ps.2,441 million during the quarter ended March 31, 2010, which represents a 9.0% increase from Ps.2,241 million during the same period in 2009 driven primarily by an increase in personal loans. Personal loans have been a more resilient product than our traditional retail offering and continue to offset weaker durable good demand. Famsa USA's net sales decreased 33.2% to Ps.759 million due to lower sales volume driven by the continuing high unemployment and low consumer confidence in the U.S. market, specifically by Hispanics, and to a lesser extent due to the stronger valuation of the Peso against the U.S. Dollar.

### *Cost of Sales and Gross Margin*

Our consolidated cost of sales reached Ps.1,640 million during the first quarter in 2010, which represents a 2.5% decrease compared to Ps.1,683 million during the same period in 2009. Accordingly, as a result of our decrease in net sales during the quarter ended March 31, 2010, our gross margin decreased 7.1% to Ps.1,574 million. Gross margin as a percentage of sales contracted approximately 120 basis points to 49.0%.

### *Operating Expenses*

Our operating expenses decreased 9.9%, from Ps.1,601 million during the first quarter in 2009 to Ps.1,442 million in the first quarter of 2010. As a percentage of sales, operating expenses reached 44.9% during the quarter ended March 31, 2010, which represents a contraction of approximately 250 basis points compared to the same period in 2009. This decrease is in part attributable to the cost control and reduction initiatives implemented since 2009 and the favorable effect of the increase in value of the Mexican Peso on our U.S. Dollar-denominated expenses.

### *Operating Income*

During the first quarter in 2010, our operating income increased 39.9%, to Ps.131 million, from Ps.94 million during the same period in 2009. The growth in operating income was driven by the Ps.158 million decrease in operating expenses attributed to the effects of the cost control and reduction initiatives implemented since 2009 and the favorable effect of the valuation of the Mexican Peso on our U.S. Dollar-denominated expenses. As a result, our operating margin during the first quarter in 2010 was 4.1%, an expansion of over 130 basis points against the comparable figure in the prior period.

### *Comprehensive Financing Expense, Net*

The comprehensive financing expense, net increased 43.1% during the first quarter of 2010, totaling Ps.306 million. Interest expense decreased 10% as a result of the lower cost of funding obtained through Banco Famsa's bank deposits. However, we recognized a non-cash exchange loss of Ps.52 million resulting from the stronger valuation of the Mexican Peso applied to the net long U.S. dollar position Grupo Famsa maintains through its U.S. operations conducted through Famsa USA, compared to the comprehensive financing expense, net Ps.65 million non-cash exchange gain for the same period in 2009.

We have no exposure to derivative instruments and our treasury maintains a disciplined investment policy that involves exclusively fixed-income securities.

### *Income Tax*

Our income tax benefit increased from 45.7%, from Ps.154 million during the first quarter in 2009 to Ps.225 million during the first quarter 2010, primarily as a result of the favorable effect on our deferred income taxes of Ps.282 million-generated primarily by tax loss carryforwards from the sale of receivables to Banco Famsa.

As part of our strategy during the first quarter of 2010, Grupo Famsa continued transferring to Banco Famsa most of the credit accounts granted to customers in Mexico. The above mentioned sale of receivables to Banco Famsa generated tax loss carryforwards, which have been recognized in the Financial Statements as a deferred tax asset. Based on current year and expected financial results, the Company's management considers that Grupo Famsa will generate future taxable income to support the realization of its deferred tax asset.

### *Net Income*

Our net income decreased 7.6%, from Ps.54 million during the first quarter in 2009 to Ps.50 million during first quarter in 2010, primarily as a result of the increase in comprehensive financing expense, net and the decrease in net sales offset, in part, by savings in our operating expenses.

### *Accounts Receivable*

As of March 31, 2010, our trade accounts receivable balance reached Ps. 13,759 million, a 7.8% increase with respect to the Ps.12,764 million reported as of March 31, 2009 driven primarily by the growth of personal loans in our product mix. As a result of the progress in the integration of our banking and retail subsidiaries, our accounts receivable financial sector increased 41.9% to Ps.9,931 million while the accounts receivable balance included in our retail sector decreased 33.6% during the first quarter of 2010 as compared to the same period in 2009.

### *Inventory*

As of March 31 2010, our inventory balance was Ps.2,077 million, a decrease of 8.8% with respect to the same period in 2009. This decrease was driven by the implementation of initiatives aimed at optimizing inventory levels without reducing our standards of service, which continued to have a positive effect on absolute inventory levels, and the positive impact of the appreciation of the Peso versus the U.S. Dollar on Famsa USA's U.S. Dollar denominated inventory.

### *Net Debt*

As of March 31, 2010, our net debt decreased 43.0% to Ps.2,183 million, from Ps.3,830 million as of March 31, 2009, as a result of the continued growth in Banco Famsa's bank deposit base and our debt repayment.

### *Bank Deposits*

Banco Famsa's deposit volume increased 42.5%, to Ps.7,590 million as of March 31, 2009, from Ps.5,328 as of March 31, 2010, primarily as a result of the attractive and diverse financing options that we offer to our customers (demand deposits, short- and medium-term investments and certificates of deposit). Bank deposits continue to represent an increasing percentage of Grupo Famsa's total net consolidated financing, reaching approximately 78% on March 31, 2010 compared to 58% a year earlier.

At the end of the first quarter 2010, demand deposits represented by our savings and checking accounts were Ps.2,926 million and short- and medium-term investment deposits amounted to Ps.4,664 million.

### *Stockholders' Equity*

As of March 31, 2010, our stockholders' equity increased to Ps.8,318 million, an increase of 12.8% compared to March 31, 2009 mainly due to the capital stock increase of Ps.1,200 million completed in August 2009 and the increase in net income for the year ended December 31, 2009.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)  
AT MARCH 31, 2010 AND 2009

Thousands of Mexican Pesos

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	Ps 935,719	Ps 275,861
Restricted cash	308,604	692,404
Trade accounts receivable (Note 2)	13,758,876	12,764,275
Taxes recoverable	657,339	162,266
Other accounts receivable	639,152	436,572
Inventories (Notes 3)	<u>2,077,338</u>	<u>2,277,282</u>
Total current assets	18,377,028	16,608,660
PROPERTY, LEASEHOLD IMPROVEMENTS AND FURNITURE AND EQUIPMENT (Note 4)	2,657,185	2,813,347
GOODWILL	241,096	241,096
DEFERRED CHARGES	95,038	255,603
OTHER ASSETS	94,975	89,413
DEFERRED INCOME TAX	609,602	46,201
DEFERRED EMPLOYEES' PROFIT SHARING	<u>36,628</u>	<u>23,664</u>
Total assets	<u>Ps 22,111,552</u>	<u>Ps 20,077,984</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES WITH FINANCIAL COST:		
Interest-bearing demand deposits and time-deposits (Note 5)	Ps 7,590,303	Ps 5,327,623
Short-term debt (Note 6)	<u>2,418,079</u>	<u>4,798,377</u>
	<u>10,008,382</u>	<u>10,126,000</u>
CURRENT LIABILITIES WITHOUT FINANCIAL COST:		
Suppliers	1,699,016	1,482,770
Accounts payable and accrued expenses	837,782	741,885
Income tax and asset tax payable	<u>85,687</u>	<u>201,051</u>
	<u>2,622,485</u>	<u>2,425,706</u>
Total current liabilities	<u>12,630,867</u>	<u>12,551,706</u>
LONG-TERM LIABILITIES:		
Long-term debt (Note 6)	1,009,279	
Estimated liability for labor benefits	<u>153,296</u>	<u>150,897</u>
Total long-term liabilities	<u>1,162,575</u>	<u>150,897</u>
Total liabilities	<u>13,793,442</u>	<u>12,702,603</u>
STOCKHOLDERS' EQUITY (Note 7):		
Capital stock	2,472,600	2,252,187
Additional paid-in capital	3,068,488	2,078,758
Retained earnings	2,640,020	2,675,766
Cumulative translation adjustment	<u>119,201</u>	<u>350,106</u>
Total majority interest	8,300,309	7,356,817
Minority interest	<u>17,801</u>	<u>18,564</u>
Total stockholders' equity	8,318,110	7,375,381
COMMITMENTS (Note 9)		
Total liabilities and stockholders' equity	<u>Ps 22,111,552</u>	<u>Ps 20,077,984</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

Thousands of Mexican Pesos

	<u>2010</u>	<u>2009</u>
Net sales	Ps 3,213,862	Ps 3,377,327
Cost of sales	<u>(1,640,135)</u>	<u>(1,682,922)</u>
Gross margin	1,573,727	1,694,405
Operating expenses	<u>(1,442,409)</u>	<u>(1,600,530)</u>
Operating income	131,318	93,875
Comprehensive financing expense, net (Note 8)	<u>(306,313)</u>	<u>(214,012)</u>
	(174,995)	(120,137)
Other income, net	<u>1,189</u>	<u>23,402</u>
Loss before income tax	(173,806)	(96,735)
Income tax	<u>224,681</u>	<u>154,188</u>
Consolidated net income	50,875	57,453
Net income corresponding to minority interest	<u>537</u>	<u>2,968</u>
Net income corresponding to majority interest	<u>Ps 50,338</u>	<u>Ps 54,485</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
FOR THE THREE MONTHS ENDED MARCH 31 2010 AND 2009

Thousands of Mexican Pesos

	<u>2010</u>	<u>2009</u>
<u>Operations</u>		
Loss income before income tax	(Ps 173,806)	(Ps 96,735)
Items relating to investing activities:		
Depreciation and amortization	111,269	122,284
Allowance for doubtful accounts	216,849	161,985
Gain on sale of property, plant and equipment	(293)	(233)
Estimated liability for labor benefits	10,650	6,541
Deferred employees profit sharing	(511)	(6,372)
Interest gain	(485)	(3,061)
Items relating to financing activities:		
Interest expense	254,412	282,567
Exchange gain	(44,145)	(1,587)
Changes in working capital other than investing and financing:		
Accounts receivable	155,375	10,692
Inventories	33,413	137,698
Other accounts receivable, deferred charges and other assets	(185,468)	102,093
Suppliers	(29,374)	(449,999)
Other accounts payable and accrued expenses	(61,098)	(325,671)
Income tax paid	<u>(154,665)</u>	<u>(161,483)</u>
Net cash flow (used in) provided by operating activities	<u>132,123</u>	<u>(221,281)</u>
<u>Investment</u>		
Acquisition of property, plant and equipment	(26,303)	(50,766)
Sale of plant and equipment	1,184	402
Interest collected	<u>485</u>	<u>3,061</u>
Net cash flow used in investing activities	<u>(24,634)</u>	<u>(47,303)</u>
Resources to be (provided by) used in financing activities	<u>107,489</u>	<u>(268,584)</u>
<u>Financing</u>		
Interest paid	(252,041)	(316,740)
New short-term debt and bank loans	926,103	968,566
Payments of short-term debt and bank loans	(1,347,702)	(3,092,895)
Bank customers' deposits	<u>213,534</u>	<u>2,195,952</u>
Net cash flow from financing activities	<u>(460,106)</u>	<u>(245,117)</u>
Decrease in net cash and cash equivalent	(352,617)	(513,701)
Adjustments to cash flow as a result of changes in exchange rates	(109,146)	33,431
Cash and cash equivalent at beginning of period	<u>1,706,086</u>	<u>1,448,535</u>
Cash and cash equivalent at end of period	<u>Ps 1,244,323</u>	<u>Ps 968,265</u>
Cash and cash equivalent	Ps 935,719	Ps 275,861
Restricted cash	<u>308,604</u>	<u>692,404</u>
	<u>Ps 1,244,323</u>	<u>Ps 968,265</u>

The accompanying notes are an integral part of these financial statements.



GRUPO FAMSA, S. A. B. DE C. V. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

Thousands of Mexican Pesos  
(except where otherwise indicated)

NOTE 1 - BASIS OF PRESENTATION AND DISCLOSURES

The condensed consolidated interim financial statements as of March 31, 2010 and for the three months ended March 31, 2010 and 2009, are unaudited. In the opinion of the management of Grupo Famsa, S. A. B. de C. V. ("Grupo Famsa" or the "Company"), all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included therein. The results of interim periods are not necessarily indicative of results for the entire year. For purposes of these condensed consolidated interim financial statements certain information and disclosure normally included have been modified or omitted. The condensed consolidated interim financial statements were prepared in accordance with Mexican Financial Reporting Standards (MFRS) and should be read in conjunction with the Company's audited financial statements as of December 31, 2009 and 2008, and for the years ended December 31, 2009, 2008 and 2007 (the "Audited Annual Financial Statements").

The financial statements of Famsa USA, which are prepared in accordance with the United States Generally Accepted Accounting Principles, and the financial statements of Banco Ahorro Famsa S.A. ("Banco Famsa"), which are prepared in accordance with accounting rules and practices established by the CNBV, are both conformed to MFRS for consolidation purposes.

NOTE 2 - TRADE ACCOUNTS RECEIVABLE

At March 31, this caption comprised the following:

	<u>2010</u>	<u>2009</u>
Trade accounts receivable:		
Commercial business	Ps 4,025,224	Ps 5,840,967
Financial sector	<u>10,449,375</u>	<u>7,022,525</u>
	14,474,599	12,863,492
Less - Allowance for doubtful accounts (1)	<u>715,723</u>	<u>99,217</u>
Net	<u>Ps 13,758,876</u>	<u>Ps 12,764,275</u>

(1) For the three months periods ended March 31, 2010 and 2009, the allowance charged in income was Ps216,849 and Ps161,985, respectively.

### NOTE 3 - INVENTORIES

As at March 31, inventories consisted of the following:

	<u>2010</u>	<u>2009</u>
Products (*)	Ps 1,680,786	Ps 1,879,135
Clothing, footwear and jewelry	377,857	381,547
Merchandise in transit, advances to suppliers and others	<u>18,695</u>	<u>16,600</u>
Estimated replacement cost	<u>Ps 2,077,338</u>	<u>Ps 2,277,282</u>

(\*) Comprises mainly electronic products, household appliances and furniture.

### NOTE 4 - PROPERTY, LEASEHOLD IMPROVEMENTS AND FURNITURE AND EQUIPMENT

As at March 31, this item comprised the following:

	<u>2010</u>	<u>2009</u>	<u>Depreciation rate</u>
Land	Ps 326,252	Ps 240,395	
Construction in progress	<u>21,325</u>	<u>69,814</u>	
	<u>347,577</u>	<u>310,209</u>	
Buildings and construction	356,713	246,339	3%
Leasehold improvements	2,403,797	2,471,085	8%
Furniture and equipment	1,068,833	1,029,652	10%
Transportation equipment	248,825	260,981	22%
Data-processing equipment	<u>493,921</u>	<u>467,787</u>	24%
	4,572,089	4,475,844	
Accumulated depreciation	<u>(2,262,481)</u>	<u>(1,972,706)</u>	
	<u>2,309,608</u>	<u>2,503,138</u>	
Net carrying value	<u>Ps 2,657,185</u>	<u>Ps 2,813,347</u>	

### NOTE 5 - DEMAND DEPOSITS AND TIME-DEPOSITS

The Company's liabilities include Banco Famsa's funding liabilities, including interest-bearing demand deposits (savings, deposits and checking accounts) as well as time-deposits (certificates of deposits and promissory notes). These liabilities are recorded at the contracted transaction value plus accrued interest. At March 31, Banco Famsa's funding liabilities with third parties were as follows:

	<u>2010</u>	<u>2009</u>
Demand deposits:		
Savings deposits (interest-bearing)	Ps 2,857,291	Ps 647,324
Checking accounts (non-interest-bearing)	112,540	189,832
Time-deposits:		
From the general public	4,664,410	922,529
Money market	<u>-</u>	<u>3,840,081</u>
	7,634,241	5,599,766
Less demand and term deposits of subsidiary companies	<u>43,938</u>	<u>272,143</u>
Total	<u>Ps 7,590,303</u>	<u>Ps 5,327,623</u>

#### NOTE 6 - SHORT-TERM LOANS AND LONG-TERM DEBT

At March 31, the total consolidated debt was as follows:

	<u>2010</u>	<u>2009</u>	<u>Interest rate (*)</u>
<u>Grupo Famsa</u>			
Mexican pesos:			
Amounts drawn down from short-term revolving credit lines:			
Banco Inbursa, S. A.	Ps 390,000	Ps 500,000	9.91%
Banca del Bajío, S. A.	100,000	100,000	8.42%
Banco Santander Serfin, S. A.	100,000	165,000	8.92%
IXE Banco, S. A.		250,000	10.88%
Banorte, S. A.	149,995		9.57%
Issuance of debt certificates (1):			
Short-term	567,700	753,970	8.26%
Long-term	<u>1,000,000</u>	<u></u>	8.50%
	<u>2,307,695</u>	<u>1,768,970</u>	
Amounts drawn down from revolving credit lines:			
GE Capital Bank, S. A.		149,568	
GE Capital Corporation	<u></u>	<u>1,689,273</u>	
	<u></u>	<u>1,838,841</u>	9.59%
U.S. dollars:			
Euro-commercial paper (2)	<u>875,473</u>	<u></u>	8.00%
<u>Banco Ahorro Famsa, S. A., Institución de Banca Múltiple:</u>			
Mexican pesos:			
Banco Inbursa, S. A.		300,000	11.00%
Nacional Financiera, S. N. C. (3)	<u>9,279</u>	<u>243,942</u>	9.57%
	<u>9,279</u>	<u>543,942</u>	

Famsa, Inc.:

U.S. dollars:

Amounts drawn down from credit line with:

Deutsche Bank N.Y. (4)	172,629		2.75%
GE Capital Corporation (5)	<u>62,282</u>	<u>646,624</u>	10.63%
	<u>234,911</u>	<u>646,624</u>	
Total debt	3,427,358	4,798,377	
Short-term debt	<u>(2,418,079)</u>	<u>(4,798,377)</u>	
Long-term debt	<u>Ps 1,009,279</u>	<u>Ps _____</u>	

(\*) Nominal rates at March 31, 2010.

- (1) Both the long- and short-term local bonds have been registered with the “Registro Nacional de Valores” maintained by the CNBV.

A portion of the short-term local bonds are guaranteed by 16 real properties, which have been mortgaged in favor of the bondholders. Of the 16 real properties, 12 are properties of the subsidiary Geografía Patrimonial, S. A. de C. V. (“Geografía Patrimonial”), and four are directly owned by Grupo Famsa. These mortgages contain certain restrictive covenants which, among other things, limit our ability to:

- Create any other lien or encumbrance in connection with the properties.
- Decrease Geografía Patrimonial’s or the capital stock under Ps400 million.
- Pledge or guaranty in any way the shares representing the capital stock.

In addition, the short-term local bonds programs contain standard default provisions, including a change of control provision, as well as cross-default provisions.

On September 11, 2009, the Company issued, through a public offering on the Mexican stock exchange (Bolsa Mexicana de Valores S. A. B. de C. V.), a series of commercial paper (certificados bursátiles) in the aggregate principal amount of Ps1,000 million. This commercial paper was priced at a spread of 250 bps over the 28-day TIIE interbank rate, matures on August 12, 2011, and was assigned “A(mex)” and “HRA” ratings by Fitch México, S. A. de C. V. and HR Ratings de México, S. A. de C. V., respectively. The net proceeds of this issue were used by the Company for working capital and to pay off short-term debt. The debt certificates are payable in monthly installments starting in March 2011 and ending in August 2011.

Long-term local bonds issued pursuant to this program are partially guaranteed by Nacional Financiera, S. N. C. (“NAFIN”) as part of a credit agreement with NAFIN. NAFIN is obliged to pay up to 50% of the outstanding amount of principal and ordinary interest due and unpaid on the bonds should Grupo Famsa default, provided that, at no time will NAFIN pay more than Ps500 million. The note by which this bond was issued was also executed by NAFIN as guarantor.

Additionally, the long-term local bonds contain certain restrictive covenants which, among other things, limit the ability to:

- Change or modify the main business purpose or activities of the Company.
  - Incur additional debt in an amount higher than three times the stockholders' equity as of the date of issuance of the bonds.
  - Pay dividends or reduce the capital stock without the prior written consent of NAFIN.
  - Guarantee third party obligations, except for obligations assumed by the employees, subsidiaries and affiliates.
  - Enter into or carry out any transaction with financial derivative instruments.
- (2) During October and December 2009, the Company issued aggregate principal amounts of US\$44 and US\$27 million, respectively of discounted short-term notes pursuant to commercial paper programs amounting to US\$50 million and US\$100 million, respectively. These commercial paper programs have a CD equivalent yield of 8.00% and matures on October 6, 2010 and December 23, 2010, respectively. The net proceeds of these issues were used by the Company for working capital and to refinance existing debt.
- (3) Loan contracted with Nacional Financiera, S.N.C. and payable in full in 2014.
- (4) In 2009, Famsa USA contracted a line of credit with Deutsche Bank AG for US\$14 million, with final maturity in 2010, which was fully drawn down.
- (5) At March 31, 2010, Famsa USA had contracted with GE Capital Corporation a revolving credit line for one year of up to an equivalent of US\$34.2 million (US\$60.9 million in 2008) at a fixed interest rate and maturing in April 30, 2010. The credit line is secured by Famsa USA's trade accounts receivable and guaranteed by Grupo Famsa, S. A. B. de C. V.

At March 31, 2010, and at the date of issuance of these financial statements, the Company had satisfactorily complied with such covenants and restrictions.

#### NOTE 7 - STOCKHOLDERS' EQUITY

At March 31, 2010 and 2009, the amounts of stockholders' equity were as follows:

<u>Description</u>	<u>Number of shares</u>	<u>Amount</u>
<u>2010</u>		
Fixed capital (minimum): Series "A" Class "I", common, nominative shares, without par value	330,097,385	Ps 660,195
Variable capital: Series "A" Class "II", common, nominative shares, without par value	109,090,909	218,182
Restatement for inflation through December 31, 2007	<u>                    </u>	<u>1,594,223</u>

Capital stock	<u>439,188,294</u>	<u>Ps 2,472,600</u>
---------------	--------------------	---------------------

## 2009

Fixed capital (minimum): Series "A" Class "T", common, nominative shares, without par value	328,981,885	\$ 657,964
Restatement for inflation through December 31, 2007	<u>                    </u>	<u>1,594,223</u>
Capital stock	<u>328,981,885</u>	<u>Ps 2,252,187</u>

## NOTE 8 - COMPREHENSIVE FINANCING INCOME (EXPENSE), NET

For the three months ended March 31, the comprehensive financing income is as follows: :

	<u>2010</u>	<u>2009</u>
Financial expense	(Ps 254,412)	(Ps 282,567)
Financial income	485	3,061
Exchange (loss) gain, net	<u>(52,386)</u>	<u>65,494</u>
	<u>(Ps 306,313)</u>	<u>(Ps 214,012)</u>

## NOTE 9 - COMMITMENTS

The majority of the subsidiary companies have entered into long-term lease agreements (some with related parties) covering properties occupied by their stores. Following is a description of the main agreements entered into with related parties:

### a) Real property leases

As of March 31, 2010, the Company had 40 long-term lease agreements in place with the controlling shareholders and various entities controlled by them, in respect of the retail space used by several of the stores. The terms of all such agreements are substantially identical and are consistent with standard industry practices and real estate market prices.

Rentals payable related to lease agreements are as follows:

	<u>Other</u>	<u>Related parties</u>	<u>Total</u>
2011	Ps 213,996	Ps 25,091	Ps 239,087
2012 to 2015	<u>855,985</u>	<u>100,365</u>	<u>956,350</u>
	<u>Ps 1,069,981</u>	<u>Ps 125,456</u>	<u>Ps 1,195,437</u>

At March 31, total rental expense was as follows:

	<u>2010</u>	<u>2009</u>
Third parties	Ps 203,806	Ps 213,362
Related parties	<u>23,896</u>	<u>24,005</u>
Total	<u>Ps 227,702</u>	<u>Ps 237,367</u>

b) Asset management

The Company has entered into various asset management agreements with affiliates and other entities controlled by the principal shareholders, covering account collection services and the management and investment of the proceeds of such collections, in exchange for a commission payable on an annual basis. In addition, pursuant to these agreements the Company is required to make available to such entities every year a revolving credit facility that bears interest at the rate of 9.6% per annum, payable in arrears at the end of each such year. The Company has entered into this type of agreement with certain entities that are directly or indirectly controlled by the controlling shareholders, including Inmobiliaria Garza Valdez, S. A. de C. V., Inmobiliaria Garza Valdez de la Laguna, S. A. de C. V., Inmobiliaria Logar de Monterrey, S. A. de C. V., and Desarrollos Inmobiliarios Garza Valdez, S. A. de C. V., among others.

Other commitments

At March 31, 2010, the Company had a credit balance with related parties amounting to Ps233,480, bearing interest at TIIE plus 2 points and maturing in June 2010. This item is included within the “Accounts payable and accrued expenses” balance sheet line item.

NOTE 10 - INFORMATION BY BUSINESS SEGMENT

The Company manages and evaluates its continuing operations through three business segments: Mexico (national retail stores, personal car financing and financial sector), U.S.A. (foreign retail stores) and other businesses in Mexico (wholesale, manufacturing of furniture and footwear catalog business). The Company controls and evaluates its continuing operations on a consolidated basis. Its activities are carried out through its subsidiary companies.

Company management uses operating income before depreciation as the measurement of segment performance as well as to evaluate development, make general operating decisions and assign resources.

For the three months period ended March 31, financial information by business segment is as follows:

2010						
	México	USA	Other	Subtotal	Intersegment	Consolidated
Net sales (1)	<u>Ps 2,441,214</u>	<u>Ps 758,553</u>	<u>Ps 199,529</u>	<u>Ps 3,399,296</u>	<u>(Ps 185,434)</u>	<u>Ps 3,213,862</u>
Operating income before depreciation and amortization	<u>Ps 287,311</u>	<u>(Ps 53,572)</u>	<u>(Ps 32,627)</u>	<u>Ps 201,112</u>	<u>Ps 41,475</u>	<u>Ps 242,587</u>
Total assets	<u>Ps 19,770,287</u>	<u>Ps 3,918,456</u>	<u>Ps 461,321</u>	<u>Ps 24,150,064</u>	<u>(Ps 2,038,512)</u>	<u>Ps 22,111,552</u>
Total liabilities	<u>Ps 13,486,671</u>	<u>Ps 2,250,414</u>	<u>Ps 94,869</u>	<u>Ps 15,831,954</u>	<u>(Ps 2,038,512)</u>	<u>Ps 13,793,442</u>

2009						
	México	USA	Other	Subtotal	Intersegment	Consolidated
Net sales (1)	<u>Ps 2,240,460</u>	<u>Ps 1,136,114</u>	<u>Ps 182,345</u>	<u>Ps 3,558,919</u>	<u>(Ps 181,592)</u>	<u>Ps 3,377,327</u>
Operating income before depreciation and amortization	<u>Ps 163,235</u>	<u>Ps 57,145</u>	<u>(Ps 20,693)</u>	<u>Ps 199,687</u>	<u>Ps 16,471</u>	<u>Ps 216,158</u>
Total assets	<u>Ps 17,937,960</u>	<u>Ps 4,882,486</u>	<u>Ps 552,164</u>	<u>Ps 23,372,610</u>	<u>(Ps 3,294,626)</u>	<u>Ps 20,077,984</u>
Total liabilities	<u>Ps 12,148,940</u>	<u>Ps 3,718,394</u>	<u>Ps 129,895</u>	<u>Ps 15,997,229</u>	<u>(Ps 3,294,626)</u>	<u>Ps 12,702,603</u>

(1) Net sales are realized in the respective countries disclosed above.

#### NOTE 11 - NEW FINANCIAL REPORTING STANDARDS

The Company is currently assessing the impact on the financial statements, which is not expected to be significant, from the adoption of MFRS B-5 and B-9, both effective starting January 1, 2011 onwards. Following are brief details of these standards:

MFRS B-5 “Financial information by segment”- sets forth the general standards for disclosure of financial information by segments, allowing the presentation of information by segment in a manner more consistent with the related financial statements; additionally, it also allows the user of such information to analyze the entity from a management approach. This standard will replace Statement B-5 “Financial information by segment”, in force until December 31, 2010.

MFRS B-9 “Interim financial information”- sets forth the standards for the determination and presentation of interim financial information for external purposes and, among other changes, requires presentation of the statements of changes in stockholders’ equity and of cash flows; these statements were not required by Statement B-9 “Interim financial information”, in effect until December 31, 2010.



## **ISSUER**

GRUPO FAMSA, S.A.B. DE C.V.

Av. Pino Suárez 1202 Norte

Piso 3, Unidad "A," Zona Centro

Monterrey, N.L., México

## **LEGAL ADVISORS**

### ***To the Issuer***

#### ***As to U.S. Federal and New York law:***

Milbank, Tweed, Hadley & McCloy LLP

1 Chase Manhattan Plaza

New York, New York 10005

U.S.A.

#### ***As to Mexican law:***

Mijares, Angoitia, Cortés y Fuentes, S.C.

Montes Urales 505 Tercer Piso

Lomas de Chapultepec

México, D.F. 11000

### ***To the Initial Purchaser***

#### ***As to U.S. Federal and New York law:***

Cleary Gottlieb Steen & Hamilton LLP

One Liberty Plaza

New York, New York 10006

U.S.A.

#### ***As to Mexican law:***

Creel, García-Cuéllar, Aiza y Enríquez, S.C.

Paseo de los Tamarindos 60 Piso 3

Colonia Bosques de las Lomas

México, D.F. 05120

## **INDEPENDENT AUDITORS OF THE ISSUER**

PricewaterhouseCoopers, S.C.

Avenida Rufino Tamayo, No.100

Col. Valle Oriente, C.P.

66269 San Pedro Garza García, N.L., México

## **TRUSTEE, PRINCIPAL PAYING AGENT, TRANSFER AGENT & REGISTRAR**

The Bank of New York Mellon

101 Barclay Street, 4E

New York, NY 10286

U.S.A.

## **LUXEMBOURG LISTING AGENT, TRANSFER AGENT & PAYING AGENT**

The Bank of New York Mellon (Luxembourg) S.A.

Vertigo Building - Polaris

2-4 rue Eugène Ruppert

L-2453 Luxembourg

GRUPO



S.A.B. DE C.V.