

GRUPO CASA SABA SA DE CV
Form 20-F/A
May 18, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F/A
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the year ended December 31, 2011

Commission file number 1-12632

Grupo Casa Saba, S.A.B. de C.V.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Mexico
(Jurisdiction of Incorporation or Organization)

Paseo de la Reforma, No. 215
Colonia Lomas de Chapultepec, Mexico, D.F. 11000

Mexico
(Address of Principal Executive Offices)

Sandra Yatsko
+(52 55) 5284-6672
+(52 55) 5284-6633
syatsko@casasaba.com
Paseo de la Reforma, No. 215
Colonia Lomas de Chapultepec, Mexico, D.F. 11000
(Name, Telephone, E-mail and/or facsimile number and address of contact person)

SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
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American Depositary Shares,
each representing ten
Ordinary Shares, without par
value
Ordinary Shares, without par
value

New York Stock
Exchange

New York Stock
Exchange
(for listing purposes only)

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of capital or common stock as of December 31, 2011 was:
265,419,360 Ordinary Shares, without par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YesNo

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YesNo

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YesNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Not applicable

YesNo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>
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Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP <input type="checkbox"/>	International Financial Reporting Standards as	Other <input checked="" type="checkbox"/>
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issued by the International
Accounting Standards
Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item	Item
17	18
<input type="checkbox"/>	<input checked="" type="checkbox"/>

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>

EXPLANATORY NOTE

This Annual Report on Form 20-F/A is being filed as an amendment (“Amendment No. 1”) to our Annual Report on Form 20-F for the year ended December 31, 2011 (“2011 Annual Report on Form 20-F”) filed with the U.S. Securities and Exchange Commission on May 15, 2012, to (i) include in “Item 16F. Change in Registrant’s Certifying Accountant” a reference to the letter of KPMG Auditores Consultores, Ltda and a reference to the modification of their report dated January 13, 2012 filed as an Exhibit to this Amendment No. 1 under “Item 19. Exhibits” hereof and (ii) include in “Item 18. Financial Statements” the Report of the Independent Registered Public Accounting Firm, on page F-5 of our 2011 Annual Report on Form 20-F, with respect to the underlying consolidated financial statements of Farmacias Ahumada S.A., a wholly owned subsidiary, as of December 31, 2010 and 2009 and for the periods then ended. Such subsidiary’s financial statements have been restated as described in note 3 (a) to our consolidated financial statements, and accordingly, the financial statements previously issued by Farmacias Ahumada S.A. as of December 31, 2010 and the period from October 3, 2010 to December 31, 2010 are hereby withdrawn and the Report of the Independent Registered Public Accounting Firm thereon dated June 30, 2011, previously filed with the Commission in our Annual Report on Form 20-F for the year ended December 31, 2010 should no longer be relied upon.

As required by Rule 12b-15 of the U.S. Securities Exchange Act of 1934, we are including currently-dated certifications by our principal executive officer and our principal financial officer as exhibits to this Amendment No. 1 under “Item 19. Exhibits” hereof.

Other than as set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate any other information or disclosure included in our 2011 Annual Report on Form 20-F or reflect any events occurred after the May 15, 2012 filing date of our 2011 Annual Report on Form 20-F in any way.

Item Change in Registrant's Certifying Accountant
16F.

KPMG Auditores Consultores, Ltda ("KPMG Chile") was previously the principal accountants for Farmacias Ahumada, S.A. and its subsidiaries, or FASA, a Chilean wholly-owned significant subsidiary acquired by the Group in October 2010. On April 29, 2011, that firm was dismissed effective January 1, 2011 and Grant Thornton Chile was engaged as principal accountants of FASA. The decision to change accountants was approved by our Board of Directors and at the General Annual Shareholders Meeting held on April 29, 2011.

Since the acquisition of FASA by the Group on October 3, 2010, and the subsequent interim period through April 29, 2011, there were no (1) disagreements with KPMG Chile on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events.

The audit report of KPMG Chile on the consolidated financial statements of FASA as of December 31, 2010 and 2009 and for the periods from October 3, 2010 (the date of acquisition) to December 31, 2010 and from October 3, 2009 to December 31, 2009 did not contain any adverse opinion or a disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope, or accounting principles, except that (i) in their audit report dated June 30, 2011, they expressed a qualified opinion on FASA's consolidated financial statements due to the omission of the comparative financial statements and related notes as required by Mexican Financial Reporting Standards and (ii) in their audit report dated January 13, 2012, they expressed an audit scope modification relative to the restatement of FASA's consolidated financial statements derived from the adjustments for the correction of errors described in note 4 to such financial statements.

A letter from KPMG Chile is attached as an Exhibit to this report on Form 20-F/A.

Item Financial Statements
18.

The following financial statements, together with the report of Salles Sáinz-Grant Thornton, S.C. thereon, are filed as part of this Annual Report.

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All supplementary schedules relating to the Company are omitted because they are not required or because the required information, where material, is contained in our audited consolidated financial statements or the notes thereto.

Item Exhibits
19.

Documents filed as an exhibit to this annual report are as follows:

Exhibit Number	Description of Exhibits
1.1	Amended and Restated Bylaws (English translation) (incorporated by reference to the annual report on Form 20-F for the year ended December 31, 2008 (File No. 1-12632) filed on July 15, 2009).
4.1	Copy of the translation of the credit facility agreement entered into by the Company, as borrower, with HSBC México and Banco Mercantil del Norte, as lenders, dated August 30, 2010.

Exhibit Number	Description of Exhibits
4.2	Summary of the amended and restated credit facility agreement entered into by the Company, as borrower, with HSBC México and Banco Mercantil del Norte, as lenders and HSBC México and HSBC Chile as collateral agents, dated August 10, 2011.
4.3	Summary of the irrevocable guarantee trust entered into by the Company and certain subsidiaries as trustors and second beneficiaries, with the Bank of New York Mellon, S.A., Institución de Banca Múltiple, as trustee.
4.4	Summary of the amendment to the irrevocable guarantee trust entered into by the Company and certain subsidiaries as trustors and HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria, as beneficiaries and The Bank of New York Mellon, S.A., Institución de Banca Múltiple, as trustee.
4.5	Summary of the non-possessory pledge agreement entered into by the Company as pledgor, with HSBC México as pledgee.
4.6	Summary of the amendment to the non-possessory pledge agreement entered into by and between Casa Saba, S.A. de C.V. as pledgor and HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, trust division, in its capacity of Mexican Collateral Agent as pledgee.
8.1	List of Subsidiaries of the Registrant.
12.1	Certification of the Principal Executive Officer of Grupo Casa Saba, S.A.B. de C.V. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
12.2	Certification of the Principal Administrative Officer and Comptroller of Grupo Casa Saba, S.A.B. de C.V. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
13.1	Certification of the Principal Executive and Administrative Officer and Comptroller of Grupo Casa Saba, S.A.B. de C.V. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
15.1	Letter from KPMG Auditores Consultores, Ltda.*

* Filed herewith.

SIGNATURE

GRUPO CASA SABA, S.A.B. DE C.V., hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Dated: May 17, 2012

GRUPO CASA SABA, S.A.B. DE C.V.

By: /s/ Gabriel Saba D'jamus
Name: Gabriel Saba D'jamus
Title: Chief Executive Officer

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with financial reporting standards. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with financial reporting standards, and that receipts and expenditures are being made only in accordance with the authorization of management and the directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management has identified a material weakness in our internal control over financial reporting for the period ending December 31, 2011.

We have identified that our subsidiary CSB Drogarias, S.A., has not maintained adequate accounting records in connection with the caption inventories for the period January 1 through December 31, 2011. Furthermore, there is a lack of controls related to assessing certain contingencies.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 has been audited by Salles Sainz-Grant Thornton, S.C., an independent registered public accounting firm, as stated in its report, which can be found on page F-2 of Item 18.

By: /s/ Gabriel Saba D'jamus

Name: Gabriel Saba D'jamus
Title: Chief Executive Officer

By: /s/ Juan Roberto Juárez Gutiérrez

Name: Juan Roberto Juárez Gutiérrez
Title: Chief Administrative Officer and
Comptroller

April 26, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Stockholders

Grupo Casa Saba, S.A.B. de C.V.:

We have audited Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries' (the Group) internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (Management's Report). Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A Group's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with financial reporting standards. A Group's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with financial reporting standards, and that receipts and expenditures of the Group are being made only in accordance with authorizations of management and directors of the Group; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment.

The Group's subsidiary CSB Drogarias, S.A., a Brazilian company, has not maintained adequate accounting records in connection with the caption inventories for the period January 1 through December 31, 2011. Moreover, the Brazilian

subsidiary lacks control related to assessing certain contingencies. Preparation of subsidiary financial statements is required for the accurate preparation of consolidated financial statements in conformity with financial reporting standards applicable to Mexico and accounting principles generally accepted in the United States of America.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries has not maintained, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) and with auditing standards generally accepted in Mexico, the consolidated balance sheets of Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011. Our report dated May 15, 2012 expressed a qualified opinion on those consolidated financial statements for 2011 due to limitation on the scope of our engagement as discussed in that report.

Salles Sainz-Grant Thornton, S.C.

Mexico City, Mexico
May 15, 2012

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ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Grupo Casa Saba, S.A.B. de C.V.:

We have audited the accompanying consolidated balance sheets of Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries (collectively the Group) as of December 31, 2011 and 2010 (restated), and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Farmacias Ahumada, S.A. and Subsidiaries (FASA) as of December 31, 2010, and for the period from October 3 to December 31, 2010, except that we audited the adjustments for the correction of errors described in Note 3 a) to the consolidated financial statements. Those statements were audited, before the effects of the adjustments for the correction of the errors described in Note 3 a), by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for FASA, was based solely on the report of the other auditors. FASA is a Chilean subsidiary acquired on October 3, 2010, which statements reflect total assets and revenues constituting 31 percent and 13 percent, respectively, of the related consolidated totals as of December 31, 2010.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) and 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors referred to in the first paragraph provide a reasonable basis for our opinion.

At December 31, 2011, the Brazilian subsidiary CSB Drogarias, S.A. (Drogarias) lacked adequate accounting records in connection with the inventories balance in the amount of Ps. 76,000 (thousands of Mexican pesos). We were not able to audit the reasonableness of this value through the use of additional alternative procedures. In addition, Drogarias had certain contingencies that might result in present obligations that have not been properly quantified, as discussed in Note 20 1) to the financial statements.

In our opinion, based on our audits and the report of the other auditors, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the inventories balance as of December 31, 2011 and certain contingencies as mentioned above, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011, in conformity with financial reporting standards applicable in Mexico.

We also have audited the adjustments described in Note 3 a) to the accompanying consolidated of the Group financial statements that were applied to restate the 2010 consolidated financial statements of FASA and its applicable period in that year, as well as its impact on prior periods to correct certain accounting error of FASA. In our opinion, such

adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2010 consolidated financial statements of FASA other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on those 2010 financial statements taken as a whole.

Mexican Financial Reporting Standards (Mexican FRS) vary in certain material respects to accounting principles generally accepted in the United States of America (U.S. GAAP). A summary of these differences and a partial reconciliation of consolidated net income for each of the three years in the period ended December 31, 2011 and consolidated stockholders' equity as of December 31, 2011 and 2010 from Mexican FRS to U.S. GAAP, as permitted by Form 20-F of the Securities and Exchange Commission of the United States of America, are set forth in Notes 22 and 23.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the Group's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 15, 2012 expressed an adverse opinion on the effectiveness of the Group's internal control over financial reporting.

Salles, Sainz-Grant Thornton, S.C.

Mexico City, Mexico
May 15, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Farmacias Ahumada S.A.

We have audited, before the effects of the adjustments for the correction of the errors described in Note 4, the accompanying consolidated balance sheets of Farmacias Ahumada S.A. and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the periods from October 3, 2010 (the date of acquisition) to December 31, 2010 and from October 3, 2009 to December 31, 2009. The 2010 and 2009 financial statements before the effects of the adjustments discussed in Note 4 to the consolidated financial statements have been withdrawn and are not presented herein. These consolidated 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles 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 report dated June 30, 2011, we expressed a qualified opinion on the Company's 2010 consolidated financial statements due to the omission of the 2009 comparative financial statements and their related notes as required by Mexican Financial Reporting Standards. As described in Note 1 to the accompanying consolidated financial statements, the Company has included the 2009 comparative financial statements and their related notes to correct the previous omission. Accordingly, our present opinion on the 2010 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, except for the restatement described in Note 4 to correct the errors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farmacias Ahumada S.A. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the periods from October 3, 2010 (the date of acquisition) to December 31, 2010 and from October 3, 2009 to December 31, 2009, in conformity with Mexican Financial Reporting Standards.

We were not engaged to audit, review, or apply any procedures to the adjustments for the correction of the errors described in Note 4 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by the Company's parent entity's auditor Salles, Sainz – Grant Thornton, S.C.

Mexican Financial Reporting Standards vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in notes 26 and 27 to the consolidated financial statements.

KPMG Ltda.

/s/ Cristián Bastián E.

Santiago, Chile

January 13, 2012

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Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries

Consolidated balance sheets
(Amounts stated in thousands of Mexican pesos (Ps.)
and thousands of U.S. dollars (\$))

		AS OF DECEMBER 31,		Convenience		AS OF	
	Notes	2011	2010	translation		2011	
			(Restated)	2011		Notes	
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	(3.g)	Ps. 2,310,401	Ps. 1,235,679	\$ 165,280	Short-term debt including current maturity of long-term debt	(12)	Ps. 3,05
Trade receivables less allowance for doubtful accounts	(3.k and 4)	5,381,006	6,920,413	384,943	Trade accounts payable		8,84
Other accounts receivable	(5)	2,481,587	1,387,026	177,526	Other payables and accrued liabilities	(13)	2,84
Inventories, net	(3.1 and 6)	8,704,979	8,526,201	622,732	Current assets of discontinued operations	(1.c)	47
Other current assets	(3.h and 7)	212,057	167,313	15,170	Total current liabilities		15,21
Current assets of discontinued operations		400,067	457,561	28,620			
Total current assets		19,490,097	18,694,193	1,394,271	NONCURRENT LIABILITIES:		
					Long - term debt	(12)	9,50
					Employee benefits	(3.q)	20
					Other payables		5
NONCURRENT ASSETS:					Long-term liabilities of discontinued operations	(1.c)	
Property and equipment, net	(3.m and 9)	3,406,855	3,534,551	243,718	Total noncurrent liabilities		9,76
Investment in associates	(3.c)	55,180	51,177	3,947	Total liabilities		24,98
Other assets, net		192,456	224,688	13,768	STOCKHOLDERS' EQUITY:		
					Controlling interest:		
					Capital stock	(16)	1,12
					Premium on stock sold		86
		8,239,864	8,128,244	589,459	Reserve for share repurchases	(16)	1,06

Goodwill, intangible assets, (3.n and deferred charges, net	and 10)				Retained earnings	3,80
					Accumulated translation effect (3.f)	8
Noncurrent assets of discontinued operations	(1.c)	709,607	679,858	50,763	Total controlling interest	6,95
					Noncontrolling interest	15
Total noncurrent assets		12,603,962	12,618,518	901,655	Total stockholders' equity	7,10
Total assets		Ps. 32,094,059	Ps. 31,312,711	\$2,295,926	Total liabilities and stockholders' equity	Ps. 32,09

The accompanying notes are an integral part of these consolidated financial statements

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Grupo Casa Saba,
S.A.B. de C.V. and
Subsidiaries

Consolidated
statements of income
(Amounts stated in thousands of Mexican pesos (Ps.)
and thousands of U.S.
dollars (\$))

FOR THE YEARS ENDED DECEMBER 31,

	Notes	2011	2010 (Restated)	2009	Convenience translation 2011
Net sales	(3.v)	Ps. 46,568,226	Ps. 33,840,754	Ps. 29,791,657	\$ 3,331,370
Cost of sales		37,794,007	29,312,963	26,565,802	2,703,685
Gross profit		8,774,219	4,527,791	3,225,855	627,685
Operating expenses:					
Selling		1,336,641	1,242,468	937,907	95,620
Administrative		5,871,111	2,610,671	1,397,223	420,004
		7,207,752	3,853,139	2,335,130	515,624
Operating income		1,566,467	674,652	890,725	112,061
Other expenses, net	(1b)	132,400	97,131	136,307	9,472
Comprehensive gain or loss on financing, net:	(3.s)				
Interest income		(57,031)	(199,394)	(5,076)	(4,080)
Interest expense		1,028,559	493,028	264,479	73,580
Exchange loss (gain), net		68,532	(31,394)	2,840	4,903
		1,040,060	262,240	262,243	74,403
Equity in income of associates	(3.c)	(6,162)	(2,900)		(441)
Income before tax on earnings		400,169	318,181	492,175	28,627

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Provisions for income tax	(3.r and 14)	312,434	48,255	211,897	22,351
Income before discontinued operations		87,735	269,926	280,278	6,276
Discontinued operations		10,750	(144)		769
Consolidated net income		Ps. 76,985	Ps. 270,070	Ps. 280,278	Ps. 5,507
Controlling interest net income		Ps. 72,639	Ps. 276,934	Ps. 280,278	\$ 5,196
Noncontrolling interest net income		4,346	(6,864)		311
Consolidated net income		Ps. 76,985	Ps. 270,070	Ps. 280,278	\$ 5,507
Net earnings per share of continuing operations	(3.u)	Ps. 0.331	Ps. 1.017	Ps. 1.056	
Net earnings per share of discontinued operations	(3.u)	Ps. 0.041	Ps. (0.000)		
Weighted average shares outstanding (in thousands)		265,419	265,419	265,419	

The accompanying notes are an integral part of these consolidated financial statements

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Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries

Consolidated statements of changes in stockholders' equity
for the years ended December 31, 2011, 2010 and 2009(Amounts stated in thousands of Mexican pesos (Ps.)
and thousands of U.S. dollars (\$))

	Capital stock		Premium	Reserve for	Retained	Accumulated	Total	Noncontrolling	Stock
	Historical	Restatement	on	share	earnings	translation	controlling	interest	equity
			stock sold	repurchases		effect	interest		
Balances as of January 1, 2009	Ps. 167,903	Ps. 955,861	Ps. 869,878	Ps. 1,062,201	Ps. 3,481,122	Ps. 72,796	Ps. 6,609,761	Ps.	Ps. 6,609,761
Dividends paid (Note 16.c)					(170,000)		(170,000)		(170,000)
New financial reporting standard adopted FRS 18 (Note 3.r)					(133,619)		(133,619)		(133,619)
Effect of translation of foreign subsidiaries (3.f)						64,789	64,789		64,789
Net income					280,278		280,278		280,278
Comprehensive income (Note 3.t)					146,659	64,789	211,448		211,448
Balances as of December 31, 2009	167,903	955,861	869,878	1,062,201	3,457,781	137,585	6,651,209		6,651,209
Effect of translation of foreign subsidiaries (3.f)						3,310	3,310		3,310

Net income					276,934		276,934	(6,864)	27
Comprehensive income (Note 3.t)					276,934	3,310	280,244	(6,864)	27
Changes in noncontrolling interest								158,259	15
Balances as of December 31, 2010	167,903	955,861	869,878	1,062,201	3,734,715	140,895	6,931,453	151,395	7,0
Effect of translation of foreign subsidiaries (3.f)						(52,066)	(52,066)		(5)
Net income					72,639		72,639	4,346	76
Comprehensive income (Note 3.t)					72,639	(52,066)	20,573	4,346	24
Balances as of December 31, 2011	Ps. 167,903	Ps. 955,861	Ps. 869,878	Ps. 1,062,201	Ps. 3,807,354	Ps. 88,829	Ps. 6,952,026	Ps. 155,741	Ps. 7,0

The accompanying notes are an integral part of these consolidated financial statements

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Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries

Consolidated statements of cash flows
(Amounts stated in thousands of Mexican pesos (Ps.)
and thousands of U.S. dollars (\$))

FOR THE YEARS ENDED DECEMBER 31,

	2011	2010 (Restated)	2009	Convenience translation 2011
OPERATING ACTIVITIES:				
Income before tax on earnings	Ps. 400,169	Ps. 318,181	Ps. 492,175	\$ 28,627
Discontinued operations	10,750	(144)		769
Income before taxes on earnings of continuing operations	389,419	318,325	492,175	27,858
Items relating to investing activities:				
Depreciation and amortization	449,435	191,005	108,659	32,151
Interest earned	(57,031)	(199,528)	(5,076)	(4,080)
Loss on sale of property and equipment	(26,634)	28,174	14,938	(1,905)
Impairment loss	134,882		210,000	9,649
Equity in income of associates	(6,162)	(2,900)		(441)
Items relating to financing activities :				
Interest expense	1,028,559	493,430	264,479	73,580
Provision for employee benefits	52,119	45,765	31,468	3,728
Allowance for doubtful accounts	274,522	290,111	126,980	19,639
	2,239,109	1,164,382	1,243,623	160,179
Adjustments due to changes in:				
Accounts receivable	1,264,885	(1,591,035)	(133,220)	91,140
Other accounts receivable	(1,094,561)	(3,224)	(197,315)	(78,302)
Inventories	(178,778)	(1,156,986)	26,559	(12,789)
Other current assets	12,750	333,775	2,358	912
Trade accounts payable	(439,991)	575,990	(829,250)	(31,476)
Other payables and accrued liabilities	(489,920)	993,947	(14,668)	(35,048)
Deferred income tax	312,434	(337,671)	(343,737)	22,351
Other payables	(51,206)	472,178	1,547	(3,663)
	1,574,722	451,356	(244,103)	112,651

Net cash flow provided by (used
in) operating activities

INVESTING ACTIVITIES:

Property and equipment	247,370	(55,135)	(31,603)	17,696
Investment in associates	(2,159)	1,509		(154)
Other assets	(32,232)	40,355	(107,549)	(2,306)
Acquisition of business		5,914,728		
Goodwill, intangible assets and deferred charges	323,986	173,490	(296,983)	23,177
Interest earned	(57,031)	(199,528)	5,076	(4,080)
Net cash flow used in (provided by) investing activities	479,934	5,875,419	(431,059)	34,333

FINANCING ACTIVITIES:

Short-term and long-term of debt	1,071,855	6,531,824	1,050,649	76,678
Employee benefits	(11,296)	(46,223)	(25,435)	(808)
Interest paid	(1,028,559)	(493,430)	(257,182)	(73,580)
Dividends paid			(170,000)	
Net cash flow provided by financing activities	32,000	5,992,171	598,032	2,290
Effect of changes in cash value	(52,066)	3,310	140,130	(3,725)
Increase in cash and cash equivalents	1,074,722	571,418	63,000	76,883
Cash and cash equivalents at beginning of year	1,235,679	664,261	601,261	88,397
Cash and cash equivalents at end of year	Ps. 2,310,401	Ps. 1,235,679	Ps. 664,261	\$ 165,280

The accompanying notes are an integral part of these consolidated financial statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011, 2010 AND 2009

(AMOUNTS STATED IN THOUSANDS OF MEXICAN PESOS (PS.) AND THOUSANDS OF U.S. DOLLARS (\$), EXCEPT AS INDICATED OTHERWISE)

1. Description of business:

Grupo Casa Saba, S.A.B. de C.V. is a Mexican controlling company, which mainly distributes pharmaceutical products, as well as health and beauty aids/other products, entertainment products (including magazines and books), food/non-perishable products through its operating subsidiaries (grouped in controlling subsidiaries directly or indirectly). The Group, as an economic unit, distributes these product lines through its distribution network to supermarket chains, pharmacies (private and governmental) and retail customers throughout Mexico, Brasil and, effective 2010, Chile and Peru.

The shares of Grupo Casa Saba, S.A.B. de C.V. are listed on the Mexican Stock Exchange as Ordinary Shares, as well as on the New York Stock Exchange as American Depositary Shares (ADS). Each ADS represents ten Ordinary Shares.

When the terms “the Company” or “the Holding Company” are used in the notes to the financial statements, they refer to Grupo Casa Saba, S.A.B. de C.V. without its consolidated subsidiaries. When the term “the Group” is used, it refers to Grupo Casa Saba, S.A.B. de C.V. together with its consolidated subsidiaries. When it is deemed relevant, certain amounts presented in the notes to the financial statements include a translation into Mexican peso. These translations should not be construed as a representation that the amount in Mexican pesos actually represents or could be converted at the exchange rates used.

The individual and consolidated financial statements and their pertinent notes were authorized to be issued by the Board of Directors on April 26, 2012, and they were submitted for approval of the next Stockholders’ Meeting on April 27, 2012. The stockholders have the power to amend the financial statements subsequently issued, as provided for in the General Corporate Law and the Company’s bylaws.

Main subsidiaries and associates

The Company holds the issued and outstanding capital stock of the following subsidiaries that are members of the Group:

		Economic Interest (Direct or indirect)	
		2011	2010
Domestic subsidiaries:			
Direct interest			
Casa Saba, S.A de C.V.	(Casa Saba)	48.21%	48.21%
Distribuidora Casa Saba, S.A. de C.V.	(Dicasa)	99.9%	99.9%
Publicaciones Citem, S.A. de C.V.	(Citem)	99.9%	99.9%
Transportes Marproa, S.A. de C.V.	(Marproa)	99.9%	99.9%
Farmacias ABC de México, S.A. de C.V.	(Farmacias ABC)	99.9%	99.9%
Controladora de Clínicas Ambulatorias y de Rehabilitación Sports Clinic, S.A. de C.V.	(Controladora de Clínicas)	50.005%	50.005%
Centennial, S.A. de C.V.	(Centennial)	99.9%	99.9%

Grupo Mexatar, S.A. de C.V.

(Mexatar)

99.9%

99.9%

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		Economic Interest (Direct or indirect)	
		2011	2010
Controladora Casa Saba, S.A. de C.V.	(Controladora Casa Saba)	99.9%	99.9%
Real estates and other service companies	(23 subsidiaries)	99.9%	99.9%
Indirect interest			
Casa Saba		51.79%	51.79%
Distribuidora Drogueros, S.A. de C.V.	(Didrosa)	99.9%	99.9%
Daltem Provee Norte, S.A. de C.V.	(Daltem Norte)	99.9%	99.9%
Drogueros, S.A. de C.V.	(Drogueros)	99.9%	99.9%
Farmacias Provee de Especialidades, S.A. de C.V.	(Farmacias Provee)	99.9%	99.9%
Servicios Corporativos Drogueros, S.A. de C.V.	(Secodro)	99.9%	99.9%
Inmuebles Visosil, S.A. de C.V.	(Visosil)	99.9%	99.9%
Servicios Corporativos Saba, S.A. de C.V.	(Secosa)	99.9%	99.9%
Other service companies	(2 subsidiaries)	99.9%	99.9%
Foreign subsidiaries:			
Casa Saba Brasil Holdings Ltda. (Brasil *)	(CS Brasil)	100.0%	100.0%
Farmacias Ahumada, S.A. (Chile **)	(FASA)	97.8%	97.8%
Associates:			
Lomas Sports Clinic Ambulatorias, S.A. de C.V.		36.2%	36.2%
WTC Sports Clinic Ambulatorias, S.A. de C.V.		47.0%	47.0%
Resonancia Sports Clinic, S.A. de C.V.		49.9%	49.9%
Servicios Corporativos Sports Clinic, S.A. de C.V.		49.9%	49.9%
Tampico Sports Clinic Ambulatorias, S.A. de C.V.		49.6%	49.6%
Inmobiliaria Avantuen, S.A. (***)		49.0%	49.0%
Inmobiliaria Faster (***)		49.0%	49.0%

(*) CS Brasil holds 100 percent of the issued and outstanding capital stock of CSB Drogarias, S.A. in Brasil (CSB Drogarias).

(**) FASA is an entity incorporated in accordance with the laws of Chile, which was acquired by the Company on October 3, 2010. FASA is registered in the Securities Registry of the Superintendence of Securities and Insurance (SVC-Spanish acronym) of Chile, and it trades its shares on the Chilean securities market. FASA holds 99.9 percent of the shares representative of the capital stock of Fasa Chile, S. A. and its subsidiaries (9 Chilean and one Uruguayan), as well as 99.9 percent of the shares of Fasa Investment, Ltda. In turn, Fasa Investments, Ltda. holds 100 percent of the shares of Farmacias Peruanas, S. A. and its subsidiary, as well as 95.6 percent of the shares of Farmacias Benavides, S.A.B. de C.V. and three subsidiaries. Farmacias Benavides is a company listed on the Bolsa

Mexicana de Valores.

(***) Associates with shareholdings held by FASA

During 2011 and 2010, the Company's management and its stockholders approved the following agreements to strengthen its corporate structure, as well as to facilitate its consolidated operations. Management constantly reviews its strategies to adapt to any economic changes that may arise.

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a) Through an assignment agreement of documents pending collection dated November 30, 2010, the subsidiaries Casa Saba and Drogueros sold certain collection rights applicable to individuals and legal entities to the Company at a discount in the amount of Ps. 488,441 and Ps. 30,994, respectively. The sales price amounted to Ps. 340,444 and Ps. 20,188, respectively.

b) Through a stock purchase and sale promise agreement dated May 17, 2010, amended by private instruments of June 16 and August 9, 2010, the Company bound itself to acquire 97.8 percent of the shares issued and outstanding representative of the capital stock of FASA through a Public Offering of Acquisition and Control. The Company obtained control thereof effective October 3, 2010. The acquisition was carried out through Controladora Casa Saba, which operates mainly as a controlling company of companies that sell pharmaceutical products through retail pharmacies. The agreed upon sales price amounted to \$240,870,791 thousand of Chilean pesos (approximately Ps. 6,201,240, approximately).

At the acquisition date, the Company recorded the purchase price allocation based on the estimated fair value of the net assets identified and noncontrolling interest in the business acquired, in accordance with Mexican FRS B-7, "Business acquisitions" (FRS B-7), which recognizes the "purchase method" as the sole valuation standard. As a result, the Company determined certain identifiable intangible assets related to trademarks that will generate expected future economic benefits that will be controlled by the Company. Management considers that the value of those intangible assets is included in the fair value of the transaction, which had not been recognized by FASA since it was not permitted by accounting standards. Those assets with indefinite economically useful lives were valued by independent experts, which amounted to approximately Ps. 3,971,000, (Note 10). Therefore, an excess of the cost of acquisition over the estimated fair value of the net assets acquired and the noncontrolling interest was determined preliminary in the amount of Ps. 2,590,378 (Note 10), which represents the amount of unidentifiable or inseparable intangible assets, in accordance with the accounting standard referred to above.

Subsequent to the acquisition of FASA, new information was uncovered that assisted management in determining that various events and circumstances exist at the acquisition date that represented an adjustment to the amounts of the acquired net assets and noncontrolling interest and, therefore, an amendment to the goodwill preliminarily recorded. Accordingly, during the "allocation period", Management determined various liabilities incurred, as well as the impairment of some long-lived assets at the date of completion of the business acquisition in the amount of Ps. 114,239. Consequently, the goodwill that emerged in this acquisition finally amounted to Ps. 2,704,617. Adjustments were recognized retrospectively at the acquisition date, in conformity with Mexican FRS B-1, "Accounting changes and error corrections". Therefore, the final allocation of purchase price of FASA at the acquisition date of September 30, 2010 was as follows:

	FASA September 30, 2010
Current asset	Ps. 4,214,275
Property and equipment	2,361,306
Deferred charges	443,123
Other assets	206,041
Intangible assets (trademarks)	3,971,000
Goodwill	2,704,617
Total acquired assets	Ps. 13,900,362
Current liability	Ps. 5,112,369
Noncurrent liability	2,447,256
Total assumed liabilities	Ps. 7,559,625

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As a result of this acquisition, the consolidated financial statements of the Company at December 31, 2011 and 2010 include the balance sheet of FASA at those dates, as well as its results of operations as of the date on which the Company took control over FASA. At December 31, 2010, the audited consolidated balance sheet of FASA and its subsidiaries, which includes the adjustments discussed in Note 3 a) to restate the 2010 audited financial statements, reflected the following condensed financial information, translated in accordance with Mexican FRS.

	December 31, 2010
Current assets	Ps. 4,954,691
Property and equipment, net	2,135,057
Deferred charges	279,830
Other assets	577,833
Intangible assets	1,836,709
Total assets	Ps. 9,784,120
Current liability	Ps. 5,985,221
Noncurrent liability	2,370,489
Stockholders's equity	1,428,410
Total liabilities and stockholders's equity	Ps. 9,784,120

The condensed results of operations of FASA from the acquisition date to December 31, 2010, translated in accordance with Mexican FRS were as follows:

	Amounts
Net sales	Ps. 4,280,919
Operating income	83,763
Loss before taxes on earnings	(125,351)
Net loss	(125,578)

The acquisition of FASA is a strategy of the Company to invest in the pharmaceutical product distribution industry through retailers. FASA sells personal care and hygiene products, beauty products, products for babies, and photography developing services, among other products and services. FASA operates in Chile, Mexico, and Peru through Farmacias Ahumada, S. A., Farmacias Benavides, S.A.B. de C. V., and Farmacias Peruanas, S.A., respectively.

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Proforma condensed financial information of results (unaudited)

In accordance with Mexican FRS, the Group presents pro forma condensed statements of income at December 31, 2010, whereby the acquisition of FASA goes into effect as if it had occurred on January 1, 2010. This is based on the information available which is considered reasonable. The pro forma financial information presented is not a reflection of the results that would have been obtained if the transactions had occurred effectively at the beginning of the year, and it should not be construed as representative of future results.

	2010		
	Grupo Casa Saba	Farmacias Ahumada	Grupo Casa Saba Proforma
	Ps.	Ps.	Ps.
Net sales	28,933,851	19,874,248	48,808,099
Cost of sales	25,395,827	14,957,202	40,353,029
Operating expenses	2,937,189	4,671,073	7,608,262
Other (income) expenses, net	(58,048)	125,505	67,457
Comprehensive gain or loss on financing, net	221,350	217,395	438,745
Equity on income of associates		(6,222)	(6,222)
Taxes on earnings	65,983	(44,140)	21,843
	Ps	Ps.	Ps.
Net income (loss)	371,550	(46,565)	324,985

c) On January 12, 2012, the Company sold the total shares representative of the capital stock of Farmacias Peruanas, S.A. and Drogueria La Victoria, S.A.C. (jointly FASA Peru), which represented 100 percent of the shares issued and outstanding of those Companies. The sale was made through FASA Investment, Ltda. and ABF Administradora de Beneficios Farmaceuticos, S.A. The selling price amounted to USD \$13,000,000 (equivalent to Ps. 181,723). In addition, on January 12 and 13, 2012, the Company finalized the following agreements: (i) FASA transferred the patent rights of certain trademarks names, whose consideration amounted to USD \$8,000,000 (equivalent to Ps. 111,830); and (ii) the entities of the Group assumed the obligation of not carrying out business activities related to the distribution of pharmaceutical products to the general public in Peru and Bolivia for a five year period, beginning January 20, 2012. The consideration amounted to USD \$29,500,000 (equivalent to Ps. 412,312).

In the determination of this significant sale, Management considered all qualitative and quantitative circumstances that encompass the business activity of FASA Peru. Consequently, the assets and liabilities of FASA Peru are presented in the balance sheet at December 31, 2011 and 2010 as “discontinued operations” in current and noncurrent assets and liabilities, as the case may be. Moreover, the operations of FASA Peru included in the statements of income for the periods extending from January 1 up to December 31, 2011 and from October 3 (acquisition date of FASA Peru) up to December 31, 2010 were reclassified to the line item “discontinued operations”.

The condensed information of the balance sheets of the discontinued operation of FASA Peru, was as follows:

	2011	2010
	Ps.	Ps.
Current assets	400,067	457,561
Property and equipment, net	211,484	179,550
Other noncurrent assets	14,115	16,300
Goodwill	239,008	239,008
Trademarks	245,000	245,000
	709,607	679,858
Total assets of discontinued operation	1,109,674	1,137,419

Current liabilities	473,663	608,671
Long-term liabilities of discontinued operations	792	609
Total liabilities of discontinued operation	474,455	608,280
Net assets of discontinued operation	Ps. 635,219	Ps. 528,139

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The condensed information of the statements of income of the discontinued operation of FASA Peru for the year ended December 31, 2011 and the three months ended December 31, 2010, was as follows:

	2011	2010
Net sales	Ps. 1,561,833	Ps. 403,428
Cost of sales and operating expenses	1,564,315	393,482
Operating (loss) income	(2,482)	9,946
Other expenses	3,454	3,143
Comprehensive gain or loss on financing	6,348	786
Taxes on earnings	(1,534)	5,873
Net (loss) income	Ps. (10,750)	Ps. 144

d) In accordance with the “Accounts receivable assignment agreement for valuable consideration” dated December 31, 2011, Casa Saba sold certain collection rights applicable to legal entities generated during 2011 to Inversiones Turisticas Cancun, S.A. de C.V. at a face value in an amount of Ps. 626,079. With this, Casa Saba transferred its control over accounts receivable, and there is neither a guarantee nor an obligation to reacquire those assets, nor is Casa Saba involved in any way that leads to retaining any risk or benefit associated with the assets transferred. The transaction was documented with a promissory note due in one year. The parties simultaneously entered into an “Administration and collection service contract” in order for Casa Saba to exercise those functions.

2. Basis of presentation:

Except for the issues discussed in the attached auditors’ report, the accompanying financial statements have been prepared based on Mexican Financial Reporting Standards (Mexican FRS), in effect at the date of the financial statements, issued by the Mexican Board of Financial Reporting Standards (CINIF-Spanish acronym). As explained in Note 21, these are the last consolidated financial statements of the Company prepared in accordance with Mexican FRS. Effective January 1, 2012, the company adopted International Financial Reporting Standards (IFRS). The company’s transition date is January 1, 2011.

Certain accounting principles applied by the Group in accordance with Mexican FRS differ in certain material respects to U.S. GAAP, as discussed in Note 22. A partial reconciliation of the consolidated net income and stockholders’ equity from Mexican FRS to U.S. GAAP is included in Note 23. The most significant Mexican FRS followed by the Group is described in Note 3) below.

Convenience translation

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of readers outside of Mexico. The consolidated financial statements are stated in Mexican pesos. U.S. dollar amounts shown in the accompanying financial statements were calculated based on the amounts in Mexican pesos at December 31, 2011. They have been included solely for the convenience of the reader and are translated from Mexican pesos as a matter of arithmetic computation only by using the rate of Ps. 13.9787 (pesos) per U.S. dollar as quoted by Banco de Mexico in the Official Daily Gazette at December 31, 2011. The convenience translation should not be construed as a representation that the Mexican peso amounts have been, could have been, or in the future could be translated into U.S. dollars at this or any other exchange rate.

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3. Significant accounting policies:

a) Accounting error correction

As explained in Note 1 b) during fiscal 2011, Management determined various events or circumstances existing at the acquisition date of FASA, which required an adjustment to the recognized amounts of the acquisition. As a result, the Company recorded certain liabilities incurred, as well as the impairment of some long-lived assets retroactively to the date of completion of the business acquisition in the amount of Ps. 114,239, in conformity with Mexican FRS B-1, "Accounting changes and error corrections".

Changes for accounting error corrections that affected the consolidated financial statements retroactively are as follows:

Caption	Prior amount reported	Error correction	Adjusted amount
Other accounts receivable	Ps. 1,434,792	Ps. (17,165)	Ps. 1,417,627
Property and equipment, net	3,726,889	(12,788)	3,714,101
Goodwill, intangible assets, and deferred charges, net	8,513,021	107,561	8,620,582
Other payables and accrued liabilities	2,797,003	56,448	2,853,451
Employee benefits	147,710	21,160	168,870

Mexican FRS, its interpretations (IMFRS) and Revisions, indicated below, 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 "CINIF") became effective for the years beginning on January 1, 2010, specifying, in each case, its prospective or retrospective application.

- (i) FRS C-1 "Cash and cash equivalents" - supersedes Bulletin C-1 "Cash" and became effective on January 1, 2010. The main changes compared to the Bulletin superseded by it are as follows:
- Requires the presentation, within the caption "Cash and cash equivalents" in the balance sheet, of restricted cash and cash equivalents.
 - The term "temporary demand investments" is replaced by "available on-demand investments."
 - To be identified as available on-demand investment, the investments should be highly liquid (3 months starting from the acquisition date).
 - FRS C-1 includes the definition of the terms: acquisition cost, cash equivalents, restricted cash and cash equivalents; available demand investments, net realizable value, nominal value and fair value.
- (ii) Amendment of paragraph 3 of Bulletin C-3 "Accounts Receivable" - became effective on January 1, 2010 and its application is retrospective. It establishes that the net realizable value of long-term accounts receivable has to be quantified at its present value.
- (iii) Improvements to the 2010 FRS:

In December 2009, the Mexican Board for Research and Development of Financial Reporting Standards (CINIF) issued the document referred to as "2010 FRS Revisions" setting forth the following accounting changes:

- FRS B-1 "Accounting changes and error corrections" - This adds financial statements disclosures in the event of an accounting change or the correction of an error,

- FRS B-2 “Statement of Cash Flows” – Unrealized accrued foreign exchange fluctuations and the effects of fair value recognition are excluded from the cash balance on the statement of cash flows. Additionally, the concept “Adjustment to cash flow from foreign exchange fluctuations and inflation levels” is changed to “Effects from cash value changes” which includes effects from translation, inflation, foreign exchange fluctuations and fair value of cash balances.
- FRS B-7 “Business acquisitions” - It requires that in the acquisition of a business containing an operating lease as lessee, an intangible asset is recognized segregated when agreement conditions are favorable or a provision when such conditions are unfavorable.
- FRS C-7 “Investments in associates and other long-term investments” - Capital contributions by the holding company to the associate that increase its equity percentage are to be recognized based on the net fair value of identifiable assets and liabilities. For that purpose, the valuation must be in proportion to the increase. The changes resulting from the application of this Revision are recognized prospectively beginning January 1, 2010.

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As a result of the acquisition of Farmacias Ahumada S.A., Management determined some accounting errors to its consolidated financial statements in accordance with MFRS B-1. The retrospective effect was Ps,114,239 (pesos).

Therefore in accordance with MFRS B-1 (Accounting changes and error corrections), the financial statements has been restated at December 31, 2010 and 2009, respectively.

The errors accounting changes to the consolidated financial statements affecting retrospectively to Farmacias Ahumada S.A. and subsidiaries at December 31, 2010 were as follows:

	Previously reported amounts	Error corrections	Restated amounts
Other receivables (1)	585,729	(17,165)	568,564
Property, furniture and equipment, net (2)	2,327,395	(12,788)	2,314,607
Income taxes and employee profit sharing (3)	290,200	(6,678)	283,522
Suppliers (4)	3,056,018	5,474	3,061,492
Other accruals (5)	247,910	53,175	301,085
Employee benefits (6)	59,098	18,959	78,057
Retained earnings (7)	167,654	(114,239)	53,415

The errors accounting changes to the consolidated financial statements affecting retrospectively to Farmacias Ahumada S.A. and subsidiaries at October 3, 2010 were as follows:

	Previously reported amounts	Error corrections	Restated amounts
Other receivables (1)	583,785	(17,165)	566,620
Property, furniture and equipment, net (2)	2,374,094	(12,788)	2,361,306
Income taxes and employee profit sharing (3)	282,423	(6,678)	275,745
Suppliers (4)	3,660,555	5,474	3,666,029
Other accruals (5)	366,769	53,175	419,944
Employee benefits (6)	58,781	18,959	77,740
Retained earnings (7)	269,133	(114,239)	154,894

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The errors accounting changes to the consolidated financial statements affecting retrospectively to Farmacias Ahumada S.A. and subsidiaries at December 31, 2009 were as follows:

	Previously reported amounts	Error corrections	Restated amounts
Other receivables (1)	312,366	(15,432)	296,934
Property, furniture and equipment, net (2)	2,523,591	(7,639)	2,515,952
Suppliers (4)	4,046,801	2,303	4,049,104
Other accruals (5)	79,716	43,536	123,252
Employee benefits (6)	70,303	18,959	89,262
Retained earnings (7)	325,023	(87,869)	237,154

The errors accounting changes to the consolidated financial statements affecting retrospectively to Farmacias Ahumada S.A. and subsidiaries at October 3, 2009 were as follows:

	Previously reported amounts	Error corrections	Restated amounts
Other receivables (1)	281,510	(15,432)	266,078
Property, furniture and equipment, net (2)	2,553,779	(7,639)	2,546,140
Suppliers (4)	3,289,976	2,303	3,292,279
Other accruals (5)	832,416	43,536	788,880
Employee benefits (6)	108,221	18,959	89,262
Retained earnings (7)	264,733	(87,869)	176,864

- (1) Due to changes at December 2008 on tax law, FASA will not recover the taxes paid on dividend from its subsidiaries in Mexico.
- (2) Farmacias Ahumada S.A. recognized leasehold improvements as assets. In accordance with MFRS C-6 the company shouldn't recognize these leasehold improvements as assets, because such improvements were expenses.
- (3) The Mexican subsidiary recognized income taxes related with the error calculate Employee Benefits.
- (4) Farmacias Benavides S.A.B. de C.V. Mexican subsidiary deduct from account payable the return goods amounts which were not accepted by the supplier.

- (5) In accordance to MFRS C-9, the provisions should be recognized when present, legal or assumed obligations are unavoidable and will require the disbursement of economic resources or can be reasonably estimated, The company registered at December 31, 2009 and 2008 other Accruals as following: (i) register of employee indemnizations; (ii) Expenses for completions fine coming from Peru subsidiary. In accordance with MFRS the adjustment does accomplish with the standards.
- (6) Farmacias Ahumada S.A. recognized an error on the estimation in employee benefits related with benefits retirement pensions.
- (7) All accounting errors were recognized in Retained Earnings.

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b) Use of estimates

Preparing the accompanying financial statements requires the Group's management to make certain estimates and use certain assumptions to determine the valuation of certain assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses incurred during the periods. Those estimates and assumptions are made on a going concern basis and they are continuously reviewed by using the available information.

The most significant line items subject to the above mentioned estimates and assumptions apply mainly to the allowance for doubtful accounts, allowance for slow-moving inventories, financial instruments, property and equipment, investments in stock of subsidiaries and associates, intangibles assets and goodwill, certain provisions, labor obligations derived from defined benefits, taxes on earnings and valuation of contingencies. Actual results may differ from these estimates and assumptions.

c) Basis of consolidation

The accompanying financial statements are presented on a consolidated basis, which include those of the Company and all of its subsidiaries (held directly or through its controlling subsidiaries) in which the Company holds more than 50 percent of the common shares and/or has administrative control, as well as Special Purpose Entities. Control exists when there is power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The accounting consolidation is made from the date on which the subsidiaries are acquired, incorporated and/or the control is held up to the date when they are disposed of and/or at the fiscal year end of the last year reported. For that purpose, the Company uses the subsidiaries' audited financial statements, prepared in accordance with Mexican FRS. The consolidated financial statements are prepared at the same date and for the same period. All significant intercompany balances and transactions are eliminated from the Group's consolidated financial statements.

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Investments in associates are initially recorded at acquisition cost. They are subsequently valued by using the equity method when the Company has significant influence. The Company uses audited financial statements of the associates for that purpose, prepared in accordance with Mexican FRS. Consequently, the Company records in income the proportionate share of the gains or losses reported by the associates and in stockholders' equity, the variations of the other stockholders' equity accounts. Significant influence is presumed to exist when equity ranges between 10 percent and 50 percent in public companies, and between 25 percent and 50 percent in non-public companies, unless it is proven that the Company has significant influence with a lower percentage.

At December 31, 2011 and 2010, the Company incorporated the entity named Sociedad Fondo de Inversion Privado Retail Chile into the accounting consolidation. This entity exclusively invests in negotiable instruments of FASA or its FASA's subsidiaries.

The Company does not recognize additional losses when its equity in losses in a subsidiary or associate exceeds its shareholdings, unless there are obligations or commitments that are legal or assumed by the Company.

d) Statements of income and statements of cash flows

The accompanying statements of income present costs and expenses based on their function, which are presented in generic captions in connection with their contribution to the different levels of income or loss. The cost of sales is separated from the other costs and expenses to present the level of gross profit.

The statements of cash flows, prepared under the indirect method in a non-inflationary economic environment, present the cash inflows and outflows of the period in nominal monetary units therefore, they exclude the inflation impact and the unrealized exchange rate fluctuation.

e) Recognition of the impact of inflation on the financial information

i) In accordance with Mexican FRS B-10, "Impact of Inflation" (FRS B-10), the financial statements that recognize the impact of inflation under "comprehensive method" are those relative to an entity whose functional currency applies to a country in which there is an inflationary economic environment. FRS B-10 recognizes two economic environments, one results in the recognition of the impact of inflation (inflation equal to or higher than 26 percent accumulated in the three annual prior years) and the other does not (inflation lower that percentage in the period referred to above). The percentage of inflation of the year and accumulated inflation of the three annual prior years applicable in each country in which the Company operates, is as follows:

Country	Inflation 2011	Accumulated inflation	Type of economy
Mexico	3.8	15.4	Non-inflationary
Brazil	6.5	16.7	Non-inflationary
Chile	3.9	6.0	Non-inflationary
Peru	4.7	13.5	Non-inflationary

ii) Pursuant to the foregoing, the Group has not recognized the impact of inflation effective January 1, 2008. Consequently, the accompanying financial statements of income and cash flows are presented in nominal Mexican pesos. Through December 31, 2007, the Group recognized the effect of restatement regardless of the level of inflation. Toward that end, it applied the factor derived from the National Consumer Price Index (NCPI) published by the Banco de Mexico for domestic companies and, if applicable, the NCPI of the country of origin for those that operate abroad. That effect is maintained in the financial statements of the last year reported. Should the economic environment change to inflationary, the Group will retroactively recognize the impact of inflation not recognized in

the periods in which the economic environment was non-inflationary, in accordance with FRS B-10.

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Through December 31, 2007, stockholders' equity was restated based on the NCPI factor. The stockholders' equity restatement represents the amount necessary to maintain shareholders' investment in terms of the 2007 fiscal year purchasing power of the currency.

f) Translation of financial statements of foreign operations

The accounting records of the foreign subsidiaries and associates are maintained in the recording currency of the country where those entities are established. Their financial statements are prepared in conformity with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). Therefore, those financial statements are adjusted to Mexican FRS prior to their translation and accounting consolidation. The translation is carried out in accordance with Mexican FRS B-15, "Foreign currency translation" (FRS B-15). Toward that end, those financial statements are determined in their functional currency and restated by applying rate of inflation at which the foreign operation operates, depending upon whether the information comes from an inflationary or non-inflationary economic environment, in accordance with FRS B-10. Subsequently, they are translated into the reporting currency as discussed in the following paragraph.

The Group's foreign operations operate in a non-inflationary economic environment and its functional currencies are the Brazilian real, Chilean peso and Peruvian peso. Accordingly: (i) monetary and nonmonetary assets and liabilities were translated at the year-end exchange rate published by Banco de Mexico, and, the stockholders' equity at the historical exchange rate; and (ii) revenues and expenses were translated at the average exchange rate for the period. The translation adjustment is included in the "Accumulated translation effect" and forms part of comprehensive income. Moreover, it is recycled to income at the date of its availability. That line item includes, if applicable, foreign exchange fluctuations (subparagraph s) below).

At December 31, 2011 and 2010, the translation effect amounted to Ps. 88,829 and Ps. 140,895, respectively, net of income tax. The year end and average exchange rates used in the translation process were as follows:

Currency	2011		2010	
	Year end	Average	Year end	Average
Chilean peso	37.11	37.60	37.89	40.40
Brazilian real	7.47	7.46	7.42	7.19
Peruvian Soles	2.69	2.69	2.80	2.81

g) Cash and cash equivalents

The balance of this line item consists of amounts available in cash and cash equivalents available for the Group's operations. Cash equivalents consist of investments in highly liquid securities. When such securities are acquired, they have a maturity date of ninety days or less. They are payable on demand at market variable interest rates, and they are not subject to significant foreign exchange risks in their values. Those investments are valued at cost plus accrued interest. Interests and exchange fluctuations form part of the comprehensive gain or loss on financing.

h) Other current assets

Other current assets consist of: (i) payments for goods and services whose risks and benefits will be transferred to the Group in the following twelve months; (ii) fair value of the derivative financial instruments that mature in less than one year; (iii) prepaid expenses that consist mainly of rents, insurance, and surety bonds that are expensed when the services or benefits are received; and (iv) available-for-sale assets.

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Effective 2011, the Group adopted retrospectively the new Mexican FRS C-5, "Prepaid expenses" that supersedes the Bulletin with the same name. Accordingly, prepaid expenses are presented as a current asset when the period in which their benefits are expected to be obtained is equal to or less than one year. Prepaid expenses for goods are presented in the short-term or long-term, depending on the classification of the item intended (e.g.: inventory or property and equipment). That adoption had no impact on the consolidated financial statements.

i) Financial instruments

The carrying value of all financial assets and financial liabilities that is derived from any type of financial instrument is assessed at its estimated fair value and it is recognized in the balance sheet. The valuation effect, as well as costs and returns generated by financial instruments, form part of the comprehensive gain or loss on financing when incurred or earned.

At December 31, 2011 and 2010, the carrying value of financial instruments (cash, receivables, other accounts receivable, trade accounts payable, other payables and accrued liabilities, as well as short-term debt) approximates their estimated fair value due to their short-term nature. The valuation of the long-term debt incurred through bank loans and market bonds considers estimated values for financial instruments with similar terms and due dates existing on the market, which accrue variable financing rates in effect on the market.

j) Derivative financial instruments

These transactions are contracted to significantly hedge the associated risks with changes in interest rate, exchange rate or inflation. The designation of hedges is documented by describing the strategy and objective of management of risks, hedged risks, identification of the hedged primary position, its accounting recognition, and how its effectiveness is measured. Management estimates that the changes in cash flows of the derivative financial instrument maintain high effectiveness in offsetting the changes in cash flows of the primary position, both at the beginning and throughout the relationship of the designated hedge.

The assets and liabilities that apply to derivative financial instruments are presented in the balance sheet at their estimated fair value determined based on exchange rate quotes recognized on the market. The effective portion of gains or losses on the cash flow hedging financial instrument is recognized temporarily in the comprehensive income account in stockholders' equity, and it is subsequently reclassified to income as the amount of the hedge is exercised.

k) Allowance for doubtful accounts

The allowance for doubtful accounts represents the Group's estimate of the probable loss in all trade receivables by considering the historical trend of payment performance of customers and factors surrounding the specific credit risk.

l) Inventories

Inventories are valued at the lower of acquisition cost or net realizable value. During high inflationary periods, inventories are restated by using NCPI factors, by considering Mexican FRS B-10. The Group analyzes its inventory balances to determine if any portion of their balance requires the need for an adjustment to the allowance or if it should be increased, due to the occurrence of adverse events such as physical damage, obsolescence, expiration, etc. The cost of sales represents the inventories acquisition cost in a non-inflationary environment.

Effective 2011, the Group adopted retrospectively the new FRS C-4, "Inventories". This standard supersedes the Bulletin with the same name. That adoption had no impact on the consolidated financial statements.

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m) Property and equipment

Property and equipment are initially recorded at acquisition cost. During high inflationary periods, those assets are restated by using NCPI factors applicable to the country where those assets are established, in accordance with Mexican FRS B-10. Through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the value of those assets was restated by using the applicable NCPI factors.

Depreciation is calculated on the value of property and equipment restated when the economic environment is inflationary, as well as on the acquisition cost when the economic environment is not inflationary, in accordance with Mexican FRS B-10, by applying the straight-line method based on the remaining economic useful life thereof. The carrying value of leasehold improvements are amortized on a straight-line method, in accordance with the period set forth in the agreement.

The Group periodically assesses the carrying value of long-lived tangible and intangible assets, including goodwill and permanent investments in associates, to establish whether significant adverse events, changes in the operating business environment and/or changes in expectations regarding operating income for each cash generating unit, indicate that the carrying value of those assets may not be recoverable, in accordance with Mexican Bulletin C-15, "Impairment of the value of long-lived assets and their related disposal" (Bulletin C-15). In such event, an impairment loss is determined by the excess of the carrying value of long-lived assets over the "value in use", which consists of determining the net present value of estimated cash flows to which those assets relate. The impairment loss, if any, is recorded as a charge to operations in "Other expenses, net" in the period when such an assessment is carried out, unless indications noted are of a temporary nature. Mexican Bulletin allows the reversal of the recognition of impairment under certain circumstances. At December 31, 2011 and 2010, Management determined that there were no impairment indications on the carrying value of property and equipment and investments in associates.

Property and equipment available-for-sale are included in "Other current assets" and assessed on the date on which the sales plan is approved at the lower of its net carrying value and its fair value, less associated sales costs. Those assets are not subject to depreciation.

Effective 2011, the Group adopted retrospectively the new Mexican FRS C-6, "Property, plant and equipment" that supersedes Bulletin C-6, "Property, machinery and equipment". That adoption had no impact on the consolidated financial statements.

n) Business acquisitions, intangible assets and goodwill

i) Business acquisitions

The Company recognizes business acquisitions based on Mexican FRS B-7, "Business acquisitions" (FRS B-7). Consequently: (i) the purchase method is used as the sole valuation standard by allocating the purchase price to the net assets acquired and the noncontrolling interest based on their estimated fair value at the acquisition date; (ii) intangible assets acquired are identified and recognized at its estimated fair value; (iii) the unallocated portion of the purchase price that is not identifiable is included as goodwill, which is allocated to the cash flow generating unit in order to periodically evaluate the impairment. If applicable, the goodwill value is adjusted for any correction to the preliminary value allocated to the net assets acquired and the noncontrolling interest, within the twelve months subsequent to the acquisition date; and (iv) valuation is performed at fair value with certain exceptions, in which case the pertinent Mexican IFRS is applied. Acquisition and/or restructuring costs and expenses are expensed when incurred.

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The Company recognizes the excess fair value of net assets acquired over the consideration paid as a bargain that is recognized by the acquiring entity by considering: (i) reduces the value of the assets of the business acquired until they are exhausted, and (ii) the remaining balance is recognized as a nonordinary gain at the acquisition date.

ii) Intangible assets

Intangible assets are identifiable nonmonetary assets, with no physical substance that represent costs incurred or rights acquired, which will generate future economic benefits controlled by the Group. Intangible assets are initially recorded at acquisition cost represented by cash or cash equivalents paid at their estimated fair value at acquisition date if they are from a business acquisition. They are classified as definite lived or indefinite lived intangible assets, in accordance with the period in which benefits are expected to be received. During high inflationary periods, those assets are restated by using NCPI factors applicable to the country where those assets are established. Through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the value of those assets was restated by using the applicable NCPI factors.

Intangible assets with definite useful life

These assets are amortized on their restated value when the economic environment is inflationary, as well as on the acquisition cost when the economic environment is not inflationary, in accordance with Mexican FRS B-10. Toward that end, the straight-line method is applied based on its remaining economic useful life. These assets are represented mainly by licenses related to the technological platform with which the Group operates. Development expenses are recorded as intangible assets, provided that their technical viability and economic profitability are reasonably assured.

Intangible assets with an indefinite useful life

These intangible assets, including goodwill, are subject to periodic impairment tests, in the event of impairment indicators or at least once a year, by applying the “value in use” method of the cash generating units and taking into account a horizon whose projections do not establish growth rates beyond five years, unless a greater period is justified in accordance with Mexican Bulletin C-15 referred to above. Toward that end, “perpetuity value” is applied which considers two stages: (i) the generation of excess of value in use of assets other than intangible assets with indefinite useful life and goodwill (“excess value in use”); and (ii) the recovery of carrying value of intangible assets and goodwill referred through perpetuity. Perpetuity value results from “excess value in use” between projected periods, discounted at an appropriate discount rate. Therefore, the impairment loss is generated by the excess of carrying value over perpetuity value referred to above. If goodwill and another intangible asset with indefinite useful life are subject to impairment at the same time, the resulting loss is applied to goodwill first.

The Group considers that the value in use through its cash flow projections is the best estimate of future cash flows from continued use of the cash generating unit. Therefore, the cash flow projection models recognize medium and long-term economic variables fairly at the time of the calculation, which are related to the future estimated price of products, changes in operating expenses, industry economic trend, and discount and growth rates applied in perpetuity.

o) Lease

Operating lease

This transaction is classified as an operating lease when the risks and benefits inherent to the ownership of the leased asset remain substantially with the lessor. Total payments are charged to operating income for the period.

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Capitalized lease

The capitalized lease is recognized when all the risks and benefits associated with the ownership of the assets are retained substantially. Accordingly: (i) ownership of the asset is transferred to the Company upon termination of the term; (ii) the price for acquiring the asset upon termination of the term is deemed to be a bargain purchase option; (iii) the lease term covers the majority of the asset's economic life; and (iv) the present value of the minimum lease payments substantially represents the fair value of the asset at the inception of the lease. Financial leasing is capitalized at the inception of the lease at the lower of fair value of the property under the lease agreement or the present value of future minimum payments.

Obligations under financial leasing arrangements are included in other short or long-term payables. The financial cost is expensed during the lease term. The asset acquired is depreciated in accordance with the Company's depreciation policies.

p) Provisions, contingent assets and liabilities and commitments

The Group recognizes the liabilities of present obligations on which the transfer of assets or the rendering of future services are unavoidable, and arise as a consequence of past transactions or events. Provisions are recognized when present, legal or assumed, obligations are unavoidable and will require the disbursement of economic resources or can be reasonably estimated.

Significant obligations or losses related to contingencies are periodically evaluated. They are accounted for when it is likely that present obligations will require the disbursement of economic resources, and there are reasonable elements for their quantification. If there are no such reasonable elements, the contingencies are disclosed in the notes to the financial statements. Contingent revenues, income or assets are only recognized when their realization is practically certain.

Commitments are not recognized unless they result in a loss. Commitments are disclosed when they represent significant additions of fixed assets, goods or services contracted that substantially exceed the immediate needs of the Group or represent contractual obligations.

q) Employee benefits

i) In accordance with Mexican FRS D-3, "Employee Benefits" (FRS D-3), the Group recognizes the labor obligations derived from defined benefits for retirement pensions and seniority premiums, as well as severance benefits to employees for termination of the employment relationship (legal ordinary indemnifications) when they complete the employment relationship prior to the retirement age which is not associated to a restructuring event. Costs are expensed as employees render their services. Toward that end, actuarial computations are applied to the present value of labor obligations. Retirement pensions are granted to all personnel that have completed at least ten years of pension service and have reached sixty-five years of age. Seniority premiums are granted for a voluntary separation of personnel after completing fifteen years of service and then calculated based on the number of years worked. Severance benefits for termination of the employment relationship are granted by Law in the event of a dismissal, based on the years of service and last salary of personnel.

Defined benefit obligations, unamortized items, and the net periodic cost applicable to labor obligations referred to above are determined by using the "projected unit credit method". Severance benefits which arise from restructuring causes should continue to follow the Mexican Bulletin C-9, "Liability, provisions, contingent assets and liabilities, and commitments".

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The Group has created a fund placed in an irrevocable trust with a financial institution to meet the labor obligations derived from defined benefits. During 2010, the contributions to the fund amounted to Ps. 9,668. In 2011, there were no any contributions. Fund assets consisted of investments in equity securities and investments in fixed income securities that are traded on the Mexican Stock Market. Those investments are valued at estimated fair value at the date of the financial statements.

ii) The relevant information of the actuarial computation on labor obligations derived from defined benefits is summarized below. Interest rates and actuarial assumptions used for reflecting the present value of obligations and expected returns on assets discussed hereinbelow consider the use of nominal rates, due to the non-inflationary economic environment in which the Group operates.

	2011	2010		
Labor liability				
Accumulated benefit obligation	Ps. 230,939	Ps. 172,947		
Additional benefit related to future compensation increases	179,681	203,336		
Defined benefit obligation	410,620	376,283		
Fair value of plan assets	80,119	96,323		
Funded status	330,501	279,960		
Unrecognized net transition obligation	(6,509)	(13,502)		
Negative plan amendments	11,346	8,824		
Unrecognized net loss	(126,254)	(107,021)		
Unfunded accrued pension cost, seniority premium and severance benefits to be recognized	Ps. 209,084	Ps. 168,261		
Net periodic cost				
Service cost	Ps. 22,089	Ps. 17,716		
Interest cost	27,432	25,938		
Expected return on plan assets	(8,548)	(9,236)		
Amortization of unrecognized net transition obligation	6,667	7,089		
Amortization of plan amendments	(543)	(491)		
Amortization of unrecognized net loss	5,022	4,749		
Net periodic cost	Ps. 52,119	Ps. 45,765		
Assumptions:				
México				
Discount rate	7.75	%	7.80	%
Salary increase rate	4.00	%	4.50	%
Return of plan assets	9.25	%	9.80	%
Chile				
Discount rate	5.00	%	8.00	%
Salary increase rate	3.00	%	4.00	%
Return of plan assets	3.00	%	9.00	%

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	2011	2010
Change in projected benefit obligation		
Actual projected benefit obligation at beginning of year	Ps. 376,283	Ps. 307,367
Service cost	22,062	13,024
Interest cost	27,262	21,989
Actuarial loss	27,620	61,197
Benefits paid	(32,779)	(26,411)
Effect on curtailment on benefit obligation	(9,297)	(883)
Effect on settlement on benefit obligation	(531)	
	Ps. 410,620	Ps. 376,283
Change in plan assets		
Fair value of plan assets at beginning of year	Ps. 96,323	Ps. 96,698
Actual return on plan assets	8,548	3,314
Actuarial loss	(7,945)	
Employer contributions		9,668
Early liquidation of obligations	(2,694)	
Benefits paid	(14,113)	(13,357)
Fair value of plan assets at end of year	Ps. 80,119	Ps. 96,323
Funded status	Ps. 330,501	Ps. 279,960
Unrecognized net transition obligation	(6,509)	(13,502)
Negative amendments (unrecognized prior service cost)	11,346	8,824
Actuarial loss	(126,254)	(107,021)
Unfunded accrued pension cost, seniority premium and severance benefits to be recognize	Ps. 209,084	Ps. 168,261

iii) The Company has a liability for other retirement benefits in favor of eighteen workers of the subsidiary Farmacias Benavides in accordance with a specific plan established in January 1987, and in effect up to December 31, 2004. No new beneficiaries of the Plan have been incorporated since that date. The liability is recorded by considering assumptions as future permanence, discount rate, and interest rate, mortality, and future salary increases, determined by actuarial computations. That liability will be liquidated in the medium-term. At December 31, 2011 and 2010, the liability amounted to Ps. 28,856 and Ps. 29,854, respectively.

iv) At December 31, 2011 and 2010, the amount of the direct short-term benefit due to compensated absences (vacations, sickness, provisional disability, maternity leave, etc.), cumulative and non-cumulative, was recorded.

v) For Mexican FRS D-3 purposes, the unrecognized net transition obligation, unrecognized prior service cost, and accrued net actuarial gain/loss at December 31, 2007, should be amortized to the income statement over a maximum period of five years, while the actuarial results generated as of January 1, 2008, are amortized over the employees' estimated active service lives following the "corridor method", which requires the actuarial gains and losses in excess of the range between the higher of 10 percent of the plan assets and 10 percent of the defined benefits obligation balance be: (i) amortized to operating income during the remaining labor life of employees who will receive the benefits; and (ii) expensed as accrued. At December 31, 2011 and 2010, the amortized amount of that item was not material.

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In addition, the opening transition asset or obligation is recognized only if a new defined fringe benefits plan is established. Prior services derived from the new plan will be amortized during the remaining labor life of employees who will receive the benefits. At December 31, 2011 and 2010, the Group had not established new benefit plans.

The amount of actuarial gains or losses and the prior service benefits for termination of the employment relationship, due to causes other than restructuring, are recognized in income. At December 31, 2011 and 2010, that amount was immaterial.

Employee profit sharing due is recorded based on the amount payable, determined on taxable income that is obtained as provided for in the currently enacted tax legislation by applying a 10 percent rate. Deferred employee profit sharing is determined by using the “asset and liability method”, by applying a 10 percent rate to the temporary differences between book and tax values of assets and liabilities for employee profit sharing purposes, in accordance with the pertinent legislation. At December 31, 2011 and 2010, the deferred employee profit sharing asset amounted to Ps. 7,107 and Ps. 7,868, respectively. Those amounts were offset by a similar valuation allowance, in accordance with Mexican FRS. Employee profit sharing is recognized in income in “Other expenses, net”.

r) Income Tax and Corporate Flat Tax (IETU-Spanish acronym)

i) Consolidated taxes on earnings represent the sum of the income tax due and the deferred income tax effect determined by the Company and its subsidiaries, by taking into account currently enacted tax legislation applicable in the different jurisdictions in which each entity operates. In accordance with currently enacted tax legislation in Mexico, the IETU Law co-exists with the Income Tax Law for determining the taxes on earnings for the period. Taxes on earnings due in the period are recorded in income.

ii) In order to recognize the deferred taxes on earnings effect, Management has performed a periodic analysis based on reasonable assumptions to determine the tax base on which the Group will assess its operations when there is more than one tax base in the same jurisdiction. Pursuant to the foregoing, the Group recognizes deferred taxes on earnings based on the tax regime that is expected to prevail in the future. At December 31, 2011 and 2010, Management determined that income tax will be the tax on earnings that will be paid by the Mexican entities in the medium-term, instead of IETU. If the Group determines that IETU will be due based on their estimates and that event will qualify as permanent, the deferred income tax balance will be adjusted to the resulting amount of IETU. If the event is circumstantial, the Group will account for deferred income tax, even though IETU will be due in the period.

iii) The consolidated deferred income tax effect represents the amount determined by the Company and its subsidiaries by applying the “asset and liability method”. It further considers the tax losses effect and tax credits. Therefore, the deferred income tax liability is recorded for all temporary differences, whereas the deferred income tax asset is only recorded if it meets the “more likely than not” criteria. The deferred income tax effect is determined by applying tax laws and income tax rates which are enacted or substantially enacted at the closing date of the financial statements by considering the time it is estimated that the temporary differences are realized. In addition, the Group recognizes deferred income tax generated by its investments in associates. Deferred income tax assets and/or liabilities are classified as a non-current item, regardless of the term in which temporary differences are expected to be reverse and materialize. Deferred income tax assets and liabilities applicable to different tax jurisdictions are not offset. The deferred income tax effect of the year is recorded in income as a component of “provisions for income tax”, except for the deferred income tax effect that may be generated by temporary differences attributable to other stockholders’ equity accounts. In that event, the deferred income tax effect is applied to the specific stockholders’ equity account that generates it, without being applied to income.

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The Group performs a periodic valuation allowance review to determine the amount of the deferred asset (income tax and/or employee profit sharing) that “more likely than not” will be realized and recorded based on the available information of each entity. The deferred asset amount that is not realized is recorded in the results of operations and/or stockholders’ equity, by considering the nature of the temporary item. At December 31, 2011 and 2010, the Group determined there was no need for a valuation allowance to be recognized as the deferred income tax asset was deemed to be fully recoverable.

iv) The effect of deferred IETU on Mexican entities is determined on temporary differences, tax losses, and tax credits by applying the “asset and liability method”. For its computation, tax laws and IETU rates are applied which are enacted or substantially enacted at the closing date of the financial statements. The deferred IETU asset and/or liability is classified as a non-current item.

v) The Group does not recognize a deferred income tax effect related to its investments in subsidiaries, since it considers that it is in control of the materialization of the temporary differences that arise from these investments, and it is likely that they will not materialize in the foreseeable future.

vi) Effective 2009, Management decided that some of its Mexican controlled entities of the Group were no longer included in tax consolidation. In addition, on June 25, 2010, Management filed an additional notice in order for the Company to no longer consolidate its taxable income with the rest of its Mexican controlled subsidiaries for fiscal 2010. Therefore, The Company and those subsidiaries met their tax obligations individually for that year.

Notwithstanding the foregoing, due to business reasons, on December 21, 2010, the Company again was approved by the tax authorities to determine its consolidated taxable income only with the companies that are considered as controlled companies, as set forth by the Income Tax Law. That approval goes into effect beginning the fiscal year extending from January 1 to December 31, 2011.

vii) In December 2009, CINIF issued Mexican Interpretation FRS 18, “Recognition of the effects of the 2010 tax reform on taxes on earnings” (FRS-18) effective beginning that date. FRS 18 sets forth the accounting treatment of the income tax liability derived from the change to the tax consolidation regime in effect beginning January 1, 2010. Therefore, the Company determined income tax payable at December 31, 2009 as if the tax consolidation provisions had not existed since 1999 and henceforth. In accordance with FRS-18: (i) the income tax liability derived from intercompany dividends is recognized with a charge to retained earnings, without preparing the restatement of prior year financial statements; and (ii) the liability related to the tax losses of subsidiaries and losses on the sale of shares, used in tax consolidation should not be offset by the income tax asset associated with the same items. Accordingly, at December 31, 2009, the Company recognized a liability charged to retained earnings in the amount of Ps. 133,619.

s) Comprehensive gain or loss on financing (RIF - Spanish acronym)

RIF represents the expense or income derived from financing activities during the period. RIF consists of interest, the exchange rate fluctuation effect, changes in fair value of financial instruments and derivatives and, through December 31, 2007 or when the inflationary economic environment is applied, the gain or loss on monetary position. The RIF effect is recorded in income, except if the RIF attributable to “qualified assets” is capitalized in accordance with Mexican FRS D-6, “Capitalization of the comprehensive gain or loss on financing”.

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Foreign currency transactions are recorded at the current exchange rate at the date on which they are entered into or paid. Foreign currency monetary assets and liabilities are translated to Mexican pesos by using the exchange rate at the date of the balance sheet published by the Banco de Mexico. Resulting exchange fluctuations are included in income, except for those generated by: (i) foreign currency debt related to the acquisition of foreign entities, and (ii) foreign currency related party balances that do not foresee their liquidation in foreseeable future; therefore, their nature is that of long-term. When admissible, these effects are recognized, along with the applicable monetary position in the “Accumulated translation effect” if the environment is inflationary.

t) Comprehensive income

Comprehensive income consists of the net income for the period, plus/(less) other results for the same period reflected in the stockholders’ equity pursuant to specific accounting provisions. Accordingly, stockholders’ equity discloses the components of comprehensive income, which does not include capital contributions or reductions.

u) Earnings per share

Earnings per share are determined based on the weighted average common shares outstanding during the years and earnings for common shareholders, in conformity with Mexican Bulletin B-14, “Earnings per share” (Bulletin B-14). The Group has not carried out any transactions that may cause it to issue any potential shares with a dilutive effect on earnings per share. Dilutive earnings per share are not determined if the continued operations result is a loss, in accordance with Bulletin 14.

v) Revenue recognition

Revenues are recognized at the fair value of the consideration received or receivable, reduced from returns, rebates, and discounts granted to customers in the period in which risks and benefits are transferred to customers, which generally coincides with: (i) persuasive evidence that an arrangement exists, (ii) delivery has occurred to the satisfaction of customer’s orders, (iii) the collection is reasonably assured, and (iv) there is no condition or uncertainty that might imply their reversal and, therefore, the customer assumes the risk of loss. Due to the nature of its operations, the Group assumes total risk of ownership of the products purchased from third parties, and it does not act as an agent or commission agent.

w) Concentration of risk

The Group sells its products to a large number of customers in the countries in which it operates. Accordingly, no individual customer accounted for a significant amount of sales or receivables in fiscal 2011 and 2010. Furthermore, there are no significant concentrations related to suppliers to the Group that provide it with inventories in those years.

4. Receivables:

	2011	2010
Trade receivables	Ps. 6,548,122	Ps. 7,813,007
Allowance for doubtful accounts	(1,167,116)	(892,594)
	Ps. 5,381,006	Ps. 6,920,413

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5. Other accounts receivable:

	2011	2010
Other receivables	Ps. 979,326	534,738
Related parties	680,396	48,949
Value added tax recoverable	90,227	158,520
Income tax recoverable	224,716	218,686
Other taxes recoverable	506,922	426,133
	Ps. 2,481,587	Ps. 1,387,026

The balance of other receivables is comprised of loans to personnel.

6. Inventories:

	2011	2010
Pharmaceutical products	Ps. 7,792,105	Ps. 7,577,875
Beauty care products	675,911	608,551
Books and magazines	267,867	227,646
Electric appliances	4,031	4,034
Groceries	12,886	25,661
Other	18,403	24,873
	8,771,203	8,468,640
Estimate for reserve of inventory	(66,224)	(67,199)
	8,704,979	8,401,441
Merchandise-in-transit		124,760
	Ps. 8,704,979	Ps. 8,526,201

Merchandise-in-transit represents pharmaceutical products for which title and risk of loss has been transferred to the Group.

7. Other current assets:

	2011	2010
Prepaid expenses	Ps. 35,737	91,011
Derivative financial instruments	5,666	4,388
Assets available-for-sale	29,341	29,341
Other assets	141,313	42,573
	Ps. 212,057	167,313

Available-for-sale assets are presented at their estimated realizable value and are comprised of real property received in payment of accounts receivable.

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8. Derivative financial instruments:

Cash flow hedges

The Company agreed upon these transactions in different months of the year to look for a future US dollar purchase price on different dates, and to be able to meet its U.S. dollar-denominated commitments. Forwards have a different agreed upon price on each date of maturity. The assumed risk is depreciation of the U.S. dollar in connection with the Mexican peso below the agreed upon prices, given the long profile in U.S. dollars that the Company has. At December 31, 2011 and 2010, the characteristics and fair value of derivative financial instruments were as follows:

Contract	2011		Buy/sell position	Asset/(liability)		Effect on income (loss)	
	Contract value	Due date		Name	Amount	Realized	Unrealized
	Ps. 343,367				Ps.	Ps.	
Forward		2012	Buy	Current assets	4,241	2,934	
Opciones	334,211	2012	Buy	Current assets	1,425	1,425	
Forward	330,869	2012	Buy	Current liabilities	(2,833)	(2,833)	
Opciones	334,211	2012	Sell	Current liabilities	(1,425)	(1,425)	
Forward	1,394,594	2012	Buy	Long-term other liabilities	(309)	(309)	

The current liability and the short-term asset in the amount of Ps. 4,258 and Ps. 5,666 are included in the consolidated balance sheet in the line items “Other payables and accrued liabilities” and “Other current assets”, respectively.

Contract	2010		Buy/sell position	Asset/(liability)		Effect on income (loss)	
	Contract value	Due date		Name	Amount	Realized	Unrealized
	Ps. 114,816				Ps.	Ps.	
Forward		2011	Buy	Current assets	1,176	(1,065)	Ps. 597
Forward	318,567	2011	Sell	Current assets	3,212	3,006	
Forward	395,204	2011	Buy	Current liabilities	(12,709)	(2,092)	(6,414)
Swap	897,954	2011	Buy	Long-term assets	(30,876)		
Swap	894,254	2011	Sell	Long-term other liabilities	(225)	(21,474)	(32,116)

The current liability and the long-term asset in the amount of Ps. 12,709 and Ps. 30,876 are included in the consolidated balance sheet in the line items “Other payables and accrued liabilities” and “Other assets, net”, respectively.

The Company manages the credit risk of its derivative financial instruments which are traded on recognized markets and with high creditworthy and reputable counterparties. The Company recognizes a hedge provision that applies to the difference between the “spot price” value and the fair value of the cash flow hedging instruments, which are determined as highly effective hedges, in accordance with Mexican FRS. At December 31, 2011 and 2010, the amount of the hedge provision was immaterial.

9. Property and equipment:

	2011	2010
Buildings	Ps. 1,307,801	Ps. 1,283,590
Machinery and equipment	2,050,507	2,045,917
Transportation equipment	226,436	236,223
Office equipment	240,945	186,824
Computer equipment	1,753,991	1,469,059
Leasehold improvements	2,291,842	2,260,601
	7,871,522	7,482,214
Less- accumulated depreciation and amortization	(4,947,885)	(4,389,330)
	2,923,637	3,092,884
Land	482,686	437,781
Construction in progress	532	3,886
	Ps. 3,406,855	Ps. 3,534,551

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The changes in the period of property and equipment are as follows:

	2011
Opening balance of property and equipment, net	Ps. 3,726,889
Less: retirements for discontinued operations	(192,338)
Balance after retirements for discontinued operations	3,534,551
Add: additions	605,130
Less: retirements	(331,126)
Subtotal	3,808,555
Depreciation of the year	(401,700)
Net carrying value at end of period	Ps. 3,406,855

The average annual depreciation and amortization rates for 2011 and 2010 were as follows:

	México	Chile	Brazil
	%	%	%
Buildings and construction	2.1	5	20
Machinery and equipment	6.1		10
Transportation equipment	10.2	20	20
Office equipment	6.5	10	10
Computer equipment	11.2	25	10-20-40
Leasehold improvements	5	6.7	10-20
Selling equipment	25	25	

At December 31, 2011 and 2010, the Company maintains various financial lease agreements, which are for commercial locales, computer equipment, and photography laboratories, as follows:

	2011	2010
Land	Ps. 53,374	Ps. 45,310
Buildings	18,539	14,309
Machinery and equipment	3,156	88
Computer equipment	10,549	10,767
	Ps. 85,618	Ps. 70,474

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10. Goodwill, intangible assets and deferred charges:

	2011	2010
Goodwill:		
Drogueros	Ps. 128,370	Ps. 128,370
Farmacias ABC	32,551	32,551
Citem	56,456	56,456
CS Brasil	1,420,637	1,393,454
FASA	2,465,609	2,465,609
	4,103,623	4,076,440
Accumulated impairment loss	(344,881)	(210,000)
	Ps. 3,758,742	Ps. 3,866,440
Intangible assets with indefinite useful life:		
Commercial trademarks (*)	Ps. 3,726,000	Ps. 3,726,000
Intangible assets with definite useful life:		
Patents and other rights	Ps. 196,760	Ps. 171,518
Development costs	17,531	17,531
Software	40,412	178,235
Licences	309,025	289,274
Other intangible assets	68,553	68,428
	632,281	724,986
Less- accumulated amortization	(445,447)	(390,828)
	Ps. 186,834	Ps. 334,158
Deferred charges:		
Organizing and installation expenses	Ps. 398,313	Ps. 255,678
Less – accumulated amortization	(223,302)	(130,540)
	175,011	125,138
Deferred income tax	393,277	76,508
	568,288	201,646
	Ps. 8,239,864	Ps. 8,128,244

As a result of the goodwill impairment test carried out by the Management, an impairment loss was recognized in income in the line item “Other expenses, net”, since the net carrying value of the cash generating units in Drogueros and Citem exceeded their “value in use” in the amount of Ps. 78,425 and Ps. 56,456, respectively for fiscal 2011. Impairment loss concurred with the generalized crisis in the economic environment that had a negative impact on the pharmaceutical industry in that year. Based on a goodwill impairment test carried out during the last quarter of fiscal 2010, the Group determined an impairment loss was not incurred for 2010.

(*) At December, 31, 2010, the Company recognized various commercial trademarks previously acquired independently by FASA as identifiable intangible assets. As a result of the acquisition of FASA, those commercial trademarks were recorded at fair value at the acquisition date in the amount of Ps. 3,971,000 (Note 1 b).

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As explained in Note 1 c), during fiscal 2011, the assets and liabilities of FASA Peru are presented in the balance sheet as of December 31, 2011 and 2010, as “discontinued operations”. Therefore, the amounts applicable to the acquisition of FASA Peru, relative to the goodwill and trademarks as of December 31, 2011 and 2010, were reclassified to “Noncurrent assets for discontinued operations” in the balance sheet in the amount of Ps.239,008 and Ps.245,000, respectively.

At December 31, 2011 and 2010, the trademarks are summarized as shown below:

	Amount
Farmacias Ahumada	Ps. 1,809,000
Farmacias Benavides	1,917,000
	Ps. 3,726,000

11. Related party balances and transactions:

All significant balances and transactions between the entities that form part of the Group have been eliminated in the accounting consolidation in connection with: (i) the sale and purchase of merchandise; (ii) trading shares of companies of the Group; (iii) billing of administrative services, rents, and other services rendered; and (iv) loans between related parties.

In accordance with the accounting standard, related party transactions also include individuals or entities outside of Group, which pursuant to their relationship with the Group, might have a privileged situation or the Group might take advantage of these relationships and obtain a benefit in its financial position or operating results. At December 31, 2011 and 2010, the Group has identified the following related party transactions:

	Accounts receivable	
	2011	2010
Aeroxtra, S.A. de C.V.	Ps. 2,000	Ps.
Xtra Inmuebles, S.A. de C.V.	11,630	
Tenedora Farmaceutica de Mexico, S.A. de C.V.	9,590	9,590
Tenedora de Farmacias Morelianas, S.A. de C.V.	20,582	20,582
Grupo Xtra, S.A. de C.V.	10,515	11,588
Sports Clinic, S.A. de C.V.		6,679
Comercializadora Lundedeq, S.A. de C.V.		120
Farmaprice, S.A. de C.V.		134
Administradora Inmas, S.A. de C.V.		256
Inversiones Turisticas Cancun, S.A. de C.V.	626,079	
	Ps. 680,396	Ps. 48,949

During 2011 and 2010, the related party transactions were as follows:

	2011	2010
Aeroxtra, S.A. de C.V.	Ps. 28,012	Ps. 18,028
Xtra Inmuebles, S.A. de C.V.	5,539	5,245
Administradora Inmas, S.A. de C.V.	1,460	355
	Ps. 35,011	Ps. 23,628

The Group considers that the related parties referred to above are not “Special Purpose Entities”, in accordance with Mexican FRS B-8, “Consolidated or combined financial statements“ and, therefore, at December 31, 2011 and 2010, the Group has not consolidated the assets, liabilities, and operating income of those entities. These transactions were conducted on arm’s length terms based on market prices and conditions. During 2011, and 2010, the Group had no other significant agreements with related parties.

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At December 31, 2011 and 2010, the total benefits granted to key management personnel or and top management executive are summarized as shown below:

	2011	2010
Mexico	Ps. 45,367	Ps. 44,953
Chile	35,716	96,870
	Ps. 81,083	Ps. 141,823

12. Short and long-term debt:

At December 31, 2011 and 2010, the consolidated debt by currency type, translated to Mexican pesos, is as follows:

Currency	2011			2010		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Mexican pesos	Ps. 2,394,166	Ps. 7,277,584	Ps. 9,671,750	Ps. 8,812,567	Ps. 0,000,000	Ps. 8,812,567
Brazilian real	112,121		112,121			
Chilean pesos	544,539	2,228,131	2,772,670	382,773	2,289,346	2,672,119
	Ps. 3,050,826	Ps. 9,505,715	Ps. 12,556,541	Ps. 9,195,340	Ps. 2,289,346	Ps. 11,484,686

i) Amending Agreement to the Credit Opening Agreement (Amending Agreement)

On August 10, 2011, the Company concluded the Amending Agreement to the Credit Opening Agreement dated August 30, 2010 with its creditors (Banco Mercantil del Norte (Banorte) and HSBC Mexico, S.A. (HSBC Mexico)). In accordance with the Original Contract, the funds granted by Banorte were used to prepay credits from another bank creditor, and for general corporate purposes. The funds from HSBC Mexico were used to finance the acquisition of the shares of the capital stock of FASA.

In accordance with the Amending Agreement, the amount of the creditor is summarized as follows:

	Tranch I	Tranch II	Total
Banorte	Ps. 994,500	Ps. 955,500	Ps. 1,950,000
HSBC México	2,944,667	2,829,190	5,773,857
Total	Ps. 3,939,167	Ps. 3,784,690	Ps. 7,723,857

Tranch I and Tranch II will be paid in 72 and 24 monthly payments, respectively, beginning September 10, 2011 for Tranch I, and beginning September 10, 2016 for Tranch II. Interest is payable monthly at the Equilibrium Interbank Interest Rate (EIIR) applicable to each interest period, plus the spread set forth in the Agreement. At December 31, 2011, the short and long-term payables amount to Ps.357,019 and Ps.7,277,584, respectively.

The credit is secured by the Company, as the borrower, and the operating subsidiaries, Casa Saba, Drogueros, Farmacias ABC, Daltem Provee Nacional, Publicaciones Citem, Daltem Provee Norte, Centennial, and Controladora Casa Saba, as joint and several obligors, in the terms of the "Guarantee Documents".

The Company and joint and several obligors should meet conditions related to the maintenance of insurance, inspection rights, operations with affiliates at market value, payment of taxes, and share structure, among other

things. Moreover, the negative covenants are related to certain levels of indebtedness, encumbrances on the assets, unauthorized consolidations or mergers, disposal of assets, and payment of dividends, among other things.

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Financial covenants

The Company must comply with the following financial ratios on a consolidated basis:

- a) Net debt to UAFIDA (*):
 A ratio that does not exceed 5.5 to 1, as of the date of the Amending Agreement within 24 months subsequent to the drawdown date.
 A ratio that does not exceed 2.5 to 1, as of the date that occurs 24 months subsequent to the drawdown date.
- b) UAFIDA to gross financial expenses:
 A ratio that is not lower than 2.0 to 1, as of the date of the Amending Agreement within 24 months subsequent to the drawdown date.
 A ratio that is not lower than 3.0 to 1, as of the date that occurs 24 months subsequent to the drawdown date.
- c) Minimum stockholders' equity of Ps. 7,082,848. For 2011, the amount of the allowance for doubtful accounts will be aggregated.
- d) Capital investment that does not exceed 29 percent of the UAFIDA.
- e) Maintain the following percentages of the "target balance of the reserve" in the "reserve of the debt service" in available funds: (a) 15 percent effective September 30, 2011; (b) 45 percent effective December 31, 2011; (c) 75 percent effective March 31, 2012; and (d) an amount equal to the target balance of the reserve effective July 1, 2012.

At December 31, 2011, the main financial ratios were as follows:

Financial ratios	Required	Calculated	Status
Net debt ratio to UAFIDA	Equal or lower than 5.50	4.14	Performs
UAFIDA ratio to gross financial expenses	Equal or higher than 2.0	2.26	Performs
Minimum stockholders' equity	Equal or higher than Ps. 7,082,848	Ps. 7,458,527	Performs
Capital investments	Equal or lower than Ps. 2,127,000	Ps. 123,968	Performs

(*) UAFIDA means operating income before (a) taxes on earnings, interest expenses, and extraordinary or unusual items; and (b) depreciation and amortization expenses determined in accordance with Mexican FRS.

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On January 25 and February 2, 2012, the Company applied for and obtained the consent of its bank creditors to carry out the following corporate acts (among others), which were refined on February 16, 2012:

Incorporate a new legal entity (The Subholding)

Sale of various real properties among the Group's subsidiaries in the amount of Ps. 116,500.

The Company will sell shares of the capital stock of the subsidiary Estrella del Este, S.A. de C.V. to a Subholding in the amount of Ps. 70,000. Moreover, the Company will acquire the shares of the capital stock of Servicios Corporativos Saba, S.A. de C.V. and Servicios Corporativos Drogueros, S.A. de C.V. by Inmuebles Visosil, S.A. de C.V. in the amount of Ps. 21,200.

The endorsement of the shares sold to the Subholding in order for them to continue to form part of the trust assets created in accordance with the Trust Deed Agreement.

The extinction of debts in favor of the Company by issuing and delivering shares of Publicaciones Citem. These shares will be endorsed to the trustee in order for them to form part of the trust deed referred to above.

The Company will declare dividends payable in cash or in kind (through the endorsement of shares of the Subholding) in the amount of Ps. 290,000.

The Subholding will be a joint and several obligor in accordance with the Credit Agreement.

All the legal acts of the "Petition for Consent" will be carried out in the six months subsequent to the date of authorization of that petition.

As a result of the sale of FASA Peru, the Company will make the partial prepayment set forth in the Credit Agreement on April 30, 2012.

At December 31, 2011, considering the Credit Opening Agreement, the Amending Agreement, as well as the Petition for Consent, the Company and its subsidiaries complied with the financial covenants of its credit agreement.

The bank creditors may terminate the debt term early or any of the following events of nonperformance: (a) payment of the debt on the due date; (b) the financial ratios described in the affirmative and/or negative covenants; (c) with governmental authorities; (d) guarantees, among other reasons, and in the lack of waivers by the bank creditors. In those circumstances, the Company would classify this debt in the short-term in the balance sheet. This classification might have an adverse material effect on the liquidity and financial position of the Company.

ii) At December 31, 2011, FASA has debts in marketable bonds as follows

Share series	Amount in development units	Amount in		Total	Due date	Guarantee
		Short-term	Long-term			
E	1,800,000	Ps. 222,400	Ps. 727,545	Ps. 949,945	15/05/2016	No
F	2,200,000	8,185	1,253,370	1,261,555	15/05/2029	No
		Ps. 230,585	Ps. 1,980,915	Ps. 2,211,500		

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iii) Other credits:

The Group has entered into various contracts with financial institutions to access factoring and electronic discounts of documents (productive chains) working capital and financial leasing. At December 31, 2011, the amount of those short-term loans is summarized as shown below:

Currency	Productive chains	Working capital	Financial Leasing	Total
Mexican pesos	Ps. 1,044,101	Ps. 993,046	Ps.	Ps. 2,037,147
Brazilian real		112,121		112,121
Chilean pesos		302,275	11,679	313,954
	Ps. 1,044,101	Ps. 1,407,442	Ps. 11,679	Ps. 2,463,222

At December 31, 2011, the balance of referred long-term receivables is summarized as follows:

Currency	Working capital	Financial Leasing	Total
Chilean pesos	Ps. 203,766	Ps. 43,450	Ps. 247,216

At December 31, 2011, the maturities of consolidated long-term debt were as follows:

Year	Amount
2013 to 2017	Ps. 6,439,345
More than five years	1,813,000
2029	1,253,370
	Ps. 9,505,715

Interest rates are adjusted monthly in accordance with the prevailing market rates. Consequently, at December 31, 2011 and 2010, the carrying value of the bank debt was equivalent to its fair value.

At December 31, 2011, the Group has the following facility lines from banking institutions:

Banking Institution	Country	Total facility lines	Amount used at December 31, 2011	Available amount at December 31, 2011
Banco Santander Mexicano, S.A.	Mexico	Ps. 50,000	Ps.	Ps. 50,000
Banco Santander Mexicano, S.A.	Mexico	490,000	490,000	
BBVA Bancomer, S.A.	Mexico	20,000		20,000
BBVA Bancomer, S.A.	Mexico	350,000	350,000	
Mi Banco, S.A.	Mexico	150,000	150,000	
		Ps. 1,060,000	Ps. 990,000	Ps. 70,000

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13. Other payables and accrued liabilities

At December 31, 2011 and 2010, the other payables and accrued liabilities balance were as follows:

	2011	2010
Other payables	Ps. 1,273,720	Ps. 1,457,464
Provisions	630,910	516,781
Tax payables	569,407	341,633
Documents for paying	230,585	131,853
Retentions of taxes	134,735	120,024
Employee profit sharing	3,710	5,356
	Ps. 2,843,067	Ps. 2,573,111

Current provisions and other payables referred to above primarily consist of the best estimate of the Management on bonuses and incentive plans for employee benefits, retaining officers, severance benefits derived from restructuring causes, administrative expenses, fees, marketing insurance and surety bonds, rents of locales, and certain contingencies from legal procedures. These amounts and concepts are revolving in nature and are expected to be settled and replaced by similar amounts within the next 12 months.

14. Deferred effect of taxes on earnings and employee profit sharing:

At December 31, 2011 and 2010, the deferred income tax effect was as follows:

	2011	2010
Cumulative inventory	Ps. 155,896	Ps. 256,257
Allowance for doubtful accounts and estimate for slow-moving inventory	(339,850)	(262,238)
Property and equipment	(22,377)	(658)
Other	27,734	99,288
Tax loss carryforwards	(275,423)	(245,917)
Effect of ISR due translation effect of foreign operations	59,111	76,760
Deferred income tax liability (asset)	(394,909)	(76,508)
Valuation allowance	1,632	
Deferred income tax liability (asset), net	Ps. (393,277)	Ps. (76,508)

i) At December 31, 2011 and 2010, Management determined that income tax will be the taxes on earnings that will normally be paid in future years by the Group's Mexican entities. Therefore, the Mexican entities recognized deferred income tax.

The deferred income tax asset is realized when: (i) taxable income is generated and its effect offsets the reversal of deductible temporary differences, including the tax loss carryforwards effect; and (ii) there are sufficient taxable temporary differences whose reversal occurs in the reversal period of the deductible temporary differences. At December 31, 2011, Management recorded a deferred Income Tax asset valuation allowance which it estimates will not be realized in the amount of Ps.1,632. Management estimates that the rest of the deferred income tax asset will be realized considering its business plan, and no IETU will be generated in the short-term. Toward that end, Management takes into account expansion plans, expiration of tax loss carryforward, projected taxable income, tax planning strategies, etc.

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ii) At December 31, 2011, 2010, 2009, the amounts for income taxes included in the income statements are summarized as follows:

	2011	2010	2009
Current income taxes:			
Mexican operations:			
Income tax	Ps. 500,838	Ps. 281,633	Ps. 323,911
IETU	9,037	13,517	19,826
Foreign operations	234,812	91,202	
	Ps. 744,687	Ps. 386,352	Ps. 343,737
Deferred income taxes:			
Mexican operations	Ps. (282,474)	Ps. (202,755)	Ps. (131,840)
Foreign operations	(149,779)	(135,342)	
	(432,253)	Ps. (338,097)	Ps. (131,840)
Income tax expense, net	Ps. 312,434	Ps. 48,255	Ps. 211,897

At December 31, 2011, 2010 and 2009, IETU due in the amount of Ps. 9,037 and Ps. 13,517, and PS. 19,826, respectively, applies to tax on earnings paid individually by certain subsidiaries, as well as by the Company. Moreover, in those years, the amount of deferred employee profit sharing applied to income amounted to Ps. 156, Ps. 1,317 and Ps. 254, respectively.

The change in consolidated deferred income taxes during 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Deferred income tax charged to the income statement	Ps. (432,253)	Ps. (338,097)	Ps. (131,840)
Deferred income tax charged to the stockholders' equity	59,111	76,760	208,960
Total	Ps. (373,142)	Ps. (261,337)	Ps. 77,120

iii) Effective tax rate

The differences between book and tax bases of assets and liabilities and the different tax rates and laws that apply to the Mexican and foreign subsidiaries that comprise the Group, among other things, generate differences between the statutory tax rate applicable in Mexico and the effective tax rate presented in the consolidated statements of income, as follows:

	2011	2010	2009
	%	%	%
Mexican consolidated statutory tax rate	(30.0)	(30.0)	(28.0)
Other non-taxable income (a)	0.1	0.4	5.1
Expenses and other non-deductible items	6.8	(2.6)	(12.3)
Difference between book and tax inflation	(21.5)	1.4	(9.5)
Other accounting benefits non taxable	2.5	18.2	5.7
Consolidated effective tax rate	(42.1)	(12.6)	(39)

- (a) This line item includes the effect of the different income tax rates in the countries where the Group operates.

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15. Foreign currency position:

At December 31, 2011 and 2010, assets and liabilities denominated in foreign currencies, translated into reporting currency, were as follows:

	2011	2010
Assets:		
Current assets	Ps. 5,990,354	Ps. 2,170,446
Long-term assets	6,173,373	1,776,258
	12,163,727	3,946,704
Liabilities:		
Current liabilities	6,801,507	6,239,096
Long-term liabilities	3,304,024	3,177,522
	10,105,531	9,416,618
Lending (borrowing) position	Ps. 2,058,196	Ps. (5,469,914)

At December 31, 2011 and 2010, the exchange rates used in the process of translation to the reporting currency, published by the Banco de Mexico, are as follows:

Currency	2011		2010	
	Balance sheet date	Report issuance date	Balance sheet date	Report issuance date
U.S. dollar	Ps. 13.98	Ps. 13.21	Ps. 12.38	Ps. 11.53
Brazilian real	Ps. 7.47	Ps. 7.00	Ps. 7.45	Ps. 7.32
Chilean peso	Ps.. 0.03	Ps. 0.02	Ps. 0.03	Ps. 0.02

16. Other expenses, net

At December 31, 2011, 2010 and 2009, the other expenses, net were as follows:

	2011	2010	2009
Deferred employee profit sharing	Ps. 2,597	Ps. 3,620	Ps. 1,761
(Gain) loss on sale of property and equipment	(26,634)	28,174	14,938
Impairment losses	134,882		210,000
Others	21,555	65,337	(90,392)
	Ps. 132,400	Ps. 97,131	Ps. 136,307

17. Stockholders' equity:

a) Capital structure

At December 31, 2011 and 2010, paid-in capital stock was as follows:

	Number of Shares	Par value 2011	2010
Fixed capital shares without retirement rights	265,149,080	Ps. 167,730	Ps. 167,730
Variable capital shares	270,280	173	173
Historical capital stock	265,419,360	Ps. 67,903	Ps. 167,903

Restated capital stock

Ps. 1,123,764 Ps. 1,123,764

At December 31, 2011 and 2010, capital stock comprised of Series Sole common shares, fully subscribed for and paid, with no par value shown. Variable capital stock has no limits.

Effective January 1, 2008, stockholders' equity is restated during the high inflationary periods, as explained in Note 3 e) above. Through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, stockholders' equity was restated as discussed in that Note.

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Repurchase and resale of own shares (restricted earnings)

The Company may acquire the shares representative of its capital stock with a charge to stockholders' equity, without reducing capital stock, or with a charge to capital stock. In this last event, they become treasury shares, without requiring a resolution adopted by the stockholders' meeting. The General Ordinary Stockholders' Meeting determines the amount that should be allocated toward share repurchases for each year. Those funds may not exceed the balance of the Company's net earnings, including retained earnings. The amount of the reserve for own share repurchases is appropriated from retained earnings.

At the General Ordinary Stockholders' Meeting held on April 22, 2003, the stockholders resolved that the maximum amount geared toward the Company's own share repurchases should be equivalent to 15 percent of the Company's stockholders' equity at December 31, 2002, without exceeding retained earnings at that date. During 2011 and 2010, the Stockholders' Meetings resolved to maintain the same level of reserve approved by its similar on April 22, 2003. During 2011 and 2010, the stockholders resolved not to agree a specific number of shares and Mexican peso amounts for repurchase of its own shares.

b) Legal reserve

Net income generated by the Company is subject to the legal provision that requires appropriating 5 percent of the Company's income to a legal reserve until that reserve equals 20 percent of the Company's capital stock. Equity in earnings of subsidiaries and associates is not considered for this purpose. Amounts from this reserve may not be distributed to the Company's stockholders, except as stock dividends. At December 31, 2011 and 2010, the Company's legal reserve amounted to Ps. 251,995 and Ps. 238,491, respectively, which is included in "retained earnings".

c) Distribution of earnings and capital reductions

Any dividends distributed to stockholders must be paid out of the "Net taxable income account" (CUFIN-Spanish acronym). Any dividends paid out in excess of CUFIN are subject to a 42.9 percent tax rate payable by the Company and its subsidiaries. The resulting income tax may be offset against income tax due in the same year and the subsequent two years and/or IETU of the same period. At December 31, 2011 and 2010, the balance of CUFIN amounted to Ps. 4,325,797 and Ps. 3,990,781, respectively. Effective 2011, the balance of CUFIN is determine in a consolidated manner due to the Company again was approved by the tax authorities to determine its consolidated taxable income as discussed in Note 3 r). In 2010, the Company determined the balance of CUFIN individually for each entity due to the deconsolidation tax carried out in that year.

In April 2009, dividends were declared at the Company's Stockholders' Meeting in the amount of Ps. 170,000 to be paid out of retained earnings. Dividends paid did not exceed the consolidated CUFIN balance at that date. Therefore, no income tax was due.

The excess of capital reimbursement per share paid to stockholders over the balance of the "Restated contributed capital per share account" should be treated as a distributed dividend. The excess will be assessable as provided for in the Income Tax Law. The resulting income tax may be offset as referred to above. Effective 2011, the balance of CUCA is determined in a consolidated manner by considering the new tax approval referred to above.

d) Dividends among companies of the Group

Dividends paid out of the CUFIN among companies of the Group are subject to the provisions sets forth by the 2010 tax reform (Note 18 d).

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On December 18, 2009, the Casa Saba's General Ordinary Stockholders' Meeting, declared the payment of dividends in the amount of Ps 1,140,000, in favor of the Company, as well as Ps. 1 (peso) in favor of Inmuebles Visosil, S.A. de C.V.

On December 2009, the General Ordinary Stockholders' Meeting of Drogueros, Estrella del Este, Secosa and Secodro declared the payment of dividends in the amount of Ps. 320,000, Ps. 1,200, Ps. 24,500 and Ps. 1,700, respectively, in favor of Inmuebles Visosil, S.A. de C.V. Moreover, in December 2009, the General Ordinary Stockholders' Meeting of Inmuebles Visosil, S.A. de C.V. declared the payment of dividends in the amount of Ps. 367,000 in favor of Casa Saba.

e) Noncontrolling equity

Noncontrolling interest reflects the equity of third-party shareholders in capital and earnings (losses) of consolidated subsidiaries

18. Tax system:

a) Income tax due

i) The Company and its Mexican subsidiaries pay income tax or IETU, the higher, in accordance with the currently enacted tax legislation. The annual income tax rate in jurisdictions in which the Group operates, is as shown below:

	2011	2010
Mexico	30%	30%
Brazil	34%	34%
Chile	20%	17%
Peru	30%	30%

ii) Through December 31, 2009, the Holding Company and some of its Mexican controlled entities determined the income tax amount on a consolidated basis. For this purpose, the Holding Company included the amount of taxable income/tax loss generated in the year by its controlled entities in tax consolidation at 100 percent of the equity stake that the Holding Company held in the capital stock of its controlled entities. In addition, the Holding Company also included at 100 percent its individual taxable income/tax loss generated in the same year in tax consolidation.

iii) Effective December 18, 2009, Management decided that some significant Mexican controlled entities were no longer included in tax consolidation. As a result of this deconsolidation, the Holding Company paid income tax in the amount of Ps. 188,768 which was subsequently credited in accordance with the Income Tax Law. Moreover, on June 25, 2010, Management filed an additional notice with the Mexican tax authorities that the Company was no longer going to determine its consolidated taxable income along with the rest of its controlled entities for 2010. This way, those entities and the Holding Company meet their tax obligations individually for that year. As a result of this new tax deconsolidation, the Company paid income tax in the amount of Ps. 132,629.

Notwithstanding the foregoing, for business reasons, the Holding Company again was approved by the Mexican tax authorities on December 21, 2010, in order for it to determine its consolidated income tax as a controlling company along with its entities that meet the characteristics of controlled entities for tax purposes. The approval is effective as of January 1, 2011. The rest of the subsidiaries that do not conform to the characteristics of controlled entities met

their tax obligations individually, in accordance with the Income Tax Law.

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The subsidiary Transportes Marproa is authorized to pay the higher of income tax or IETU separately from the Group under a tax regime known as the “administrative facilities”. This regime grants benefits regarding ascertainment of disbursements made, as well as other relative to credit “consumption taxes”.

In conformity with the Mexican Income Tax Law, subsidiaries residing abroad do not consolidate for tax purposes. In addition, Mexican entities that are incorporated into the Group subsequent to the date on which the approval of tax consolidation goes into effect will do so as of the fiscal year subsequent to that in which ownership is acquired of more than 50 percent of the shares.

iv) In 2005, the Company and its Mexican subsidiaries chose to deduct the cost of sales of the “base inventory” determined at December 31, 2004 for tax purposes. Therefore, those entities determined the “cumulative inventory” value which is treated as taxable income. At December 31, 2004, cumulative inventory amounted to Ps. 3,184,264. Its accumulation is annual, effective 2005 through fiscal year 2012. At December 31, 2011 and 2010, the cumulative inventory amount added to the taxable income amounted to Ps. 851,086 and Ps.285,274, respectively.

v) Income tax due is determined by taking into account the depreciation on the restated fixed assets value, annual inflationary adjustment on monetary items, benefit of tax loss carryforwards, and the cumulative inventory effect of the year.

vi) In 2010 and 2009, the Government of Brazil approved certain tax amnesty that allows for: (i) paying debts on taxes on earnings and excise taxes in less strict conditions than those that normally apply; and (ii) offsetting tax loss carryforwards against taxes on earnings debts and excise taxes. During the year ended December 31, 2011 and 2010, the Company did not apply the tax amnesty program.

b) Corporate Flat Tax Law (IETU-Spanish acronym)

The annual IETU tax rate for 2011 and 2010 is 17.5 percent, whereas the tax rate is 17 percent for 2009.

The IETU Law does not recognize a regime for tax consolidation purposes. Accordingly, the Company and its Mexican subsidiaries should pay IETU individually. In terms of the Income Tax Law, each controlled entity may consider the amount of income tax that has been delivered to the Holding Company as its own income tax, which may be credited against IETU. At December 31, 2011 and 2010 and 2009 some controlled entities generated IETU higher than income tax, therefore IETU was the annual tax due. In those years, annual IETU paid by the entities amounted to Ps.9,037 and Ps. 13,517, Ps. 19,826, respectively, which is included in income in “Provisions for income tax”. Payment of that tax is considered final.

While IETU co-exists with income tax, entities will pay IETU if it is greater than income tax of the same period. IETU of the period is reduced by the amount of income tax paid in the same period due to taxable income and by the income tax paid on dividends distributed. If IETU is lower than income tax, entities are not subject to IETU. Moreover, if deductions for IETU purposes exceed their taxable income, entities are not subject to IETU.

At December 31, 2011, 2010 and 2009, the Company and its Mexican subsidiaries determined the tax credits permitted for the IETU Law. The amount of those tax credits does not exceed certain percentages, and their offset cannot exceed ten years as of fiscal year 2008.

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c) Tax loss carryforwards for income tax and negative base for IETU

i) In accordance with Mexican Income Tax Law, loss carryforwards can be offset against taxable income that may be generated in the future over a ten year term by Mexican entities. Tax loss carryforwards can be restated based on the NCPI factor from the date incurred through the sixth month of the year in which they can be offset against taxable income. At December 31, 2011, the Group had incurred in tax loss carryforwards as follows:

Year incurred	Group (Except FASA and subsidiaries)	Farmacias Ahumada and subsidiaries	Expired date
2002	Ps. 769	Ps.	2012
2003	2,775		2013
2004	3,204		2014
2005	95,098	172,975	2015
2006	99,356	11,340	2016
2007	14,980	236,594	2017
2008	118,247	188,723	2018
2009	76,883		2019
2010	66,337		2020
2011	39,254		2021
	Ps. 516,903	Ps. 609,632	

At December 31, 2011, the tax losses incurred by the Brazilian subsidiaries amounted to Ps. 268,288. Those tax losses are not restated and can be applied for an undefined period without exceeding 30 percent of the taxable income for the year.

ii) The negative IETU base generates a tax credit that results from applying the currently enacted IETU rate to that negative base. The resulting amount may be credited against IETU in the following ten fiscal years until it is exhausted. The negative base can be restated as explained in paragraph i) heirenabove. At December 31, 2011, the IETU negative base generated by some Mexican subsidiaries was as follows:

Year incurred	Negative base
2008	Ps. 2,661
2009	13,544
2010	169,335
2011	67,430
	Ps. 252,970

d) 2010 Mexican Tax Reform

i) Effective January 1, 2010, the Income Tax Law sets forth that the annual income tax rate is 30 percent for the years included in the 2010 to 2012 period. That tax rate is reduced to 29 percent for 2013 and 28 percent for 2014 and henceforth.

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ii) Change in the tax consolidation regime which required for determining at December 31, 2009 annual income tax as if tax consolidation rules had not existed since 1999 and henceforth. Therefore, the restated income tax that is related to the benefits of tax consolidation obtained as of that year, is paid for: (a) operating tax losses and losses on sale of stock used in tax consolidation that would have not been carried forward individually by the entity that incurred them; (b) special consolidation items for transactions among entities of the Group; and (c) dividends paid among entities of the Group that are paid out of earnings not taxed for income tax purposes in the past.

As a result of tax deconsolidation and the resulting payments of income taxes discussed in the paragraph a) in this same Note, the reversal process of tax benefits generated up to December 31, 2009 referred in the paragraph above is no longer applicable to the Group.

Effective 2011, the Company again adopted the tax consolidation regime; therefore, the benefits generated in tax consolidation will be reversed by considering the terms and percentages set forth in the Income Tax Law.

19. Operating segments:

Effective January 1, 2011, the Group adopted Mexican FRS B-5, "Financial information by segment" (FRS B-5), which superseded Bulletin B-5 with the same name. That adoption had no impact on the consolidated financial statements.

Operating segments are the components of an entity oriented toward production and sale of goods, as well as rendering services. The Group operates on a regional basis by considering the distribution segment and retail pharmacy segment. Each regional director supervises and is responsible for all the business activities in each unit. These activities refer to the distribution of pharmaceutical products, as well as health and beauty aids/other products, entertainment products, food/non-perishable products through its operating subsidiaries. The Group distributes these product lines through its distribution network, as well as retail pharmacies throughout Mexico, as well as Rio de Janeiro, Brasil and, effective 2010, Chile and Peru.

The regional director, who is one level below the chief financial officer and chief executive officer in the organizational structure, reports to such officers the operating results of the business unit. The Group's management internally evaluates the results and performance of each business unit for decision-making purposes.

The main indicator used by Group's management to evaluate the performance of each entity is operating EBITDA, which the Group defines as operating income plus depreciation and amortization. This indicator, which is presented in the selected financial information, is consistent with the information used by Group's management for decision-making purposes. The accounting policies applied to determine the financial information by operating segment are consistent with those described in Note 3).

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All significant transactions between related parties have been eliminated in the preparation of the information by operating segments. At December 31, 2011, 2010 and 2009 the information was as follows:

Item	2011			2010			2009		
	Retail pharmacies	Distribution business	Total	Retail pharmacies	Business distribution	Total	Retail pharmacies	Distribution business	Total
Net sales	Ps. 24,058,753	22,509,473	46,568,226	8,586,462	25,657,720	34,244,182	3,224,313	26,567,344	29,791,655
Operating income	426,961	1,139,506	1,566,467	126,147	558,451	684,598	360,747	529,978	890,725
Depreciation and amortization	378,052	61,688	439,740	114,639	76,366	191,005	34,675	73,984	108,659
EBITDA	805,012	363,705	1,168,717	240,786	634,817	875,603	395,422	603,962	999,384

At December 31, 2011, and 2010, the selected information of balance sheet by eliminating intercompany balances was as follows:

	2011			2010		
	Retailer pharmacies	Business distribution	Total	Retailer pharmacies	Business distribution	Total
Current assets	Ps. 6,212,516	13,277,579	19,490,095	5,954,685	12,739,508	18,694,193
Noncurrent assets	5,984,315	6,486,653	12,470,968	6,176,706	6,441,812	12,618,518
Total liabilities	10,222,881	14,691,503	24,914,384	9,770,292	14,459,571	24,229,861

20. Contingencies and commitments:

a) On February 12, 2007, the Group filed appeals for constitutional relief with the Federal Tax Court against the tax reform that binds taxpayers to determine asset tax by applying the 1.25 percent annual rate to the average value of assets and not to reduce the value of debts contracted from the taxable base, effective January 1, 2007. In September 2011, the Federal Tax Court handed down a favorable ruling in favor of the Group.

b) On March 28, 2008, the Mexican tax authorities issued an “invitation” to the Company to file an amended tax return of consolidated income tax for fiscal year 2005 and prove that it added the amount of certain prior year tax losses to consolidated taxable income for the same year. Previously, those tax losses had been reduced by the Group to determine cumulative inventory, in accordance with the Income Tax Law. In May 2008 and March 2009, Management filed the amended income tax return that met with that invitation. Accordingly, there is no contingency payable by the Company. However, Management would carry out actions that would imply adoption of a criterion other than that of the tax authorities, which could have this matter solved in the Federal Tax Court. In Management’s opinion, the Company is not bound to comply with the criterion set forth by the tax authorities as the Group has reasonable arguments to sustain its interpretation.

In September 2009, the Company filed a claim for a refund of the consolidated income tax payment improperly made in the amount of Ps. 149,294, due to the invitation abovementioned. On November 12, 2009, the tax authorities made a partial refund in the amount of Ps. 26,420. Subsequently, the tax authority rejected to refund the remaining amount. In February 2010, Management filed an appeal for annulment against that resolution. Management estimates that there are reasonable elements for obtaining a result favorable to the Company’s interests.

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In the tax authority's opinion, the Company failed to perform the provision of aggregating the amount of tax losses discussed above to the taxable income; therefore, the tax authority determined a tax liability in the amount of Ps. 160,692 that included related charges amounting to Ps. 98,609, in September 2011. Subsequently, in December 2011, Management rejected the observations made by the tax authority and filed a motion for reconsideration. Management estimates that there are reasonable elements for obtaining a result favorable to the Company's interests; therefore, it considers that there is no present obligation that can be estimated and recorded in accordance with Mexican FRS. Therefore, it is not possible to foresee or anticipate any result due to it is a litigation matter.

c) Through official letters dated October 7, 2011 and April 20, 2012, the tax authorities notified Casa Saba and Drogueros that they had omitted accruing income for income tax purposes of fiscal 2005 in the amount of Ps.531,279 and Ps.59,204, respectively, for accumulative inventory. At the date of the auditors' report, the Group's management is analyzing the possibility of challenging that resolution.

Notwithstanding the foregoing, Management considers that it has met the requirement indicated by the authorities, since it accrued the item referred to above during fiscal 2011. Pursuant to the above, Management considers that there is no contingency charged to those subsidies.

d) In February 2010, the Company filed an appeal for constitutional relief against the provisions that amend the consolidation regime, effective beginning January 1, 2010. In August 2010, the Federal Tax Court handed down a ruling in favor of the Company to not pay deferred income tax in fiscal years 1999 to 2009, as set forth in the reform mentioned. In November 2010, the tax authority challenged the ruling. However, Management estimates that there is no contingency charged to the Company, as the provisions whose unconstitutionality was challenged were applied by the Company.

e) In November 2011, the Company filed a notification of "claims on inaccuracies or misrepresentations of the representations and guarantees contained in the Promise Stock Purchase Agreement of Farmacias Ahumada, S.A.", with the sellers dated May 17, 2010. Accordingly, the Company requested an indemnification payment in the amount of USD \$22,335,484 (Ps. 268,026, approximately). At the date of the auditors' report, the resolution of these matters is in a preliminary stage and their conclusion might not be short-term.

In accordance with the contract, the sellers drew up certain representations regarding FASA in favor of the Company, which guaranteed the Company the effectiveness thereof, and assumed the obligation of indemnifying the damages caused as a result of any misrepresentation or inaccuracy in connection with certain representations and captions of the financial statements.

f) In August 2011, FASA was notified of action brought against it by its competitor Cruz Verde, S.A., which claims presumed damages related to monopolistic practices. The figure claimed amounts to USD \$23,000,000. The preliminary report of the external advisors engaged by FASA indicates that it is not very likely that there will be a negative effect on the Company's consolidated financial statements.

g) In January 2009, Farmacias Benavides filed a claim for a refund with the Mexican tax authorities of a income tax paid in excess in the amount of Ps. 15,000, derived from 2002 and 2003. In April 2010, the authority rejected that claim; therefore, the subsidiary filed a motion for reconsideration against that resolution, and it is waiting for a ruling to be handed down.

h) Due to the sale of the stock of FASA Peru, the buyer may claim an indemnification for the possible inaccuracy in representations and/or nonperformance of the obligations assumed in an amount equal to higher than USD \$500,000 without exceeding USD \$10,000,000. The term for petitioning the indemnification expires on April

20, 2013. At the date of the auditors' report, Management considers that there is no present obligation that can be estimated and recorded in accordance with Mexican FRS.

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On December 7, 2010, the Technical Ministry of the Commission of Free Competition notified Farmacias Peruanas, S.A. of the beginning of a proceeding for presumed monopolistic practices. Such proceedings are a normal occurrence in the industry in which the Company operates. The presumed violation amounted to USD \$1,290,785, should the setting of prices be evidenced. The preliminary report of the external advisors engaged by FASA indicates that it is not very likely that there will be a negative effect on the Company's consolidated financial statements.

i) Farmacias Peruanas, S.A. filed a lawsuit against a liquidation issued by the Peruvian tax authority (SUNAT) for a presumed difference in criterion for determining the tax base of 2001 and 2003 for \$7,170,000 and \$1,827,000 Peruvian Soles, respectively (Ps. 31,600 and Ps. 8,052, respectively). In November 2010, the Company disputed the rejection notified by the SUNAT. Management estimates that it is not very likely that there will be a negative effect on the Company's consolidated financial statements.

At December 31, 2011, and 2010, Management maintains a provision in the amount of Ps. 3,534 which, based on the opinion of its legal advisors, it considers that it is sufficient to cover a possible liquidation. However, Management has reasonable arguments to obtain a ruling handed down in its favor. At the date of the auditors' report, the SUNAT had not handed down the final ruling.

j) As part of the agreements related to the purchase of the stock of Drogasmil (now CSB Drogarias), the Company maintains a contingent liability that will be paid if certain events occur in the future. The liability recorded amounts to R\$9,585 thousand, which is included in the caption "other long-term liabilities" in the consolidated balance sheet.

k) The subsidiary Drogarias maintains a provision to cover possible labor and tax suits, classified as a likely loss risk, taking into account the opinion of its legal advisors. At December 31, 2011 and 2010, the liability recorded this item amounted to R\$2,980 and R\$1,619, respectively (Ps. 22,052 and Ps. 12,013), which is included in the caption "other long-term payables".

l) Drogarias may be subject to certain contingencies that may result in present obligations. The solution of these matters still is in a preliminary stage and a conclusion might span various years. Drogarias has considered that it has incurred a probable liability. Management considers this probable liability in the estimated amount of R\$10,000 (Ps.78,000, approximately). However, it cannot carry out an accurate estimate thereof, since there are no reasonable elements to be quantified. This contingency relates to different forms of remuneration to its management that do not conform to labor legislation in Brazil. Notwithstanding the foregoing, from fiscal 2010 Drogarias has maintained a provision for those contingencies in the equivalent amount of R\$1,822 (Ps. 13,512, approximately) which is included in the caption "other payables and accrued long-term liabilities" in the consolidated balance sheet.

m) The Company and its subsidiaries have entered into various service contracts among them, related to the purchase, storage, and transportation of products, as well as administrative, legal, financing, and electronic data processing services.

In accordance with the Mexican Income Tax Law, companies that carry out related party transactions are subject to tax obligations, with respect to the determination of prices agreed upon. Such prices should be comparable to prices that would be used with or among independent parties at arm's length transactions. Management believes that all related party transactions were agreed upon at arm's length basis and, therefore, there is no contingency in its charge.

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n) The Company and its subsidiaries may be involved in various lawsuits and claims derived from the normal course of its operations. Management believes that these matters will not have a significant impact on the Group's consolidated financial position or results of its operations.

o) In accordance with Mexican and Brazilian tax legislation, the respective tax authorities can exercise their inspection powers in the normal course of the Group's operations. In Mexico, Chile and Brazil tax authorities have the power to review up to five and six fiscal years, respectively. The Group can not foresee if the reviews discussed will give rise to future contingencies. However, they will be disclosed and/or recognized when they are known.

p) At December 31, 2011 and 2010, the Group has operating lease commitments for locales leasing, as well as capitalized leasing for computer equipment and laboratory equipment, as follows:

	2011	2010
Commitments at one year	Ps. 961,319	Ps. 825,617
Between one and five years	3,478,399	2,891,543
More than five years	2,357,492	6,730,515
Operating lease	961,918	930,675
	Ps. 7,759,128	Ps. 11,378,350

21. Migration from Mexican FRS to International Financial Reporting Standards (IFRS):

The Comision Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission, or CNBV) required companies listed on the Mexican Stock Exchange to adopt IFRS, such as those issued by the International Accounting Standards Board (IASB), beginning January 1, 2012, which permits its early adoption. Therefore, the accompanying financial statements are the last statements under Mexican FRS. The Company's transition date is January 1, 2011. Moreover, the CINIF issued Interpretation INIF 19 in order for companies disclose the obligation and/or decision to adopt IFRS in the notes to the financial statements, the estimated date of adoption and the estimated effect on the financial statements.

In order to determine its opening statement of financial position at January 1, 2011 under IFRS, the Company will adjust the amounts previously reported in its financial statements prepared under Mexican FRS, in conformity with IFRS 1, "First-time adoption of IFRS" (IFRS 1). Management is about to conclude the quantification of the estimated differences between Mexican FRS and IFRS. The information presented hereinbelow has been prepared in conformity with the IFRS that the Company considers that will be in effect or will be adopted early at December 31, 2012. The accounting standards that will be applicable at December 31, 2012, including those that are optional, are not precisely known. In addition, the accounting policies selected by the Company might be modified as a result of changes in the economic environment or in trends in the industry that are observable, subsequent to the issue of these consolidated financial statements. Accordingly, the information disclosed in this Note is subject to changes.

a) Optional exceptions in accordance with IFRS 1

Attributed cost

IFRS 1 allows for measuring an item of property, plant and equipment, as well as certain intangible assets: (i) for their fair value and using this value as the attributed cost; or (ii) using a revaluation under prior general accepted accounting principles (GAAP) of an item of property, plant and equipment at the transition date or prior thereto, as an attributed cost at the revaluation date if this was at that date substantially comparable: (a) at fair value; or (b) at cost or cost depreciated under IFRS adjusted to reflect changes in a general or specific price index. The Company will adopt the following criteria:

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For real property, use a revaluation under GAAP at a date prior to the date of transition as attributed cost;

for minor property and equipment and certain intangibles, use their values restated in accordance with GAAP at a date prior to the transition as an attributed cost;

for indefinite-lived intangible assets (trademarks), use the fair value related to the acquisition of FASA, which was completed in October 2010.

At the transition date, the valuation effect will be recognized against opening balance of retained earnings.

Employee benefits

At the transition date, the Company will apply IAS 19, “Employee benefits” (revised), which eliminates the use of the “corridor method” that tends to defer actuarial gains and losses, and it is required to be recorded in other items of comprehensive income. Therefore, the Company will recognize actuarial gains and losses existing at the date of transition against the opening balance of retained earnings. As of the transition date, the Company will recognize the effect of all actuarial gains and losses in “other comprehensive income” in the period in which they are accrued.

In the transition date, the Company will eliminate the liability of termination benefits due to a cause other than restructuring under Mexican FRS against retained earnings. Under IAS 19, this item is recognized when the entity has the legal obligation with its employees. If not, its effect is recorded in income as accrued.

Accumulated translation differences

At the transition date, the Company will reverse the accumulated effect of translation gains or losses generated under Mexican FRS. This exception allows for not determining the effect for translation under IAS 21, “Effects of changes in foreign currency exchange rates”, from the date on which the subsidiary was incorporated or acquired or the investment was accounted for by the equity method. Therefore, the Company will transfer the balance of the “Accumulated translation effect” against the opening balance of retained earnings as of the transition date. This reclassification would not affect the balance of stockholders’ equity.

Investments in subsidiaries, jointly controlled entities and associates

IFRS 1 allows for valuing these investments as of the transition date as indicated below, provided that the entity selects the “cost model” instead of fair value for valuing those investments in their separate financial statements:

at cost, determined in accordance with IAS 27, “Consolidated and individual financial statements”; or

at the attributed cost that can be: (i) fair value under IAS 39, “Financial Instruments: Recognition and Measurement” as of the transition date in the individual financial statements of the entity; or carrying value on that date under prior GAAP.

As of the transition date, the Company will recognize its investments in subsidiaries and associates in its individual financial statements at their carrying value under prior GAAP.

Assets and liabilities of subsidiaries

IFRS 1 allows that if a holding company becomes a first-time adopter later than its subsidiary, in its consolidated financial statement, it should measure its assets and liabilities of the subsidiary on the date of transition at the same carrying values as in the IFRS financial statements of the subsidiary, after consolidation adjustments, equity method adjustments and for the effects of the business combination.

Pursuant to the foregoing, the Company will value the assets and liabilities of its subsidiaries in Brazil and Chile that had adopted IFRS before the Company did at the same carrying values that they have in the financial statements under IFRS of those subsidiaries, after the adjustments discussed above.

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Business combinations

IFRS 1 allows IFRS 3, “Business combinations” (IFRS 3) to be applied prospectively, as of the transition date or from a specific date prior to the transition date.

The Company will apply IFRS 3 prospectively to business combinations that occur as of the transition date. Therefore, the business combinations agreed upon prior to the transition date will not be reestablished. Consequently, the goodwill balance determined in accordance with prior GAAP at the transition date was not affected by the migration. Consequently, the carrying amount of the assets acquired and liabilities assumed in the business combination will be their attributed cost, in accordance with IFRS on that date.

Tax criteria

Under Mexican FRS, the tax effect related to the adoption of a tax criterion is determined in accordance with a model of likelihoods; therefore, an entity is not required to record a tax liability, unless a disbursement of economic resources is likely or when the obligation can be estimated reasonably.

In accordance with IFRS, that effect is recognized under the confidence level that a tax position acquires or expects to acquire. Therefore, the tax effect of a position should be recognized only if it meets the “more likely than not” standard limit to be admitted based on its technical merits (laws, regulations, rules, etc.). Toward this end, the entities assume that the tax authorities will examine and they will have all the relevant information for each position. If a tax position is not considered as “more likely than not”, no benefit of the position will be recognized in the financial statements.

Management is about to determine if there are effects associated with uncertain tax liabilities that might result in the recognition of a provision in its opening statement of financial position under IFRS, which it will apply against the opening balance of retained earnings.

Impact of inflation

In accordance with Mexican FRS B-10, the impact of inflation is recognized when the economic environment of the entity is inflationary (inflation equal to or above 26 percent accumulated in the three annual prior fiscal years). IAS 29, “Financial Reporting in Hyperinflationary Economy” an economy is hyperinflationary when inflation in that period approximates or exceeds 100 percent.

The last hyperinflationary period for Mexico was 1997 (Brazilian and Chilean operations were acquired in 2008 and 2010, respectively). Accordingly, the Company will eliminate the impact of inflation previously recorded in Mexico for the period of 1998 up to December 31, 2007.

b) Exceptions to the retroactive application of other IFRS

Estimates

The estimates in accordance with IFRS at the transition date will be congruent with those carried out for the same date according to prior GAAP (after making the necessary adjustments to reflect any difference in accounting policies), unless there is evidence that these estimates were erroneous. The Company will review its estimates at the transition date; however, it estimates that there will be no changes to the estimates made previously.

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22. Differences between Mexican FRS and U.S. GAAP:

Basis of presentation under U.S. GAAP

The Group's consolidated financial statements are prepared based on Mexican FRS, which differ in certain material respects from generally accepted accounting principles applicable in the United States (U.S. GAAP). The term "SFAS" as used herein refers to U.S. Statements of Financial Accounting Standards. In addition, the term "FASB" refers to the U.S. Financial Accounting Standards Board.

On July 1, 2009, the FASB changed the manner in which accounting standards were organized by the implementation of the FASB Accounting Standards Codification (ASC). Therefore, ASC 105, "Generally Accepted Accounting Principles" (ASC 105) was issued. Effective that date, ASC 105 is the single official source of authoritative nongovernmental U.S. GAAP, except for Securities and Exchange Commission (SEC) rules and interpretive releases, which are sources of authoritative U.S. GAAP for SEC registrants. The standard is effective for interim and annual periods ending after September 15, 2009. The Group adopted the provisions of the standard on September 30, 2009, which did not have a material impact on its audited consolidated financial statements.

a) Impact of inflation

As discussed in Note 3 e) hereinabove, through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the inflation impact was recognized in accordance with Mexican Bulletin B-10, "Recognition of the impact of inflation on the financial information (Integrated document)" (Bulletin B-10), regardless of the level of inflation. The inflation adjustments effect previously recognized is maintained in the financial statements of the last year reported in accordance with Mexican FRS B-10, which superseded Bulletin B-10. FRS B-10 requires that the restated amounts of nonmonetary assets as reported at December 31, 2007 become the carrying amounts for those assets effective January 1, 2008. Therefore, those carrying amounts affected the net income of 2011, 2010, and 2009. For example, depreciation expense is based on carrying amounts of fixed assets that include inflation adjustments.

Effective January 1, 2008, the Group adopted FRS B-10 which sets forth the financial statements that recognize the inflation impact are those relative to an entity whose functional currency applies to a country in which there is an inflationary economic environment (inflation equal to or higher than 26 percent accumulated in the three annual prior years). Therefore, the Group has not recognized the impact of inflation for the years ended December 31, 2011, 2010, and 2009 due to the non-inflationary economic environment existing in the countries where the Group operates.

The reconciliation of the reported net income and stockholders' equity from Mexican FRS to U.S. GAAP does not include the reversal of inflation accounting adjustments as of and for the years ended December 31, 2011, 2010 and 2009 as permitted by the Form 20-F of the Securities and Exchange Commission of the United States of America. Nevertheless, the economic environment effect that is inflationary under Mexican FRS, but not hyperinflationary under US GAAP arising as of 2008 and henceforth represents a difference that should be reconciled for U.S. GAAP purposes.

Other than inflation accounting, the principal differences between Mexican FRS and U.S. GAAP that affect the Group's consolidated financial statements are described below along with an explanation, where appropriate, of the method used to determine the adjustments between Mexican FRS and U.S. GAAP.

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b) Statement of cash flows

At December 31, 2011, 2010, and 2009, the statements of cash flows prepared under the indirect method in a non-inflationary economic environment presents cash inflows and outflows of the period which do not include the impact of inflation of the period, and therefore, the amounts of statements of cash flows are presented in nominal Mexican pesos. Accordingly, the statements of cash flows prepared in accordance with Mexican FRS present substantially the same information as required under U.S. GAAP as interpreted by “Statement of Cash Flows” (ASC 230), except for the recognition in operating, financing and investing activities of the U.S. GAAP adjustments which are not material. Therefore, the Group considers that no reconciliation is needed.

Should the economic environment change to inflationary, the Group will retrospectively recognize the impact of inflation not recognized in the periods in which the economic environment was non-inflationary, in accordance with Mexican FRS B-10. Accordingly, the statements of cash flows will recognize its appropriate presentation when the financial statements are restated to constant Mexican pesos in accordance with the FRS B-10 (Note 3 e). Under ASC 230, a statement of cash flows presents only cash movement and excludes non-cash items. This standard does not provide guidance on inflation-adjusted statements of cash flows.

c) Deferred income tax

i) In accordance with currently tax legislation in Mexico, the IETU Law co-exists with the Income Tax Law for determining the taxes on earnings for the period. Therefore, the Mexican entities pay Income Tax or IETU, whichever is higher. At December 31, 2011, Management performed an analysis to determine the tax base on which the Group will assess its operations when there is more than one tax base in the same jurisdiction. Accordingly, the Group recognizes deferred taxes on earnings based on the tax regime that is expected to prevail in the future. At December 31, 2011, Management determined that income tax will be the tax on earnings that will be paid by in the short and medium-term, instead of IETU. Accordingly, the companies accounted for the deferred income tax effect, in accordance with Mexican FRS D-4, “Taxes on earnings” and its related IFRS-8, “Effect of Corporate Flat Tax”.

The Group determines the deferred income tax effect under Mexican FRS in a manner similar to U.S. GAAP by using the “asset and liability method”, by applying tax laws and income tax rates which are enacted or substantially enacted at the closing date of the financial statements to the total temporary differences, as well as tax loss carryforwards and tax credits.

Nevertheless the foregoing, there are specific differences as compared to the calculation under ASC 740, “Accounting for Income Taxes”, as follows: (i) Under Mexican FRS, inflation effects on the balance of deferred taxes generated by monetary items are recognized in the income statement as part of the monetary position result when entities operate in an inflationary economic environment. Under U.S. GAAP, the deferred taxes balance is classified as a nonmonetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain or loss on monetary position and deferred income taxes provision; (ii) should the economic environment change to inflationary, the Group will retrospectively recognize the impact of inflation on the deferred income tax not recognized in the periods in which the economic environment was non-inflationary, in accordance; and (iii) the effects of deferred income tax on the reconciling items between Mexican FRS and U.S. GAAP.

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ii) For Mexican FRS, the deferred tax assets and/or liabilities are classified as a non-current item, regardless of the term in which temporary differences are expected to be reverse and materialize, while under US GAAP, deferred tax assets and/or liabilities should be classified as short-term or long-term items depending on the nature of the line item that gives rise to such deferred tax assets and liabilities. A deferred tax asset or liability that is not related to an asset or liability for financial reporting purposes, including the deferred income tax asset related to tax loss carryforwards, is classified in accordance to its expected reversal date. At December 31, 2011 and 2010, the deferred income tax effect under Mexican FRS and US GAAP was classified as follows:

	Constant mexican pesos			
	Mexican GAAP		U.S. GAAP	
	2011	2010	2011	2010
Current	Ps. (298,055)	Ps. (217,876)	Ps. (298,055)	Ps. (217,876)
Noncurrent	(393,277)	(76,508)	(95,222)	141,368
	Ps. (393,277)	Ps. (76,508)	Ps. (393,277)	Ps. (76,508)

The effects of deferred income tax on the reconciling items between Mexican FRS and U.S. GAAP (basically the funded status), for 2011 and 2010 amounted to Ps. ----- and Ps. 33,887, respectively, as noncurrent deferred income tax asset for U.S. GAAP purposes.

Under U.S. GAAP, for a particular tax-paying component and within a particular tax jurisdiction: (a) all current deferred tax assets and liabilities are offset and presented as a single amount and (b) all noncurrent deferred tax assets and liabilities are offset and presented as a single amount. However, deferred tax assets and liabilities attributable to different tax-paying components of the enterprise or to different tax jurisdictions are not offset.

At December 31, 2011, the income tax asset consisted of Mexican income tax asset in the amount of Ps. (86,350) and Chilean income tax asset in the amount of Ps. (306,927). At December 31, 2010, the income tax asset consisted of Mexican income tax liability in the amount of Ps.213,692 and Chilean income tax asset in the amount of Ps. (290,200).

iii) Effective January 1, 2010, the Mexican tax authorities approved the tax consolidation regime change which required for determining at December 31, 2009 annual income tax as if tax consolidation rules had not existed since 1999 and henceforth by applying the provisions discussed in Note 17 d). Under Mexican GAAP, based on Interpretation 18, "Recognition of the effects of the tax reform of 2010 on taxes on earnings", this change was recognized against prior year retained earnings in the amount of Ps. 133,619. Under US GAAP a change in tax status that results from a change in tax law is recognized on the enactment date. Consequently, the effect of recognizing or eliminating the deferred tax liability or asset shall be included in income from continuing operations. Therefore a reconciliation line item is shown in Note 22).

d) Accounting for uncertainty in income taxes

Under Mexican FRS, there are no specific guidelines for recording uncertain tax positions. Therefore, the Group is not required to record an income tax liability unless the Group expects that a cash disbursement is probable and quantifiable. For U.S. GAAP, the Group adopted ASC 740, "Accounting for Uncertainty in Income Taxes" effective January 1, 2007 (ASC 740). This standard defines the confidence level that a tax position has taken or is expected to be taken in a tax return to be recognized in the financial statements. The evaluation is a two-step process: recognition and measurement of a tax position. The tax effects of a position must be recognized only if it is "more-likely-than-not" to be sustained based on its technical merits (legislation and statutes, legislative intent, regulations, rulings, and case law) at the reporting date. For this assessment, the Group assumes that the tax authorities will examine and have full

knowledge of all relevant information for each position.

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The more-likely-than-not threshold represents a positive assertion by management that the Group is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained, no benefits of the position are to be recognized in the financial statements. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At December 31, 2011 and 2010, there are no uncertain tax positions “more-likely-than-not” that should be recognized in the Group. Therefore, no reconciling item from Mexican GAAP to U.S. GAAP is needed.

If during any period after recognition the threshold ceases to be met, the previously recorded benefit must be derecognized. Moreover, the benefit of a tax position that initially fails to meet the more-likely-than-not threshold should be recognized in a subsequent period if changing facts and circumstances enable to meet the threshold, the matter is effectively settled through litigation with the tax authorities, or the statute of limitations has expired.

e) Deferred employee profit sharing

The Companies established in Mexico are obligated to pay profit sharing to its employees. Profit sharing is calculated by applying a 10 percent annual rate to taxable income determined for each Group’s subsidiary as provided for in the Income Tax Law in Mexico. Deferred employee profit sharing is determined by applying the “asset and liability method”. Employee profit sharing is classified as an operating expense for U.S. GAAP purposes, whereas for Mexican FRS is classified in “other expenses, net”. At December 31, 2011 and 2010, the amount of deferred employee profit sharing asset was not material, and its effect was included with a related valuation allowance, in accordance with Mexican FRS and U.S. GAAP.

f) Employee benefits

i) Effective January 1, 2008, the Group adopted Mexican FRS D-3, “Employee Benefits” (FRS D-3). This standard eliminates the recognition of an additional labor liability for the difference between actual benefits liability and the net projected liability. In addition, the balance of unrecognized net transition obligation, unrecognized prior service cost, and net gain/loss accrued through December 31, 2007, should be amortized in income over a maximum period of five years, while the new actuarial results generated after the adoption of FRS D-3 are amortized normally over the employees’ estimated active service lives following the “corridor method”. At December 31, 2011, 2010, and 2009, the effect of these differences was not material.

ii) The adoption of Mexican FRS B-10 requires the application of real rates for actuarial calculations for entities that operate in inflationary economic environments and nominal rates for those that operate in non-inflationary economic environments. The Group uses those same criteria under U.S. GAAP. Nevertheless, the economic environment effect that is inflationary under Mexican FRS, but not hyperinflationary under US GAAP, arising as of 2008 and henceforth represents a difference that should be reconciled for U.S. GAAP purposes.

iii) For U.S. GAAP purposes, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (ASC 715, “Compensation-Retirement Benefits”) requires employers to recognize the funded status of their defined benefit pension and other postretirement plans on their balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit costs. Accordingly, under U.S. GAAP the Company is required to fully recognize as an asset or liability for the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans.

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At December 31, 2011, 2010 and 2009, the funded status (benefits' obligation less fair value of plan assets) of the defined benefit pension and other postretirement plans that considers the unrecognized net transition obligation, negative plan amendments and unrecognized net loss (gain) amounted to Ps.121,417, Ps. 112,954 and Ps. 66,115, respectively, which was recorded in other comprehensive income, net of income tax. Therefore a reconciliation line item is shown in Note 23).

g) Goodwill

Goodwill recognized under Mexican FRS has been adjusted for U.S. GAAP purposes because beginning January 1, 2002, goodwill is not amortized under U.S. GAAP, while under Mexican FRS goodwill was amortized until December 31, 2004. Therefore a reconciliation line item is shown in Note 23).

In addition, under U.S. GAAP, the Group assesses goodwill and indefinite-lived intangible assets for impairment annually unless events occur that require more frequent reviews. Discounted cash flows analyses considering the use of market considerations are applied to assess the possible impairment of goodwill and indefinite life intangible assets. If an assessment indicates impairment, the impaired asset is written down to its fair value based on the best information available. Considerable judgment is necessary to estimate discounted future cash flows. Assumptions used for cash flows are consistent with internal forecasts and industry practices. In addition, the growth and discount rates in determining its projected future cash flows are used by the Group. All these provisions are virtually identical to Mexican GAAP and U.S. GAAP. Differences in other factors explained below led to different impairment loss or impairment testing results between Mexican FRS and U.S. GAAP.

Under U.S. GAAP, the first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the "second step" of the goodwill impairment test discussed below is applied by the Group to measure the amount of impairment loss, if any. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary.

The second step consists of comparing the "implied fair value" of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The implied fair value is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. That allocation process is performed only for purposes of testing goodwill for impairment.

The situation referred to above, in addition to differences in the determination of the "value in use" by applying the "perpetuity value" (Note 3 n) under Mexican FRS as compared to U.S. GAAP, as well as differences in the reporting units' carrying amounts between Mexican FRS and U.S. GAAP, generate, when applicable, different amounts of impairment losses. In addition, under U.S. GAAP subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed, while Mexican GAAP allows the reversal of the recognition of impairment under certain circumstances. Moreover, impairment loss under U.S. GAAP is included in the determination of operating income. Under Mexican FRS, this item is part of "Other expenses, net".

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Based on the results of goodwill impairment testing at December 31, 2009 under U.S. GAAP, the Group recorded an estimated impairment loss in connection with its reporting unit in Brazil in the amount of Ps. 109,000 which differs from impairment loss under Mexican FRS due to referred to above. Under Mexican FRS, goodwill impairment loss was determined in the amount of Ps. 210,000. Therefore a reconciliation line item is shown in Note 23).

During the last 2010 quarter, based on the results of the goodwill and indefinite-lived intangible assets testing for impairment, the Group determined the fair value of a reporting unit exceeds its carrying amount of goodwill and indefinite-lived intangible assets, under USGAAP and Mexican FRS.

During 2011 under USGAAP, the Group recorded an estimated impairment loss in connection with its reporting units in Drogueros and Citem in the amount of Ps. 46,210, Ps. 56,456, respectively. This estimate differs from impairment loss under Mexican FRS due to the factors referred to above. Under Mexican FRS, goodwill impairment loss was determined in the amount of Ps. 78,425 and Ps. 56,456, respectively. Therefore a reconciliation line item is shown in Note 23).

h) Other classification differences

Certain items require a different classification in the balance sheet or income statement under U.S. GAAP. A description of these different classifications is as follows:

Under Mexican FRS several unusual or non-recurring transactions, such as restructuring costs (severance payments), gain or losses on the disposal of fixed assets and impairment losses, as well as financial expenses from labor liabilities and employee profit sharing, are included in "Other (income) expenses". Under U.S. GAAP these items are recorded in operating expenses. At December 31, 2011, 2010 and 2009, the effect of these unusual or non-recurring transactions was not material.

At December 31, 2011, the amount of long-lived assets classified as held for sale for approximately Ps. 29,341 was classified as "other current assets" under Mexican FRS, whereas under U.S. GAAP such amount is presented separately in the statement of financial position.

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23. Reconciliation from Mexican FRS to U.S. GAAP:

Net income and stockholder's equity, adjusted to take into account the significant differences between Mexican FRS and U.S. GAAP, except for the comprehensive effect of price-level changes as required by Mexican FRS, were as follows:

NET INCOME	Thousands of Mexican pesos (Ps.) and thousands of U.S. dollars (\$),			Convenience translation 2011
	2011	Year 2010	2009	
Controlling interest net				
income under Mexican FRSPs.	72,639	Ps. 276,934	Ps. 280,278	\$ 5,196
Additional employee retirement liability (Note 22.f)	(5,925)	(22,339)	412	(424)
Unrecognized net transition obligation (Note 22.f)	32,215	(5,887)	(1,489)	
Impairment loss (Note 22.g)			101,000	2,305
A change in the tax status of the Group (Note 22.c)			(133,619)	
	26,290	(28,226)	(33,696)	1,881
Controlling interest net income under U.S. GAAP	Ps. 98,929	Ps. 248,708	Ps. 246,582	\$ 7,077
Noncontrolling interest net income under U.S. GAAP	Ps. 4,346	Ps. (6,884)	Ps.	\$ 311
Weighted average common shares outstanding (thousands)	265,419	265,419	265,419	
Basic and diluted earnings per				
share under U.S. GAAP	Ps. 0.39	Ps. 0.91	Ps. 0.93	

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STOCKHOLDERS' EQUITY	2011	2010	Convenience translation 2011
Stockholders' equity under Mexican FRS	Ps. 7,107,767	Ps. 7,082,848	\$ 508,471
Additional employee retirement liability	(84,992)	(79,067)	(6,080)
Unrecognized net transition obligation			
Amortization and impairment of goodwill	160,143	127,928	11,456
	75,151	48,861	5,376
Stockholders' equity under U.S. GAAP	Ps. 7,182,918	Ps 7,131,709	\$ 513,847
Noncontrolling interest Stockholders' equity under U.S. GAAP	Ps. 155,741	Ps 151,395	\$ 11,141
Changes in stockholders' equity under U.S. GAAP	2011	2010	Convenience Translation 2011
Stockholders' equity under U.S. GAAP as of beginning of the year	Ps.7,131,709	Ps.6,728,296	\$ 510,184
Comprehensive income under U.S. GAAP	51,209	403,413	3,663
Dividends paid			
Stockholders' equity under U.S. GAAP at year end	Ps.7,182,918	Ps.7,131,709	\$ 513,847
Comprehensive income under U.S. GAAP	2011	2010	Convenience Translation 2011
Controlling interest net income under U.S. GAAP	Ps.98,929	Ps.248,708	\$ 7,077
Accumulated effect on Translation	(52,066)	3,310	(3,725)
Noncontrolling interest	4,346	151,395	311
Comprehensive income	Ps. 51,209	Ps.403,413	\$ 3,663

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24. Supplementary U.S. GAAP disclosures:

a) Financial instruments with off-balance-sheet risk

Under ASC 825, “Disclosure of information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk”, the Group sells its products mainly to distributors including supermarket chains, pharmacies and retail customers throughout Mexico, as well as Rio de Janeiro, Brazil, and effective October 2010, Chile and Peru. No single customer accounted for a significant amount of the Group’s sales in fiscal 2011, 2010 and 2009, and there were no significant accounts receivable from a single customer for the same years. Moreover, there is no significant concentration of a specific supplier relating to the purchase of inventories.

The Group currently does not have any off-balance sheet arrangements that has or is reasonably likely to have a current or future material effect on the financial statements, changes in liquidity, capital expenditures or capital resources that are material to investors.

b) Accounts receivable

The majority of the Group’s accounts receivable is due from companies in the pharmaceutical products activities. Credit is extended based on evaluation of a customer’s financial condition, and generally, collateral is not required. Accounts receivable are due within a 60-120 day term and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the agreed upon payment terms are considered past due. The Group determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Group’s previous loss history, the customer’s current ability to pay its obligation to the Group, and the condition of the general economy and the industry as a whole. The Group writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to income.

c) Impairment of other long-lived assets

Under U.S. GAAP, an impairment occurs when the amount of the estimated future cash flows that may be reasonably expected to be obtained through the use of the property and equipment during its remaining economic useful life, reduced by the operating costs and expenses associated with such cash flows, is less than the net carrying value of this assets. The impairment that must be charged to operations is the amount by which the net book value exceeds its recovery value. Other long-lived assets, including amortizable intangibles, are tested for impairment if impairment triggers occur. Bulletin C-15, “Impairment of the value of long-lived assets and their related disposal” of Mexican FRS is virtually identical to U.S. GAAP, except that the reversal of the recognition of impairment is permitted under Mexican FRS, as well as that the impairment is charged in “other expenses, net”, in lieu of being charged to operations under U.S. GAAP.

d) Business combinations

ASC 805, “Business Combinations” sets forth guidelines to accounting for the acquisition of business by using the purchase method. This guidance requires acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree.

The measurement requirements results in the recognition of the full amount of acquisition-date goodwill, which includes amounts attributable to noncontrolling interests. The Group recognizes in income any gain on the remeasurement to acquisition-date fair value of consideration transferred or of previously acquired equity interests in

the acquiree. Neither the direct costs incurred to effect a business combination nor the costs the acquirer expects to incur under a plan to restructure an acquired business are included as part of the business combination accounting. As a result, those costs are charged to expense when incurred, except for debt or equity issuance costs, which are accounted for in accordance with other generally accepted accounting principles.

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This standard also changes the accounting for contingent consideration in process research and development, contingencies, and restructuring costs. In addition, changes in deferred tax asset valuation allowance and acquired income tax uncertainties in a business combination that occur after the measurement period will impact income taxes.

Mexican FRS B-7, "Business acquisitions" (FRS B-7), effective January 1, 2009, is virtually identical to U.S. GAAP under ASC 805.

Goodwill impairment testing

The new business combination guidance amends the goodwill impairment test requirements. For a goodwill impairment test as of the effective date of the new guidance, the value of the reporting unit and the amount of implied goodwill, calculated in the second step of the test, is determined in accordance with the measurement and recognition guidance on accounting for business combinations under the new standard. This new guidance is effective January 1, 2009 for the Group and applies to goodwill related to all acquisitions. The Groups's adoption of this provision had no impact on the results of its impairment testing subsequent to that date.

e) Effect on income taxes in a business combination

The Group records all changes to a valuation allowance for acquired deferred income tax assets or the effect of changes in an acquired tax position that occur after the acquisition date by initially reducing the related goodwill to zero, next by reducing other noncurrent intangible assets related to the acquisition to zero, and lastly by reducing income tax expense. However, ASC 805, "Business Combinations" amends ASC 740, "Income Taxes" to require the Company to recognize changes to the valuation allowance for an acquired deferred tax asset or the effect of changes in an acquired tax position as adjustments to income tax expense or contributed capital, as appropriate, and not as adjustments to goodwill. This accounting is required effective January 1, 2009 for the Group and applies to valuation allowances and tax positions related to all acquisitions.

At December 31, 2011 and 2010, the Group does not have a valuation allowance related to deferred tax assets acquired in the business combination.

f) Variable interest entities

Under U.S. GAAP, the Group applies ASC 810, "Consolidation" (formerly Interpretation 46R, "Consolidation of Variable Interest Entities, an interpretation"). The interpretation addresses the consolidation of variable interest entities (VIE) which have one or more of the following characteristics: (i) entities in which the equity investment at risk is not sufficient to finance their operations without requiring additional financing support provided by any parties, including the equity holders; and (ii) the equity investors lack one or more of the following attributes: a) the ability to make decisions about the entity's activities through voting or similar rights, b) the obligation to absorb the expected losses of the entity, and c) the right to receive the expected residual returns of the entity.

A primary beneficiary is the entity that assumes the variable interests of a VIE, or the majority of them in the case of partnerships, directly or jointly with related parties, and is the entity that should consolidate the VIE. In connection with its related parties, the Group considers that related parties are not VIEs under the scope of ASC 810, and, therefore, as of and for the years ended December 31, 2011 and 2010, the Group has not consolidated any assets, liabilities or operating results of such entities.

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g) Quantitative and qualitative disclosures about market risk

The Group is subject to market risks due to interest rate fluctuations that prevail in Mexico, Brazil and effective October 2010, Chile. Those fluctuations impact the long-term debt incurred from loans obtained from Chilean and Mexican banks, as well as marketable bonds incurred by the Group. In addition, the Group obtained various secured and unsecured loans in various amounts for the financing of its operations as well as to acquire the shares issued and outstanding representative of the capital stock of FASA.

The Group has managed its interest rate risks considering the available financing rates in the market. In addition, at the issue date of the financial statements, the Group had entered into cash flows hedges contracts (Dollar / Peso Forwards). The Company agreed upon these transactions in different months of the year to look for a future U.S. dollar purchase price on different dates, and to be able to meet its U.S. dollar denominated commitments. Management estimates that the changes in cash flows of these instruments maintain high effectiveness in offsetting the changes in cash flows of the primary position, both at the beginning and throughout the relationship of the designated hedge. The Company does not carry out derivative instruments trading.

h) Fair value measurements

ASC 820, "Fair Value Measurements and disclosure" (ASC 820) redefines the concept of fair value and establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. This guidance does not eliminate practicability exceptions that exist in accounting pronouncements amended by this guidance when measuring fair value.

Under Mexican FRS, in addition to certain investments in trading securities which are recorded at their quoted market prices, the Group recognizes its derivative financial instruments at their estimated fair value. Under U.S. GAAP, the fair value is an "Exit Value," which is the price that would be received to sell an asset or pay a liability in an orderly transaction between market participants at the measurement date. Under Mexican FRS, fair value is equivalent a settlement amount at the balance sheet date while the Exit Value under U.S. GAAP considers the counterparty's credit risk in the valuation.

The concept of Exit Value works under the premise that there is a market and market participants for the specific asset or liability. When there is no market and/or market participants willing to make a market, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows: (i) unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; (ii) inputs that are observable, either directly or indirectly, but do not qualify as level (i) inputs and (iii) prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

i) Effective date of ASC 820

On January 1, 2009, the Group adopted ASC Topic 820, "Fair Value Measurements and Disclosures", for fair value measurements of non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. Examples of items within the scope of ASC 820 are nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods), and long-lived assets, such as property, plant and equipment and intangible assets measured at fair value for an impairment assessment under the accounting for the impairment or disposal of long lived assets.

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In accordance with the aforementioned, at December 31, 2009, the Group recorded an estimated impairment loss in connection with its reporting unit in Brazil in the amount of Ps. 109,000 which differs from impairment loss under Mexican GAAP. Under Mexican FRS, goodwill impairment loss was determined in the amount of Ps. 210,000 (Note 22 g). For that purposes the Group considered the level 3 of the fair values hierarchy.

j) Noncontrolling interests

On January 1, 2009, the Group adopted ASC 810, “Noncontrolling Interests in Consolidated Financial Statements”. ASC 810 changes the accounting for, and the financial statement presentation of, noncontrolling equity interests in a consolidated subsidiary. The new standard defines a new term—noncontrolling interests—to replace what were previously called minority interests. ASC 810 establishes non-controlling interests as a separate component within the equity of a consolidated entity. Also ASC 810 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. The Group’s adoption of this provision did not have an impact on its consolidated financial position and results of operation.

k) Employers Disclosures about Postretirement Benefit Plan Assets

On January 1, 2010, the Group adopted ASC 715, “Compensation-Retirement, 20, “Defined Benefits Plans- General, 50”). This standard provides additional guidance regarding employers’ disclosures about plan assets of a defined benefit pension or other postretirement plan. The adoption of this interpretation increases the disclosures in the Group’s consolidated financial statements.

l) Recently Issued Accounting Pronouncements

On January 1, 2010, the Group adopted the Accounting Standard Update (ASU) 2009 16, “Transfers and Servicing (ASC 860: Accounting for Transfers of Financial Assets (FASB Statement No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140))”.

ASU 2009 16 removes the concept of a qualifying special purpose entity (QSPE), and the exception from applying ASC 810 10 (the variable interest entity accounting to qualifying special purposes entity) thereby, requiring transferors of financial assets to evaluate whether to consolidate transferees that previously were considered qualifying special purposes entities. Transferor imposed constraints on transferees whose sole purpose is to engage in securitization or asset backed financing activities.

ASC 860 limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. ASC 860 also defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. ASC 860 requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor’s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are also required by ASC 860. Adoption of this provision did not have an impact on the consolidated financial position and results of operation.

In June 2009, ASC 810, “Consolidation”, was issued. ASC 810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company’s involvement in variable interest entities. The Group’s adoption of this provision had no impact on its consolidated financial position and results of operation.

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In October 2009, ASU 2009-13, “Multiple-Deliverable Revenue Arrangements” was issued, allowing the use of the “best estimate of a selling price” in addition to Vendor Specific Objective Evidence and Third Party Evidence for determining the selling price of a deliverable. ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Adoption of this provision did not have an impact on the consolidated financial position and results of operation.

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses”. The amendments require an entity to provide additional disclosures about its financing receivables on a disaggregated basis including a roll-forward schedule, the nonaccrual status of financing receivables and impaired financing receivables by class, credit quality indicators, and an aging schedule, among others. The disclosures required by the ASU as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010.

In February 2010, the FASB issued ASU 2010-09, “Subsequent Events, Amendments to Certain Recognition and Disclosure Requirements”. This update addresses certain implementation issues related to an entity’s requirement to perform and disclose subsequent-events procedures, and removes the requirement that public companies disclose the date of their financial statements in both issued and revised financial statements. According to the FASB, the revised statements include those that have been changed to correct an error or conform to a retrospective application of U.S. GAAP. Adoption of this provision had no impact on the Group’s consolidated financial statements.

U.S. GAAP

There are no significant new accounting pronouncements effective in year 2011 impacting the Group.

New ASU applicable to the Company are as follows:

ASU 2011-05 “Comprehensive Income (Topic 220): Presentation of Comprehensive Income” issued in June 2011 (ASU 2011-05)

Under ASU 2011-05 an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income.

ASU 2011-05 should be applied retrospectively. For public entities is effective for fiscal years beginning after December 15, 2011. Early adoption is permitted. Management is in the process of evaluating the impact that adopting ASU 2011-15 will have on the Company's financial statements.

ASU 2011-08 “Intangible-Goodwill and Other (Topic 350): Testing Goodwill for Impairment” (ASU 2011-08)

Under ASU 2011-08, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in paragraph 350-20-35-4. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9. Under ASU 2011-08, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period.

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. Management is in the process of evaluating the impact that adopting ASU 2011-15 will have on the Company's financial statements.