

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the year ended December 31, 2009

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)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
American Depositary Shares, each representing ten Ordinary Shares, without par value	New York Stock Exchange
Ordinary Shares, without par value	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, 2009 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.

Yes No

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.

Yes No

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.

Yes No

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). N/A

Yes No

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 Accelerated Filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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 17 Item 18

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

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INTRODUCTION

Grupo Casa Saba, S.A.B. de C.V. is a limited liability stock corporation with variable capital, or *sociedad anónima bursátil de capital variable*, organized under the laws of the United Mexican States, or Mexico, and is a holding company that conducts substantially all of its operations through subsidiaries. In this annual report, except when indicated or the context otherwise requires, the words “Grupo Casa Saba”, “the Group”, “the Company”, “we”, “us”, “our” and “ours” refer to Grupo Casa Saba, S.A.B. de C.V. and its consolidated subsidiaries. Each subsidiary of Grupo Casa Saba is an independent legal entity with its own accounting, corporate structure and records, executives and employees. References in this annual report to divisions are to combinations of various subsidiaries that have been grouped together for management and presentation purposes.

This annual report contains translations of certain constant Mexican Peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the constant Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated or at all. The exchange rates used in preparing our consolidated financial statements and in preparing convenience translations of such information into U.S. Dollars are determined by reference as of the specified date to the rate of Mexican Pesos per U.S. Dollar reported by the *Banco de México*, or the Mexican Central Bank, in the *Diario Oficial de la Federación*, or the Official Gazette of the Federation. As of December 31, 2009, the Mexican Pesos per U.S. Dollar exchange rate, as reported by the Mexican Central Bank in the Official Gazette of the Federation, was Ps. 13.0437 to one U.S. Dollar. See “Item 3. Key Information—Exchange Rate Information”.

Unless otherwise specified, information included in this annual report is as of December 31, 2009. References to “Ps.” or “Pesos” in this annual report are Mexican Pesos, references to “R\$” or “Reals” are to Brazilian Reals, and references to “Dollars,” “U.S. Dollars,” “\$” or “U.S.\$” are to United States Dollars. Certain amounts included in this annual report may not sum due to rounding.

MARKET SHARE AND OTHER INFORMATION

Market share information for our private sector pharmaceutical sales is based on statistics provided exclusively to us by IMS A.G., known internationally as IMS Health, the statistics provided by the *Associação Brasileira de Redes de Farmácias e Drogarias*, the Brazilian Association of Pharmacy and Drugstore Networks, or Abrafarma, and our own Company estimates.

INTELLECTUAL PROPERTY

This annual report includes names of certain products, trade names and brand names which constitute trademarks that we own or license. This annual report also contains other brand names, trade names, trademarks or service marks of other companies, and these brand names, trade names, trademarks or service marks are the property of those companies.

FORWARD-LOOKING STATEMENTS

Some written information and oral statements made or incorporated by reference from time to time by us or our representatives in this annual report, other reports, filings with the Securities and Exchange Commission, or the SEC, press releases, conferences, or otherwise, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are subject to various risks and uncertainties, include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievement, and may contain forward-looking terminology such as “anticipate”, “believe”, “continue”, “expect”, “estimate”, “project”, “potential”, “should”, “could”, “assume”, “intend”, “will”, “will likely result”, “may”, “plan”, or words or phrases of similar meaning that are predictions or indicative of future events and future trends. These statements are contained in the sections entitled “Item 3. Key Information—Risk Factors”, “Item 4. Information on the Company”, “Item 5. Operating Financial Review and Prospects” and other sections of this annual report.

Forward-looking statements reflect our best assessment at the time and thus involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operation, financial condition and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements. Therefore, these forward-looking statements are qualified by reference to the cautionary statements set forth in this annual report.

The risks and uncertainties involved in the forward-looking statements are detailed from time to time in reports we file with the SEC and include, among others, the following:

- International, national and local general economic and market conditions, inflation and interest rate movements;
- The overall size and growth of the Mexican and Brazilian pharmaceutical markets;
- The level of competition among distributors, suppliers and sellers of pharmaceuticals;
- Fluctuations and difficulty in forecasting operating results;
- Our ability to integrate acquisitions and expansion into new markets;
- Our ability to operate our retail pharmacy business efficiently;
- Dependence on suppliers and clients;
- General risks associated with doing business in Mexico and Brazil, including political and economic instability and changes in government regulations; and
- Other factors referenced in this annual report.

The risks summarized above are not exhaustive. Other sections of this annual report may include additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all of these risk factors, nor can it assess the impact of all of these risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors and analysts should not place undue reliance on forward-looking statements as a prediction of actual results. Accordingly, when considering forward-looking statements, investors and analysts should bear in mind the factors described in “Item 3. Key Information—Risk Factors” and other cautionary statements appearing in “Item 5. Operating and Financial Review and Prospects” and elsewhere in this annual report.

The predictive and forward-looking statements in this annual report may never materialize and are made under the SEC’s disclosure safe harbor. Forward-looking statements speak only as of the date they are made and we do not undertake any obligation to update them in light of new information or future developments.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

(a) *Selected Financial Data*

Our audited consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards, or Mexican FRS, which differ in some significant respects from U.S. GAAP. Note 18 to our audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP as they relate to us. Note 19 to our audited consolidated financial statements provides a partial reconciliation to U.S. GAAP of net income and stockholders' equity.

We publish our consolidated financial statements in Mexican Pesos.

Through the end of 2007, Bulletin B-10, "Recognition of the impact of inflation on the financial information (integrated document)" required us to recognize certain effects of inflation in our consolidated financial statements, including the requirement to restate financial statements from prior periods to constant Pesos as of the end of the most recent period presented. The method of restatement required us to calculate a restatement factor using a weighted average rate based upon the Mexican National Consumer Price Index, or NCPI. The recognition of the effects of inflation through December 31, 2007 principally resulted in the recognition of gains and losses for inflation on monetary and non-monetary items, which were presented in the financial statements. See Note 2 to our consolidated financial statements.

Effective January 1, 2008, FRS B-10 "Impact of inflation", no longer requires us to recognize the effects of inflation unless the economic environment qualifies as "inflationary". An economic environment is considered inflationary if the cumulative inflation rate equals or exceeds an aggregate of 26% over the three preceding years (equivalent to an average of 8% in each year). Because of the relatively low levels of inflation in Mexico during recent years (3.6% in 2009, 6.5% in 2008, 3.8% in 2007 and 4.1% in 2006), the cumulative inflation rate in Mexico over the three-year period preceding December 31, 2009 does not qualify the economic environment as inflationary. Additionally, based on current forecasts, we do not expect the economic environment of Mexico or any other country where we operate to qualify as inflationary in 2010. These expectations could change depending on actual economic performance.

As a result, we are presenting our 2009 financial statements without inflation accounting. Financial information for dates and periods prior to January 1, 2008 continue to be expressed in constant Pesos as of December 31, 2007. The impact of inflation accounting under Mexican FRS has not been reversed in our reconciliation to U.S. GAAP. See Notes 18 and 19 to our audited consolidated financial statements.

The information set forth in the following table has been selected from our audited consolidated financial statements for the periods indicated. This information should be read together with, and it is qualified in its entirety by reference to, our audited consolidated financial statements, the notes to such financial statements and the information under the section entitled “Item 5. Operating and Financial Review and Prospects”.

Year ended December 31	2005	2006	2007	2008	2009	2009 (1)
(in thousands of Pesos and U.S. Dollars, except share and per share data)						
Income Statement						
Mexican FRS:						
Net sales	23,615,926	24,486,493	25,259,662	28,400,059	29,791,657	2,283,988
Gross profit	2,436,935	2,420,076	2,484,257	3,065,588	3,225,855	247,311
Operating expenses	1,470,392	1,365,941	1,424,852	2,104,883	2,335,130	179,024
Operating income, net	966,543	1,054,135	1,059,405	960,705	890,725	68,287
Comprehensive cost of financing, net	(1,693)	(4,351)	17,848	181,118	262,243	20,105
Other income (expense) (2)	42,303	46,331	51,756	58,189	(136,307)	(10,450)
Income before taxes and employee profit sharing	1,010,539	1,155,095	1,093,313	897,567	492,175	37,732
Net income	786,226	916,563	905,087	595,118	280,278	21,487
Net income per Ordinary Share (3)	2.96	3.45	3.41	2.24	1.05	0.08
Weighted average Ordinary Shares outstanding (in thousands) (3)	265,419	265,419	265,419	265,419	265,419	
U.S. GAAP (4):						
Net sales	23,615,926	24,486,493	25,259,662	28,400,059	29,791,657	2,283,988
Gross profit	2,436,935	2,420,076	2,484,257	3,065,588	3,225,855	247,311
Operating income	966,543	1,054,135	1,044,482	963,648	780,648	59,848
Income before taxes and employee profit sharing	1,009,708	1,155,095	1,078,390	900,510	592,098	45,393
Net income (4)	751,235	951,554	890,164	598,061	246,582	18,904
Net income per Ordinary share (3)	2.83	3.59	3.35	2.25	0.93	0.07
Weighted average Ordinary Shares outstanding (in thousands) (3)	265,419	265,419	265,419	265,419	265,419	
Balance Sheet Data						
Mexican FRS:						
Property and equipment, net	1,150,099	1,198,242	1,269,821	1,404,985	1,355,863	103,948
Total assets	10,616,144	10,778,971	12,039,715	14,647,532	15,087,669	1,156,704
Short-term debt	-	17,044	-	271,824	1,491,126	114,318
Long-term debt	-	-	-	1,053,000	891,644	68,358
Capital stock	1,123,764	1,123,764	1,123,764	1,123,764	1,123,764	86,154
Total stockholders' equity (4)	4,981,795	5,544,017	6,092,720	6,609,761	6,651,209	509,918
U.S. GAAP (4):						
Property and equipment, net	1,150,099	1,198,242	1,269,821	1,404,985	1,355,863	103,948
Total assets	10,616,144	10,778,971	12,066,643	14,674,460	15,215,597	1,166,512
Short-term debt	-	17,044	-	271,824	1,491,126	114,318
Long-term debt	-	-	-	1,053,000	891,644	68,358

Capital stock	1,123,764	1,123,764	1,123,764	1,123,764	1,123,764	86,154
Total stockholders' equity (4)	4,973,731	5,570,945	6,091,437	6,586,925	6,728,296	515,827

(1) Peso amounts have been translated into U.S. Dollars solely for the reader's convenience, at the rate of Ps. 13.0437 per U.S. \$1.00, which was the Peso to U.S. Dollar exchange rate as of December 31, 2009, as reported by the Mexican Central Bank in the Official Gazette of the Federation.

(2) Other income consists of fees on returned checks, miscellaneous articles and non-taxable items adjustments and services. See Note 3(k) to our audited consolidated financial statements, for a description of impairment of intangible assets included as other expenses.

(3) Based on the weighted average number of Ordinary Shares outstanding during each year.

(4) For a discussion of the principal differences between U.S. GAAP and Mexican FRS concerning net income and total stockholders' equity as well as a partial reconciliation to U.S. GAAP of net income and total stockholders' equity, see Notes 18 and 19 to our audited consolidated financial statements.

(b) Dividends

Under Mexico's *Ley General de Sociedades Mercantiles*, or General Corporations Law, 5% of our net income in a given year must be allocated annually to a legal reserve. This legal reserve must be increased annually until it reaches 20% of our capital stock. After this allocation is made, it is then possible to make additional allocations, such as a contribution of funds for the payment of dividends or the creation of special reserves, generally, but not necessarily, upon the recommendation of our Board of Directors. We cannot pay dividends on our shares of capital stock, which we refer to as Ordinary Shares, unless these allocations are previously made. As of December 31, 2009, we had a legal reserve of approximately Ps. 224.4 million, which represented approximately 19.98% of our capital stock as of that date. See Note 12 to our audited consolidated financial statements. Five percent of our net income for the year ended December 31, 2005 was applied to the legal reserve, and thus our annual shareholder's meeting held on April 27, 2006 approved the payment of a dividend in the amount of Ps. 150.0 million (Ps. 160.3 million at fiscal year end constant Pesos), equivalent to Ps. 0.5651 per Ordinary Share. Five percent of our net income for the year ended December 31, 2006 was applied to the legal reserve, and thus our annual shareholder's meeting held on April 26, 2007 approved the payment of a dividend in the amount of Ps. 170.0 million (Ps. 175.3 million at fiscal year end constant Pesos), equivalent to Ps. 0.6405 per Ordinary Share. Five percent of our net income for the year ended December 31, 2007 was applied to the legal reserve, and thus our annual shareholder's meeting held on April 29, 2008 approved the payment of a dividend in the amount of Ps. 170.0 million, the equivalent of Ps. 0.6405 per Ordinary Share. Five percent of our net income for the year ended December 31, 2008 was applied to the legal reserve, and thus our annual shareholder's meeting held on April 30, 2009 approved the payment of a dividend in the amount of Ps. 170.0 million, the equivalent of Ps. 0.6405 per Ordinary Share. Five percent of our net income for the year ended December 31, 2009 was applied to the legal reserve. At our annual shareholder's meeting, held on April 30, 2010, our shareholders resolved not to declare a dividend given the strategic growth alternatives being considered, which may require the use of the Company's resources. See "Item 4. Information on the Company—History and Development of the Company". Our controlling shareholder has the ability to determine, by means of a shareholder vote, whether we will declare and pay dividends, in cash or otherwise. See "Item 3. Key Information—Risk Factors—Risk Factors Relating to Our Securities—Our Controlling Shareholder Has the Ability to Restrict the Payment and Amount of Dividends". A determination to declare and pay dividends may depend on the following factors, among others:

- the resolution by our shareholders in light of our results, financial condition, cash requirements, future prospects and other factors deemed relevant by our shareholders for this purpose;
- the extent to which we receive cash dividends, advances and other payments from our subsidiaries. We are a holding company with no significant operating assets other than the ones we own through our subsidiaries. Given the fact that we receive substantially all of our operating income from our subsidiaries, our ability to meet our financial obligations, including the payment of dividends, depends significantly on the dividend payments we receive from our subsidiaries; and
- the extent to which we have cash available for distribution after funding our working capital needs, capital expenditures and investments.

To the extent that we declare and pay dividends on our Ordinary Shares, these dividends are payable to the holders of our American Depositary Shares, or ADSs. Owners of our ADSs are entitled to receive any dividends payable on the Ordinary Shares underlying their ADSs. We pay all cash dividends in Pesos, to the depositary of our ADSs, The Bank of New York. Except as otherwise provided in the Amended and Restated Deposit Agreement pursuant to which our ADSs are issued, cash dividends received by the depositary are converted by the depositary from Pesos into U.S. Dollars and, after the deduction or upon payment of the depositary's expenses, are paid to the holders of ADSs in U.S. Dollars. No withholding tax applies to dividends on our ADSs paid to individuals and non-residents of Mexico. See "Item 10. Additional Information—Mexican Tax Considerations—Dividends".

(c) Exchange Rate Information

The following table sets forth, for the periods indicated, the high, low, average and period-end free market exchange rates, as reported by the Board of Governors of the U.S. Federal Reserve Bank of New York for the purchase of U.S. Dollars, expressed in nominal Pesos per \$1.00 U.S. Dollar. The noon buying rate for Pesos on June 15, 2010, was Ps. 12.58 per U.S. Dollar.

Year ended December 31,	Exchange Rate(1)			
	High	Low	Average(2)	Period End
2005	Ps. 11.41	Ps. 10.41	Ps. 10.89	Ps. 10.63
2006	11.49	10.44	10.91	10.81
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.14	13.83
2009	15.41	12.63	13.50	13.06
2010				
Month ended				
December 31, 2009	Ps. 13.08	Ps. 12.63	Ps. 12.86	Ps. 13.06
January 30, 2010	13.03	12.65	12.81	13.03
February 28, 2010	13.19	12.76	12.94	12.76
March 31, 2010	12.74	12.30	12.57	12.30
April 30, 2010	12.41	12.16	12.24	12.23
May 31, 2010	13.14	12.27	12.73	12.86
June 15, 2010	12.92	12.58	12.78	12.58

(1) The free market exchange rate is the Noon Buying Rate for Mexican Pesos, as reported by the Board of Governors of the U.S. Federal Reserve Bank of New York.

(2) Annual average rates reflect the average of month-end rates. Monthly average rates reflect the average of daily rates.

According to the U.S. Federal Reserve Board, during 2009, the Brazilian real reached a high of \$2.4420 Brazilian Reals per U.S.\$1.00 on March 3, 2009, and a low of \$1.6995 Brazilian Reals per U.S. \$1.00 on November 9, 2009. On December 31, 2009, the exchange rate was Ps. 7.48 per \$1.00 Brazilian Real, as published by Mexico’s Central Bank, *Banco de Mexico*.

(d) Risk Factors

For purposes of this section, when we state that a risk, uncertainty or problem may, could or would have an “adverse effect” on us, we mean that the risk, uncertainty or problem may, could or would have an adverse effect on our business, financial condition, liquidity, results of operations or prospects, except where otherwise indicated or as the context may otherwise require.

The risks described below are intended to highlight risks that are specific to us, but are not the only risks that we face. Additional risks and uncertainties, including those generally affecting the industries in which we operate and the countries where we have a presence, risks that we currently deem immaterial or other unforeseeable risks, may also impair our business.

The information in this annual report includes forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors, including, without limitation, those described in this section, under the sections entitled “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects” or elsewhere in this annual report. Please see “Forward-Looking Statements”.

Risk Factors Related to the Company

We Participate in Competitive Markets and Increased Competition May Adversely Affect Our Business. We face competition in the distribution of pharmaceuticals, health, beauty aids and consumer goods, publications, general merchandise and other products. In our Pharmaceutical Products business division, we face competition primarily from Mexico's only other national distributor, Nacional de Drogas, S.A. de C.V., or Nadro, and several regional distributors. In our Health, Beauty Aids and Consumer Goods, Publications and General Merchandise and Other Products business divisions, we compete with many manufacturers, wholesalers and distributors that target the same markets that we do.

The retail pharmacy markets in Mexico and Brazil are very fragmented. In Mexico, we face competition from other large pharmacy chains, such as Farmacias Guadalajara, Farmacias Benavides and Farmacias del Ahorro and supercenter chains, such as Wal-Mart. In Brazil, we face competition from other pharmacy chains such as Drogaria São Paulo, Pague Menos and Drogasil, in the states of Rio de Janeiro and São Paulo. In addition, we face competition from supermarkets, mass merchandisers, discount stores, independently owned pharmacies, e-commerce and other smaller participants.

Our ability to achieve profitability in our retail and distribution businesses depends on our ability to achieve a critical mass of loyal, repeat customers. Loss of existing or future market share to competitors may adversely affect our performance and, to the extent that one or more of our competitors becomes more successful than us with respect to any key competitive factors, our operating margins and profitability could be adversely affected.

Our Results of Operations May Suffer Upon the Bankruptcy, Insolvency or Other Credit Failure of Our Suppliers. Our relationships with pharmaceutical suppliers and manufacturers give rise to substantial amounts that are due to us from time to time, including amounts owed to us for returned or defective goods and for services provided. The continued volatility of the capital and credit markets may adversely affect the solvency or creditworthiness of our suppliers. Although in 2009 we did not have a significant concentration of a specific supplier relating to the purchase of inventory, the bankruptcy, insolvency or other credit failure of any supplier or group of suppliers at a time when such suppliers have a substantial account payable balance due to us could have a material adverse effect on our results of operations.

Our Total Revenue and Results of Operations May Suffer Upon the Bankruptcy, Insolvency or Other Credit Failure of Our Customers. Most of our customers in our distribution business buy pharmaceuticals and other products and services from us on credit that is short-term in nature and generally unsecured. Credit is extended based on evaluation of a customer's financial condition. The continued volatility of the capital and credit markets may adversely affect the solvency or creditworthiness of our customers. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which would reduce our revenue growth and cause a decrease in our profitability and cash flow. Although no single customer accounted for a significant amount of our total sales in 2009, the bankruptcy, insolvency or other credit failure of any customer or group of customers that in the aggregate have a substantial amount owed to us could have a material adverse effect on our operating revenue and results of operations.

Our Distribution Business is Dependent Upon Sophisticated Information Systems. The Implementation Delay, Malfunction or Failure of These Systems for Any Extended Period of Time Could Adversely Affect Our Business. We rely on sophisticated information systems in our distribution business to obtain, rapidly process, analyze and manage data to (i) facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers, (ii) receive, process and ship orders on a timely basis, (iii) manage the accurate billing and collections for thousands of customers and (iv) process payments to suppliers. If any such systems is interrupted, damaged by unforeseen events or fails for any extended period of time, we could suffer an adverse impact on our results of operations.

We Provide Remote Hosting Services That Involve Operating Both Our Software and the Software of Third-Party Vendors for Our Customers. The ability to access the systems and the data, including inventory, purchasing management, price updates and advisory services that we provide to our customers, including data provided through our proprietary point-of sale system, www.farmaservicios.pdv, is critical to them. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation (i) power loss and telecommunications failures, (ii) fire, flood, hurricane and other natural disasters, (iii) software and hardware errors, failures or crashes and (iv) computer viruses, hacking and similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans and test systems but our precautions may not protect against all problems. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

Our results of operation may be negatively affected if we are unable to operate our retail pharmacy business efficiently. A portion of our future operations and cash flow will depend upon our ability to operate our retail pharmacy business efficiently, achieve the strategic operating objectives for our business and realize significant cost savings and synergies. Our management team may encounter unforeseen difficulties in managing the integration of the retail pharmacy business. The retail pharmacy business entails different risks, strategies and models to which our management must adapt. Although we are diversifying our risk from the distribution of pharmaceutical products, any substantial diversion of management's attention or any difficulties in operating the retail pharmacy business together with the distribution business could affect our sales and ability to achieve operational, financial and strategic objectives.

Our Retail Pharmacy Business is Subject to Additional Risks That May Impede Our Desired Growth Plans to Materialize. Our ability to grow our retail pharmacy business may be constrained if suitable new store locations cannot be identified with lease terms or purchase prices that are acceptable to us. We compete with other retailers and businesses for suitable locations for our stores. Local land use and other regulations applicable to the types of stores we may seek to lease or construct could impact our ability to find suitable locations and influence the cost of leasing, constructing and refurbishing our pharmacies. The expiration of leases at existing store locations may adversely affect us if the renewal terms of those leases are unacceptable to us and we are forced to close or relocate stores. Further, changing local demographics at existing store locations may adversely affect revenue and profitability levels at those stores.

Our retail pharmacy sales and profit margins are affected by the introduction of new brand name and generic drugs. New brand name drugs can result in increased drug utilization and associated sales revenues, while the introduction of lower priced generic alternatives typically result in higher gross profit margins. Accordingly, a decrease in the number of significant new drugs or generics successfully introduced could adversely affect our results of operations.

If we fail to offer products and services that are not attractive to our customers, the sales of our retail pharmacy business may be affected. The success of our retail operations depends on our ability to offer a superior shopping experience, quality assortment of available merchandise and excellent customer service. We must identify, obtain supplies of, and offer to our customers, attractive, innovative and high quality products on a continuous basis. Our products and services must satisfy the desires of our customers, whose preferences may change in the future. If we misjudge either the demand for products and services we sell or our customers' purchasing habits and tastes, we may be faced with excess inventories of some products and missed opportunities for products and services we chose not to offer. In addition, our sales may decline or we may be required to sell the merchandise we have obtained at lower prices. This would have a negative effect on our business and results of operations.

There are Differences in Corporate Disclosure and Accounting Standards for Mexican Companies and this May Cause Our Financial Statements to Differ in Certain Respects from U.S. Issuers. One of the primary objectives of the United States, Mexico and other countries' securities laws is to promote full and fair disclosure of all material corporate information. However, there may be less publicly available information about foreign private issuers of securities listed in the United States than is regularly published by or about domestic issuers of listed securities. Corporate governance standards applicable to companies listed in Mexico and the United States differ. See "Item 16G. Corporate Governance". In addition, we prepare our financial statements in accordance with Mexican FRS, which differs from U.S. GAAP and accounting procedures in certain significant respects. Thus, Mexican financial statements and reported earnings may differ from those of companies in other countries. Notes 18 and 19 to our audited annual financial statements describe the principal differences between Mexican FRS and U.S. GAAP as they relate to us and provide reconciliation to U.S. GAAP of net income and total stockholders' equity.

We Are Controlled by One Controlling Shareholder. Eighty-five percent of our outstanding Ordinary Shares are directly owned by our controlling shareholder. See “Item 7. Major Shareholders and Related Party Transactions—Principal Shareholders”. Our controlling shareholder controls our business and has the power to elect the majority of our Board of Directors, as well as to determine the outcome of all actions that require shareholder approval, including the determination to declare and pay dividends, in cash or otherwise.

We Rely on Certain Key Managers and Other Personnel, and Our Business Could Be Adversely Affected If We Are Not Able to Retain These Key Personnel or Find Suitable Replacements. Our growth and success depend on our ability to retain skilled, qualified and experienced managerial and technical personnel. Any loss or interruption of the services of key senior personnel, or the inability to timely recruit sufficient qualified personnel, could adversely affect our business, results of operations and financial condition.

We Are a Holding Company; Therefore, Our Ability to Pay Dividends, Repay Our Indebtedness and Finance Our Operations Is Dependent on Cash Flow Generated by Our Subsidiaries and Their Ability to Make Distributions to Us. We are a holding company with no significant operations or material assets other than the capital stock of our subsidiaries. As a result, our ability to pay dividends is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividends, debt repayments or otherwise. Our subsidiaries may not be able to, or be permitted to, make distributions to enable us to pay dividends or make payments in respect of our indebtedness. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions, as well as their financial condition and operating requirements, may limit our ability to obtain cash from our subsidiaries. In addition, our right to receive assets from our subsidiaries or shareholders of our subsidiaries, in the case of a liquidation or corporate reorganization, is subordinated to the rights of the creditors of such subsidiaries, including suppliers.

Failure to Achieve and Maintain Effective Internal Controls in Accordance with Section 404 of the Sarbanes-Oxley Act of 2002, and Delays in Adequately Completing Our Internal Controls and Financial Statements Audits, Could Have a Material Adverse Effect on Our Business and Our Stock Price. As discussed in Item 15 of this annual report, “Controls and Procedures”, our management team conducted an evaluation of the effectiveness of the design and operation of our internal controls and concluded that, as a result of the Drogasmil acquisition, a material weakness existed in our internal controls over financial reporting for the fiscal year ended December 31, 2009. A “material weakness” is defined under auditing standards as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis by the company’s internal controls.

We are attempting to resolve this material weakness, but we have not yet completed remediation and there can be no assurance that such remediation will be successful. During the course of our continued testing, we may also find other significant deficiencies or material weaknesses, in addition to the ones already identified, which we may not be able to remediate in a timely manner or at all. If we continue to fail to achieve and maintain effective internal controls, we will not be able to conclude that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Failure to achieve and maintain an effective internal control environment, and delays in completing our internal controls and financial statement audits may adversely impact our ability to report our financial condition and results of operations in the future accurately and in a timely manner, and cause our investors to lose confidence in our reported financial information and in us, which could result in a decline in the market price of our Ordinary Shares and our ADSs.

In addition, as discussed in Note 1(c) to our consolidated financial statements, in connection with the acquisition of CSB Drogarias, S.A. (f/k/a Drogasmil Medicamentos e Perfumaria, S.A., or Drogasmil), we were unable to prepare a purchase price allocation at the acquisition date because of inadequate accounting records of Drogasmil at that date. Consequently, at the acquisition date, we recorded a preliminary purchase price allocation based on the estimated net assets identified from the business acquired. For that reason, Salles Sainz-Grant Thornton, S.C., our independent auditors, were not able to audit the underlying assets and liabilities or assess the potential impairment of assets as of and for the year ended December 31, 2008, neither the operations of this subsidiary from May 15 to December 31, 2008. In connection with the foregoing, at the date of the audit report from our independent auditors included in this annual report we completed clearing and adjusting the accounting records of Drogasmil as of December 31, 2008, and were able to allocate the purchase price of the acquisition, except with respect to the value of inventories, whose estimated value at that date amounted to Ps. 246 million, as well as certain unquantifiable contingencies as disclosed in Note 15(i) to our consolidated financial statements. At December 31, 2009, Drogasmil still lacked adequate accounting records to enable our auditors to audit the balance of inventories as well as certain unquantifiable contingencies referred in Note 15(i) to our audited consolidated financial statements. As a consequence the audit report of Salles Sainz-Grant Thornton, S.C. on our consolidated financial statements, included in page F-3 of this annual report, was qualified. Because the audit report was qualified, the staff of the Securities and Exchange Commission will likely take the position that this annual report has not been filed in accordance with applicable U.S. securities laws, which in turn could lead to the suspension of trading of our ADSs on, or our delisting from, the New York Stock Exchange. However, we are taking all actions we deem necessary to remedy the deficiencies and while we do not expect our ADSs to be suspended from trading on, or to be delisted from, the New York Stock Exchange, we cannot assure you that such events or other adverse events as a consequence of the qualified audit report will not occur.

Risk Factors Related to the Acquisition of FASA

Risks associated with our planned expansion into new geographical markets could adversely affect our profitability. Our future growth and profitability depends in part on our ability to penetrate new geographical markets. We have entered into an agreement to acquire control of Farmacias Ahumada, S.A., or FASA, which currently owns over 1,240 pharmacies in Chile, Mexico and Peru. See “Item 4. Information on the Company—History and Development of the Company” and “Item 10. Additional Information—Material Contracts”. If we succeed in our attempt to acquire FASA, or if we otherwise expand our operations into new geographical markets, we may become subject to new regulatory requirements and enforcement practices that place additional burdens on our operations or encounter other difficulties with the legal or regulatory systems in such jurisdictions. Failure to comply with such regulations may result in the imposition of fines and penalties. Moreover, we may not be able to adapt our product offerings to consumer habits and trends in such new markets. In addition, we may become subject to exchange control regulations that restrict or prohibit the conversion of other currencies into Pesos or limit our ability to freely move currency in or out of particular jurisdictions. The occurrence of any of these factors could have a material adverse impact on our financial results.

Our Business Could Be Hindered if We are Unable to Complete and Integrate Acquisitions Successfully. Part of our growth strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. We have grown our retail pharmacy business through acquisitions in recent years and expect to acquire drugstore chains and independent drugstores in the future. In May 2010 we entered into an agreement to acquire control of FASA (the “Acquisition”). See “Item 4. Information on the Company—History and Development of the Company” and “Item 10. Additional Information—Material Contracts”. Once the Acquisition is completed, we will have to implement an integration plan for FASA’s and its subsidiaries operations. Integration of acquisitions involves a number of risks including the diversion of management’s attention to the assimilation of the operations of businesses we acquire, difficulties in the integration of operations and systems, the realization of potential operating synergies, the assimilation and retention of the personnel of the acquired companies, challenges in retaining the customers of the combined businesses and potential adverse effects on operating results. If we are unable to successfully complete the Acquisition and integrate FASA’s and its subsidiaries’ operations in a timely manner, our business, operations and financial condition could be negatively affected.

If the Acquisition is completed, the integration of FASA’s administration and its operations with that of the Company depend, in large part, on the participation of key FASA personnel. Because these individuals have an in-depth understanding of the management and the operation of FASA’s business and that they have significant experience in the industry, we believe that the projected results of the Acquisition will largely depend on the efforts of these individuals. Consequently, the loss of such key personnel could have an adverse effect on our results of operations.

In addition, the consummation of the Acquisition depends on certain approvals from regulative authorities, including Mexico’s Antitrust Commission, Comision Federal de Competencia. Any delay in obtaining the required approvals could generate higher expenses and increase the amount of time required to implement the Acquisition. This could significantly reduce the projected results of the Acquisition.

Our operating expenses and capital expenditure needs may be increased as a result of the Acquisition. Once the Acquisition is completed, the Company will have to continue investing in technological, human and administrative resources to continue to grow. The development of the Company’s and FASA’s business, the display and the expansion of the respective operating networks, services and client base require important capital investments. These investments, together with the related operating expenses, may have a significant impact on our cash flows and earnings.

Loss of key suppliers may have an adverse impact in our results of operations. FASA and its subsidiaries are dependant in large part on certain key suppliers to carry out its operations. If any such suppliers fails to honor their existing agreements and stop providing their services, FASA’s operations and those of its subsidiaries could be substantially reduced. This would have an adverse effect on the projected results of the Acquisition.

We may be subject to significant penalties if the Acquisition is not completed. The FASA Agreement contains provisions pursuant to which we will be required to pay a penalty to the selling entities under such agreement if we do not complete the Acquisition within the first three weeks of September 2010 under certain circumstances. See “Item 10. Additional Information—Material Contracts”. Pursuant to the FASA Agreement, we could face penalties of approximately \$50 million. If we incur any such penalties, our business could be significantly adversely affected.

We may not be able to pay dividends in the immediate future as a result of the Acquisition. Pursuant to Mexican law, decisions regarding the payment and amount of dividends are subject to approval of our shareholders. Depending on the results and condition of our business, dividends for a specific year would be paid to the extent that such payment would not impair our ability to invest and grow. Therefore, any dividend payment would depend on the cash that the Company generates in a specific year as well as on the market conditions of our business. Since, as a result of the Acquisition, we may incur higher expenses, there is a possibility that we may not pay out dividends in the immediate future.

In connection with the Acquisition, the Company will incur a significant amount of debt, which may result in an adverse effect on the price of our shares and increase our interest costs. For purposes of completing the Acquisition, we will incur significant amounts of financing, which may have an adverse effect on the price of our outstanding shares. Such financing could, likewise, have important consequences to the Company, including an increase in the costs for interests. The agreement that will document the financing will contain covenants that, among others, will restrict the Company’s ability to incur additional debt, carry out capital expenditures and maintain financial ratios. Consequently, our ability to pay dividends, finance acquisitions, carry out investments and maintain flexibility in the performance of our business, may be significantly limited. This could have a significant adverse effect on our financial condition.

As a result of entering into the FASA Agreement and the financing to be obtained in connection therewith, we could face an exchange rate risk against the Chilean Peso, due to the fact that the financing to be obtained to complete the Acquisition will be denominated in Pesos and U.S. Dollars and the payment of the Acquisition’s purchase price will be made in Chilean Pesos.

Risk Factors Related to our Securities

Our Controlling Shareholder Has the Ability to Restrict the Payment and Amount of Dividends. Under Mexico’s *Ley General de Sociedades Mercantiles*, or General Corporations Law, decisions regarding the payment and amount of dividends are subject to the approval of our shareholders, generally, but not necessarily, based on the Board of Directors’ recommendation. Our controlling shareholder owns 85% of our outstanding Ordinary Shares and, so long as it continues to own a majority of our outstanding shares, it will have the ability to determine whether or not we will declare and pay dividends, in cash or otherwise. See “Item 3. Key Information—Dividends” and “Item 7. Major Shareholders and Related Party Transactions—Principal Shareholders”.

Preemptive Rights May Be Unavailable to Holders of Our ADSs. Under Mexican law, our shareholders are afforded preemptive rights. In the event that we issue new Ordinary Shares for cash, our shareholders will have the right to purchase the number of Ordinary Shares necessary to maintain their existing share participation. U.S. holders of our ADSs cannot exercise their preemptive rights unless we register newly issued Ordinary Shares under the Securities Act of 1933 or qualify for an exemption from registration. If U.S. holders of our ADSs cannot exercise their preemptive rights, the interests of these holders would be diluted in the event that we issue new Ordinary Shares for cash. We intend to evaluate, at the time of any offering of preemptive rights, the costs and potential liabilities associated with registering any additional Ordinary Shares under the Securities Act of 1933. We cannot assure you that we will register any new Ordinary Shares that we issue for cash. In addition, although the deposit agreement provides that the Depositary may, after consulting with us, sell preemptive rights in Mexico or elsewhere outside the United States and distribute the proceeds to holders of ADSs, such sales are not allowed under current Mexican law.

The Protections Afforded to Minority Shareholders in Mexico are Different From Those in the United States. Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the law concerning fiduciary duties of directors is not appropriately developed, there is no procedure for class actions or shareholder derivative action, and there are different procedural requirements for bringing shareholder lawsuits. As a result, in practice, it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company. In accordance with the *Ley del Mercado de Valores*, or the Mexican Securities Market Law, as amended, we amended our bylaws to increase the protections afforded to our minority shareholders in an effort to try to ensure that our corporate governance procedures are substantially similar to international standards. See “Item 10. Additional Information—Amendments to the Mexican Securities Market Law—Bylaws”.

You may be unable to enforce judgments against us. We are a corporation with variable capital (*sociedad anónima bursátil de capital variable*) organized under the laws of Mexico. A majority of our assets and operations are located, and a majority of our revenues are derived from sources, outside of the United States. All of our directors and officers reside outside of the United States and all, or a significant portion of, the assets of these persons and of our Company are located outside of the United States. As a result, it may not be possible for shareholders to effect service of process within the United States upon such persons or upon us, or to enforce against them or against us judgments by U.S. courts predicated upon the civil liability provisions of the U.S. federal securities laws or otherwise. As of this date, there is no effective treaty between the United States and Mexico for the reciprocal enforcement of judgments issued in the other country. Generally, Mexican courts would enforce final judgments rendered in the United States if certain requirements are met, including the review in Mexico of the U.S. judgment to ascertain compliance with certain basic principles of due process and the non-violation of Mexican law or public policy, provided that U.S. courts would grant reciprocal treatment to Mexican judgments. Additionally, we have been advised by our Mexican counsel that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated in whole or in part on U.S. federal securities laws as well as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws.

Risk Factors Relating to Economic and Political Developments

Economic and Political Developments in Mexico May Adversely Affect Our Business. We are a Mexican company and the vast majority of our business operations take place in Mexico. Approximately 94.9% of our consolidated net sales for the year ended December 31, 2009 derived from sales made in Mexico. Consequently, our business, financial condition and results of operations are affected by economic, political or social developments in Mexico, including, among others, any political or social instability, changes in the rate of economic growth or contraction, changes in the exchange rate between the Peso and the U.S. Dollar, an increase in Mexican inflation or interest rates, changes in Mexican taxation and any amendments to existing Mexican laws and regulations. Accordingly, Mexican governmental actions and policies concerning the economy in general and healthcare policy in particular could have a significant impact on us, as well as more generally on market conditions, prices and returns on Mexican equity securities. We cannot assure you that changes in governmental policies in Mexico will not adversely affect our business, results of operations, financial condition and prospects.

Social and political instability in Mexico or other adverse social or political developments in or affecting the countries in which we have operations could adversely affect us and our ability to obtain financing. We cannot provide any assurance that the current political situation or any future developments in Mexico will not have a material adverse effect on our financial condition or results of operations.

Our business may be especially affected by economic conditions in Mexico. Mexico has experienced both prolonged periods of weak economic conditions and deterioration in economic conditions that have had a negative impact on our company. According to preliminary data, during 2009, Mexico’s gross domestic product, or GDP, fell by 6.5% in real terms. Mexico has also experienced high levels of inflation and high domestic interest rates in the past, which significantly lowered the purchasing power of consumers and businesses. The annual rate of inflation, as measured by changes in the NCPI, as published by the *Banco de México*, was 3.6% for 2009 and the average interest rate on 28-day Mexican government treasury securities, or “CETES”, averaged 5.4% for 2009. In addition, the Mexican government’s efforts to control inflation by tightening the monetary supply have historically resulted in higher financing costs, as real interest rates have increased. High inflation rates may also lead to Peso devaluations. Inflation itself, as well as governmental efforts to reduce inflation, has had significant negative effects on the Mexican economy in general and on Mexican companies, including ours. Such policies have had and could in the future have an adverse effect on us. Future economic slowdowns or developments in or affecting Mexico could impair our business, results of operations, financial condition, prospects and ability to obtain financing.

In addition, international events affecting Mexico may also have an adverse impact in our business. For example, public health crises such as the outbreak of Influenza AH1N1 virus in May 2009 had negative consequences on the Mexican economy.

The continuation or further worsening of deteriorated financial and economic conditions could have a significant adverse effect on our sales, profitability and results of operation.

Devaluation of the Peso Against the U.S. Dollar Could Adversely Affect Our Financial Condition and Results of Operations. We are affected by fluctuations in the value of the Peso against the U.S. Dollar. In 2004, high oil prices, higher remittance levels and a recovery in the U.S. economy led to a slight appreciation of the Peso against the U.S. dollar of 0.8%. During 2005, this trend continued in that the peso appreciated 4.7% against the U.S. Dollar. In 2006, however, the peso depreciated 1.6% with respect to the US Dollar due to higher inflation levels in Mexico. The combination of more moderate GDP growth and a slightly lower level of inflation, led to a 1.0% depreciation of the peso against the US Dollar in 2007. As a result of the global economic crisis that began in 2008 and has led to a significant increase in inflation as well as slowdown in GDP growth, the peso depreciated by 26.7% versus the US Dollar in 2008. In 2009, the peso appreciated 5.6% against the U.S. Dollar as a result of lower inflation levels.

Any future depreciation or devaluation of the Peso will likely result in price increases from our suppliers that would impact the purchasing capacity of the final consumers. This, in turn, would lead to a reduction in our sales. A severe devaluation or depreciation of the Peso may also disrupt international foreign exchange markets and, as such, may limit our ability to transfer or to convert Pesos into U.S. Dollars and other currencies for the purpose of obtaining imported goods. A devaluation or depreciation of the Peso against the U.S. Dollar may also adversely affect the U.S. Dollar prices of our securities on the Mexican Stock Exchange, including the Ordinary Shares and, as a result, will likely affect the market price of the ADSs. Such fluctuations would also impact the conversion value of any cash dividends paid on the Ordinary Shares in Pesos, into U.S. Dollars in order to pay such dividend to the holders of our ADSs.

High Levels of Inflation and High Interest Rates in Mexico Could Adversely Affect Our Financial Condition and Results of Operations. In recent years, Mexico has experienced high levels of inflation. The annual rate of inflation, as measured by changes in the NCPI, was 3.3% for 2005, 4.1% for 2006, 3.8% for 2007, 6.5% for 2008 and 3.6% in 2009. High inflation rates can adversely affect our business and our results of operations in the following ways:

- inflation can adversely affect consumer purchasing power, thereby adversely affecting consumer demand for the products we sell and/or distribute; and
- to the extent that inflation exceeds price increases, our prices and revenues will be adversely affected in “real” terms.

Mexico also has, and could continue to have, high nominal interest rates. The interest rates on 28-day CETES averaged approximately 7.2%, 7.2% and 7.7% for 2006, 2007, 2008 and 5.4% in 2009, respectively, and 4.52% by May 2010. Accordingly, we may be subject to high interest rates in the event we incur Peso-denominated debt in the future.

If Foreign Currency Exchange Controls and Restrictions are Imposed, Investors Would be Exposed to Foreign Currency Exchange Rate Risk. In the past, the Mexican economy has experienced balance of payments deficits, shortages in foreign currency reserves and other issues that have affected the availability of foreign currencies in Mexico. The Mexican government does not currently restrict or regulate the ability of persons or entities to convert Pesos into U.S. Dollars. However, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not institute a restrictive foreign currency exchange control policy in the future. Any such restrictive foreign currency exchange control policy could (i) affect the ability of the depositary of our ADSs to convert dividends, which are payable in Pesos, into U.S. Dollars for purposes of making distributions to the holders of our ADSs, (ii) prevent or restrict access to U.S. Dollars, (iii) should we incur any U.S. Dollar-denominated debt in the future, affect our ability to service such debt and (iv) have an adverse effect on our business and financial condition.

Risks Related to Our Operations in Brazil May Adversely Affect Our Business. As a result of our acquisition of Drogasmil in May 2008, we are exposed to a variety of risks and uncertainties related to our operations in Brazil including political, economic or social upheaval, devaluations in the Real, high levels of inflation and interest rates, the introduction of import, investment or currency restrictions, including pricing regulation on pharmaceutical products, restrictions on the repatriation of earnings and capital, as well as tariffs and import quotas that may indirectly increase the cost of the products that we sell. These disruptions can affect our ability to sell products and to repatriate funds, as well as affecting the levels of consumer demand, and therefore our levels of sales and profitability.

The Brazilian monetary unit, the Real, has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. Dollar and other currencies. For example, the Real depreciated against the U.S. Dollar, on average, by 22.3% in 2001, 19.6% in 2002 and 4.8% in 2003. In 2004, 2005, 2006 and 2007 the Real appreciated 8.8%, 13.4%, 9.5% and 16.3%, respectively, against the U.S. Dollar. In 2008 the Real depreciated 31.9% against the U.S. Dollar. In 2009 the Real appreciated 24.7% against the U.S. Dollar. In general, devaluations decrease consumers' purchasing power which could have a negative effect on our business should a devaluation occur.

Our business could be affected by high rates of inflation and interest rates in Brazil, which historically has experienced such high rates. According to the Brazilian Central Bank's *Índice Nacional de Preços Ao Consumidor Amplo* (National Consumer Price Index), or "IPCA," the inflation rates in Brazil were 5.7% in 2005, 3.1% in 2006, 4.5% in 2007, 5.9% in 2008 and 4.3% in 2009. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income.

In addition, high inflation generally leads to higher domestic interest rates and, as a result, the costs of servicing our Real-denominated debt may increase, resulting in lower net income. The *Sistema Especial de Liquidação e Custódia* rate (SELIC) is the Brazilian Central Bank's overnight lending rate. In 2004 and 2005, the Brazilian interest rate was higher than 16% (17.8% in 2004 and 18.0% in 2005). In 2006, interest rates decreased to 13.3% and in 2007, the SELIC decreased further, to 11.3% and increased to 13.8% in 2008. During 2009, the SELIC averaged 10.0%, its lowest level during this decade. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets.

Brazil has also implemented exchange controls in the past, as well as restrictions on repatriation of capital. We cannot guarantee that such types of policies will not be adopted by Brazil in the future, which would have an adverse effect on our dividend flow to Grupo Casa Saba, which depends on dividends from its subsidiaries as a source of income.

Developments in Other Emerging Market Countries May Adversely Affect our Business or the Market Price of our Securities. The market price of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in such countries may have an adverse effect on the market price of securities of Mexican companies, including ours. In late October of 1997, prices of Mexican securities dropped substantially, precipitated by a sharp drop in the price of securities traded in the Asian markets. Likewise, prices of Mexican securities were adversely affected by the economic crises in Russia and Brazil in the second half of 1998 and, to a lesser extent, the economic crisis in Argentina in 2002. During 2005, the Mexican Stock Exchange Index increased by 37.8%, as did the average index for emerging markets, including Latin America, Asia and Emerging Europe. The considerable growth of the Mexican exchange was supported by high economic growth worldwide and low interest rates. In 2006, the index of the Mexican Stock Exchange increased by 48.6%, following the positive performance of both emerging and developed markets worldwide. High levels of liquidity as well as positive outlooks for emerging markets, including Mexico, contributed to the increase of the index of the Mexican Stock Exchange. During 2007, the index of the Mexican Stock Exchange increased by 11.7%, somewhat lower than the last four years, but still positive as a result of strong economic growth of emerging economies such as China and Brazil, as well as solid internal economic activity. During 2008, the index of the Mexican Stock Exchange declined by 24.2%, mainly due to the volatility brought on by the financial crisis that began during the second half of 2008 in the United States and which has had a negative effect on both developed and developing countries worldwide. By the end of 2009, the Mexican Stock Exchange Index recovered, posting a gain of 43.5% and by March 31, 2010, the market's main index rose an additional 3.6%, aided by the positive economic performance of emerging market countries such as China, Brazil and India. There can be no assurance that the market price of our securities will not be adversely affected by future events elsewhere in the world, particularly in other emerging market countries.

Risk Factors Relating to Regulations to which our Business is Subject

Mexican Antitrust Law and Regulations May Affect Our Ability to do Business. Mexico's Federal Antitrust Law, or *Ley Federal de Competencia Económica*, and its Regulations, or *Reglamento de la Ley Federal de Competencia Económica*, may affect some of our activities. In particular, such laws and regulations may adversely affect our ability to acquire and sell businesses or to enter into joint ventures with competitors due to our market share in some of the industries in which we operate and the reduced number of participants in those markets.

Changes in Mexican Legislation May Negatively Affect Our Operations and Revenue. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change, and new laws or regulations could be adopted. The implementation of such amendments or changes in interpretation or enforcement of existing Mexican laws and regulations or any other future laws or regulations could materially and adversely affect our operations and revenue.

In September 2007, the Mexican Congress approved a new federal tax applicable to all Mexican corporations (which will be applicable to us), known as the single rate business tax (*Impuesto Empresarial a Tasa Única*), or IETU, which is a form of an alternative minimum tax and replaces the asset tax that previously applied to corporations and other taxpayers in Mexico. The IETU tax rate for 2009 was 17.0% and is 17.5% for calendar year 2010 and thereafter. A Mexican corporation is required to pay the IETU if, as a result of the calculation of the IETU, the amount payable under the IETU exceeds the income tax payable by the corporation under the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*). In general terms, the IETU is determined by applying the rates specified above to the amount resulting from deducting from a company's taxable income, among other items, goods acquired (consisting of raw materials and capital investments), services provided by independent contractors and lease payments required for the performance of the activities taxable under the IETU. Salaries, royalty payments made to related parties and interest payments arising from financing transactions are not deductible for purposes of determining the IETU. However, salaries subject to income tax and social security contributions paid to employees are creditable for purposes of determining the IETU. The legislation became effective in January 2008. Although we cannot currently predict the impact of this legislation or quantify its effect on our tax liability for future years, this change in the tax regime could materially increase our tax liabilities and cash tax payments, including by limiting our ability to make use of tax loss carry forwards, which could adversely affect our results of operations and financial condition.

In December 2009, an amendment to the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*) containing new rules for the tax consolidation regime, was published in the Official Gazette. The deferred income tax benefit derived from tax consolidation of a parent company and its subsidiaries is limited to a period of five years; therefore, the resulting deferred income tax has to be paid starting in the sixth year following the fiscal year in which the deferred income tax benefit was received. Payment of deferred income tax must be made in installments: 25% in the first and second year, 20% in the third year, and 15% in the fourth and fifth year. This new provisions apply to deferred income tax resulting from tax consolidation prior to and from 2010, therefore in 2010 taxpayers will have to pay the first installment of the cumulative amount of the deferred tax benefits determined as of December 31, 2004. The application of such provisions could increase our tax liabilities and have an adverse effect on our financial condition.

Our Ability to Increase the Prices of Some Products is Regulated by the Mexican Government. Our historical operating performance has been significantly affected by price controls imposed by the Mexican government in the pharmaceutical sector. Prices of pharmaceuticals continue to be subject to approval by the Mexican government. As a result, neither our suppliers nor we may be able to increase pharmaceutical prices at or above the rate of inflation, which would substantially limit the growth of our pharmaceutical-related revenues. Since 1990, the Mexican government has deregulated pharmaceutical prices to some extent, and prices have increased in the Mexican pharmaceutical market as a result of this deregulation. However, we cannot assure you that the Mexican government will continue to deregulate pharmaceutical prices, or if they do, that our ability to increase prices will continue, or that these increases will result in an improvement in our operating performance.

Any Value-Added Tax Imposed on Prescription Drugs May Adversely Affect Our Business, Financial Condition and Results of Operations. Unlike the HBCG, entertainment products, general merchandise and other products that we distribute, the prescription drugs and over-the-counter drugs that we distribute are not currently subject to a 15% value-added tax. In April 2001, a proposal was filed with the Mexican congress requesting a substantial amendment to Mexican tax laws. One of the reforms contemplated by this proposal was an increase in the value-added tax on prescription drugs and over-the-counter drugs from 0% to 15%. Although that bill was not passed by the Mexican congress, the current government may file similar proposals. If prescription drugs and over-the-counter drugs become subject to a value-added tax in excess of the currently applicable 0% rate, the prices paid by consumers for prescription drugs and over-the-counter drugs would likely increase by the percentage amount of the value-added tax rate. While any price increases resulting from the imposition of a higher value-added tax would be non-recurring, we still believe that these price increases would have an adverse effect on consumer demand for these products and result in a decrease in related revenues. To the extent that any of these price increases adversely impact revenues related to prescription and over-the-counter drugs, our business, financial condition and results of operations could be adversely affected. We cannot assure you that the proposal containing this request or other similar proposals will not be filed again with the Mexican congress and, if such proposal were enacted into law, will not adversely affect our business, financial condition or results of operations.

Changes to Retail Pharmacy Regulation in Mexico May Affect Our Business. Our retail pharmacy business operations are subject to health and safety laws and regulations, including those concerning the commercialization of controlled medicines, commercialization and storage of controlled substances used in pharmaceutical products and the sale and distribution of cigarettes, among others. The enactment of more stringent laws and regulations, or a change in the interpretation of such existing laws and regulations, could entail new obligations for us, restrictions or result in our having to invest additional amounts in health control matters, all of which could have a materially adverse effect on our results of operations and financial condition.

Changes in Brazilian Regulations Relating to the Sale of Pharmaceutical Products and Retail Pharmacy Operations May Adversely Affect Our Business. Pharmacies are required to obtain a number of permits and operating licenses from federal, state and local authorities in Brazil, including from the *Secretaria de Vigilância em Saúde*, Health Surveillance Secretariat of the Ministry of Health, or SVS, in order to engage in the handling, distribution, transport, repackaging, import and export of the substances determined by the SVS, as well as the medicines that contain such substances. Changes in the type of permits that are required or our failure to obtain such permits may adversely affect our results of operations in Brazil.

Our operating performance in Brazil may also be affected by the price controls on pharmaceutical products and certain non-pharmaceutical products imposed by the Brazilian government through the *Câmara de Regulação do Mercado de Medicamentos*, the Chamber for Regulation of Medicine Market, or CMED, with the oversight of the *Agência Nacional de Vigilância Sanitária*, the National Health Surveillance Agency, or ANVISA. As a result neither our suppliers nor we may be able to increase prices above the maximums established by the relevant Brazilian authorities. Price controls are governed through regulatory mechanisms that allow for controlled percentage increases in prices due to fluctuations in the exchange rate, inflation rate and raw material costs, among other factors. Adjustments to price controls take place on an annual basis, on March 31st of each year. The CMED established a maximum drug price adjustment of 4.6% for the year commencing on March 31, 2010. We cannot assure you that more stringent measures will be implemented by the Brazilian government in respect of price controls. Changes to the manner in which price controls are implemented in Brazil may materially affect our results of operations in Brazil.

In August 2009, ANVISA adopted new rules for the sale of products in pharmacies in an effort to curb self-medication. Resolution RDC 44/09 prohibits the sale of convenience products and other services not related to health and personal hygiene. In addition, pursuant to the new rules, pharmacies will be required to place several products, including common over-the-counter drugs like analgesics and antacids, behind the counter. The new rules came into effect on February 18, 2010. We believe such rules are not legal and that ANVISA went beyond its powers in issuing them. Based on the foregoing, Abrafarma, the Brazilian Association of Pharmacy and Drugstore Networks of which our subsidiary Drogarias is a member, has filed for an injunction for the benefit of its members against the application of the new rules. In January 2010, a federal court in the Federal District granted the injunction to Abrafarma and its members, including Drogarias, against the application of the above-mentioned rules. If such new rules were to be applied to Drogarias, its business, results of operation and financial condition may be significantly adversely affected.

Currently, Brazil's Federal Pharmaceutical Council, *Conselho Federal de Farmacia*, is considering a draft resolution that would require that over-the-counter medications, such as analgesics and antacids, may only be sold if prescribed from a pharmacist. If approved, we believe such regulation could have an adverse effect in the operations of our subsidiary Drogarias.

The sale of pharmaceutical products in Brazil is subject to a tax rate of 19% one of the highest in Latin America. Further increases in the taxes applicable to the sale of the products we sell may affect our results of operation and our margins in Brazil to the extent that we are not able to pass on such costs to the end-consumer, for example, as a result of price controls.

Item 4. Information on the Company

History and Development of the Company

Grupo Casa Saba, S.A.B. de C.V. is a *sociedad anónima bursátil de capital variable*, or stock corporation with variable capital, which was organized under the laws of Mexico November 16, 1982. Our deed of incorporation was registered with the Public Registry of Commerce in Mexico City on January 10, 1983 under Commercial Folio Number 55,635. Pursuant to the terms of our *estatutos sociales*, or bylaws, our corporate existence is indefinite. Our principal executive offices are located at Paseo de la Reforma, No. 215, Colonia Lomas de Chapultepec, C.P. 11000, D.F., Mexico. Our telephone number at that address is (52 55) 5284-6600. Grupo Casa Saba's authorized representative in the United States is Puglisi & Associates and is located at 850 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware 19714. Their telephone number is (302) 738-6680.

Grupo Casa Saba was founded as a pharmacy in 1892, and is currently one of the leading multi-channel, multi-product national wholesale distributors in Mexico, operating through one of Mexico's largest nationwide distribution networks of its type. We distribute pharmaceutical products, health, beauty aids and consumer goods, general merchandise, publications and other products. The majority of these products are distributed by us on a non-exclusive basis. With over 115 years of experience, we serve a significant number of Mexico's pharmacies, mass merchandisers, retail and convenience stores, supermarkets and other specialized channels.

In February 2000, Mr. Isaac Saba y Raffoul, also known as Isaac Saba Raffoul, acquired 225,606,456 of our Ordinary Shares. In 2008, he contributed them to Trust F-709, of which he was the sole beneficiary. Upon his death on July 27, 2008, Manuel Saba Ades and Alberto Saba Ades, sons of Isaac Saba Raffoul, are the sole beneficiaries, on an equal basis, of the Ordinary Shares held by Trust F-709. References in this annual report to "our controlling shareholder" are to Trust F-709, as the direct holder of 225,606,456 Ordinary Shares for the benefit of Manuel Saba Ades and Alberto Saba Ades.

By the end of 2007, we had no interest-bearing liabilities and our net debt by year-end was Ps. 684 million. As of December 31, 2008, our interest-bearing liabilities were Ps. 1,324.8 million and our net debt was Ps. 723 million, primarily as a result of the acquisition of Drogasmil, a Brazilian pharmacy chain. Our interest-bearing liabilities at the close of the 2009 fiscal year totaled Ps. 2,382.7 million and our net debt reached Ps. 1,719. On March 25, 2010, our subsidiary Casa Saba entered into a new credit agreement with Scotiabank Inverlat, S. A. to liquidate the bank loans payable by Drogarias (see Notes 9 and 16 to our audited consolidated financial statements). On March 26, 2010, Casa Saba drew down this credit in the amount of Ps. 520 million, which will be repaid monthly at the TIIE (*Tasa de Interes Interbancario de Equilibrio*) rate plus a margin over a term of five years, plus a grace period of six months. The Company and its subsidiary Drogueros are guarantors of such loan.

See “Item 5. Operating and Financial Review and Prospects—Indebtedness” and Note 9 to our consolidated financial statements.

During 2008, as part of our growth strategy, we expanded our retail pharmacy operations in Mexico and overseas. We experienced significant growth in the retail pharmacy chain that we operate through our subsidiary Farmacias ABC de Mexico, S.A. de C.V., or Farmacias ABC, which is based in Guadalajara, Jalisco. We acquired Farmacias ABC in November 2007 with 40 pharmacies and grew to over 150 pharmacies by the end of 2008 through a series of small acquisitions of retail pharmacy assets (primarily inventory and store locations) in the metropolitan area of Mexico City and in the states of Guanajuato, Michoacán, Jalisco and Coahuila. In May 2008 we expanded into the Brazilian retail pharmacy market. We acquired 100% of the shares of Drogasmil, a closely-held company, for a transaction price of approximately \$155 million Reals. We financed the acquisition by obtaining a long-term loan for an aggregate amount of up to Ps. 1,210 million from a Mexican financial institution, of which we had drawn Ps. 1,210 million as of December 31, 2009. Drogasmil currently operates pharmacies in the states of Río de Janeiro and São Paulo. In 2008, we incorporated Casa Saba Brasil Holdings Ltda., or Casa Saba Brasil, as a holding company for our operations in Brazil. References in this annual report to Casa Saba Brasil include any of its subsidiaries, including Drogasmil.

In April of 2008, we continued to open new lines of business through the acquisition of 50.1% of Controladora de Clínicas Ambulatorias y de Rehabilitación, S.A. de C.V., or Controladora de Clínicas Ambulatorias, a company that operates two full-service clinics under the name “Sport Clinic” specializing in orthopedics, trauma, sports medicine, nutrition, otorhinolaryngology and plastic surgery for short-stay patients. Each clinic is staffed with highly-trained, specialized personnel that conduct out-patient surgeries and provide rehabilitative therapy. Both clinics are located in Mexico City. With this acquisition, we are seeking to diversify and increase our participation in the healthcare sector. In 2008, we began construction of a new clinic in Tampico, Tamaulipas, which opened to the public in November 2009.

In addition, in 2009 we have continued our expansion in the healthcare sector and opened *Perfect Image* in Mexico City, a clinic specializing in plastic surgery as well as health and beauty treatments.

As part of our strategy to expand our retail pharmacy operations, in May 17, 2010 we entered into a Stock Purchase and Sale Promise Agreement, or the FASA Agreement, with a group of entities controlled by Mr. Jose Codner Chijner to acquire up to 100% of the capital stock of Farmacias Ahumada, S.A., or FASA, for a total price of approximately \$637 million, including the assumption of net debt that, as of March 31, 2010 was \$162 million. FASA is the largest retail pharmacy chain in Latin America, with annual sales of approximately \$1,650 million in 2009 and over 1,240 pharmacies in Chile, Mexico and Peru. The transaction is subject to the completion of a tender offer for all of the outstanding shares of FASA on the Santiago Stock Market, at a price equal or greater than 1,642 Chilean Pesos per share. The validity of the offer is conditioned upon the sale of at least fifty percent plus one of the outstanding shares of FASA. The transaction is also subject to the approval of our general shareholders’ meeting and the Mexican Antitrust Commission, *Comision Federal de Competencia*. See “Item 10. Additional Information—Material Contracts”. We intend to fund the transaction with a mix of our own resources and bank debt, for which we have received commitments from two Mexican financial institutions. We estimate that the financing from one financial institution will be for up to Ps. 5,904 million, and up to the equivalent amount in Pesos for \$200 million. In addition, we estimate that the financing from other financial institution will be for approximately Ps. 1,950 million, which will be mainly used to prepay certain credit liabilities that the Company has.

Our consolidated net sales for the year ended on December 31, 2009 totaled Ps. 29,791 million, approximately 94.9% of which were made in Mexico. As of the end of 2009, our total assets were Ps. 15,087 million and we had 22 distribution centers in Mexico. Our operations in Brazil represented 5.1% of our consolidated net sales for the year ended on December 31, 2009. Our operations are currently organized into four operative business divisions: the Private Pharmaceutical Products business division, which we refer to as “Private Pharma” (85.94% of our consolidated net sales in 2009) and includes results from our retail pharmacies business; the Government Pharmaceutical business division, which we refer to as “Government Pharma” (3.04% of our consolidated net sales in 2009); the Health, Beauty Aids, Consumer Goods, General Merchandise and Other Products business division, which we refer to as the “HBCG/Other Products” business division (8.49% of our consolidated net sales in 2009); and the Publications business division (2.53% of our consolidated net sales in 2009).

In light of the amendments to the Mexican Federal Income Tax Law, effective January 1, 2010, relating to changes in the tax consolidation regime, the Company decided to deconsolidate for tax purposes and filed a deconsolidation tax return on June 25, 2010 for an amount of Ps. 132,628,957, which has been paid to this date.

Organizational Structure

Grupo Casa Saba is a holding company that has an ownership interest in the subsidiaries through which we operate. Grupo Casa Saba and all of our significant subsidiaries listed below are organized under the laws of Mexico, except where otherwise indicated.

The following table sets forth our significant subsidiaries and our direct or indirect percentage equity ownership in such subsidiaries as of December 31, 2009:

Name of Subsidiary (1)	Economic Interest (Direct or Indirect) (2)		
	2008	2009	
Mexican Subsidiaries			
Direct Interest			
Casa Saba, S.A. de C.V. (3)	(Casa Saba)	99.9%	48.21%
Distribuidora Casa Saba, S.A. de C.V. (4)	(Dicasa)	99.9%	99.9%
Publicaciones Citem, S.A. de C.V. (5)	(Citem)	99.9%	99.9%
Transportes Marproa, S.A. de C.V. (6)	(Marproa)	99.9%	99.9%
Farmacias ABC de México, S.A. de C.V. (7)	(Farmacias ABC)	99.9%	99.9%
Controladora de Clínicas Ambulatorias y de Rehabilitación, S.A. de C.V. (8)	(Controladora de Clínicas)	50.005%	50.005%
Centennial, S.A. de C.V. (9)	(Centennial)		99.9%
Grupo Mexatar, S.A. de C.V. (10)	(Mexatar)		99.9%
Other companies (23)		99.9%	99.9%
Indirect Interest			
Centennial, S.A. de C.V. (9)	(Centennial)	99.9%	
Grupo Mexatar, S.A. de C.V. (10)	(Mexatar)	99.9%	
Casa Saba, S.A. de C.V. (3)	(Casa Saba)		51.79%
Distribuidora Drogueros, S.A. de C.V. (11)	(Didrosa)	99.9%	99.9%
Daltem Provee Norte, S.A. de C.V. (12)	(Daltem Norte)	99.9%	99.9%
Drogueros, S.A. de C.V. (13)	(Drogueros)	99.9%	99.9%
Farmacias Provee de Especialidades, S.A. de C.V. (14)	(Farmacias Provee)	99.9%	99.9%
Servicios Corporativos Drogueros, S.A. de C.V. (15)	(Secodro)	99.99%	99.99%
Inmuebles Visosil, S.A. de C.V. (16)	(Visosil)	99.9%	99.9%
Servicios Corporativos Saba, S.A. de C.V. (17)	(Secosa)	99.9%	99.9%
Resonancia Sports Clinic, S.A. de C.V. (18)		50.001%	50.001%
Servicios Corporativos Sports Clinic, S.A. de C.V. (19)		50.001%	50.001%
Tampico Sports Clinic Ambulatorias, S.A. de C.V. (20)		50.001%	50.001%
Other companies (23)		99.9%	99.9%
Brazilian Subsidiaries:			
Casa Saba Brasil Holdings Ltda. (21)	(Casa Saba Brasil)	100%	100%
CSB Drogarias, S.A. (22)	(Drogarias)	100%	100%
Lomas Sports Clinic Ambulatorias, S.A. de C.V.			
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%

- (1) With the exception of Casa Saba, S.A. de C.V. and CSB Drogarias, S.A., none of our operating subsidiaries is a “significant subsidiary” within the meaning of Rule 1-02(w) of Regulation S-X of the Securities Act of 1933.
- (2) Percentage of equity owned by us directly or indirectly through subsidiaries or affiliates.
- (3) We directly own 48.21% of the shares of Casa Saba and the remaining 51.79% is held through our subsidiary Transporte Marproa, S.A. de C.V.. Through this subsidiary we distribute pharmaceutical products to private and government clients.
- (4) Subsidiary that provides logistical and transportation services to Casa Saba, S.A de C.V.
- (5) Subsidiary through which we distribute publications.
- (6) Subsidiary through which we deliver products to our distribution centers throughout Mexico. We place centralized purchase orders for all of our distribution centers directly with suppliers, who deliver these centralized purchase orders to Transportes Marproa, S.A. de C.V., or Marproa. Marproa then distributes customized orders to our distribution centers throughout Mexico. Marproa also provides freight services to third parties at market rates.
- (7) Subsidiary through which we sell pharmaceutical products.
- (8) Subsidiary through which we operate medical clinics.
- (9) Subsidiary through which we distribute general merchandise and other products.
- (10) Subsidiary through which we own Casa Saba Brasil Holdings Ltda.
- (11) Subsidiary through which we distribute pharmaceutical products to private and government clients.

- (12) Subsidiary through which we distribute pharmaceutical products to private and government clients.
- (13) Subsidiary through which we distribute pharmaceutical products to private and government clients.
- (14) Subsidiary through which we sell pharmaceutical products.
- (15) Subsidiary that provides administrative, legal, accounting, tax planning, financial counseling and other professional services to Drogueros, S.A. de C.V.
- (16) Subsidiary through which we lease real estate to our other subsidiaries. Inmuebles Visosil, S.A. de C.V. owns substantially all of the capital stock of Drogueros, S.A. de C.V.
- (17) Subsidiary that provides administrative, legal, accounting, tax planning, financial counseling and other professional services to Casa Saba, S.A de C.V.
- (18) Subsidiary through which we purchase medical equipment.
- (19) Subsidiary that provides administrative, legal, accounting, tax planning, financial counseling and other professional services to Lomas Sports Clinic Ambulatorias., S.A. de C.V. and WTC Sports Clinic Ambulatorias, S.A. de C.V.
- (20) Subsidiary through which we provide specialized medical, rehabilitation and surgical services for short-stay patients.
- (21) Subsidiary, organized under Brazilian laws, through which we own operating subsidiaries in Brazil, including Drogasmil.
- (22) Subsidiary, organized under Brazilian laws, through which we sell pharmaceutical products.
- (23) Real estate and Service companies (24 subsidiaries).

Capital Expenditures

The table below sets forth our capital expenditures for the years ended December 31, 2007, 2008 and 2009. Our capital expenditure program is primarily focused on new investments in vehicles for our distribution fleet, information technology and computer equipment. For a discussion of how we funded our capital expenditures in 2009, as well as a more detailed description of our capital expenditures, see “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Overview” and “—Capital Expenditures”.

	Year ended December 31,					
	2007		2008		2009	
	(Millions of Mexican Pesos)					
Distribution fleet	Ps.	38.9	Ps.	36.4	Ps.	19.4
Technology and computer equipment		41.2		30.7		22.2
Other general capital expenditures		39.8		63.7		34.0
Total capital expenditures ⁽¹⁾	Ps.	119.9	Ps.	130.8	Ps.	75.6

(1) In addition, in 2007 we incurred work-in-progress related expenditures of approximately Ps. 44.0 million, primarily related to the construction of our distribution center in Hermosillo, Sonora, as well as improvements to other storage facilities.

During 2008, we made information technology improvements at our Daltem and Centennial distribution centers which we believe will ensure the quality with which we process client transactions and will help us to streamline inventory management procedures. See “—Information and Technology Systems”, and “Item 5. Operating and Financial Review and Prospects—Overview”.

During 2009, our capital expenditures were primarily related to the purchase of machinery, computer hardware, as well as for the purchase of transport and delivery equipment. See “—Information and Technology Systems” and “Item 5. Operating and Financial Review and Prospects—Overview”.

In 2010, we expect that our main capital expenditures will be related to IT investments and developments, as well as to the renewal of our distribution fleet.

Business Overview

Grupo Casa Saba was founded as a pharmacy in 1892 and is currently one of the leading multi-channel, multi-product national wholesale distributors in Mexico, operating through one of Mexico's largest distribution networks of its type. We distribute pharmaceutical products, health, beauty aids and consumer goods, publications, general merchandise and other products. We distribute the majority of these products on a non-exclusive basis. With over 115 years of experience, we supply a significant number of Mexico's pharmacies, mass merchandisers, retail and convenience stores, supermarkets and other specialized channels nationwide.

We currently distribute nearly 15,000 different products, including approximately:

- 5,400 pharmaceutical products;

- 5,100 health and beauty products;
- 450 general merchandise and other products, such as food and toiletries; and
- 4,000 publications.

We distribute these products throughout Mexico through our nationwide distribution network to clients in the following segments:

- more than 14,450 pharmacies owned by private individuals;
- approximately 4,200 privately-owned pharmacy chains and over 475 government pharmacies;
- approximately 2,900 regional and national supermarkets;
- approximately 400 racks and 170 nationwide agents;
- over 110 department stores; and
- approximately 400 major wholesalers and 5,000 convenience stores.

We currently operate over 160 pharmacies in Mexico, primarily in the states of Jalisco, Guanajuato, Michoacán, Nuevo León, Coahuila and the metropolitan area of Mexico City and 71 pharmacies in the states of Rio de Janeiro and São Paulo in Brazil through which we sell pharmaceutical products as well as health and beauty aids and other related consumer goods.

Our cash flows are subject to seasonal fluctuations and market conditions. To maintain a larger winter inventory and to ensure adequate inventory levels for the two or more weeks of holidays in December, during which suppliers do not make sales or deliveries, our accounts payable and inventories typically increase at year-end. After reaching their highest levels in December, our inventories gradually decrease to what we estimate is a normal operational level of approximately 50 inventory days. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Overview”.

Distribution Business Overview

Our core business is the wholesale distribution of pharmaceutical products in Mexico. The following table shows our sales by business division, as a percentage of consolidated net sales for the last three years:

	Year Ended December 31,		
	2007	2008	2009
Private Pharmaceuticals ⁽¹⁾⁽²⁾⁽³⁾	84.2%	84.9%	85.9%
Government Pharmaceuticals	3.1%	3.6%	3.0%
HBCG/Other Products	9.0%	8.9%	8.5%
Publications	3.7%	2.6%	2.5%
Total	100.0%	100.0%	100.0%

(1) For a brief description of the types of products included within the term “pharmaceutical products” for purposes of this annual report, as well as a discussion of the differences between the pharmaceutical markets in Mexico and the United States, see “—Pharmaceutical Industry,” below in this item.

(2) The operations of Casa Saba Brasil are consolidated and reflected in the Private Pharmaceuticals business division. For the year ended December 31, 2009, Casa Saba Brasil’s net sales represented 5.1% of our consolidated net sales and 6.0% of the net sales of the Private Pharmaceuticals business division.

(3) The operations of our retail pharmacy business in Mexico are consolidated and reflected in the Private Pharmaceuticals business division. For the year ended December 31, 2009, our retail pharmacy business in Mexico represented 4.1% of our consolidated net sales and 4.7% of the net sales of the Private Pharmaceuticals business division.

We seek to distribute pharmaceutical products on a “full-line/full-service” basis. We distribute a wide array of pharmaceutical and other products of the kinds listed above, as well as provide our clients with a range of value-added services, including multiple daily deliveries and emergency product replacement services. In our HBCG/Other Products business division we distribute certain products on an exclusive basis while also providing our clients with specialized value-added services on a product-by-product basis, including merchandising, marketing support and other customer counseling services.

We purchase the products we distribute from a wide variety of suppliers, the majority of which are located in Mexico. We place purchase orders on an ongoing basis, negotiating quantity and price periodically rather than committing to contractual terms. By distributing pharmaceutical products, our role is generally not that of a “demand creator”, given that we do not advertise products, nor do we suggest or provide substitute products for those ordered.

Our principal strengths are our nationwide distribution network, through which we are able to deliver products within 12 to 24 hours from the time of order, our state-of-the-art technology, our commitment to customer service and our well-trained and experienced personnel. In addition, as a result of our continued use of new technologies since the early 1990s, we have increased our operating efficiency and distribution capacity.

Mexico’s vast and mountainous terrain and old road network connecting small towns present a difficult environment for distribution. This is further complicated in Mexico City and the surrounding areas by traffic congestion. We believe that we will continue to overcome these constraints with our strategically located distribution centers near Mexico’s major population centers.

As of December 31, 2009, we distributed products to our clients nationwide through a distribution network consisting of 22 active distribution centers. Grupo Casa Saba’s warehouses have more than 100,000 square meters of warehouse space. Using a fleet of over 900 vans, trucks and cars, we filled more than 6.3 million orders in 2009, averaging more than 530,000 orders per month. For a list of our distribution centers and their locations, see “—Property, Plant and Equipment,” below in this item.

Retail Business Overview

Consistent with our business strategy, we have continued to strengthen our retail pharmacy business. In Mexico, we sell pharmaceutical products through the Farmacias ABC pharmacy chain, which is based in Guadalajara, Jalisco, and through Farmacias Provee de Especialidades, which has operations in the northern region of Mexico, particularly in Monterrey, Nuevo Leon and in the states of Chihuahua and Coahuila. Through Farmacias ABC, we operated over 150 pharmacies in 2009, mainly in the metropolitan area of Guadalajara, Jalisco, which is Mexico’s second most populated city, as well as in the Mexico City metropolitan area and in the states of Guanajuato, Michoacán, Jalisco and Coahuila. Through Farmacias Provee de Especialidades we operated 10 pharmacies in 2009 in or close to important healthcare centers and hospitals. We currently lease all of the locations where the pharmacies are located. See “—Property, Plant and Equipment”.

Our Brazilian operations are focused on the operation of retail pharmacies. We purchase the pharmaceutical products we sell from Brazil’s three main pharmaceutical wholesale distributors while our non-pharmaceutical products are purchased from a wide range of distributors, manufactures and suppliers. We place purchase orders on an ongoing basis, depending on market needs, pricing and payment terms rather than committing to contractual terms. Our presence in the states of Río de Janeiro and São Paulo, through 71 pharmacies, allows us access to a wide range of customers. Our customers are primarily individual clients, although we do maintain corporate arrangements, which are generally longer-term in nature, within several healthcare providers and corporate clients, such as Carrefour and Unilever. Since acquiring Drogasmil in the second quarter of 2008, we have carried out an ongoing process of integrating and raising its operational standards to those of our Mexican operations.

In our stores, we sell pharmaceutical products and a wide assortment of other merchandise. In fiscal year 2009, pharmaceutical product sales, which for purposes of this annual report include prescription drugs as well as over-the-counter medications, accounted for approximately 66% of our retail pharmacy business sales in Mexico. We believe that our pharmacy operations will contribute to our overall operations due to favorable industry trends, including an aging population, increased life expectancy and the discovery of new and better drug therapies. We offer a wide variety of non-pharmaceutical products, including health and beauty aids and other merchandise which accounted for approximately 23% and 11%, respectively, of our Mexican retail pharmacy business sales in 2009. Non-pharmaceutical products include health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, seasonal merchandise and numerous other everyday and convenience products.

Business Strategy

Since the acquisition of our Company in February 2000, we have been operating under the direction of our current management. See “Item 4. Information on the Company—History and Development of the Company”. Under the direction of our current management, we are focused on enhancing the value of Grupo Casa Saba by:

- Expand our retail pharmacy business in Mexico and Latin America;
- Improve the efficiency of our retail operations.
- Maintaining continuous contact with clients and suppliers to enhance the supply chains in which we participate;
- Analyzing the efficiency of our existing distribution centers and implementing IT solutions that will increase our operational efficiency;
- Offering our clients both value-added and internet solutions for facilitating commercial decisions and promoting higher sales;
- Entering new businesses to diversify and increase our participation in the health sector;
- Continuing to focus on internal savings and operating efficiencies programs that will maximize our operations’ profitability; and

As a result of these measures, as of December 31, 2009, we:

- Had commercial operations with almost all of the clients and suppliers of the private pharmaceutical market in Mexico;
- Improved our connectivity to various clients’ systems in order to streamline order processing and product availability, which we believe will enable us to improve our purchasing and inventory management practices;
- Adapted our radio frequency technology to eliminate the use of paper in two of our largest distribution centers, which resulted in cost savings
- Opened a new distribution center with a more advanced design that we believe will enable us to offer a better level of service to our clients located in this region at a lower cost;
- Increased efficiency of our retail pharmacy operations in Mexico and Brazil by improving our product offering as well as the level of service that we provide at the point-of-sale;
- Opened a new Sports Clinic in Tampico, Tamaulipas in the northeast part of Mexico and inaugurated Perfect Image, a clinic that specializes in plastic surgery and health and beauty treatments in Mexico City;
- Offer value-added services to our clients such as targeted publications, special discount programs and an electronic procurement portal that helps facilitate purchasing for our clients; and

- Reviewed and, in some cases, changed the commercial terms of several of our clients and suppliers and, when required, discontinued unprofitable operations.

Expand our retail pharmacy business in Mexico and Latin America to a leading market position in the region

We intend to grow our retail pharmacy market share in Mexico and Brazil as well as to penetrate into new geographical markets in Latin America, through new store growth and strategic acquisitions. We believe that this will allow us to continue creating synergies with our existing distribution network, and increase our margins in the long-term.

In 2006, we acquired Distribuidora Solis, currently known as Farmacias Provee de Especialidades, a specialized pharmaceutical products distributor located in northern Mexico. At the time of the acquisition, Farmacias Provee de Especialidades consisted of nine pharmacies. We have continued to develop this business and by the end of 2008 we had four additional points-of-sale, which contributed to an increase in our overall sales of specialized pharmaceutical products.

During the fourth quarter of 2007 we acquired Farmacias ABC, a pharmacy chain based in Guadalajara, with operations in the state of Jalisco. This company also has a home delivery division known as “Repartos a Domicilio”. Since then, we have made a series of small acquisitions of retail pharmacy assets (primarily inventory and store locations) in the Mexico City metropolitan area and in the states of Guanajuato, Michoacán, Jalisco and Coahuila through which we increased the number of pharmacies operating under the Farmacias ABC brand from 40 pharmacies to over 150 pharmacies.

In May 2008, Grupo Casa Saba acquired Drogasmil, a Brazilian pharmacy chain that currently operates in the states of São Paulo and Río de Janeiro.

In May 2010, we entered into the FASA Agreement pursuant to which we will acquire control of FASA, subject to certain conditions. The transaction will potentially turn us into the largest drugstore chain in Latin America and one of the largest distributors of consumer and pharmaceutical products in the region, with a platform of approximately 1,500 pharmacies across Mexico, Brazil, Chile and Peru. See “—History and Development of the Company” and “Item 10. Additional Information—Material Contracts”.

We believe the Acquisition will create value for our shareholders through the projected benefits of the synergies that will be created. These synergies will provide added strength to the Company by significantly increasing its size as the main distributor and vendor of pharmaceutical, health, beauty, personal care and general consumption products and giving us a larger national presence.

As a result of the Acquisition, we also seek to reinforce our regional growth strategy through a proved and wide multi-country platform, that also has the necessary corporate and system capacities to integrate efficiently our existing operations in Mexico and Brazil.

We believe that although the initial costs of growing our retail operations, either organically or through strategic acquisitions, may be high and our margins may be temporarily affected, the retail pharmacy business will contribute to our long-term growth and profitability.

Improve the efficiency of our retail operations.

We seek to focus our efforts on improving the efficiency of our Mexican and Brazilian retail operations, by offering pharmaceutical products as well as health, beauty care and general merchandise products at competitive prices while providing excellent service to our customers at the point-of-sale. This product offering will exist not only in the larger Mexican cities, but also in smaller cities and rural populations, thus benefiting regions that today do not have access to a wide range of such products at competitive prices.

In Latin America, we seek to integrate the experience that we have accumulated in Mexico as one of the leading distributors of pharmaceutical products with FASA’s knowledge as one of the leading participants in the pharmacy segment in various countries. As a result, we expect to offer customers a high quality service and a wide range of products at competitive prices at the point-of-sale.

Maintaining Continuous Contact with Clients and Suppliers

We are well aware that continuous contact with our clients and a solid knowledge of the markets in which we operate is key to finding new ways to increase our sales and further develop our core pharmaceutical business. Therefore, in 2009, we continued to focus our efforts on working closely with our clients and suppliers in order to identify their specific needs and customize our services to meet their requirements. All of these efforts were accomplished under our minimum profitability parameters. In terms of our suppliers, we worked closely with them to determine the market's needs and to create innovative commercial schemes.

Analyzing the Efficiency of our Distribution Centers and Implementing IT Solutions that Increase Our Operational Efficiency

At Grupo Casa Saba we manage approximately 15,000 products, which requires a high level of efficiency and systematization in terms of order fulfillment and delivery. Grupo Casa Saba analyzes the geographic location and efficiency of its distribution centers in order to identify facilities that are not operating at maximum efficiency levels. To assure the optimal operation of its infrastructure and distribution network, Grupo Casa Saba continuously renews its distribution fleet and invests in upgrading its logistics and information systems.

In March 2006, Grupo Casa Saba signed an alliance with IBM and SAP to upgrade its technology systems, thereby increasing its competitive advantages as well as the efficiency of its execution processes. By the end of 2007, we completed the implementation of these projects, including the installation of systems containing the latest in back-up procedures and disaster recuperation, the unification of various database drivers into IBM's DB2 platform and, finally, the implementation of the first two modules of SAP's supply chain management tool. With this investment in technology, Grupo Casa Saba obtained a system with state-of-the-art technology that is flexible, tolerant to failures and that includes up-to-date back-up procedures and disaster recovery. We consider that these features will aid us by ensuring the continuous processing of client transactions nationwide, help us to improve purchasing and streamline inventory management procedures.

During 2008, we installed a new software called BaaN in our Daltem distribution center and made several improvements at our Centennial distribution center. At the Daltem distribution center, we designed a process that (i) enables us to capture orders at a call center, (ii) includes a pricing structure for each government contract and (iii) allows us to process orders for biological products (vaccines) by means of a new cold network. At the Centennial distribution center, we re-engineered our processes which consisted of updating our catalogs, adjusting the systems so that they can now recognize bar codes and purchased radio frequency terminals for use in the warehouse.

During 2008, we completed a new distribution center in Hermosillo, Sonora to better enable us to meet our regional distribution needs. The new center has larger storage capacity and semi-automatic product sorting capabilities, which will enable us to service the surrounding area more efficiently. The facility became operational in the first quarter of 2009.

In 2009, our IT efforts were focused primarily on general computer and communication systems updates and maintenance, including: the purchase of new computer equipment, the replacement of critical servers for our central site with state-of-the-art hardware and the implementation of a digital voice and data network in all of our distribution centers as well as our corporate headquarters. We believe that these upgrades will reduce operating costs and improve system availability.

In addition, we have eliminated the use of paper in several of our warehouses through the use of radio frequency terminals. This measure is intended to reduce paper consumption and improve the accuracy of our order processing. We also updated our software and connectivity with various clients in order to improve on-line order processing and product availability.

We consider that all of these features will ensure the quality with which we process client transactions and will help us to streamline inventory management procedures.

Offering our Clients Value-Added and Internet Solutions to Facilitate Commercial Decision-Making and Promoting Higher Sales

In an increasingly competitive business environment, service is key. Therefore, we do our best to go one step further to provide value-added services to our clients. In 2009, we continued to use an online distribution and information website, www.farmaservicios.com, which we currently make available to our clients free of charge. Clients that log on to www.farmaservicios.com are able to communicate directly with us, as well as place and track their orders and shipments on-line. In addition, these clients have access to a wide range of additional services including news and industry information, business advice and a variety of special promotions. We believe that www.farmaservicios.com is a value-added service that provides our clients with a faster, more convenient way to link their demand to our system, given that they can place and track their orders unlike other traditional distribution channels. See “— Information Technology Systems” below in this item. We will continue with our efforts to develop internet-based solutions for our clients and suppliers as we believe that doing so will allow us to provide a value-added service that complements our existing business.

Entering New Businesses to Diversify and Increase Our Participation in the Health Sector

In addition to entering the retail pharmacy business, in April of 2008, we continued to open new lines of business, through the acquisition of 50.1% of Controladora de Clínicas Ambulatorias, a company which consists of two full-service clinics specializing in orthopedics, trauma, sports medicine, nutrition, otorhinolaryngology and plastic surgery for short-stay patients. In 2009, we built a new clinic in Tampico, Tamaulipas. This facility started operations in November 2009 and is the first clinic to be opened outside of Mexico City. In addition, in October, we launched *Perfect Image* in Mexico City. *Perfect Image* is a clinic that specializes in plastic surgery as well as health and beauty treatments.

We believe that these investments will permit us to diversify ourselves within the healthcare sector in order to increase our overall participation.

Developing Internal Savings and Operating Efficiencies Programs to Maximize our Operations' Profitability

During 2009, we continued implementing our profitability-focused strategy, which involved the ongoing review and negotiation of commercial terms with our suppliers and clients to obtain better profitability levels, even if, upon occasion, this resulted in our Company deciding not to make certain sales that did not meet our minimum profitability parameters. Likewise, diverse efficiency and continuous cost-savings programs were successfully implemented, such as ongoing reengineering of routes, the optimization of distribution centers, and waste reduction, among others.

Operations

Our operations are currently organized into four operating business divisions: the Private Pharma business division (which includes our retail pharmacy business), the Government Pharma business division, the HBCG/Other Products Division and the Publications business division. Please see “Item 5. Operating and Financial Review and Prospects—Results of Operations” for a breakdown of our consolidated net sales by business division for the three year period ended on December 31, 2009.

Private and Government Pharma Business Divisions

Pharmaceutical Industry Overview

In Mexico, pharmaceuticals are available to the public through both private and government distribution channels. The Mexican government plays a significant role in the market for pharmaceuticals. In Mexico, pharmaceutical products consist of prescription drugs that may be sold only in licensed pharmacies and “over-the-counter” pharmaceutical products that may be sold without a prescription in licensed pharmacies. For the purposes of this annual report, pharmaceutical products include “over-the-counter” pharmaceuticals.

The *Secretaría de Salud*, or the Mexican Ministry of Health, oversees the provision of public health care through hospitals in Mexico, pharmacies and clinics operated by various governmental agencies and state-owned institutions. Distribution of pharmaceuticals within the public sector is largely undertaken by each governmental agency through direct purchases from manufacturers during yearly bidding programs based primarily on price.

Based on information from IMS Health, A.G. and our internal data, we estimate that approximately 80% of private sector pharmaceutical sales are placed through wholesalers, which in turn sell primarily to retail pharmacies. The remaining 20% of private sector pharmaceutical sales are placed directly by manufacturers to a few large pharmaceutical retail chains that purchase sufficiently large volumes to have direct access to the laboratories. Most manufacturers have adopted a “wholesaler only” policy because it is the most cost-efficient method of distributing their products. Nearly all of the individual pharmaceutical purchases take place at retail pharmacies and are either paid for by individuals or through private health insurance. The following table shows annual sales and average unit prices in U.S. Dollars and growth rates for the private sector of the Mexican pharmaceutical market:

	Year Ended December 31, ⁽¹⁾		
	2007	2008	2009
Sales in millions ⁽²⁾	US\$10,283.5	US\$10,127.0	US\$8,377.5
Sales in millions of units ⁽³⁾⁽⁴⁾	986.5	932.7	909.7
Average unit price ⁽³⁾	US\$10.31	US\$10.86	US\$9.21
Growth in average unit price	6.7%	5.4%	(15.2)%

(1) Statistics based on information made publicly available by IMS Health, A.G. for private sector data and our estimates.

(2) Revenues based on prices charged by wholesalers to retailers.

(3) In Mexico, pharmaceutical products are distributed in pre-packaged doses or units, which may vary in size from year to year.

(4) To calculate U.S. dollar amounts, IMS Health uses a semester average based on the daily interbank rate published by OANDA Corporation. The U.S. Dollar rate used for conversion in 2009 was Ps. 13.48 per U.S.\$1.00.

Industry Prices

As a result of government regulation, Mexican pharmaceutical prices are lower than in other countries such as the United States. We believe that price increases of pharmaceutical and over-the-counter products in Mexico continue to represent an area of possible future revenue growth for us. Prior to 1990, the Mexican government was responsible for determining pharmaceutical prices and did not increase pharmaceutical prices at the rate of inflation, thereby limiting the growth of our revenues from the distribution of these products. As of 1990, the Mexican government, acting through the *Secretaría de Comercio y Fomento Industrial*, or Ministry of Commerce and Industrial Promotion, now known as the *Secretaría de Economía*, or Ministry of Economy, and the *Cámara Nacional de la Industria Farmacéutica*, or National Chamber of the Pharmaceutical Industry, known as *Canifarma*, entered into a series of agreements to deregulate the prices of domestically manufactured pharmaceutical products, which constitute most of the pharmaceutical products we sell. In order to obtain the benefits of these agreements, many Mexican pharmaceutical manufacturers have agreed, in conjunction with Canifarma, to continue submitting price increase proposals for approval by the Ministry of Economy. Under current practice, any manufacturer seeking a price increase must file a request before the Ministry of Economy, outlining the reasons for the price increase. The most important factors considered by the Ministry of Economy are: the minimum wage increase, the inflation rate, the exchange rate and the amount of foreign direct investment that the manufacturer commits to its Mexican facilities. If the Ministry of Economy does not respond within 30 days, the increase is automatically granted. Canifarma and the Ministry of Economy continuously engage in negotiations regarding the level of price increases for individual products and for the pharmaceutical sector as a whole. In the case of new pharmaceutical products, the manufacturer is required to file a request for a price increase before the Ministry of Economy, which outlines the price for the new product and the rationale behind the chosen price. Since 1990, prices have increased above the rate of inflation. However, this trend has subsided in recent years, with average prices coming back into line with the annual inflation rate. During 2008, the average unit price increased 6.8% in Peso terms, somewhat higher than the annual inflation rate of 6.5%. In 2009, the average unit price increased by 3.2% in Peso terms, below the rate of inflation of 3.6%.

The devaluation of the Peso may affect our ability to increase the prices of some of our products. See “Item 3. Key Information—Risk Factors—Risk Factors Relating to Political and Economic Developments”.

In Brazil, the pricing of certain pharmaceutical and non-pharmaceutical products sold through pharmacies are controlled and monitored by the Brazilian government through the *Câmara de Regulação do Mercado de Medicamentos*, the Chamber for Regulation of Medicine Market or CMED, with the general oversight of the *Agência Nacional de Vigilância Sanitária*, the National Health Surveillance Agency or ANVISA. ANVISA is linked to the Ministry of Health and was formed in 1999 and the CMED in 2003 in an attempt to curtail spiraling costs associated with existing drug products that resulted from nearly a decade of deregulation and unchecked commercial practices. During the time of deregulation, drug manufacturers set retail prices that were marked-up to cover wholesale and retail activities, as well as tax liability, which inflated prices for the consumer. In such an environment, the prices paid by the consumer included a pharmacy mark-up as high as 30% of a medication’s total price. Moreover, a federal tax of 6% and a state tax of approximately 18% were imposed, making the products costly as retailers passed on much of the cost to the consumer. In 2002, the retail pharmacy market in Brazil suffered drastic declines due to a devaluation of the Brazilian currency. Nevertheless, prices in local currency continued to rise. In October 2003, legislation was enacted that re-established price controls and empowered ANVISA and CMED to monitor the prices, set a maximum sales price and determine maximum annual price adjustments, thus limiting the degree to which pharmaceutical companies and pharmacies can set their own prices. Price controls are governed through regulatory mechanisms that allow for controlled percentage increases due to fluctuations in the exchange rate, inflation rate and raw material costs, among other factors. Adjustments to price controls take place on an annual basis, on March 31st of each year. The CMED established a maximum drug price adjustment of 4.6% for the year commencing on March 31, 2010.

Private Sector Pharmaceutical Distribution (Private Pharma)

Our private sector customers consist primarily of over 14,450 privately owned pharmacies, as well as national and regional pharmaceutical and supermarket chains (comprising approximately 7,100 stores) and the pharmacies associated with private hospitals. We were the first nationwide wholesale pharmaceutical distributor to enter the private sector market in Mexico and, since the 1960s we have been one of only two wholesalers providing national coverage. We believe that our customer coverage is one of the highest in the industry and that we cater to a majority of retailers nationwide.

According to IMS Health, A.G. and our estimates, in 2007, 2008 and 2009, Grupo Casa Saba and Nadro, Mexico’s only other nationwide pharmaceutical distributor, together accounted for more than 50% of prescription and over-the-counter drug sales throughout the private sector wholesale pharmaceutical channels in Mexico (this figure does not include the sale of similar and generic products). Mexico has adopted individual dosage packaging whereby pharmaceuticals are distributed in pre-packaged dosages rather than in bulk. Retail customers demand a rapid and continuous supply of pharmaceutical products. As a result, inventory turnover is high. Consequently, shortages and stock-outs are common and pharmacies are forced to rely on multiple suppliers. We seek to overcome these market constraints by maintaining a superior distribution network. Through our more than 115 years of experience, we have developed a highly-sophisticated transportation and inventory logistics system, which enables us to distribute our products between 12 and 24 hours from the time of order nationwide. We believe that we are able to fill the highest rate of orders in the industry and plan to maintain a state-of-the-art distribution network to continue improving our distribution capabilities.

Public Sector Pharmaceutical Distribution (Government Pharma)

Our public sector customers consist of Mexican government institutions. The Mexican government has a vast network of hospitals, clinics and pharmacies on a national level, as well as specialized health institutions, to which we cater. The government institutions that purchase products from us include:

- “ISSSTE” – The *Instituto de Seguridad y Servicios Sociales para los Trabajadores del Estado*, the health and social security institution for Mexican federal government employees;
- “PEMEX” – The hospitals and pharmacies operated by *Petróleos Mexicanos*, the Mexican national oil company and one of the largest employers in Mexico.
- “IMSS” – The hospitals and pharmacies of the *Instituto Mexicano del Seguro Social*, the health and social security institution for Mexican employees of private companies; and
- “State Health Institutions” – The hospitals, clinics and pharmacies of each of the States of Mexico. The government employees of the States of Mexico have the right to go to these institutions for their healthcare needs.

Since the Mexican government generally buys directly from manufacturers through IMSS and ISSSTE, it is able to purchase at prices that are substantially lower than those paid by private entities. Our sales to IMSS, ISSSTE hospitals, State Health Institutions, and PEMEX are not in bulk and, therefore, are not offered at bulk prices. In addition, we deliver pharmaceutical products to ISSSTE Tiendas, the supermarket pharmacies operated by ISSSTE, at prices comparable to those prices we charge our large private sector customers. We are able to sell our pharmaceutical products to approximately 250 ISSSTE Tiendas at private sector prices because we can provide them with additional services and increased efficiency. Since our sales to ISSSTE Tiendas are not through the usual public sector channels, we classify them as private sector sales. Sales to PEMEX are at prices substantially lower than those for the private sector. Sales to IMSS are made also at prices substantially lower than those for the private sector and, in many cases, depend on the negotiations conducted with the laboratories for each specific product.

The sales of our Government Pharma business division depend greatly on the contracts that we are able to obtain from our government institution clients, particularly ISSSTE, IMSS, PEMEX and other State Health Institutions. Our sales by the Government Pharma business division have tended to fluctuate from year to year since most of these government contracts are awarded through bidding processes on an annual basis.

In the last three fiscal years we have experienced the following trends in our Government Pharma division. In 2007, our Government Pharma division sales decreased by 7.7%, in part, due to an increase in the participation of interchangeable generics in the government bidding processes. During 2008, sales in our government pharma division rose by 32.6%, due, in large part, to an increase in sales to PEMEX and ISSSTE. Sales for our Government Pharma division decreased by 12.4% in 2009, mainly as a result of a reduction in our sales to PEMEX. This reduction was primarily due to a lower participation in the bidding processes. We cannot assure that we will participate in future PEMEX auction processes or that we will be awarded contracts with PEMEX similar to those we have had in previous years.

Retail Pharmacy Business

Our retail pharmacy business consists of our operation of over 150 pharmacies in the states of Jalisco, Mexico, Guanajuato, Michoacán, Coahuila and Mexico City, through Farmacias ABC, 10 pharmacies in certain northern states of Mexico, including Nuevo Leon, Coahuila and Chihuahua, through Farmacias Provee de Especialidades, and 71 pharmacies in the states of Río de Janeiro and São Paulo in Brazil, through Drogasmil. For the year ended December 31, 2009, net sales by our retail pharmacy business amounted to Ps. 2,737.8 million, which represented 9.2% of our total consolidated net sales.

In Mexico, our pharmacies obtain the products we sell mainly from our own distribution channels although approximately 57% of the products are purchased from third parties. We are seeking to capitalize on our know-how of the pharmaceutical business and our potential to grow by rolling-up small pharmacy chains to become a competitive retailer. However, any material disruptions to our distribution business could materially affect our retail pharmacy business. Our pharmacies under the Farmacias Provee de Especialidades brand are mostly located at or near health centers, including some of the best hospitals in the Monterrey metropolitan area. We believe this allows us to capture a stable customer base and to provide specialized products that have attractive margins. Our pharmacies under the Farmacias ABC brand are located throughout the Guadalajara metropolitan area, the Mexico City metropolitan area and in the states of Guanajuato, Michoacán, Jalisco and Coahuila. We seek to become a competitive retailer in the long-term.

In Brazil, we purchase pharmaceutical products mainly from the three largest wholesale distributors, which deliver the products directly to our stores using a “just-in-time” system, enabling us to receive our products promptly and to minimize stock-outs. We centralize our purchases of new non-pharmaceutical products through a distribution center that provides logistics support to our pharmacies. Through our pharmacies in Brazil, we sell over 300 different brands of products, including health and beauty aids, generic drugs, prescription drugs, over-the-counter drugs and other consumer goods. We operate a call center through which we channel the delivery of products to our customer’s home or office in one hour’s time. We have entered into partnerships with providers of health care plans and corporate clients that allow us to gain access to a wider customer base. In addition, we participate in the Popular Pharmacy Program, a government sponsored program through which we grant substantial discounts to low-income customers and then we obtain a refund of the discount amount from the government.

We sell many different types of non-pharmaceutical products, from health and beauty aids to consumer goods such as magazines, candies and other food products. The types and number of non-pharmaceutical products in each store vary, and selections are based on customer needs and preferences and available space. No single non-pharmaceutical product category contributed significantly to our sales during 2009.

In 2009, our main classes of products were prescription drugs and over-the-counter medications, health and beauty aids and other merchandise. In Mexico, at our Farmacias ABC and our Farmacias Provee de Especialidades pharmacies, approximately 65% and 85% of the sales was derived from pharmaceutical products, respectively, and the remaining 35% and 15% was derived from health and beauty aids and other merchandise. The customer base of our retail pharmacy business is well diversified; therefore the loss of any one customer would not have a material adverse impact on our results of operations.

We believe that the retail pharmacy markets in Mexico and Brazil will continue to grow due to the growing population, the stable demand for pharmaceutical products, an increase in the amount of senior citizens with access to health care and social security coverage and the growing market of over-the-counter products and other health and beauty aids and consumer goods that are sold at our retail pharmacies. However, given the global current economic downturn and the economic conditions in Mexico and Brazil, we cannot assure you that the retail pharmacy market will not experience decreases in growth or that our results of operations will not be materially affected.

Value-Added Pharmaceutical Services

We believe that we distinguish ourselves from our distribution competitors, in part, by the wide range of value-added services we provide our customers in addition to our products. For example, we provide pharmacies with suggested retail price lists that are updated immediately upon notice of price changes from our suppliers. These price lists are the only notices used by pharmacies to adjust their prices. We also provide purchasing management, price updates and advisory services to our customers through direct personal computer links between us and individual pharmacies using www.farmaservicios.pdv, our proprietary point-of-sale system. See “—Technology Information Systems—Pharmacy Personal Point-of-Sale Computers” below in this item.

We also offer our customers a series of specialized services, including training, conferences and trade fairs. Some customer services are supported by a monthly pharmaceutical publication, “*Farmservicios Editorial*,” formerly “*Correo Farmacéutico*,” a monthly magazine and product catalog. We have already established an online distribution and information site for our clients and suppliers, www.farmaservicios.com, which we currently make available to them free of charge. Clients that log on to www.farmaservicios.com are able to communicate directly with us, and can place and track their orders and shipments on-line. These clients also have access to a wide range of additional services, including news and industry information, free e-mail, business advice and a variety of special promotions. www.farmaservicios.com also links to www.farmaservicios.pdv. See “—Information Technology Systems” below in this item.

Health, Beauty Aids, Consumer Goods, General Merchandise and Other

Prior to 2004, we broke out the divisions of General Merchandise and Other Products and Office Products. In 2004, however, as part of a strategic business decision, the Group decided to unite all three divisions under the name of “Health, Beauty Aids, Consumer Goods, General Merchandise and Other, or HBCG/Other Products.” The decision was made due to the diminishing participation of the General Merchandise and Other products Group’s sales, which together accounted for less than 1% of the Group’s total net sales.

We distribute health and beauty aids, various consumer products that are typically sold through supermarkets, convenience stores, specialty stores and pharmacies in Mexico. The products distributed in this division consist principally of basic toiletries, food products and consumer goods, some of which are distributed on an exclusive basis, such as:

- Mexsana talcum powders from Schering Plough (since 1999);
- Lipovitan energizing beverage (since 2002);
- The Sensual Tea (since 2004);
- Mustela products (since 2007);
- Costalitos, trash bags (since 2007);
- Dr. Fresh, toothbrushes (since 2008)
- Aquanet, hair sprays and hair care products (since 2009)
- Jergen’s, hand and body creams (since 2009)
- Bioré, facial cleansing products (since 2009)
- John Frieda, hair care products (since 2009)
- Canderel, artificial sweeteners (since 2009)
- Vanart, hair care products and liquid hand soaps (since 2009)

During 2009, we stopped distributing Brunswick seafood products, Planet Pop microwavable popcorn and other snack food items and Colombina candies. In addition, we incorporated several additional brands into our product catalog, including Aquanet hair care products, Jergens hand and body creams, Bioré facial cleansing products, the John Frieda line of hair care products, Vanart hair care products as well as a liquid soap line and Canderel artificial sweeteners. During the first quarter of 2010, we discontinued the Lipovitan and Canderel lines of products.

At times, we enter into short-term exclusive distribution agreements on a preliminary, experimental basis, in order to test the real demand for specific products. If upon the termination of these agreements we conclude that there is no significant demand for a specific product, we cease the distribution of such product. For this reason, in the normal course of business, products we distribute one year may not be distributed the next year. We are always seeking suppliers with whom we can enter into distribution agreements to distribute health and beauty aids, consumer goods, general merchandise and other products, so long as they provide acceptable margins. We cannot assure you that we will enter into distribution agreements to distribute any or all of these products at acceptable margin levels.

In the HBCG/Other Products business division, in some cases, we provide manufacturers with highly specialized integrated services. These services range from purchasing, planning, centralized sales, merchandising, collections, execution of promotions and product information.

We anticipate that the market in Mexico for health and beauty aids, consumer goods, general merchandise and other products will continue to grow due to the young profile of the Mexican population. We believe that as the Mexican population continues to grow and consumers' disposable income increases, consumer demand for our products in this division could increase. However, we are uncertain how the effects of the global economic downturn may affect our sales of health and beauty aids, consumer goods, general merchandise and other products. If there is a prolonged recession and consumers' disposable income decreases, our results of operations for this division may be affected.

We distribute general merchandise and other products that are generally sold through grocery stores, supermarkets, convenience stores, major warehouses and pharmacies in Mexico. The general merchandise products that we distribute consist primarily of packaged and canned foods, beverages and personal care products. The other products that we distribute consist of over-the-counter products, household cleansers and toiletries. The general merchandise and other products that we distribute are mostly products sold on an exclusive basis in specified geographic areas pursuant to contractual arrangements.

During 2007, sales by our HBCG/Other Products division increased by 2.23%, and during 2008 sales by our HBCG/Other Products division increased by 10.53%, primarily as a result of an increase in the demand for personal care and general merchandise products as well as commercial agreements that enabled us to increase promotions and discounts. In 2009, sales in our HBCG/Other Products Division increased by 0.4%.

Publications

We distribute books and magazines, a large majority of which we distribute on an exclusive basis through our publishing subsidiary, Publicaciones Citem, S.A. de C.V., or Citem, which we believe is one of the leading distributors of magazines in Mexico. We are also one of the leading suppliers of self-service store chains, as well as the exclusive supplier of Wal-Mart Mexico's VIPS and Portón restaurant chains in Mexico City. We sell primarily through approximately 170 nationwide agents and four firms affiliated with the *Union de Voceadores*, or Union of Newspaper Boys, in Mexico City. Citem also distributes entertainment products to other establishments, including supermarkets, convenience stores, racks and magazine newsstands in airports, libraries and hotel magazine stores. In addition, Citem offers one of the most efficient forces of rack-jobbers, or shelf-keeping merchandisers, to the VIPS and Portón restaurant chains. These merchandisers keep the shelves of more than 400 stores across Mexico duly organized.

Revenues from publication sales to export clients in the United States accounted for approximately 43%, of our total publication export sales in 2006, while sales to Central America, South America and the Caribbean together represented 57% of total export sales. During 2007, 59% of our export sales went to the United States while 29% were distributed in South America, 9% were distributed in Central America and 3% were distributed in the Caribbean. In 2008, we decided to discontinue distributing our publication products outside of Mexico. This decision was made due to our intention to focus on domestic distribution where we benefit from our proprietary distribution network, as well as to the reduced margins of our export sales caused by fluctuations in currency exchange rates that were brought on by the worldwide economic crisis. Given that we did not reinstate our international business during the 2009 fiscal year, we did not register any export sales during the period.

In the second half of 2002, Citem started an administrative and operational restructuring to achieve higher levels of profitability. This process has involved changes in Citem's product catalog, client base, personnel and distribution units and methods, among other changes. As a result of the restructuring process our sales were affected in 2002 and 2003 but a positive trend of increases in sales started in the last quarter of 2003 and carried on through 2007. Annual Publications division sales for the year 2007 rose 2.8%, primarily as a result of the addition of new entertainment and fashion magazines. In 2008, our Publication division sales declined 19.3%, primarily as a result of our policy of discontinuing the distribution of publications that did not meet our minimum profitability parameter. During 2009, sales in the Publication division increased 0.6%, aided by the reincorporation of various publications to the catalog as well as strong year-end specialty title and collector's item sales.

Exclusive Distribution Agreements

In the areas of HBCG/Other Products and Publications, exclusive distribution agreements are typically limited to specific products, channels and geographic areas. Some of our exclusive distribution agreements can be terminated without cause, by means of proper notice, given by either party. We do not anticipate the imminent termination of any of these agreements, other than those that we decide to terminate if the products distributed are not sufficiently profitable. Before entering into exclusive distribution arrangements, we require that each prospective supplier agrees to advertise its services and offer a specific number of promotions and trade discounts to ensure that the supplier is seeking to take a leading position in the Mexican market. We provide manufacturers with highly specialized integrated services, ranging from purchasing, planning, centralized sales, merchandising, collections, execution of promotions and the provision of information.

We are currently seeking to enter into exclusive distribution agreements that will allow us to distribute products, particularly in our HBCG/Other Products and Publications business divisions, at acceptable margins. We cannot assure you that we will enter into distribution agreements to distribute any or all of these products at acceptable margins.

Purchasing

We order all of our products for the distribution business on an ongoing basis, negotiating quantity and price periodically, rather than committing to contractual terms. While the majority of our suppliers are Mexican companies, we do purchase some products from international manufacturers. We negotiate exchange risks by purchasing these products in Pesos or setting a limit on our exchange risk exposure.

In previous years, each of our distribution centers placed its own orders on a weekly basis, directly to suppliers. These orders were placed through our computerized order system, Electronic Document Interchange, or EDI, which we have implemented to communicate efficiently with clients and suppliers through a platform supporting different electronic communication protocols. Suppliers delivered orders directly to the distribution warehouse that placed the order, or to our transportation subsidiary, Marproa. Suppliers typically delivered bulk orders directly to the distribution warehouse that placed the order. In the second half of 2000, we centralized our purchasing to improve our financial results and increase the efficiency of our operations. As a result, all of our orders for all of our distribution centers are placed through our centralized system. Deliveries of non-Mexican products are handled by Mexican customs near the U.S. border, and are typically made directly from the supplier to a Mexican customs agent. Once the customs agent completes the importation procedure, the products are then sent to our distribution center via ground transportation.

Marproa is a common carrier that also provides freight services to third parties at market rates. From Marproa, we make deliveries several times a week to each of our distribution centers.

Maintaining good relationships with our suppliers and publishers is important to our competitive success because of the tight inventory policies that are common in the Mexican pharmaceutical industry. We are committed to making rapid and timely deliveries to our customers.

Pharmaceutical Products

We purchase pharmaceutical products from over 150 laboratories and manufacturers. Most of these suppliers are located in Mexico City and its surrounding areas. Purchases are made through purchase orders from time to time, on an as-needed basis. More than two-thirds of the suppliers that manufacture pharmaceuticals products in Mexico are owned primarily by large multinational companies. Purchases made from these suppliers represent more than 80% of our Private Pharma and Government Pharma business divisions' purchases. Companies such as Sanofi-Aventis, Pfizer, Roche, Astrazeneca, Boehringer, Bayer, Novartis and Bristol-Myers Squibb are among our major suppliers.

Health, Beauty, Consumer Goods, General Merchandise and Other Products

We purchase health, beauty and consumer goods from more than 150 suppliers located primarily in Mexico City. We purchased our catalog of over 450 general merchandise and other products from a wide range of suppliers including, Plastoza (maker of Costalitos), Laboratorios Expanscience (Mustela), Schering Plough (Mexsana), Herbamedica (The Sensual Tea) and Kao Brands (Jergens, Bioré and John Frieda). In some cases, we negotiate directly with our suppliers in other countries and directly import the products through a customs agent. Imported products are delivered to our warehouses by the customs agent after complying with all the legal requirements, which in some cases depends on the type of product.

Publications

Our Publications business division distributes, through Citem, magazines, books, albums and stickers from leading licensors and publishers in the market. Nearly all of the products purchased as of today may be returned to the publisher. For the year 2007, Citem worked with more than 250 publishers and distributed more than 4,700 of their publications. In 2008, we distributed nearly 4,000 publications from more than 250 publishers. During 2009, Citem's clients included over 250 publishers for whom it distributed more than 4,000 publications. Currently, Citem is distributing only publications (magazine and books titles) that meet the Group's minimum profit requirement. Purchases are made through our centralized administration. As a result of this profitability strategy, certain titles were incorporated into or discontinued from Citem's product catalog.

Competition

Pharmaceutical Products

Our primary competitor in the private pharmaceutical distribution business is Nadro, Mexico's only other national pharmaceutical distributor. According to IMS Health, A.G. and our estimates, in 2007, 2008 and 2009, Grupo Casa Saba and Nadro together accounted for over 50% of prescription and over-the-counter pharmaceutical sales through private sector wholesale pharmaceutical channels in Mexico (this figure does not include the sale of similar and generic products, which if included would increase that percentage). Our other primary competitor is Casa Marzam, S.A. de C.V., a large Mexican regional distributor. Our other competitors include approximately twelve regional distributors, some of which own pharmacy chains. We believe that our distribution services are superior to those of the regional distributors due to the speed with which we distribute our products, as well as the quality, product catalog and value-added services that we provide.

In the government pharmaceutical distribution business, government entities acquire products through bidding programs in which wholesalers and laboratories participate directly. These bidding processes are open to the public and, therefore, we face competition in this division just as we do in the private sector.

In Mexico and Brazil, the retail pharmacy markets are very fragmented. Our Farmacias ABC pharmacies face competition from large pharmacy chains, such as Farmacias Guadalajara, Farmacias Benavides, Farmacias del Ahorro, as well as from Wal-Mart supercenters. In Brazil, we face competition from companies such as Drogaria Sao Paulo, Pague Menos and Drogasil, which operate large pharmacy chains as well as from supermarkets and retailers that sell pharmaceutical products, such as Carrefour, Walmart and Pão de Açúcar. In addition, we compete with, among others, independently owned drugstores, supermarkets, mass merchandisers, discount stores, e-commerce sites that specialize in drugstore items and other small participants. We compete on the basis of store location and convenient access, customer service, product selection and price. We believe continued consolidation of the drugstore industry in Mexico and Brazil, the aggressive discounting of generic drugs by supermarkets, specialized generic drug pharmacies and mass merchandisers and the increase of promotional incentives to drive prescription sales will further increase competitive pressures in the retail pharmacy market.

Health, Beauty, Consumer Goods, General Merchandise and Other Products

Our competition in the Health, Beauty, Consumer Goods, General Merchandise and Other Products business division is similar to the competition that we face in our pharmaceutical products distribution business unit. We compete primarily with manufacturers that deliver directly to supermarkets, some pharmaceutical chains and with various regional distributors. In addition, Nadro and other regional wholesalers also distribute health, beauty, consumer goods, general merchandise and other products. This holds true in our retail pharmacy business as well in that we compete with other major pharmacy chains that offer similar products.

Our principal competitors in the general merchandise and other products market segment are manufacturers that deliver directly to supermarkets and some regional distributors. We compete directly with many middle and product-specialized wholesalers that distribute to convenience stores, independent grocery stores and “mom and pop” stores. In terms of the lines that we distribute exclusively, we face no competition from other wholesalers.

Publications

In Mexico, our principal competitors in our publications product line include:

- Intermex, a company owned by Televisa, which primarily distributes its own publications;
- Codyplirsa, which primarily distributes popular magazines nationwide; and
- DIMSA, which distributes primarily English-language publications.

Payments and Collections

Most of our sales are made on credit, with customers signing promissory notes for each invoice indicating the delivery of a product. Cash-on-delivery terms are mainly used with new clients or those whose credit has been temporarily suspended. We negotiate the number of days of credit that we will extend to our clients on a case-by-case basis. The determination of the number of days that we will extend credit to a particular client depends on a number of factors, including the client’s creditworthiness, as well as the length and nature of the client’s relationship with us. The determination of the number of days that we will extend credit to a particular client also depends on our current business strategy. For example, in connection with our efforts to increase sales to particular sectors of the market, in some cases we extend credit to clients in these sectors on more favorable terms than those offered to our overall client base and, as a result, the maturity of accounts receivable due from clients in these sectors increases slightly. We are constantly adapting our collection methods to market and general economic conditions. The average maturity of accounts receivable due from our overall client base was, 65 days in 2007, 66 days in 2008 and 63 days in 2009.

Although we are continuously seeking to reduce the average maturity of our accounts receivable and maintain an aggressive collection policy for delinquent accounts receivable in conjunction with our efforts to improve our financial results and the efficiency of our operations, we could, in the future, decide to extend credit to clients in particular sectors on more favorable terms than those offered to our overall client base.

The following chart sets forth the average contracted maturity of accounts receivable due from various market sectors.

Credit terms	Days
Pharmacies	41
Supermarkets and local wholesalers	47
Government	50
Publications to wholesalers	50
Publications to retailers (1)	50

(1) National retail chains are centralized

Information Technology Systems

Overview

We periodically acquire and use new technologies to increase our efficiency and distribution capabilities. All dealings with suppliers, leasers, banks and insurance companies, as well as our treasury, are centralized. We believe that our information technology systems have been, and will continue to be, instrumental in our ability to provide value-added services to our clients.

In 2009, our IT efforts were focused primarily on general computer and communication systems updates and maintenance, including: the purchase of new computer equipment, the replacement of critical servers for our central site with state-of-the-art hardware and the implementation of a digital voice and data network in all of our distribution centers as well as our corporate headquarters. We believe that these upgrades will reduce operating costs and improve system availability.

In addition, we have eliminated the use of paper in several of our warehouses through the use of radio frequency terminals. This measure is intended to reduce paper consumption and improve the accuracy of our order processing. We also updated our software and connectivity with various clients in order to improve on-line order processing and product availability. We consider that all of these features will ensure the quality with which we process client transactions and will help us to streamline inventory management procedures.

Retail Order Computers

A substantial part of our sales representatives use portable hand-held computer terminals to take and process orders. These orders are transmitted via telephone lines to a mirrored and redundant data center. The orders are then printed and separated by route and filled according to a departure schedule. We continually upgrade our systems to increase the effectiveness of our order system, install individual workstations in a greater number of locations, and track customer and supplier orders in the system's network and ensure the accurate fulfillment of those orders.

Pharmacy Personal Point-of-Sale Computers

We have developed a point-of-sale software known as *www.farmaservicios.pdv*, which is a PC-based application that has been designed to meet the needs of our pharmacy customers. *www.farmaservicios.pdv* has point-of-sale, inventory control and Internet capabilities to update and synchronize data using web-based technology. Clients that use *www.farmaservicios.pdv* can access and synchronize point-of-sale inventory and other databases through our business-to-business website, *www.farmaservicios.com*. Pharmacies that use our system are automatically linked to our inventory control and order placement systems, which allow these pharmacies to order items electronically, view current product prices and track promotional discounts and pending orders. Additionally, through this system, we can also assist customers with their own inventory control and business management. The *www.farmaservicios.pdv* application can operate on a stand-alone PC or in a network environment, depending on the customer's particular needs. The pharmacy owners purchase the PCs and related hardware and we provide the software package. We charge a one-time fee for this software. Management believes that *www.farmaservicios.pdv* will continue to be an important factor in developing customer loyalty and improving overall customer service to pharmacies, which are our primary client base. As of December 31, 2009, we had more than 4,100 registered users, 9% more than we did at the end of 2008.

Automatic Picking Technology

We use automated pickers in some of our distribution centers. An automated picker is a computerized robot that matches an order number with an order number previously submitted by one of our sales representatives, selects the appropriate item(s) ordered and deposits the item(s) in a box for delivery. Each automated picker processes, in some cases, approximately 50% of the total units sold out of each distribution center where one is located and is significantly more efficient than a team of experienced workers. The automated pickers operate at high speed with extremely high accuracy and include error correction features. As of December 31, 2009, 6 of our 22 distribution centers had automated pickers. The installation of additional automated pickers in our remaining 16 manual pick distribution centers will depend upon whether or not we deem the cost to be justifiable.

Computerized Purchase Order Placement System

We have developed and continue to update an automatic inventory control and order placement system. This system utilizes inventory optimization software to track historic demand for products and to forecast future demand. The system also seeks to optimize inventory levels and order sizes at each distribution center through a "just-in-time" inventory approach.

Back-Office and Accounting Services

Our back-office information systems operate using a software program called BaaN, an Infor Software Company product. The database provides us with a strong analytical tool for decision-making that affects all aspects of our operations. BaaN is an integrated back-office and accounting system that currently manages our General Ledger, Accounts Receivable, Accounts Payable, Fixed Assets Control System and Treasury, as well as other financial information. During 2009, we continued to update all of our back-office information systems in order to improve our internal as well as our administrative reporting processes.

Software

We license *www.farmaservicios.pdv* to our clients for an annual fee. We also operate with software designed by third parties with whom we have entered into license agreements.

Regulation

Our business is primarily regulated by the *Ley General de Salud*, or General Health Law, and the accompanying regulations. Two federal agencies that pertain to the executive branch of the Mexican government, the Mexican Ministry of Health and the Mexican Ministry of Economy, mainly regulate the pharmaceutical industry. We are required to obtain authorization from the Mexican Ministry of Health to distribute prescription drugs and over-the-counter pharmaceuticals on the wholesale level. Similarly, the retail sales of pharmaceutical products, health and beauty aids and other merchandise is subject to the General Health Law and its regulations, state and local health rules and regulations, the *Ley Federal de Protección al Consumidor*, or Federal Consumer Protection Law, and *Normas Oficiales Mexicanas*, or Mexican Official Norms. We are required to obtain a license for each pharmacy to commercialize controlled medicines that contain certain substances. Such medicines cannot be sold without prescription and sales must be registered in accordance with specific requirements set forth in applicable regulations in control books. We are required to appoint a pharmacist who must be present at the pharmacy during business hours and who is responsible for compliance with the applicable health regulations in such pharmacy. Such appointment must be notified to the Mexican Ministry of Health. We believe that we have obtained all necessary authorization and permits required for the operation of our distribution and retail businesses and we do not foresee any revocation, cancellation or termination of such authorizations and/or permits.

The Ministry of Economy regulates both the wholesale and retail prices of prescription and over-the-counter pharmaceutical products. Mexican law requires us to sell all prescription and over-the-counter drugs at a price that is equal to or lower than the price approved by the Ministry of Economy for each product. The Ministry of Economy periodically receives and, if appropriate, approves revised price lists submitted by manufacturers on a product-by-product basis.

The pharmaceutical industry in Brazil operates in highly regulated environment. The pharmaceutical industry is regulated at the federal, state and municipal levels. Federal laws and regulations provide a regulatory framework. Enforcement and specific regulation is implemented through state and municipal rules and regulations through agencies such as the *Conselho Regional de Farmacia*, or Pharmaceutical Regional Council. Pharmacies in Brazil are required to obtain an operating license from the *Secretaria de Vigilância em Saúde*, Health Surveillance Secretariat of the Ministry of Health, or SVS, in order to engage in the handling, distribution, transport, repackaging, import and export of the substances determined by the SVS, as well as the medicines that contain such substances. In addition, operating permits, certificates and authorizations must be obtained periodically from relevant local authorities. All pharmaceutical products and certain non-pharmaceutical products, including certain health and beauty aids, are required to be registered with the *Agência Nacional de Vigilância Sanitária*, the National Health Surveillance Agency or ANVISA. Although retail pharmacies are not responsible for obtaining registration of the products sold, pharmacies must check that products offered are duly registered with the appropriate authorities. We believe that we have obtained all the necessary licenses and permits necessary to operate our business in Brazil.

The pricing of certain pharmaceutical and non-pharmaceutical products sold through pharmacies in Brazil are controlled and monitored by the Brazilian government through the *Câmara de Regulação do Mercado de Medicamentos*, the Chamber for Regulation of Medicine Market or CMED, with general oversight from ANVISA. ANVISA establishes regulatory mechanisms that allow for controlled percentage increases in prices due to fluctuations in the exchange rate, inflation rate and raw material costs. Adjustments to price controls take place on an annual basis, on March 31st of each year. The CMED establish a maximum drug price adjustment of 4.6% for the year commencing on March 31, 2010. Most over-the-counter drugs are not subject to such price controls.

Property, Plant and Equipment

As of December 31, 2009, our principal properties consisted of 22 distribution centers, complete with all of the equipment necessary to operate these centers, as well as the Sports Clinic site in Tampico, Tamaulipas. The majority of our fixed assets is wholly owned and free of any liens or encumbrances. We also own a fleet of over 900 vans, trucks and cars which we use to distribute products to our customers.

As of June 30, 2010, we have 22 distribution centers that represent more than 100,000 square meters of warehouse space. From these centers, we filled more than 6.3 million orders in 2009, averaging more than 530,000 orders per month. All of our distribution centers are strategically located near Mexico's major population centers.

The following table shows our current distribution centers in Mexico and their locations, as of June 30, 2010:

	Distribution Center Name	Location (City, State)
1.	Taxqueña	Mexico City, Federal District
2.	Chihuahua	Chihuahua, Chihuahua
3.	Coatzacoalcos	Coatzacoalcos, Veracruz
4.	Culiacán	Culiacán, Sinaloa
5.	Guadalajara	Guadalajara, Jalisco
6.	Hermosillo	Hermosillo, Sonora
7.	Juárez	Ciudad Juárez, Chihuahua
8.	La Laguna	Gómez Palacio, Durango
9.	León	León, Guanajuato
10.	Centennial	Tlalnepantla, Mexico
11.	Monterrey	Monterrey, Nuevo León
12.	Peninsular	Mérida, Yucatán
13.	Citem	Tlalnepantla, Mexico
14.	Reynosa	Reynosa, Tamaulipas
15.	Tampico	Tampico, Tamaulipas
16.	Tijuana	Tijuana, Baja California
17.	Tláhuac	Mexico City, Federal District
18.	Tuxtla	Tuxtla Gutiérrez, Chiapas
19.	Vallejo	Mexico City, Federal District
20.	Veracruz	Veracruz, Veracruz
21.	Daltem Norte	Monterrey, Nuevo León
22.	Daltem Nacional	Mexico City, Federal District

In January 2009 we started operations in our new distribution center in Hermosillo, Sonora. The new facility has quadruple the storage capacity of the previous center as well as semi-automatic picking capabilities, thus allowing for more efficient distribution to the surrounding region.

In addition, we own the approximately 3,500 square meters site (2,548 square meters of construction) of the "Sports Clinic" facility located in Tampico, and all of the necessary equipment for its operation.

In Brazil, we lease all of the properties where our retail pharmacies are located, as well as one distribution center in São João de Meriti which has approximately 5,000 square meters of storage space and is used to provide local logistics support to our pharmacies. In Mexico, we currently lease 162 properties where our retail pharmacies are located.

The following table shows our pharmacy locations in Mexico and Brazil as of December 31, 2009:

Brand	Location	Number of Pharmacies
Farmacias ABC	Guadalajara, Jalisco	54
Farmacias ABC	States of Guanajuato, Michoacán, Coahuila and Jalisco (other than Guadalajara)	66
Farmacias ABC	Mexico City and State of Mexico	31
Farmacias ABC	Tampico, Tamaulipas	1
Farmacias Provee de Especialidades	Monterrey, Nuevo León	6
Farmacias Provee de Especialidades	Saltillo and Torreón, Coahuila	2
Farmacias Provee de Especialidades	Chihuahua, Chihuahua	1
Farmacias Provee de Especialidades	Hermosillo, Sonora	1
Drogasmil	Río de Janeiro	65
Drogasmil	São Paulo	6

Item 4A. Unresolved Staff Comments.

Not applicable

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with our audited consolidated financial statements and the accompanying notes included in this annual report starting on page F-1. Our audited consolidated financial statements have been prepared in accordance with Mexican FRS, which differ in some significant respects from U.S. GAAP. Note 18 to our audited consolidated financial statements provides a description of the primary differences between Mexican FRS and U.S. GAAP. Note 19 also provides a partial reconciliation of consolidated net income for each of the three years in the period ended December 31, 2009 and consolidated stockholders' equity as of December 31, 2008 and 2009 from Mexican FRS to U.S. GAAP.

Through the end of 2007, Bulletin B-10, "Recognition of the impact of inflation on the financial information (integrated document)" required us to recognize certain effects of inflation in our consolidated financial statements, including the requirement to restate financial statements from prior periods to constant pesos as of the end of the most recent period presented. The method of restatement required us to calculate a restatement factor using a weighted average rate based upon the Mexican National Consumer Price Index, or NCPI. The recognition of the effects of inflation through December 31, 2007 principally resulted in the recognition of gains and losses for inflation on monetary and non-monetary items, which were presented in the financial statements. See Note 3 to our consolidated financial statements.

Effective January 1, 2008, FRS B-10 "Impact of inflation", no longer requires us to recognize the effects of inflation unless the economic environment qualifies as "inflationary". An economic environment is considered inflationary if the cumulative inflation rate equals or exceeds an aggregate of 26% over the three preceding years (equivalent to an average of 8% in each year). Because of the relatively low level of inflation in Mexico in recent years (6.5% in 2008, 3.7% in 2007 and 4.1% in 2006), the cumulative inflation rate in Mexico over the three-year period preceding December 31, 2008 does not qualify the economic environment as inflationary. Additionally, based on current forecasts, we do not expect the economic environment of Mexico or any other country where we operate to qualify as inflationary in 2010. These expectations could change depending on actual economic performance.

As a result, we are presenting our 2009 financial statements without inflation accounting. Financial information for dates and periods prior to January 1, 2008 continue to be expressed in constant pesos as of December 31, 2007. The impact of inflation accounting under Mexican FRS has not been reversed in our reconciliation to U.S. GAAP. See Notes 18 and 19 to our audited consolidated financial statements.

Overview

The year 2009 was a challenging year for Grupo Casa Saba, given that the ongoing world economic crisis continued to affect many industries. Nevertheless, this situation led us to reinforce our business model and to consolidate our operations. As a result, the Group sought to capitalize on the benefits of a diversified and solid business structure within the healthcare sector by developing a strategy that focuses on medium-term growth and profitability as well as increasing the level of service that we provide to our clients.

As part of this effort, in January of 2009 we inaugurated a new distribution center in Hermosillo through which we expect to achieve significant efficiencies of scale in terms of both routes and processes in the region. In Sports Clinic, a company that operates short-stay clinics specializing in orthopedics, trauma, sports medicine and otorhinolaryngology, we invested in projects not only in established markets but also in cities with high growth potential, such as Tampico, where we built a clinic that has state-of-the art technology and outstanding patient care. This clinic opened its doors in November 2009 and is the first facility to operate outside of Mexico City. In addition, in October 2009 in Mexico City, we launched Perfect Image, a new concept in plastic and reconstructive surgical clinics that we believe will broaden our product portfolio in this segment and allow us to access a new and growing market. Finally, we also continued to consolidate our presence in South America through Drogasmil.

In the area of environmental protection, GCS launched a program to reduce waste within our distribution centers. As a result, in several of our largest facilities, we substituted the use of Radio Frequency for paper in our orders, which reduced paper consumption and waste. On a national level, we redesigned our invoices so that they require less paper, thus contributing to the country's ecology.

In terms of our financial results, at the end of 2009, the Group's net sales reached \$29,791.6 million pesos, an increase of 4.90% versus the previous year. This year, 85.94% of the Group's sales were derived from our main division, Private Pharma, which grew 6.25% and totaled \$25,601.6 million pesos. Sales from our Government Pharma division decreased 12.44%, and represented 3.04% of our total sales. Sales in the Health, Beauty, Consumer Goods, General Merchandise and Other division rose slightly compared to 2008 and represented 8.49% of our total sales. The remaining 2.53% of sales came from our Publications division, where sales increased slightly mainly as a result of strong year-end sales and the reincorporation of some publications back into our catalog.

It is worth mentioning that our gross profit increased 5.2% to reach \$3,225.8 million pesos, which resulted in a gross margin of 10.83%, 4 basis points higher than the margin obtained during the previous year. For the fiscal year ended on December 31, 2009, Grupo Casa Saba's net income was \$280.2 million pesos.

Despite the gradual recuperation of the principal stock market indexes in 2009, the instability of the economic environment led to market volatility throughout the year. As a result, the price of our shares listed on the Bolsa Mexicana de Valores decreased 7.6% while that of our shares listed on the New York Stock Exchange declined by 5.0% compared to 2008. Nevertheless, the Group's management upheld its commitment to its shareholders and, for the seventh consecutive year, paid a cash dividend in the amount of \$170 million pesos, or \$0.6450 pesos per share.

As part of our growth strategy, we plan to expand our retail pharmacy operations by acquiring up to 100% of the capital stock of FASA, for a total price of approximately \$637 million. See "Item 4. Information on the Company—History and Development of the Company". Subject to fulfillment of the relevant conditions and completion of the transaction, the Acquisition will make us the largest retail pharmacy chain in Latin America, with a platform of approximately 1,500 pharmacies across Mexico, Brazil, Chile, and Peru. We believe the Acquisition will create value for our shareholders through the projected benefits of the synergies that will be created. As a result of the Acquisition, we expect to reinforce our regional growth strategy through a proved and wide multi-country platform.

Effects of Economic and Governmental Factors on Our Results of Operations

The vast majority of our operations and assets are located in Mexico. As a consequence, our results of operations may be significantly affected by the general condition of the Mexican economy, Mexican inflation, interest rates and political developments in Mexico. With the acquisition of Drogasmil, a Brazilian pharmacy chain, our operations in such country may be significantly affected by the general conditions of the Brazilian economy. See “Item 3. Key Information—Risk Factors Relating to Economic and Political Developments”.

Economic Situation

In 2005, the Mexican economy benefited from sharp increases in oil prices and global economic recovery. As a result, the Mexico’s GDP for the year grew by 3.0%, annual inflation reached a low of 3.3% and the interest rate on 28-day CETES averaged 9.2%. During 2006, Mexico’s GDP grew 4.8% mainly as a result of presidential, congressional and state elections, which enhanced extraordinary spending and a continued increase in oil prices. Inflation reached 4.1% and the interest rate on 28-day CETES averaged 7.2%. During 2007, the Mexican economy proved resilient in the face of a downturn in the US economy. GDP growth was 3.3%, inflation reached 3.8% and the interest rate on 28-day CETES averaged 7.2%. In response to the worldwide economic downturn, in 2008 Mexico’s GDP growth was cut in half, to reach 1.6%, inflation rose to 6.5% and the interest rate on 28-day CETES averaged 7.7%. In 2009, the Mexican economy continued to be affected by the global economic crisis. GDP declined by 6.5% while the average interest rate on the 28-day CETES fell to 5.4%. Inflation, however, decreased to 3.6%.

For each of the years ended on December 31, 2006 and 2007 approximately 99% of our consolidated net sales resulted from sales to parties located within Mexico. With the acquisition of Drogasmil in Brazil in May 2008, approximately 95% of our consolidated net sales in 2009 resulted from sales to parties located within Mexico. In the past, inflation has led to high interest rates and devaluations of the Peso. Inflation itself, as well as governmental efforts to reduce inflation, has had significant negative effects on the Mexican economy in general and on Mexican companies, including us, in particular. One result of inflation in Mexico is the decrease in the real purchasing power of the Mexican population, which can lead to a decrease in the demand for the products that we distribute. In addition, the Mexican government’s efforts to control inflation by tightening the monetary supply have historically resulted in higher financing costs as real interest rates have increased. Such policies have had and could have an adverse effect on our business, financial condition and results of operations.

Brazil has historically had high inflation and interest rates. The impact of high inflation rates and high interest in Brazil could have negative effects in our operations in such country. Consumer demand could decrease as purchasing power declines and access to Brazilian credit markets could become more difficult and at high interest rates.

Currency Fluctuations

Although we currently do not have any U.S. Dollar-denominated debt, we may need to incur such debt in the near future. A significant majority of our revenues are and will continue to be Peso-denominated. As a result, should we incur any substantial U.S. Dollar-denominated debt, we would be adversely affected by decreases in the value of the Peso against the U.S. Dollar, which would most likely result in net foreign exchange losses. Based on the change in the Noon Buying Rate as reported by the Board of Governors of the U.S. Federal Reserve Bank of New York, the Mexican Peso appreciated by approximately 5.6% against the U.S. Dollar in 2009. During the first quarter of 2010, the Peso appreciated by an additional 5.8% against the U.S. Dollar to reach \$12.30 pesos per dollar. Any future depreciation of the Peso will likely result in price increases from our suppliers, which could impact the purchasing capacity of the final consumers, causing a reduction in our net sales.

As a result of our recent acquisition in Brazil, we now face currency exchange risk versus the Real, the official currency of Brazil. As part of the acquisition, we assumed certain Real-denominated liabilities for which we could be adversely affected in the event that the Real appreciated against the Peso. Nonetheless, the asset accounts and future revenues would have the opposite effect under such a scenario. In the event that the Real depreciates against the Peso, the opposite would hold true. For the year ended December 31, 2009, 5.1% of our total revenues were Real-denominated. We cannot assure you that fluctuations in the Real will not adversely affect our financial results in the future.

Severe devaluation or depreciation of the Peso may also result in the disruption of the international foreign exchange markets. This may limit our ability to transfer or to convert Pesos into U.S. Dollars and other currencies for the purpose of making timely payments of principal and interest on any non-Peso-denominated debt we may incur in the future, which could, in turn, affect our ability to obtain foreign services and products. Devaluation or depreciation of the Peso against the U.S. Dollar may also adversely affect U.S. Dollar prices for our securities on the Mexican Stock Exchange, including the Ordinary Shares and, as a result, will likely affect the market price of the ADSs. Such fluctuations would also affect the conversion value of any cash dividends paid on the Ordinary Shares in Pesos into U.S. Dollars.

Inflation and Interest Rates

In recent years, Mexico has experienced high levels of inflation. The rate of inflation on an annualized basis, as measured by changes in NCPI, was 3.8%, 6.5% and 3.6% for 2007, 2008 and 2009, respectively. High inflation rates can adversely affect our business and our results of operations by adversely affecting consumer purchasing power, thereby adversely lowering the demand for the products that we distribute. In addition, to the extent that inflation exceeds our price increases or to the extent that we do not increase our prices, high inflation rates can adversely affect our revenues by adversely affecting our prices in “real” terms.

Mexico has had, and is expected to continue to have, high nominal interest rates. The interest rates on 28-day Mexican government treasury bonds averaged approximately 7.2%, 7.7% and 5.4% for 2007, 2008 and 2009, respectively. In the first quarter of 2010, the 28-day Mexican CETES averaged 4.5%.

Brazil has historically had high inflation and interest rates. The impact of high inflation rates and high interest in Brazil could have negative effects in our operations in such country. Consumer demand could decrease as purchasing power declines and access to Brazilian credit markets could become more difficult and at high interest rates.

Introduction to Our Operations

The following table sets forth the real price increases and unit volume growth for our Private Pharma division, our core business division, for the years indicated:

	Year Ended December 31,		
	2007	2008	2009
Total Mexican Private Pharmaceuticals Market:			
Real Unit Price Increases	3.2%	0.3%	(0.4%)
Growth in Units	1.2%	(4.7%)	(2.5%)
Grupo Casa Saba Private Pharmaceutical Products:			
Real Unit Price Increases	2.8%	4.7%	3.1%
Growth in Units	1.5%	(2.2)%	(5.8%)
Market Share of Grupo Casa Saba⁽¹⁾:	23.1%	23.7%	22.9%
Inflation⁽²⁾	3.8%	6.5%	3.6%

(1) Based on information from IMS Health, A.G. (Mexico) and Grupo Casa Saba’s own estimates. This market share does not include purchases made by government institutions and sales in the private pharmaceutical market from *similares*, generics and *impulso*. Also includes an IMS estimate of sales through non-wholesalers.

(2) Based on the changes in the NCPI.

For a more detailed description of the Mexican private pharmaceutical market and our private pharmaceutical business, see “Item 4. Information on the Company—Business Overview—Pharmaceutical Industry”.

The following table sets forth our net sales by division and the corresponding growth rates for each of our business divisions for the years indicated.

	Year Ended December 31,		
	2007	2008	2009
Millions of Pesos			
Pharmaceuticals:			
Private sector ⁽¹⁾⁽²⁾	Ps. 21,269.6	Ps. 24,094.9	Ps. 25,601.6
% Growth	3.7%	13.3%	6.3%
Government	780.5	1,034.8	906.1
% Growth	(7.7)%	32.6%	(12.4)%
Health, Beauty, Consumer Goods, General Merchandise and Other			
Products	2,281.0	2,521.1	2,530.4
% Growth	2.2%	10.5%	0.4%
Publications	928.6	749.2	753.4
% Growth	2.8%	(19.2)%	0.6%
Total	Ps. 25,259.7	Ps. 28,400.0	Ps. 29,791.6
Total % Growth	3.2%	12.4%	4.9%

(1) The operations of Casa Saba Brazil are consolidated and reflected in the Private Pharmaceuticals business division. For the year ended December 31, 2009, Casa Saba Brazil's net sales represented 5.1% of our consolidated net sales and 6.0% of the net sales of the private pharmaceuticals business division.

(2) The operations of our retail pharmacy business in Mexico are consolidated and reflected in the Private Pharmaceuticals business division. For the year ended December 31, 2009, net sales by our retail pharmacy business in Mexico represented 4.4% of our consolidated net sales and 4.7% of the net sales of the private pharmaceuticals business division.

The following table sets forth the net sales for each of our business divisions and our results of operations as a percentage of our total net sales for the years indicated:

	Year Ended December 31,		
	2007	2008	2009
Pharmaceuticals:			
Private ⁽¹⁾⁽²⁾	84.2%	84.9%	85.9%
Government	3.1%	3.6%	3.0%
Health, Beauty, Consumer Goods, General Merchandise and Other Products	9.0%	8.9%	8.5%
Publications	3.7%	2.6%	2.6%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Cost of Sales	90.2%	89.2%	89.2%
Gross Profit	9.8%	10.8%	10.8%
Operating expenses:			
Selling expenses	2.4%	3.2%	3.1%
Administrative expenses	3.3%	4.2%	4.7%
	<u>5.6%</u>	<u>7.4%</u>	<u>7.8%</u>
Operating income	4.2%	3.4%	3.0%
Comprehensive cost of financing, net	0.1%	0.6%	0.9%
Other income	0.2%	(0.2)%	0.5%
Income tax and employee profit sharing	0.7%	1.1%	0.7%
Net income	<u>3.6%</u>	<u>2.1%</u>	<u>0.9%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) The operations of Casa Saba Brazil are consolidated and reflected in the Private Pharmaceuticals business division. For the year ended December 31, 2009, Casa Saba Brazil's net sales represented 5.1% of our consolidated net sales and 6.0% of the net sales of the private pharmaceuticals business division.

(2) The operations of our retail pharmacy business in Mexico are consolidated and reflected in the Private Pharmaceuticals business division. For the year ended December 31, 2009, net sales by our retail pharmacy business in Mexico represented 4.4% of our consolidated net sales and 4.7% of the net sales of the private pharmaceuticals business division.

For a more detailed description of each of our divisions, see “Item 4. Information on the Company—Operations”.

Results of Operations

In accordance with Mexican FRS, Peso amounts presented below for 2007 are expressed in constant Pesos as of December 31, 2007 while the 2008 and 2009 figures are expressed in nominal terms.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Total Net Sales. Grupo Casa Saba’s total net sales amounted to Ps. 29,791.6 million for the year ended December 31, 2009, an increase of 4.90% as compared to the same period for 2008. The increase was primarily due to a 3.55% increase in the sales of our distribution business as compared to the previous year and our Brazilian retail pharmacy business.

Sales by Division: Net Private Pharma Sales. Net sales from our Private Pharma business division increased 6.25%, from Ps. 24,094.9 million for the year ended December 31, 2008 to Ps. 25,601.6 million for the year ended December 31, 2009. Sales for this division rose primarily as a result of an increase in sales of Drogasmil, our Brazilian pharmacy chain and our Mexican distribution business. Private Pharma accounted for 85.94% of the Group’s total net sales in 2009, 1.10% higher than in 2008. **Net Government Pharma Sales.** Net sales from our Government Pharma business division decreased 12.44%, from Ps. 1,034.8 million for the year ended December 31, 2008 to Ps. 906.1 million for the year ended December 31, 2009, due primarily to a lower level of participation of sales to PEMEX. As a result, this division’s sales represented 3.04% of the Group’s total net sales, somewhat lower than the 3.64% that it accounted for in 2008. **Net Health, Beauty, Consumer Goods, General Merchandise and Other Sales.** Net sales from our Health, Beauty, Consumer Goods, General Merchandise and Other business division grew 0.37%, from Ps. 2,521.1 million for the year ended December 31, 2008 to Ps. 2,530.4 million for the year ended December 31, 2009. Net sales by this division represented 8.49% of our total net sales, 4.39% lower than in 2008. **Net Publication Sales.** Net sales from our Publications business division rose slightly, from Ps. 749.2 million for the year ended December 31, 2008 to Ps. 753.4 million for the year ended December 31, 2009 and accounted for 2.53% of our total net sales for the year ended December 31, 2009. This result was primarily due to the reincorporation of various publications into the catalog as well as strong year-end specialty title and collector’s item sales.

Gross Profit. Grupo Casa Saba’s gross profit amounted to Ps. 3,225.8 million for the year ended December 31, 2009, an increase of 5.23% as compared to Ps. 3,065.5 million for the same period in 2008. The improvement in the gross margin, which was 10.83% for the year ended December 31, 2009, as compared to 10.79% registered during the previous year, was mainly due to improved sales in the Mexican distribution business as well as the Company’s investments in the retail pharmacy business in Brazil, which resulted in increased total sales, as described above.

Operating Expenses. Our operating expenses totaled Ps. 2,335.1 million for the year ended December 31, 2009, an increase of 10.94% as compared to Ps. 2,104.8 million for the year ended December 31, 2008. This was mainly the result of the extraordinary expenses related to changes in the operating environment in our Brazilian retail business that took place during the year. Operating expenses represented 7.84% of our total net sales for the year ended December 31, 2009.

Operating Income. Operating income for the year ended December 31, 2009 was Ps. 890.7 million, a decrease of 7.28% as compared to Ps. 960.7 million for the year ended December 31, 2008. This was due primarily to the increase in our operating expenses, as described above. As a result, our operating margin for year ended December 31, 2009 was 2.99%, a decline of 11.5% as compared to the margin of 3.38% obtained for the year ended December 31, 2008.

Comprehensive Financing Cost, Net. Pursuant to Mexican FRS, we report four items within this line item: interest expense, interest income, foreign exchange (gain) loss and the (gain) loss on net monetary position. Foreign exchange losses (or gains) arise primarily from U.S. Dollar-denominated position or loans as the Peso devalues or appreciates against the U.S. Dollar. The gain or loss on the net monetary position incorporates the effect of inflation on monetary assets and liabilities. Monetary gains arise from holding a net monetary liability position during periods of inflation, while monetary losses arise from holding a net monetary asset position during periods of inflation. Since January 1, 2008 we ceased inflation accounting pursuant to Mexican FRS.

Our comprehensive financing cost, net increased from Ps. 181.1 million for the year ended December 31, 2008 to Ps. 262.2 million for the year ended December 31, 2009. This increase was largely due to the amount of interest paid during the year. The interest payments were made in connection with the long-term loan that was obtained for purposes of financing the acquisition of Drogasmil in Brazil, as well as to the interest related to the use of short-term credits for our operations in both Mexico and Brazil.

Tax Provisions. Provisions for taxes for the year ended December 31, 2009 was Ps. 211.8 million, a decrease of 29.9% as compared to Ps. 302.4 million for the year ended December 31, 2008. Income tax for the year ended December 31, 2009 amounted to Ps. 323.9 million, 0.73% greater than the income tax provisions for the year ended December 31, 2008, and which was partially offset by the deferred income tax of Ps. 131.8 million.

Net Income. The Group's net income for the year ended December 31, 2009 amounted to Ps. 280.2 million, a decrease of 52.9% as compared to Ps. 595.1 million for the year ended December 31, 2008. This decline was primarily due to the fact that the Group assessed goodwill impairment during the last quarter of fiscal 2009, which concurred with the decrease in the economic activity of Drogarias, due to the generalized crisis in the economic environment that had a negative impact on the pharmaceutical industry market in Brazil that year. As a result, at December 31, 2009, an impairment loss was recognized in the line item "other (income) expenses, net," since the net carrying value of the cash generating unit exceeded its "value in use" in the amount of Ps. 210 million.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Total Net Sales. Grupo Casa Saba's total net sales amounted to Ps. 28,400.0 million for the year ended December 31, 2008, an increase of 12.43% as compared to the same period for 2007. The increase was primarily due to the investments that were made during the course of the year in our retail pharmacy business, particularly our acquisition of a pharmacy chain, Drogasmil, in Brazil and our expansion of our pharmacy chain, Farmacias ABC, in Mexico. To a lesser extent, our total net sales increased as a result of an increase in sales by our distribution business, which increased 3.80% for the year ended December 31, 2008 as compared to the prior year.

Sales by Division: Net Private Pharma Sales. Net sales from our Private Pharma business division increased 13.28%, from Ps. 21,269.6 million for the year ended December 31, 2007 to Ps. 24,094.9 million for the year ended December 31, 2008. Sales for this division grew mainly as a result of the investments that were made by Grupo Casa Saba within the sector, including the acquisition of Drogasmil, a Brazilian pharmacy chain and the expansion of our retail pharmacy chain, Farmacias ABC, in Mexico. Private Pharma accounted for 84.84% of the Group's total net sales in 2008, 0.64% higher than in 2007. **Net Government Pharma Sales.** Net sales from our Government Pharma business division increased 32.58%, from Ps. 780.5 million for the year ended December 31, 2007 to Ps. 1,034.8 million for the year ended December 31, 2008, due primarily to a higher level of participation of sales to PEMEX and ISSSTE. As a result, this division's sales represented 3.64% of the Group's total net sales, slightly higher than the 3.09% that it accounted for in 2007. **Net Health, Beauty, Consumer Goods, General Merchandise and Other Sales.** Net sales from our Health, Beauty, Consumer Goods, General Merchandise and Other business division increased 10.53%, from Ps. 2,281.0 million for the year ended December 31, 2007 to Ps. 2,521.1 million for the year ended December 31, 2008, primarily as a result of the increase in the demand for personal care and general merchandise products, as well as commercial agreements that enabled us to increase our promotions and discounts. Net sales by this division represented 8.88% of our total net sales, 0.15% lower than in 2007. **Net Publication Sales.** Net sales from our Publications business division decreased 19.23%, from Ps. 928.6 million for the year ended December 31, 2007 to Ps. 749.2 million for the year ended December 31, 2008 and accounted for 2.64% of our total net sales for the year ended December 31, 2008. The decline was primarily due to the fact that we stopped distributing publications that did not meet our minimum profitability requirements.

Gross Profit. Grupo Casa Saba's gross profit amounted to Ps. 3,065 million for the year ended December 31, 2008, an increase of 23.40% as compared to Ps. 2,484.3 million for the same period in 2007. The improvement in the gross margin, which was 10.79% for the year ended December 31, 2008, as compared to 9.83% registered during the previous year, was mainly due to the Company's recent investments in the retail pharmacy business in Mexico and Brazil which resulted in increased total sales, as described above.

Operating Expenses. Our operating expenses amounted to Ps. 2,104.8 million for the year ended December 31, 2008, an increase of 47.73% as compared to Ps. 1,424.9 million for the year ended December 31, 2007. This was mainly the result of the investments that were made throughout the course of the year in our retail pharmacy business in Mexico and Brazil, which increased our payroll, lease payment obligations, legal fees and other operating costs significantly. Operating expenses represented 7.41% of our total net sales for the year ended December 31, 2008.

Operating Income. Operating income for the year ended December 31, 2008 was Ps. 960 million, a decrease of 9.32% as compared to Ps. 1,059.4 million for the year ended December 31, 2007. This was due primarily to the increase in our operating expenses, as described above. As a result, our operating margin for year ended December 31, 2008 was 3.38%, a decline of 0.81% as compared to the margin of 4.19% obtained for the year ended December 31, 2007.

Comprehensive Financing Cost, Net. Pursuant to Mexican FRS, we report four items within this line item: interest expense, interest income, foreign exchange (gain) loss and the (gain) loss on net monetary position. Foreign exchange losses (or gains) arise primarily from U.S. Dollar-denominated position or loans as the Peso devalues or appreciates against the U.S. Dollar. The gain or loss on the net monetary position incorporates the effect of inflation on monetary assets and liabilities. Monetary gains arise from holding a net monetary liability position during periods of inflation, while monetary losses arise from holding a net monetary asset position during periods of inflation. Since January 1, 2008 we ceased inflation accounting pursuant to Mexican FRS.

Our comprehensive financing cost, net increased from Ps. 17.8 million for the year ended December 31, 2007 to Ps. 181.1 million for the year ended December 31, 2008. This increase was largely due to the amount of interest paid in 2008. The interest payments were made in connection with the long-term loan that was obtained for purposes of the acquisition of Drogasmil in Brazil, as well as to the interest related to the use of short-term credits for our operations in both Mexico and Brazil.

Tax Provisions. Provisions for taxes for the year ended December 31, 2008 was Ps. 302.4 million, an increase of 60.68% as compared to Ps. 188.2 million for the year ended December 31, 2007. Income tax for the year ended December 31, 2008 amounted to Ps. 321.5 million, 13.3% less than the income tax provisions for the year ended December 31, 2007, and which was partially offset by the deferred income tax of Ps. 95.1 million.

Net Income. The Group's net income for the year ended December 31, 2008 amounted to Ps. 595.1 million, a decrease of 34.25% as compared to Ps. 905.1 million for the year ended December 31, 2007. This decline was primarily the result of the increase in operating expenses, the amount of interest paid as well as the increase in tax provisions, as described above.

Aggregate Contractual Obligations

Below is a table containing a description of Grupo Casa Saba's aggregate contractual obligations as of December 31, 2009.

Tabular Presentation of Aggregate Contractual Obligations

Contractual Obligations (millions of Pesos)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt (1)	891.6	-	403.8	403.8	84.0
Capital Lease Obligations (2)	-	-	-	-	-
Operating Leases (3)	-	-	-	-	-
Purchase Obligations (4)	-	-	-	-	-
Other Long-Term Liabilities (deferred income tax and other liabilities) reflected on our Balance Sheet under Mexican FRS (5)	865.3	-	-	-	865.3
Total	1,756.9	-	403.8	403.8	949.3

(1) Current maturities of long-term debt (see Note 8 to our audited consolidated financial statements).

(2) Not applicable.

(3) Our operating leases are primarily related to our retail pharmacy business in Mexico and Brazil. These leases, which amounted to Ps. 200.8 million in 2009, are entered into in the ordinary course of business and their term varies from one-year to a longer term of up to ten years, depending on the circumstances and location.

(4) Not applicable.

(5) Includes reserve for retirement pensions and seniority premiums. The maturity of this obligation will occur in accordance with the disclosure in Note 3(m) to our audited consolidated financial statements.

Non-Exchange Traded Contracts Accounted for at Fair Value

All financial assets and financial liabilities derived from any type of financial instrument are recognized in our balance sheet and assessed at fair value. 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.

As of December 31, 2008 and 2009 the carrying value of financial instruments approximates their value due to their short-term nature. Long-term debt incurred through bank loans with similar terms and due dates accrues variable markets prevailing financing rates.

Off- Balance Sheet Arrangements

Under “Disclosure of information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk” (ASC 825) the Group sells its products mainly to distributors including supermarket chains, pharmacies and retail customers, throughout Mexico, as well as in Rio de Janeiro and São Paulo in Brazil. No single customer accounted for a significant amount of the Group’s sales in fiscal year 2007, 2008 or 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 arrangement that has or is reasonably likely to have a current or future effect on the financial statements, changes in liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Policies

Application of critical accounting policies

Preparing our consolidated financial statements requires that we make certain estimates and use certain assumptions to determine the valuation of some assets and liabilities and disclose our contingent assets and liabilities at the date of our financial statements and the reported amount of revenues and expenses incurred during the reporting periods. We base our estimates and judgments on our experience and on various other reasonable factors that together form the basis for making judgments about the carrying values of our assets and liabilities. Our actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates on an on-going concern basis and they are continuously reviewed by using the available information. Our significant accounting policies are described in Note 3 to our audited consolidated financial statements. We believe that our most critical accounting policies that imply the application of estimates and/or judgments are:

Allowance for doubtful accounts

The allowance for doubtful accounts represents our estimate of the probable loss inherent in all receivables by considering the general historical trend of customers’ payment performance and factors surrounding the specific customer’s credit risk. On a periodic basis, we analyze the recoverability of our accounts receivable in order to determine whether, due to credit risk or other factors, some receivables may not be recovered. If we determine that such a situation exists, book value related to the non-recoverable assets is adjusted and expensed through an increase in the allowance for doubtful accounts. This determination requires substantial judgment by our management. Final losses from doubtful accounts may differ from our estimated reserve.

Estimate for slow-moving inventory

Periodically, we analyze the recoverability of our inventories in order to determine whether due to certain factors or conditions, certain products in our inventories may not be available or useable for sale purposes. If such a situation exists, book value related to the non-recoverable assets is adjusted and expensed through an increase in the estimate for slow-moving inventory. As a result, final losses from slow-moving inventory could differ from our estimated reserves.

Property and equipment

Our balance sheet reflects amounts of long-lived assets (mainly fixed assets and goodwill) associated with our operations throughout Mexico and Brazil. Many of these assets have resulted from past acquisitions, which have required us to report these assets at their market value at the dates of acquisition. Subsequently they were restated up to December 31, 2007 applying the “adjustments due to changes in the general price level method” by using the NCPI to value those assets, as permitted by Mexican FRS mentioned in the Note 3(d) to our financial statements.

As we discuss in Note 3(d) to our audited consolidated financial statements, we periodically assess the recoverability of the book value of our long-lived tangible and intangible assets, including goodwill and permanent investments in associate, to establish whether significant adverse events, changes in the business environment and/or changes in expectations with respect to operating income for each cash generating unit, indicate that the carrying value of those assets may not be recovered. This determination requires substantial judgment. The impairment loss is determined by the excess of carrying value of long-lived assets over the “value in use”, which consists of determining the present value of estimated cash flows. The impairment loss, if any, is recorded as a charge to operations in “other (income) expenses, net” in the period when such an assessment is carried out, unless the indications mentioned are of a temporary nature. Mexican FRS contemplates the reversal of the recognition of impairment, under certain circumstances. Property and equipment to be disposed of are recorded as the lower of the carrying value or the fair market value less any sale related costs. Additionally, we review the lives assigned to these long-lived assets for purposes of depreciation or amortization, as the case may be, when applicable. This determination is subjective and is an integral part of the determination of whether an impairment has occurred.

As mentioned before, property and equipment are initially recorded at acquisition cost. Effective January 1, 2008, during high inflationary periods, those assets are restated by using INPC 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 inflationary economic environment, the value of those assets were restated by using INPC factors, as discussed in Note 3 (d). Depreciation is calculated on the value of property and equipment restated through December 31, 2007 or when the inflationary economic environment is applied, as well as on the acquisition cost for additions subsequent to 2007 when the economic environment is not inflationary, in accordance with FRS B-10, by applying the straight-line method based on the remaining economic useful life thereof.

At 2008 and 2009 fiscal year end, the Group’s management determined that there were no impairment indications that had a significant adverse impact in the carrying value of property and equipment except in Casa Saba Brasil as mentioned below. Accordingly, fair value of property and equipment other than property in Casa Saba Brasil was equivalent to or greater than the carrying value thereof at that date.

While we believe that our estimates are reasonable, different assumptions could materially affect our evaluations. Our evaluations throughout the year and up to the date of this annual report did not lead to any impairment of property and equipment. We can give no assurance that our expectations will not change as a result of new information or developments.

The provisions of Mexican FRS (Bulletin C-15 Impairment of the value of long-lived assets and their related disposal) are virtually identical to, “Accounting for the impairment or disposal of long-lived assets” adopted by us on January 1, 2002 under U.S. GAAP.

Intangible assets and goodwill

Intangible assets are initially recorded at acquisition cost, which is equivalent to its fair value at acquisition date. Effective January 1, 2008, during high inflationary periods, those assets are restated by using INPC factors applicable to the country where those assets are established, in accordance with 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 INPC factors, as discussed in Note 3 (d).

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 with a defined economic useful life refer to licenses related to the technological platform with which the Group operates.

Intangible assets acquired through a business combination consider: (i) the purchase method is used as the sole valuation standard; (ii) the purchase price is allocated on net assets acquired based on their estimated fair value at the acquisition date, except as discussed in hereinbelow, without exceeding the consideration paid; (iii) the portion of the purchase price not allocated that is not identifiable is included in goodwill which, if applicable, is adjusted by any correction that may arise from events or circumstances subsequent to the acquisition date; and (iv) valuation is performed with certain exceptions to the use of fair value, in which case the pertinent Mexican FRS is applied. Goodwill is allocated to the cash flow generating units.

Intangible assets with a defined economic useful life are amortized on their restated value through December 31, 2007 or when the inflationary environment applies, as well as on the acquisition cost for subsequent additions when the economic environment is not inflationary, in accordance with FRS B-10. Toward that end, the straight-line method is applied based on their remaining economic useful life.

Intangible assets with an undefined economic useful life, including goodwill, are subject to periodic impairment tests, by applying the “value in use”. Toward that end, “perpetuity value” is applied which considers: (i) the generation of excess value in use of assets other than goodwill (“excess value in use”); and (ii) the recovery of goodwill through perpetuity. Therefore, the impairment loss is generated by the excess carrying value over perpetuity value referred to above. The Group considers that its cash flow projections recognize medium and long-term economic variables fairly at the time of the calculation. Economic variables are related to the price of products, changes in operating expenses, industry trend, and discount and growth rates applied in perpetuity.

As explained in Note 1 (c) to our financial statements, the Group completed the purchase price allocation, except with respect to the value of inventories at the acquisition date (May 15, 2008) of the subsidiary Drogarias. Consequently, Management carried out the goodwill impairment test during the last quarter of 2009. Therefore, an impairment loss was determined as explained in our Note 1(c) to the financial statements. Impairment is due to significant adverse events at Drogarias that occurred in 2009, which are related to changes in the business environment, expectations in operating income, lack of liquidity, etc.

While we believe that our estimates are reasonable, different assumptions could affect our evaluation. We can give no assurance that our expectations will not change as a result of new information or developments.

Provisions, contingent assets and liabilities and commitments

We recognize provisions 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 only accounted for when it is likely that present obligations will require the disbursement of economic resources and there are reasonable elements for their quantification. Commitments are not recognized unless they result in a loss. Actual results may differ from our estimates under different assumptions or conditions.

Labor obligations

The Group recognizes the labor obligations derived from defined benefits for retirement pensions and seniority premiums for all of its employees, as well as severance benefits to employees when they complete the employment relationship prior to retirement age due to causes other than restructuring. Severance benefits represent legal ordinary severance payments. Those benefits are recognized in income based on actuarial computations, as employees render their services. 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 guidelines of Bulletin C-9, “Liability, provisions, contingent assets and liabilities, and commitments” of Mexican FRS.

Employee profit sharing due is recorded based on the amount payable, determined on taxable income generated, as provided for in the currently enacted tax legislation.

Effective January 1, 2008, the Group adopted Mexican FRS D-3, “Employee fringe benefits” (FRS D-3), thereby substituting Bulletin D-3, “Labor obligations” (Bulletin D-3). As a result:

- the unrecognized net transition obligation existing at December 31, 2007 can be amortized in five years if the remaining useful years of service of employees exceeds that period. At December 31, 2008 and 2009, the amortized amount of that item was immaterial.
- the opening transition asset or obligation is not recognized, unless a new defined fringe benefit plan is established. At December 31, 2008 and 2009, the Group did not establish any new plan for such item.
- actuarial gains or losses and prior services of benefits upon termination due to causes other than restructuring are recognized in income. At December 31, 2008 and 2009, that amount was immaterial.
- employee profit sharing is recognized in income in the line item “other (income) expenses, net”. Deferred employee profit sharing is determined by using the “asset and liability method”, by applying a 10 percentage 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.

While we believe that our estimates are reasonable, different assumptions could affect our evaluation. We can give no assurance that our expectations will not change as a result of new information or developments.

Income Tax, Single Rate Business Tax

Effective January 1, 2008, the tax authorities repealed the Asset Tax Law and enacted the *Ley del Impuesto Empresarial a Tasa Única*, Single Rate Business Tax Law, or IETU Law, which co-exists with the Income Tax Law, consequently:

As discussed in Note 13(b) to our financial statements, the IETU Law went into effect on January 1, 2008. As a result of the transition, the Company and its subsidiaries determined that the taxes on earnings that will normally be paid (the higher of income tax or IETU) will be that which is obtained from the taxable income base of income tax, which the Company and its subsidiaries estimate will exceed the taxable income base of IETU, in accordance with a projection based on reasonable assumptions, as provided for in IFRS-8 “Effect of Corporate Flat Tax” (IFRS-8). If the Company and its subsidiaries determine 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 Company and its subsidiaries will account for deferred income tax, even though IETU will be due in the period. Management restates this estimate periodically.

In accordance with Mexican FRS D-4, “Taxes on earnings” (FRS D-4), the deferred income tax effect is determined by applying the “asset and liability method”. 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.

The Company and its subsidiaries perform a periodic valuation allowance review to determine the amount of the deferred asset (income tax and/or employee profit sharing) that is more likely that not will be realized and recorded based on the available information. At December 31, 2008 and 2009, the Company and its subsidiaries determined there was no need for a valuation allowance to be recognized as the deferred asset was deemed to be fully recoverable.

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 purposes, the Group adopted “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 order to be recognized in the financial statements. 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 as of the reporting date. For this assessment, the Group assumes that the tax authorities will examine and have full knowledge of all relevant information (see Note 15). However, this difference between Mexican FRS and U.S. GAAP is not material to the Company’s consolidated financial statements during any of the periods presented herein, and has thus not resulted in a reconciling item.

Tax examinations may involve complex issues and their resolution may carry multiple years, if subject to negotiation or litigation. The Group believes its estimates of the unrecognized tax benefits are reasonable, however uncertainties could affect the amount of unrecognized tax benefits in the future periods. It is difficult to estimate the timing and range of possible change related to the uncertain tax positions, as finalizing audits with the authorities may involve administrative and legal proceedings. Therefore, any settlements or statute expirations may result in a significant increase or decrease in the total unrecognized tax benefits, including those positions related to tax examinations being currently conducted.

Tax and legal contingencies

We are subject to various claims and contingencies related to tax and legal proceedings as described in Note 15 to our consolidated financial statements. Due to their nature, such tax and legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accounts for a liability and/or discloses the relevant circumstances, as appropriate. If the potential loss from any claim or tax and legal proceedings are considered probable and the amount can be reasonably estimated, we account for a liability for the estimated loss.

Drogarias records certain provisions for contingencies based on the opinion of its legal advisors. Accordingly, Drogarias maintains a provision for the total labor and tax lawsuits, classified as risk of a probable loss. At December 31, 2008 and 2009, the liability recorded to cover those losses amounted to thousands of Brazilian real R\$ 6,900 and R\$ 2,422, respectively (Ps. 40,572 and Ps. 18,132), which is included in the line item “other payables and accrued long-term liabilities” in the consolidated balance sheet.

In addition, Drogarias is subject to certain unquantifiable contingencies that may result in present obligations. The solution of these matters is in a preliminary stage and a conclusion might span various years. Drogarias has considered that it has incurred a possible liability. Management considers this possible liability in the amount of R\$ 7,000. However, it can not 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. Notwithstanding the foregoing, Drogarias has recorded a provision for those contingencies in the amount of thousands of Brazilian real R\$ 2,278 (Ps. 17,054) which is included in the caption “other payables and accrued long-term liabilities” in the consolidated balance sheet.

Foreign operations

The accounting records of the foreign subsidiaries are maintained in the recording currency of the country where those subsidiaries are established. Their financial statements are adjusted to Mexican FRS prior to their translation and consolidation. The translation is carried out in accordance with Mexican FRS B-15, “Foreign currency translation”. 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 operation operates in a non-inflationary economic environment and its functional currency is the Brazilian real. Accordingly: (i) monetary and nonmonetary assets and liabilities were translated at 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 foreign exchange fluctuations, as discussed in subparagraph o) below.

We are exposed a variety of risks and uncertainties related to operating in Brazil, including political, economic or social upheaval, devaluations in the Brazilian Real, high levels of inflation and interest rates, the introduction of import, investment or currency restrictions, including pricing regulation on pharmaceutical products, restrictions on the repatriation of earnings and capital.

Indebtedness

As of December 31, 2009 the Group's interest-bearing liabilities totaled Ps. 2,382.7. As of March 31, 2010, we had arranged for short-term revolving credit lines for a total aggregate principal amount of Ps. 915 million with the following lenders: Banco Nacional de Mexico, S.A., BBVA Bancomer, S.A., Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer; Ixe Banco, S.A., Institucion de Banca Multiple, Ixe Grupo Financiero; and Financiera Bajio, S.A. de C.V., Sociedad Financiera de Objeto Multiple. These facilities may each be accessed depending on our cash flow requirements. Grupo Casa Saba did not provide specific guarantees for these facilities. The loans made under these facilities bear interest at variable rates depending on the Equilibrium Interbank Interest Rate (TIIE) published periodically by *Banco de México* plus an average of approximately 3 percentage points. The basis points which will be added to TIIE depend on negotiations and prevailing market conditions.

In May 2008, to finance the acquisition of Drogasmil, we entered into a long-term loan with Scotiabank Inverlat for an aggregate amount of up to Ps. 1,210 million, which has to be repaid monthly at the TIIE rate plus 0.75 percentage points for a term of seven years, with a grace period of 12 months. As of December 31, 2009, we had drawn the full amount under the loan. The obligations under such agreement are guaranteed by the Company and our subsidiary Drogueiros, S.A. de C.V.

On March 25, 2010, Casa Saba entered into a new credit agreement with Scotiabank Inverlat, S. A. to liquidate the bank loans payable by Drogarias discussed in Note 9 to our audited consolidated financial statements. On March 26, 2010, Casa Saba drew down this credit in the amount of Ps. 520 million which will be repaid monthly at the TIIE rate plus a margin for a term of five years, plus a grace period of 6 months. The obligations under the credit agreement are guaranteed by the Company and its subsidiary Drogueiros, S.A. de C.V.

See Note 9 to our consolidated financial statements for further description of our indebtedness.

Liquidity and Capital Resources

Overview

Historically, our cash and capital requirements have been satisfied through cash from operations and bank loans. We plan to continue to satisfy our cash and capital expenditure requirements primarily through cash from our operations. If deemed necessary, we can access our revolving credit facilities totaling an aggregate principal amount of up to Ps. 915 million. Net working capital (current assets minus current liabilities) as of December 31, 2009 was Ps. 5,295.7million compared to Ps. 5,433.5 million as of December 31, 2008.

Our cash flows are subject to seasonal fluctuations and market conditions. To maintain a larger winter inventory and to ensure adequate inventory levels for the two or more weeks of holidays in December, during which suppliers do not make sales or deliveries, our accounts payable and inventories typically increase at year-end. After reaching their highest levels in December, our inventories gradually decrease to what we estimate is a normal operational level of approximately 50 inventory days. Our inventories, net as of December 31, 2009, were Ps. 5,141.1million or 0.51% lower than the Ps. 5,167.7 million they amounted to on December 31, 2008. As of December 31, 2009, our inventory days were 69.7 days, 3.7 days lower than the 73.4 days registered for the year ended December 31, 2008. As of December 31, 2008, our inventory days were 73.4 days, 3.6 days lower than the 77.0 days registered for the year ended December 31, 2007. Accounts Receivable for the year ended December 31, 2009 registered 63.2 days while accounts payable accounted for 68.5 days for the same period. Accounts Receivable for the year ended December 31, 2008 registered 66.2 days while accounts payable were 83.6 days for the same period. For the year ended December 31, 2007, inventory days were 77.0, account receivable days reached 64.7 and accounts payable days were 81.8 days.

Accounts Receivable

As of December 31, 2009, due to higher sales, a highly competitive environment and commercial negotiations with clients, accounts receivable net increased to Ps. 6,123.8 million, 3.4% higher than the Ps. 5,920.3 million registered as of December 31, 2008. Accounts receivable days as of December 31, 2009 decreased 3.0 days to 63.2 days from 66.2 days in 2008. As of December 31, 2007, accounts receivable days were 64.7.

For a description of the nature and amounts of accounts receivable due from current and former related parties, see “Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions” and Note 8 to our audited consolidated financial statements.

Trade Accounts Payable

As of December 31, 2009, trade accounts payable decreased to Ps. 5,052.2million or 14.1% compared to Ps. 5,881.4 million as of December 31, 2008. As a result, our trade accounts payable days decreased to 68.5 in 2009 compared to 83.6 days for the year ended December 31, 2008. As of December 31, 2007, our trade accounts payable days were 81.8.

For a description of the nature and amounts of trade accounts payable owed to current and former related parties, see “Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions” and Note 8 to our audited consolidated financial statements.

Capital Expenditures

Our capital expenditures during 2009 were approximately Ps. 75.6 million, which consisted of Ps. 19.4 million for the purchase of transport and delivery equipment, Ps. 22.2 million for technology and computer equipment, particularly the acquisition of new computer equipment and Ps. 34.0 million for other general expenditures. These expenditures were mainly funded with working capital. For 2010 we expect to continue to fund our capital expenditures needs with working capital.

Our capital expenditures during 2008 were approximately Ps. 130.8 million, which consisted of Ps. 36.4 million for the purchase of transport and delivery equipment, Ps. 30.7 million for technology and computer equipment, particularly the acquisition of new software licenses and Ps. 63.7 million for other general expenditures. These expenditures were mainly funded with working capital.

Our capital expenditures during 2007 were approximately Ps. 163.9 million, which consisted of Ps. 38.9 million for the purchase of transport and delivery equipment, Ps. 41.2 million for technology and computer equipment, particularly the acquisition of new software licenses, Ps. 44.0 million for work-in-progress related expenditures and Ps. 39.8 million for other general expenditures. These expenditures were mainly funded with working capital.

Trend Information

During 2009, we continued with our strategy of profitable growth and implemented a number of operating efficiencies programs to maximize the profitability of our operations. We applied profitability requirements to our clients and suppliers, even when this meant discontinuing operations with certain clients and suppliers that did not meet the minimum parameters that we requested from them. In terms of our cost-saving programs, we successfully reengineered routes and optimized our distribution centers.

We believe that our profitability strategy will allow us to continue growing our divisions with acceptable margin levels and we will continue to focus our efforts on increasing profitability in the different markets in which we operate.

The Mexican private pharmaceutical market has solid growth fundamentals which lead us to expect sustained annual growth over the coming years. The main factors supporting this expected growth are Mexico's demographic structure (adults are continuously increasing their participation in Mexico's total population) and the increase in the life expectancy of the Mexican population. The combination of these factors generated a natural growth in the demand for healthcare services and pharmaceutical products. Despite the overall growth that we expect to continue in the pharmaceutical market, which generally benefits our wholesale distribution business, in recent years there has been a shift in the percentage of private sector pharmaceutical sales that are placed through wholesalers, like us, to sales that are placed directly by the manufacturers to a large retail pharmacy chains and supermarket supercenters that purchase sufficiently large volumes to have direct access to the laboratories. According to IMS Health, A.G. and our internal data, private sector pharmaceutical sales that are placed through wholesalers have declined from 90% in 2007 to 80% in 2008 and 2009. A continued increase in direct sales by manufacturers to retail pharmacy chains could to have a material adverse affect our results of operation.

With respect to our non-pharmaceutical or HBCG/other products related business divisions, we believe that higher levels of economic growth are necessary to increase the demand for these products; therefore, we depend on the improvement of general economic conditions and increases in consumer purchasing power to generate positive results in the upcoming years. We believe that the more solid client and editorial base of our Publication business division has, and will, allow it to generate better sales and operating results, particularly when Mexico's economic performance improves.

Brazil is also experiencing similar trends in terms of the expansion of the adult population, prompted by an increase in overall life expectancy. Brazilians' average life expectancy has increased, from 68.5 years in 1995 to 72.3 years in 2009. As a result, the over-60 population in the country has increased significantly over the course of the last ten years and it is this group that is most likely to stimulate the demand for both healthcare services and pharmaceutical products in the future. In addition, older consumers are generally more affluent and have larger discretionary incomes, making them a target demographic for many manufacturers, including for over-the-counter healthcare products.

From a socio-economic standpoint, we would also expect that the decrease in the unemployment in Brazil from 12.3% in 2004 to 8.1% in 2009, combined with an increase in the average salary in the last ten years, will stimulate the consumption of HBCG and Other products. However, as is the case in Mexico, the continued demand for these products will require a stable economic environment. Therefore, the growth of this segment will largely depend on the speed with which the Brazilian economy recovers from the effects of the recent global economic crisis.

In connection with the FASA Acquisition, we will incur significant amounts of debt which may have an adverse effect on the price of our outstanding shares. Such financing could, likewise, have important consequences to the Company, including an increase in the costs for interests. The agreement that will document the financing will contain covenants that, among others, will restrict the Company's ability to incur additional debt, carry out capital expenditures and maintain financial ratios. Consequently, our ability to pay dividends, finance acquisitions, carry out investments and maintain flexibility in the performance of our business, may be significantly limited.

As a result the FASA Agreement and the financing to be obtained in connection therewith, we could face an exchange rate risk against the Chilean Peso, due to the fact that the financing to be obtained to complete the Acquisition will be denominated in Pesos and Dollars and the payment of the Acquisition's purchase price will be in Chilean Pesos. Additionally, to cover our position in foreign currency, we have resorted to the execution of forward agreements. See "Item 10. Additional Information—Material Contracts".

We believe the Acquisition will create value for our shareholders through the projected benefits of the synergies that will be created. These synergies will provide added strength to the Company by significantly increasing its size as the main distributor and vendor of pharmaceutical, health, beauty, personal care and general consumption products and giving us a larger national presence. As a result of the Acquisition, we also seek to reinforce our regional growth strategy through a proved and wide multi-country platform, that also has the necessary corporate and system capacities to integrate efficiently our existing operations in Mexico and Brazil.

The trends described in this section and expectations of Grupo Casa Saba may be affected by the current global economic downturn, particularly by the impact on the Mexican and Brazilian economies. See “Item 3. Key Information—Risk Factors—Risk Factors Relating to Economic and Political Developments”.

Accounting Pronouncements and Related Effects

Under Mexican FRS

Recently Issued Accounting Pronouncements

In connection with the amendments to the Income Tax Law in Mexico, effective January 1, 2010, dated December 15, 2009, the CINIF issued IFRS 18, “Recognition of the effects of the tax reform of 2010 on taxes on earnings” (IFRS-18) to be applied immediately, which sets forth the accounting treatment of the income tax liability derived from the changes to the tax consolidation regime. The change requires that the Group determines income tax due at December 31, 2009 as if the tax consolidation provisions had not existed since fiscal 1999 henceforth. IFRS-18 sets forth that: (i) the liability relative to the effect of the tax reform on intercompany dividends should be 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. The realization of the income tax asset is subject to generating future taxable income in the controlled companies that generated tax losses in the past.

Pursuant to the foregoing, the Group recognized a liability in the amount of Ps. 133,619 with a charge to retained earnings, due to the difference between the consolidated “Net taxable income account” (CUFIN-Spanish acronym) balance and the CUFIN balances of the controlled entities (refer to subparagraph Note 13 our financial statements).

Under U.S. GAAP

The following new accounting standards have been issued under U.S. GAAP, the application of which is required as indicated.

Recently Issued Accounting Pronouncements

In October 2009, the Accounting Standards Update (“ASU”) 2009-13, “*Multiple-Deliverable Revenue Arrangements*” (“ASU 2009-13”) was issued. This standard modifies the fair value requirements of ASC 605-25, “Revenue Recognition-Multiple Element Arrangements” by 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. The Group is currently evaluating the effect ASU 2009-13 may have on its audited consolidated financial statements.

In June 2009, the Accounting Standards Codification (“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. This standard is effective for interim and annual periods beginning after November 15, 2009. The Groups’s adoption of this provision had not an impact on its consolidated financial position and results of operation.

In June 2009, ASC 860, “*Transfers and Servicing*” (“Accounting for Transfers of Financial Assets”) was issued. ASC 860 requires more information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. ASC 860 eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosure. This standard is effective for fiscal years beginning after November 15, 2009. The Group plans to adopt this provision on January 1, 2010 and does not expect it to have an impact on its consolidated financial position and results of operation.

In June 2009, ASC 105, “*Generally Accepted Accounting Principles*” was issued. ASC 105 establishes the FASB ASC as the single source of authoritative nongovernmental U.S. GAAP, except for 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.

In April 2009, ASC 825, “*Financial Instruments*” was issued. ASC 825 requires disclosures of fair value for any financial instruments not currently reflected at fair value on the balance sheet for all interim periods. ASC 825 enhances consistency in financial reporting by increasing the frequency of fair value disclosures and is effective for interim and annual periods ending after June 15, 2009, and is to be applied prospectively. Adoption of this provision did not have an effect on the Group’s consolidated financial statements.

In April 2009, transition guidance ASC 820-10-65-4, “*Fair Value Measurements and Disclosures—Overall—Transition Guidance*”, the provisions of which have been incorporated in ASC 820-10-50-2, “*Fair Value Measurements and Disclosures—Overall—Disclosures*”. ASC 820 requires disclosures about fair value of financial instruments for interim reporting periods and annual financial statements of publicly traded companies. This guidance is effective for interim and annual periods ending after June 15, 2009. Adoption of this provision did not have an effect on the Group’s consolidated financial statements.

In March 2008, ASC 815, “*Derivatives and Hedging*” was issued. ASC 815 requires enhanced disclosures about an entity’s derivative and hedging activities including how and why an entity uses, how an entity accounts for derivative instruments; and related hedged items and how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. ASC 815 is effective beginning January 1, 2009. Adoption of this provision did not have an effect on the Group’s consolidated financial statements.

Item 6. Directors, Senior Management and Employees

Board of Directors

The following table sets forth the names of our directors, their dates of birth, their principal occupation, their business experience, including other directorships, and the number of years of service they have as directors. All of these individuals were elected by our shareholders at our annual shareholders’ meeting, which was held on April 30, 2010.

Directors			
Name and Date of Birth	Principal Occupation	Business Experience	First Elected
Manuel Saba Ades (11/03/67)	Chairman of the Board	Director – Xtra Inmuebles, S.A. de C.V. and of Grupo Casa Saba, S.A.B. de C.V. Member of the Board of Grupo Xtra S.A., de C.V. and of Ixe Grupo Financiero, S.A.B. de C.V.	April 2009
Alberto Saba Ades (07/09/65)	Vice Chairman of the Board	Director – Xtra Inmuebles, S.A. de C.V. Chairman of the Board of Grupo Xtra, S.A. de C.V.	February 2000

Gabriel Saba D'jamus (07/27/69)	Chief Executive Officer	Executive Director – Grupo Comercial Hotelera, S.A. de C.V. and Grupo Casa Saba, S.A.B. de C.V.	April 2009
Juan Carlos Peralta del Río (24/09/75)	Vice President	Vice President - IUSA Footwear International S.A. de C.V	April 2008
Pedro Alejandro Sadurni Gómez (10/8/59)	Chief Financial Officer	Former Chief Financial Officer of Administration – INMAS, S.A. de C.V.	April 2009
Julio Madrazo García (07/07/66)	Partner	De la Calle Madrazo Mancera, CMM and Director-Zimat Golin Harris	April 2009
Fernando Chico Pardo (02/15/52)	President	President of PROMECAP, S.C. and Grupo Aeropuerto del Sureste, S.A. de C.V.	April 2009
Miguel Alemán Magnani (04/25/66)	President	Grupo Alemán	April 2009
Gabriel Alarcón Velázquez (02/23/37)	Director	Banco de Comercio	April 2006
Enrique Castillo Sánchez-Mejorada (13/08/56)	Chairman of the Board of Directors	IXE Grupo Financiero S.A.B. de C.V.	April 2010

On April 30, 2010, Mr. Enrique Castillo Sánchez-Mejorada was elected as an independent board member in accordance with the Mexican Securities Market Law.

Francisco Fuentes Ostos is the Secretary of our Board of Directors, without being a member of the Board. Alberto Saba Ades and Manuel Saba Ades are brothers. Manuel Saba Ades and Alberto Saba Ades are cousins of Gabriel Saba D'jamus. Alberto Saba Ades is the Chairman of the Board of Directors of Grupo Xtra, S.A. de C.V. and Manuel Saba Ades is a regular member of the same Board. In addition, Manuel Saba Ades was elected as a member of the Board of Directors of Ixe Grupo Financiero, S.A.B. de C.V. and Alberto Saba Ades continues to serve as an alternate member of this same Board. Our directors are not party to a service contract with us, and there are no arrangements pursuant to which any of them was elected as a director of the Company.

Set forth below is the name of the alternate member of our board of directors. The alternate member of our board was ratified by our shareholders at our annual shareholders' meeting, which was held on April 30, 2010.

Name and Date of Birth	Principal Occupation	Business Experience	First Elected
Iván Moguel Kuri (01/31/63)	Tax Adviser to Grupo Casa Saba, S.A.B. de C.V.	Partner – Chevez, Ruiz, Zamarripa y Cia, S.C.	February 2000

The management of our business is vested in our Board of Directors and the Chief Executive Officer. Our bylaws provide that the number of seats on our Board of Directors shall be determined by our shareholders at a general ordinary shareholders' meeting held for the purpose of appointing and electing directors, which at any time may be conformed by at least six but no more than twenty-one members of the Board of Directors. Directors and alternate directors are elected for one-year terms by our shareholders at each annual shareholders' meeting, and each serves until a successor is elected and takes office. In order to have a quorum for a meeting of the Board of Directors, a majority of the directors must be present.

According to the Mexican Securities Market Law the Board of Directors may have up to 21 members and each member may have its alternate. The members of the Board of Directors shall be appointed by the shareholders' meeting and the shareholders controlling 10% of the capital stock of the company may appoint or revoke in the shareholders' meeting a member of the Board of Directors.

In accordance with the Mexican Securities Market Law and our bylaws, 25% of the members of our Board of Directors must qualify as "independent directors". Under Mexican law, a person will not qualify as an "independent director" if he or she is, among other things:

- one of our employees or managers;
- a controlling shareholder;
- a director, executive officer or relative of a controlling shareholder, or entities controlled or managed by a controlling shareholder; or
- a significant client, supplier, debtor or creditor, or member of the board of directors or executive officer of any of these entities.

Our bylaws also provide that the Chairman of the Board of Directors shall have the casting vote in the event of a tie. The Board of Directors is required to meet at least once a quarter. The Chairman, 25% of the directors-or the Chairman of the Audit and Corporate Practices Committee may call for a meeting of the Board of Directors. Also, our bylaws provide that the Board of Directors must approve with input from the Audit and Corporate Practices Committee, on an individual basis (i) any transaction with related parties, subject to certain limited exceptions, (ii) the appointment of our Chief Executive Officer, his compensation and removal for justified causes, (iii) our financial statements and those of our subsidiaries, (iv) unusual or non-recurrent transactions and any transactions or series of related transactions during any calendar year that involve (a) the acquisition or sale of assets with a value equal to or exceeding 5% of our consolidated assets or (b) providing collateral or guarantees or the assumption of liabilities, equal to or exceeding 5% of our consolidated assets, (v) agreements with our external auditors and (vi) accounting policies, within GAAP.

In addition, each holder or group of holders representing at least 10% of a series of shares has the right to appoint one director and a corresponding alternate director. Pursuant to the Mexican Securities Market Law and our bylaws, holders of at least 10% of our voting stock are also entitled to appoint a director and a corresponding alternate director.

Committees of Our Board of Directors

In accordance with the Mexican Securities Market Law, we have an Audit and Corporate Practices Committee. As of April 30, 2010, the Audit Committee is formed by Messrs. Julio Madrazo García (chairman), Gabriel Alarcón Velázquez and Juan Carlos Peralta del Río, all independent members of the Board of Directors. As required by the Mexican Securities Market Law, both the chairman and a majority of the members of the Audit Committee are independent directors. The Audit Committee carries out the responsibilities of the audit and corporate practice committee. Among other duties and responsibilities, the Audit and Corporate Practices Committee must:

- supervise our external auditors and analyze their report;
- analyze and supervise the preparation of our financial statements;
- inform the Board of Directors of our internal controls and their adequacy;
- request reports of our Board of Directors and executive officers whenever it deems appropriate;

- inform the Board of any irregularities that it may encounter;
- receive and analyze recommendations and observations made by the stockholders' meetings;
- supervise the activities of our Chief Executive Officer;
- provide an annual report to the Board of Directors;
- provide opinions to our Board of Directors;
- request and obtain opinions from independent third parties; and
- assist the Board in the preparation of annual reports and other reporting obligations.

The Chairman of the Audit and Corporate Practices Committee shall prepare an annual report to our Board of Directors with respect to the findings of the Audit and Corporate Practices Committee, which shall include among others: (i) the status of the internal controls and internal audits and any deviations and deficiencies thereof, taking into consideration the reports of external auditors and independent experts; (ii) the results of any preventive and corrective measures taken based on results of investigations in respect of non-compliance of operating and accounting policies; (iii) the evaluation of external auditors; (iv) the main results from the review of our financial statements and those of our subsidiaries; (v) the description and effects of changes to accounting policies; (vi) the measures adopted as result of observation of stockholders, directors, executive officers and third parties relating to accounting, internal controls, and internal or external audits; (vii) compliance with stockholders' and directors' resolutions; (viii) observations with respect to relevant directors and officers; (ix) the transactions entered into with related parties; and (x) the remunerations paid to directors and officers.

Executive Officers

The following table sets forth the names of our executive officers, their dates of birth, their current position, their prior business experience, and the year in which they were first appointed to their current position.

Name and Date of Birth	Current Position	Business Experience	First Appointed
Gabriel Saba D'jamus (07/27/69)	Chief Executive Officer	Executive Director – Grupo Comercial Hotelera, S.A. de C.V. and Grupo Casa Saba, S.A.B. de C.V.	April 2009
Pedro Alejandro Sadurni Gomez (10/08/59)	Chief Financial Officer	Former Chief Financial Officer of Administration – INMAS, S.A. de C.V.	February 2000
Héctor Manzano de la Torre (04/21/67)	Sales Director	Former Manager of Citem, S.A. de C.V.	September 1991
Oscar Gutiérrez Melgar (17/04/67)	Purchasing Director	Former Manager of Drogueros, S.A. de C.V.	November 1985
Jesus Guerra de Luna (05/29/61)	General Counsel	Legal Manager – Grupo Casa Autrey, S.A. de C.V.	June 1995
Ricardo Ríos Cárdenas (02/01/55)	Human Resources Director	Director of Sales & Operations, Northern Region – Grupo Casa Saba, S.A.B. de C.V.	March 2009
Pedro Canton y Figueroa (08/05/49)	Sales Director	Director of National Warehouse Operations	December 2008

Compensation

Pursuant to our bylaws, all executive compensation must be approved by our Board of Directors on a yearly basis. For the year ended December 31, 2009, the aggregate compensation paid by us to key management personnel and/or our executive officers for services rendered in all capacities was approximately Ps. 41.0 million. By means of the ordinary annual shareholder's meeting held on April 30, 2009, it was resolved to pay the members of the Board of Directors, without withholding income tax, a fifty peso coin known as a "Centenario" as compensation or to grant them the equivalent value of one "Centenario" for each Board of Director's meeting attended.

Share Ownership of Directors and Officers

Share ownership of our directors and executive officers is set forth in the table under the caption "Item 7. Major Shareholders and Related Party Transactions". Except as set forth in the table, none of our directors or executive officers is the beneficial owner of more than 1% of any class of our capital stock or options representing the right to purchase more than 1% of any class of our capital stock.

Employees

As of December 31, 2009, we had 8,454 employees. In Mexico we had 7,257 employees, 5,603 of which are part of the distribution business, 1,529 are part of the retail pharmacy business and 125 are part of the clinical area. On the distribution side, 2,476 are sales representatives for our Pharmaceutical and HBCG/Other Products businesses and other divisions, 912 are administrative employees and 2,215 are operational employees. On the retail pharmacy side, 155 are administrative employees, 150 are operational employees and 1,224 are in sales. In Brazil we had a total of 1,197 employees of which 102 are administrative employees, 178 are operational employees and 917 are in sales. A significant majority of our employees in Mexico, 83.5% as of December 2008 and 83.6% as of December 2009, are represented by unions. Almost all of our employees in Brazil, 99.7% as of December 31, 2008 and December 31, 2009, are unionized. We believe that our relations with our employees and the unions to which they are affiliated are good. In 2009, the number of employees decreased by 6.1% compared to 2008. The decrease in employees resulted primarily from a restructuring within our distribution and sales divisions.

Employee Profit Sharing

Under Mexican law, we are required to contribute 10% of our yearly taxable profits, as adjusted, to our employees. This contribution is distributed in May of each year. In addition, in the past we have customarily paid an annual Christmas bonus to our employees in an amount equal to between two (the minimum required by law) and five weeks' salary, depending on seniority.

The Pension Fund

We recognize the labor obligations for retirement pensions and seniority premiums derived from defined benefit plans for all their employees in accordance with Mexico's Federal Labor Law, as well as the schemes that have been established for each plan. Seniority premiums are granted for a voluntary separation of personnel who have completed at least fifteen years of service and are calculated based on the number of years worked. Retirement pensions are granted to all personnel who have completed at least ten years of service and reached sixty-five years of age. We are required to pay certain severance benefits to employees that are dismissed without proper cause. These payments for non-substitute indemnification of retirement pensions are expensed when paid.

Projected 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”, in conformity with Bulletin D-3, “Labor obligations” of Mexican FRS. Severance benefits which arise from restructuring causes, should continue to follow the guidelines of Bulletin C-9, “Liability, provisions, contingent assets and liabilities, and commitments” of Mexican FRS.

We have created a fund placed in irrevocable trusts at a financial institution to meet the labor obligations referred to above. Contributions to these funds are determined annually by an actuarial calculation approved by our Board of Directors. We believe that obligations under these trusts are closely monitored by their trustee.

During 2007, 2008 and 2009, contributions to the fund amounted to Ps. 15.5 million, Ps. 15.5 million and Ps. 20.6 million, respectively. As of December 31, 2007, 2008 and 2009, fund assets consisted primarily of investments in equity securities as well as in fixed income securities issued by Mexican companies that are traded on the Mexican Stock Exchange.

Item 7. Major Shareholders and Related Party Transactions

We are not directly or indirectly owned or controlled by another corporation or by any foreign government.

Principal Shareholders

All information presented in this section regarding beneficial ownership of our capital stock is based on the number of Ordinary Shares outstanding as of May 31, 2010, which was 265,419,360. As required by Mexican law, the number of Ordinary Shares outstanding is presented net of the number of repurchased Ordinary Shares held in our treasury as of May 31, 2010, which was 14,729,720. We repurchased these Ordinary Shares in the open market pursuant to our share repurchase program, as described under the caption “Item 9. Offer and Listing Details—Share Repurchases”. Currently, there are no arrangements known to us that could result in a change of control of the Company.

On May 6, 2008, Mr. Isaac Saba Raffoul, as settler and beneficiary “A”, executed a trust agreement with Ixe Banco, S.A., Institución de Banca Múltiple, Ixe Grupo Financiero, as trustee, Mrs. Beki Ades Tawil, as beneficiary “B”, and Mr. Manuel Saba Ades and Mr. Alberto Saba Ades both as beneficiaries “C”. In addition to other assets, the 225,606,456 Ordinary Shares directly owned by Mr. Isaac Saba Raffoul were deposited into Trust F-709. Upon the death of Isaac Saba Raffoul on July 27, 2008, Manuel Saba Ades and Alberto Saba Ades, sons of Isaac Saba Raffoul became, on an equal basis, the sole beneficiaries of the 225,606,456 Ordinary Shares held by Trust F-709. References in this annual report to “our controlling shareholder” is to Trust F-709, as direct holder of 225,606,456 Ordinary Shares for the benefit of Manuel Saba Ades and Alberto Saba Ades.

As of May 31, 2010, our controlling shareholder directly held 225,606,456 Ordinary Shares, representing 85% of our issued and outstanding capital stock. As of June 15, 2010, approximately 12.1% of our Ordinary Shares were held through ADSs by more than 30 registered holders.

The following table shows information, as of May 31, 2010, regarding the ownership of our capital stock by each person known by us to own or beneficially own more than 5% of our outstanding capital stock and by each of our directors, executive officers and key employees.

Name	Number of Ordinary Shares Owned	Percentage Stake
Trust F-709 ⁽¹⁾	225,606,456	85.00%
Fernando Chico Pardo ⁽²⁾	13,689,600	5.16%
Total	239,296,056	90.16%

(1) Manuel Saba Ades and Alberto Saba Ades, both of whom are directors of the Company, are the sole beneficial owners, on an equal basis, of the Ordinary Shares held directly by Trust F-709. The trustee of Trust F-709 is Ixe Banco, S.A. Institución de Banca Múltiple, Ixe Grupo Financiero, División Fiduciaria.

(2) Mr. Chico Pardo is an independent director of the Company and owns 6,078,600 Ordinary Shares and 761,100 ADRs

Related Party Transactions

In 2009, we engaged in, and we may continue to engage in, transactions with related parties, including, without limitation, the transactions described below. Exclusively for purposes of this discussion, the term “related party” includes our affiliates, associates, directors, officers and principal shareholders, as well as affiliates of our directors, officers and principal shareholders, but does not include our consolidated subsidiaries. Conflicts of interest are inherent in transactions with related parties. See Note 8 to our audited consolidated financial statements for all of the information that we must make publicly available in Mexico regarding related party transactions.

All related party transactions we engage in are previously submitted to the Audit and Corporate Practices Committee, and are subject to thorough evaluation, which results in the determination of the terms and conditions under which the transactions shall be carried out. During this evaluation period, the Audit and Corporate Practices Committee makes relevant market research and obtains quotations from several different non-related parties that render the exact or similar services to those intended to be performed by the related party with which the transaction is intended to be conducted. Once the research is concluded, the Audit and Corporate Practices Committee prepares the guidelines that must be observed in establishing the terms of the related party transactions and submits its evaluation to the Board of Directors and to our shareholders. This procedure enables the Company to obtain objective information as to competitive market prices and conditions and, therefore, guarantees that the transactions entered with related parties are at all times entered into on an arm’s-length basis.

Principal Transactions and Arrangements with Affiliates and Related Parties of Our Directors, Officers and Principal Shareholders Effective during 2009

Leases. In 2001, we entered into a lease for office space with Xtra Inmuebles, S.A. de C.V., an entity owned and controlled by our controlling shareholder. During 2009, we maintained our lease for office space with Xtra Inmuebles and do not have plans to terminate this agreement. In 2009, we expensed Ps. 4.2 million as compared to Ps. 4.7 million in 2008 with respect to this lease. We believe that this lease was entered into the ordinary course of business, was made on an arm’s-length basis and is on terms no less favorable than those that could have been obtained from unaffiliated third parties.

Services. In 2002, one of our subsidiaries, Servicios Corporativos Casa Saba, S.A. de C.V., entered into an air transport service agreement with Aero Xtra, S.A. de C.V. an entity indirectly owned and controlled by our controlling shareholder. Services pursuant to this agreement were also provided to us in 2007, 2008 and 2009. During 2009, we expensed a total amount of Ps. 17.6 million as compared to Ps. 9.9 million in 2008 related to the services rendered by Aero Xtra, S.A. de C.V. This contract was entered into in the ordinary course of business, and was made on an arm’s-length basis on terms no less favorable than those that could have been obtained from unaffiliated third parties.

As of December 31, 2008 and 2009, the receivable balances from Aero Xtra, S.A. de C.V. were Ps. 2.0 million and Ps. 4.4 million, respectively. For Xtra Inmuebles, S.A. de C.V., they were Ps. 30 thousand and Ps. 30 thousand, respectively. The receivable balance from Aero Xtra, S.A. de C.V. and Xtra Inmuebles, S.A. de C.V. represented prepaid flight services and the leasing of real estate, respectively.

See Note 8 to our consolidated financial statements for a summary table of our related party transactions.

Legal and Advisory Services. During 2009, Mijares, Angoitia, Cortés y Fuentes, S.C., a Mexican law firm, provided us with legal and advisory services, and we expect that this will continue to be the case in the future. Francisco Fuentes Ostos, a partner from the law firm of Mijares, Angoitia, Cortés y Fuentes, S.C., is the secretary of our Board of Directors, without being a member of such Board. We believe that the fees we paid for these services were comparable to those that we would have had to pay a third-party law firm for similar services.

Tax Advisory Services. During 2009, Chevez, Ruiz, Zamarripa y Cia, S.C., a tax advisory firm, provided us with tax advisory services, and we expect that this will continue to be the case in the future. Ivan Moguel Kuri, a partner from the tax advisory firm of Chevez, Ruiz, Zamarripa y Cia, S.C., is our independent alternate director. We believe that the fees we paid for these services were comparable to those that we would have had to pay a third party for similar services.

During 2009, we had no other related party agreements, except for the balances and transactions referred to above. We believe that all related party transactions were agreed upon on an arm's-length basis.

Item 8. Financial Information

See "Item 18. Financial Statements" and "Item 19. Exhibits—Index to Consolidated Financial Statements," which are incorporated herein by reference.

Material Legal Proceedings

As of December 31, 2009, except as otherwise disclosed in Note 15 of the consolidated financial statements, there were no existing material legal proceedings that could have a significant effect on the Company's financial position or profitability.

Dividend Policy

Pursuant to Mexican law, decisions regarding the payment and amount of dividends are subject to approval of our shareholders, generally, but not necessarily, on the recommendation of the Board of Directors. Our controlling shareholder owns 85% of our outstanding Ordinary Shares and, so long as it continues to own a majority of our outstanding shares, it will have the ability to determine whether we will declare and pay dividends, in cash or otherwise. See "Item 3. Key Information—Risk Factors—Risk Factors Related to our Securities—Our Controlling Shareholder Has the Ability to Restrict the Payment and Amount of Dividends". We do not have a specific dividend policy. Depending on the results and condition of our business, dividends for a specific year would be paid to the extent that such payment would not impair our ability to invest and grow. Therefore, any dividend payment would depend on the cash that the Company generates in a specific year as well as on the market conditions of our business.

Significant Changes

Since the date of our annual financial statements, no significant change in our financial information has occurred, other than those changes described in "Item 5. Operating and Financial Review and Prospects—Trend Information".

Item 9. Offer and Listing Details

Trading History of Ordinary Shares and ADSs

Since December 7, 1993, our Ordinary Shares have been listed and traded on the Mexican Stock Exchange under the symbol "SAB" and our American Depositary Shares, or ADSs, have been listed and traded on the New York Stock Exchange, or NYSE, also under the symbol "SAB". The ADSs were issued pursuant to a Deposit Agreement, dated December 1, 1993, as amended, among us, Morgan Guaranty Trust Company of New York, as depositary, and the holders from time to time of our ADSs. Each ADS represents 10 Ordinary Shares. On December 11, 2002, we entered into an Amended and Restated Deposit Agreement pursuant to which The Bank of New York was appointed as successor depositary to Morgan Guaranty Trust Company of New York.

The table below shows the high and low sales prices in U.S. Dollars for our ADSs on the NYSE for the five most recent full financial years ending December 31, 2009, each month in the six-month period ending May 31, 2010 and the first half of June 2010.

Year	US Dollar per ADS(1)	
	High	Low
2005	U.S.\$ 18.50	U.S.\$ 14.75
2006	U.S.\$ 26.15	U.S.\$ 16.52
2007	U.S.\$ 42.85	U.S.\$ 26.10
2008	U.S.\$ 39.00	U.S.\$ 17.61
First Quarter	39.00	32.00
Second Quarter	37.25	31.95
Third Quarter	35.36	28.00
Fourth Quarter	28.33	17.61
2009	U.S.\$ 20.50	U.S.\$ 11.14
First Quarter	20.50	11.23
Second Quarter	19.90	11.14
Third Quarter	20.00	12.00
Fourth Quarter	19.75	17.01
2010		
First Quarter	20.50	11.23
Month		
December 2009	19.37	17.25
January 2010	21.39	18.84
February 2010	19.40	13.90
March 2010	17.50	14.60
April 2010	17.84	16.00
May 2010	17.90	16.15
Through June 15, 2010	17.23	13.69

(1) Source: Infosel and Economatca.

Trading prices of our Ordinary Shares and our ADSs will be influenced by our results of operations, financial condition, cash requirements, future prospects and by economic, financial and other factors and market conditions. See “Item 3. Key Information—Risk Factors—Risk Factors Relating to Economic and Political Developments”. There can be no assurance that prices of our Ordinary Shares and our ADSs will, in the future, be within the ranges set forth above. As of December 31, 2009, there were 265,419,360 Ordinary Shares issued and outstanding. At the end of June 2010, approximately 12.1% of the outstanding shares were held in the form of ADSs.

Trading on the Mexican Stock Exchange

Overview

The Mexican Stock Exchange, located in Mexico City, is the only stock exchange in Mexico. Operating continuously since 1907, the Mexican Stock Exchange is organized as a corporation with variable capital, or *sociedad anónima bursátil de capital variable*. Securities are traded on the Mexican Stock Exchange from 8:30 am to 3:00 pm Mexico City time, each business day. Since January 1999, all trading on the Mexican Stock Exchange has been conducted electronically. The Mexican Stock Exchange may impose a number of measures to promote the orderly and transparent trading price of securities, including the operation of a system of automatic suspension of trading in shares of a particular issuer when price fluctuations exceed certain limits. The Mexican Stock Exchange may also suspend trading of shares of a particular issuer as a result of the disclosure of a material event, or when the change in the volume traded or the share price is not consistent with either the historic performance or publicly available information. The Mexican Stock Exchange may also suspend trading if it is not disclosed as a material event that the financial statements of a company are subject to scope qualification. The Mexican Stock Exchange may resume trading of the shares when it deems that the material events have been adequately disclosed to public investors or when it deems that the issuer had adequately explained the reasons for the changes in the volume traded or prevailing share price. Under current regulations, this system applies to the ADSs. However, the Mexican Stock Exchange may take into account any suspension measures that may or may not have been taken by the New York Stock Exchange in respect of the ADSs, and may resolve not to impose a suspension of trading of our shares.

Settlement is effected two trading days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the CNBV. Most securities traded on the Mexican Stock Exchange are on deposit with *S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.*, or Indeval, a privately owned securities depository that acts as a clearinghouse, depository and custodian, as well as a settlement, transfer and registration agent for Mexican Stock Exchange transactions, eliminating the need for physical transfer of securities.

Although the Mexican Securities Market Law provides for the existence of an over-the-counter market, no such market for securities in Mexico currently exists.

The table below shows, for the five most recent full financial years ending December 31, 2009 and each month, the six month period ending May 31, 2010 and the first half of June 2010 the reported annual highest and lowest market prices in nominal Pesos for our Ordinary Shares on the Mexican Stock Exchange:

Year	Pesos per ordinary share(1)			
		High		Low
2005	Ps.	20.50	Ps.	16.70
2006	Ps.	26.15	Ps.	16.95
2007	Ps.	44.50	Ps.	28.80
2008		41.68		26.90
First Quarter		41.68		36.80
Second Quarter		36.80		36.00
Third Quarter		33.10		31.20
Fourth Quarter		31.20		26.90
2009	Ps.	26.60	Ps.	16.40
First Quarter		26.60		22.53
Second Quarter		25.80		16.40
Third Quarter		25.00		20.03
Fourth Quarter		25.55		25.00
2010				
First Quarter		25.50		19.65
Month				
December 2009		25.50		25.30
January 2010		25.50		25.50
February 2010		20.30		20.30
March 2010		20.50		19.65
April 2010		19.61		19.61
May 2010		21.60		21.45
Through June 15, 2010		22.00		21.50

(1) Source: Infosel and Economática.

Trading on the New York Stock Exchange

Since December 7, 1993, our ADSs have been listed on the NYSE. Each ADS represents 10 Ordinary Shares. The ADSs are evidenced by American Depositary Receipts, or ADRs. ADRs evidencing ADSs may be issued by The Bank of New York, as depository, pursuant to the Amended and Restated Deposit Agreement dated as of December 11, 2002 among Grupo Casa Saba, The Bank of New York and all registered holders, from time to time, of the ADRs issued thereunder. An ADR may evidence any number of ADSs.

At the end of June 2010, approximately 12.1% of the Ordinary Shares were publicly held through ADRs on the NYSE. Holders of ADRs have voting rights with respect to the underlying shares. In accordance with the ADR Amended and Restated Deposit Agreement, ADR holders must instruct the Depositary as to the manner in which the underlying shares are to be voted.

Share Repurchases

At our annual shareholders' meeting, which was held on April 30, 2010, our shareholders did not approve the allocation of any amounts from retained earnings for share repurchases. Our share repurchase program has been authorized by the CNBV and all repurchases have been conducted in full compliance with Mexican law and the rules and regulations of the CNBV.

Pursuant to our share repurchase program, we may repurchase Ordinary Shares on the Mexican Stock Exchange at the prevailing market price. Upon the repurchase of Ordinary Shares, we must reduce the number of Ordinary Shares outstanding by the number of Ordinary Shares repurchased. Pursuant to our share repurchase program, we repurchased 13,433,000 Ordinary Shares during 1998 and 3,003,720 Ordinary Shares during 1999. Since then, we have not repurchased any additional Ordinary Shares.

When we resell repurchased Ordinary Shares on the Mexican Stock Exchange, we must increase the number of Ordinary Shares outstanding by the corresponding number of Ordinary Shares sold. We resold 1,438,000 Ordinary Shares during 1998 and 269,000 Ordinary Shares in 1999. As of December 31, 2009, 14,729,720 repurchased Ordinary Shares were held in our treasury. We are currently in the process of evaluating various alternatives regarding the resale or redemption of these Ordinary Shares.

We have amended our bylaws to reflect certain changes to the Mexican Securities Market Law affecting share repurchases. For a description of the amendments relating to share repurchases, see "Item 10. Additional Information—Share Repurchases".

Item 10. Additional Information

Market Regulation and Registration Standards

In 1946, the *Comisión Nacional de Valores*, or the National Securities Commission, commonly known as the CNV, was established to regulate stock market activity. In 1995, the CNV and the *Comisión Nacional Bancaria*, or the National Banking Commission, were merged to form the CNBV. The Mexican Securities Market Law, which took effect in 1975, introduced important structural changes to the Mexican financial system, including the organization of brokerage firms as corporations with variable capital, or *sociedades anónimas de capital variable*. The Mexican Securities Market Law sets standards for authorizing companies to operate as brokerage firms, which authorization is granted at the discretion of the Ministry of Finance upon the recommendation of the CNBV. In addition to setting standards for brokerage firms, the Mexican Securities Market Law empowers the CNBV, among other things, to regulate the public offering and trading of securities and to impose sanctions for the illegal use of insider information. The CNBV regulates the Mexican securities market, the Mexican Stock Exchange and brokerage firms through a board of governors composed of thirteen members, five of which are appointed by the Ministry of Finance.

In June 2001, the Mexican Securities Market Law required issuers to increase the protections offered to minority stockholders and to impose corporate governance controls on Mexican listed companies in line with international standards. The Mexican Securities Market Law then in effect expressly permitted Mexican listed companies, with prior authorization from the CNBV, to include in their bylaws anti-takeover defenses such as stockholder rights plans, or poison pills.

To offer securities to the public in Mexico, an issuer must meet specific qualitative and quantitative requirements, and generally only securities for which an application for registration in the National Registry of Securities, or NRS, maintained by the CNBV has been approved by the CNBV may be listed on the Mexican Stock Exchange. This approval does not imply any kind of certification or assurance related to the merits or the quality of the securities or the solvency of the issuer.

In March 2003, the CNBV issued general rules, or General CNBV Rules, applicable to issuers and other securities market participants. The General CNBV Rules, which repealed several previously enacted rules, or circulares, of the CNBV, now provide a single set of rules governing issuers and issuer activity, among other things.

The General CNBV Rules have mandated that the Mexican Stock Exchange adopt minimum requirements for issuers to be registered with the CNBV and have their securities listed on the Mexican Stock Exchange. To be registered, issuers will be required to have, among other things:

- a minimum price for the securities to be offered;
- a minimum of 15% of the capital stock placed among public investors;
- a minimum of 200 holders of shares or of shares represented by ADRs, who are deemed to be public investors under the General CNBV Rules, upon the completion of the offering;
- the following distribution of the securities offered pursuant to an offering in Mexico: (i) at least 50% of the total number of securities offered must be placed among investors who acquire less than 5% of the total number of securities offered; and (ii) no investor may acquire more than 40% of the total number of securities offered; and
- complied with certain corporate governance requirements.

To maintain its registration, an issuer will be required to have, among other things:

- a minimum financial condition;
- minimum operating conditions, including a minimum number of trades;
- a minimum trading price of its securities;
- a minimum of 12% of the capital stock held by public investors;
- a minimum of 100 holders of shares or of shares represented by ADRs who are deemed to be public investors under the General CNBV Rules; and
- complied with certain corporate governance requirements.

The CNBV has the authority to waive some of these requirements in some circumstances.

Last year, the General CNBV Rules were amended in order to include the obligation to disclose only to this authority the names and number of shares of the stockholders of a security market participant.

The Mexican Stock Exchange will review annually compliance with the foregoing and other requirements, some of which may be further reviewed on a quarterly or semi-annual basis. The Mexican Stock Exchange must inform the CNBV of the results of its review and this information must, in turn, be disclosed to investors. If an issuer fails to comply with any of the foregoing requirements, the Mexican Stock Exchange will request that the issuer propose a plan to cure the violation. If the issuer fails to propose such plan, if the plan is not satisfactory to the Mexican Stock Exchange or if the issuer does not make substantial progress with respect to the corrective measures, trading of the relevant series of shares on the Mexican Stock Exchange will be temporarily suspended until the situation is corrected. In addition, if the issuer fails to propose the plan or ceases to follow such plan once proposed, the CNBV may suspend or cancel the registration of the shares. In such event, the issuer must evidence the mechanisms to protect the rights of public investors and market in general.

Issuers of listed securities are required to file unaudited quarterly financial statements and audited annual financial statements as well as various periodic reports with the CNBV and the Mexican Stock Exchange. Pursuant to the General CNBV Rules, the internal regulations of the Mexican Stock Exchange must be amended to include, among other things, the implementation of the *Sistema Electrónico de Envío y Difusión de Información*, or the SEDI, an automated system for the electronic transfer of the information required to be filed with the Mexican Stock Exchange, which will be similar to, but will replace, the existing *Sistema Electrónico de Comunicación con Emisores de Valores*, or EMISNET. Issuers of listed securities must prepare and disclose their financial information by a Mexican Stock Exchange-approved system known as the *Sistema de Información Financiera Computarizada*, or Computerized Financial Information System, commonly known as the SIFIC. Immediately upon its receipt, the Mexican Stock Exchange makes that information available to the public.

The General CNBV Rules and the internal regulations of the Mexican Stock Exchange require issuers of listed securities to file through the SEDI information on the occurrence of material events affecting the relevant issuer. Material events include, but are not limited to:

- the entering into or termination of joint venture agreements or agreements with key suppliers;
- the creation of new lines of businesses or services;
- significant deviations in expected or projected operating performance;
- the restructuring or payment of significant indebtedness;
- material litigation or labor conflicts;
- changes in dividend policy;
- the commencement of any insolvency, suspension or bankruptcy proceedings;
- changes in the directors; and
- any other event that may have a material adverse effect on the results, financial condition or operations of the relevant issuer.

If there is unusual price volatility of the securities listed, the Mexican Stock Exchange must immediately request that the issuer inform the public as to the causes of such volatility or, if the issuer is unaware of such causes, make a statement to that effect. In addition, the Mexican Stock Exchange must immediately request that issuers disclose any information relating to relevant material events, when it deems the information currently disclosed to be insufficient, as well as instruct issuers to clarify such information when it deems the information to be confusing. The Mexican Stock Exchange may request issuers to confirm or deny any material events that have been disclosed to the public by third parties when it deems that the material event may affect or influence the securities being traded. The Mexican Stock Exchange must immediately inform the CNBV of any requests made to issuers. The CNBV may also make any of these requests directly to issuers. An issuer may delay the disclosure of material events under some circumstances, including where the information being offered is not related to transactions that have been completed.

The CNBV and the Mexican Stock Exchange may suspend the dealing in securities of an issuer:

- if the issuer does not adequately disclose a material event; or
- upon price or volume volatility or changes in the offer or demand in respect of the relevant securities, which are not consistent with the historic performance of the securities and could not be explained solely by the information made publicly available under the General CNBV Rules.

The Mexican Stock Exchange may also suspend trading if the Company does not disclose, as a material event, that the financial statements of such company are subject to scope qualifications. The Mexican Stock Exchange must immediately inform the CNBV and the general public of any such suspension. An issuer may request that the CNBV or the Mexican Stock Exchange resume trading, provided it demonstrates that the causes triggering the suspension have been resolved and that it is in full compliance with the periodic reporting requirements under the applicable law. If its request has been granted, the Mexican Stock Exchange will determine the appropriate mechanism to resume trading in its securities. If trading of an issuer is suspended for more than 20 business days and the issuer is authorized to resume trading without conducting a public offering, the issuer must disclose through the SEDI, before trading resumes, a description of the causes that resulted in the suspension and reasons why it is now authorized to resume trading.

Likewise, if the securities of an issuer are traded on both the Mexican Stock Exchange and a foreign securities market, that issuer must file with the CNBV and the Mexican Stock Exchange on a simultaneous basis the information that it is required to file pursuant to the laws and regulations of the relevant other jurisdiction.

Pursuant to the Mexican Securities Market Law, stockholders of issuers listed on the Mexican Stock Exchange must disclose any transactions through or outside of the Mexican Stock Exchange that result in exceeding 10% ownership stake of an issuer's capital stock. These stockholders must also inform the CNBV of the results of these transactions the day after their completion.

Additionally, related parties of an issuer who increase or decrease their ownership stake, in one or more transactions, by 5% or more shall disclose such transactions. The Mexican Securities Market Law also requires stockholders holding 10% or more of the capital stock of companies listed in the registry to notify the CNBV of any ownership changes in shares of the company.

Amendments to Mexican Securities Market Law

On December 30, 2005, a new Securities Market Law was enacted and published in the Official Gazette. The Mexican Securities Market Law became effective on June 28, 2006 and, in some cases, it allowed an additional period of 180 days (after December 2006) for issuers to incorporate in their bylaws the new corporate governance and other requirements derived from the new law. The new Mexican Securities Market Law changed the Mexican securities law in various material respects. In particular, the new law includes with respect to public companies:

- their identification as *sociedad anónima bursátil* (a stock corporation with stock registered in the CNBV and listed on the Mexican Stock Exchange) and a new set of corporate governance requirements;
- the redefinition of the functions and structure of the Board of Directors, including (i) the number of members of the Board of Directors, up to 21 with at least 25% of these being independent members, and (ii) the independence status of the independent members of the Board of Directors will be qualified at the shareholders' meeting and the CNBV will have the authority to challenge such independence;
- the introduction of the general manager and senior management positions as a means for the Board of Directors to conduct the business;
- a clear definition of fiduciary duties for members of the Board of Directors and its secretary, the chief executive officer and other executive officers, including duty of care and duty of loyalty;
- the increase of liability standards for members of the Board of Directors and its secretary with respect to the operations and performance of the company, including (i) the payment of damages and losses caused as result of their lack of care or loyalty and (ii) criminal sanctions of up to ten years for damages caused to the company as a result of certain illegal acts involving willful misconducts. The liability actions may be exercised by the company or by shareholders that represent 5% or more of the capital stock of the company;
- the inclusion of sanctions applicable to senior management, shareholders that hold 10% or more of the capital stock of an issuer and external auditors;

- the replacement of the statutory auditor by the audit committee, the corporate governance committee and the external auditors, assigning to each of these specific obligations of surveillance and corporate governance;
- the attribution of independent status to all the members of the audit and corporate governance committees, except in companies with controlling shareholder(s) with 50% of the capital stock, such as the company;
- the increase of functions and responsibilities of the audit committee, including (i) the evaluation of the performance of the external auditors, (ii) the review and discussion of the financial statements of the company and advising the Board of Directors on the approval of such financial statements, (iii) the surveillance of internal controls and internal audit procedures of the company, (iv) the reception and analysis of recommendations and observations made by the shareholders, members of the Board of Directors and senior management, and the authority to take the necessary actions, (v) the authority to call a shareholders meeting and include the items to be discussed in the meeting's agenda and (vi) the surveillance of the performance of the general manager; and
- the requirement that the shareholders' meeting approve transactions that represent 20% or more of the consolidated assets of the company within one fiscal year; and the inclusion of a new set of rules to obtain authorization from the CNBV to execute public offerings.

The Mexican Securities Market Law does not substantially modify the reporting obligations of issuers of equity securities listed on the Mexican Stock Exchange. The Mexican Securities Market Law reinforces insider trading restrictions and specifically includes, with such restrictions, trading in options and derivatives the underlying security of which is issued by such entity. Among other changes, the Mexican Securities Market Law provides for a course of action available to anyone who trades (as a counterparty) with someone in possession of privileged information to seek the appropriate indemnification. In addition, under this law insiders must abstain from purchasing or selling securities of the issuer within 90 days from the last sale or purchase, respectively.

The Mexican Securities Market Law has, in some respects, modified the rules governing tender offers conducted in Mexico. Under the current law, tender offers may be voluntary or mandatory. All tenders offers must be open for at least 20 business days and purchases thereunder are required to be made pro-rata to all tendering shareholders. Any intended purchase resulting in a 30% or greater holding requires the tender to be made for the greater of 10% of the company's capital stock or the share capital intended to be acquired; if the purchase is aimed at obtaining control, the tender must be made for 100% of the outstanding shares. In calculating the intended purchase amount, convertible securities, warrants and derivatives, the underlying security of which are such shares, must be considered. The Mexican Securities Market Law also permits the payment of certain amounts to controlling shareholders over and above the offering price if these amounts are fully disclosed, approved by the Board of Directors and paid in connection with non-compete or similar obligations. The law also introduces exceptions to the mandatory tender offer requirements and specifically provides for the consequences, to a purchaser, of not complying with these tender offer rules (lack of voting rights, possible annulment of purchases, etc.) and other rights available to prior shareholders of the issuer.

The Mexican Securities Market Law ratifies that public companies may insert provisions in their bylaws pursuant to which the acquisition of control of the company, by the company's shareholders or third parties, may be prevented, if such provisions (i) are approved by shareholders without the negative vote of shareholders representing 5% or more of the outstanding shares; (ii) do not exclude any shareholders or group of shareholders; and (iii) do not restrict, in an absolute manner, the change of control.

Bylaws

In 2006, a new Mexican Securities Market Law became effective, therefore all listed companies were required to incorporate certain provisions into their corporate bylaws. As a consequence, in December 2006, our shareholders approved the amendment of the bylaws of Grupo Casa Saba in order to comply with the new provisions. Most of the changes were related to corporate governance provisions and focused on the need to have independent directors.

Our current bylaws include most of the provisions above-mentioned. This description does not purport to be complete, and is qualified by reference in its entirety to our bylaws, which have been filed as an exhibit to this annual report and to Mexican law. For a description of the provisions of our bylaws relating to our Board of Directors, Executive Committee and statutory auditors, see “Item 6. Directors, Senior Management and Employees”.

Organization and Register

Grupo Casa Saba, S.A.B. de C.V., is a *sociedad anónima bursátil de capital variable*, or limited liability stock corporation with variable capital, which was organized under the laws of the United Mexican States in accordance with the Mexican Corporations Law on November 11, 1982. Our deed of incorporation was registered with the Public Registry of Commerce of Mexico City, D.F., under Commercial Page (*folio mercantil*) Number 55,635. We have a general corporate purpose, the specifics of which can be found in Article Four of our bylaws, which includes, among others, the following: (i) to promote, incorporate, organize, exploit and participate in the capital stock and assets of all types of commercial or civil companies, associations or industrial, commercial, service or other concerns, both domestic and foreign, and participate in the management or liquidation thereof; (ii) to manufacture, produce, purchase, sell, process, distribute, export and import all types of products permitted by law and, generally, all types of domestic or foreign goods or merchandise, whether in the form of raw materials, semi-finished or finished products and whether pre-assembled or unassembled, and to trade them in any manner whatsoever either for our account or the account of others; (iii) to acquire, transfer and, generally, negotiate with all types of shares of stock, partnership interests and securities; (iv) provide, contract and receive all types of technical, consulting and advisory services, and enter into contracts or agreements in connection therewith; (v) to enter into all types of agreements with the federal government or any local governments or public or private entities, individuals or corporations, whether domestic or foreign; (vi) to issue, subscribe, accept, endorse and guarantee credit instruments, securities and other instruments permitted by law; (vii) to acquire, transfer, lease, sublease and permit the use, enjoyment, disposition of generally, and exploitation of all types of personal and real property, including their parts or appurtenances; (viii) to provide or receive all types of technical and professional assistance and services; (ix) to obtain and grant all types of loans, providing and receiving specific guarantees thereof; issue debentures and notes; accept, draw, endorse or guarantee all types of credit instruments and other documents evidencing credit rights; and grant all types of bonds or guarantees with regard to the obligations assumed or the instruments issued or accepted by third parties; and (x) generally, to carry out all types of commercial transactions and enter into all types of contracts, agreements and transactions of any nature whatsoever, in accordance with the law.

Directors

Under the Mexican Securities Market Law, any shareholder or director that votes on a transaction in which his interest’s conflict may abstain to vote. In addition, any member of our Board of Directors that votes on a transaction in which his interest conflict with our interests may be liable for damages. The Mexican Securities Market Law provides the increase of liability standards for members of the Board of Directors and its secretary with respect to the operations and performance of the Company, including (i) the payment of damages and losses caused as result of their lack of care or loyalty and (ii) criminal sanctions of up to ten years for damages caused to the Company as a result of certain illegal acts involving willful misconducts. The liability actions may be exercised by the Company or by shareholders that represent 5% or more of the capital stock of the Company.

We have amended our bylaws in order to submit, among others, the following matters to the Board of Directors: (i) our general strategy; (ii) with input from the Audit and Corporate Practices Committee, on an individual basis (a) any transaction with related parties, subject to certain limited exceptions, and (b) the appointment of our Chief Executive Officer, his compensation and removal form justified causes; (iii) our financial statements and those of our subsidiaries; (iv) unusual or non-recurrent transactions and any transactions or series of related transactions during any calendar year that involve (a) the acquisition or sale of assets with a value equal to or exceeding 5% of our consolidated assets or (b) the giving of collateral or guarantees or the assumption of liabilities, equal to or exceeding 5% of our consolidated assets; (v) agreements with our external auditors; (vi) accounting policies, within GAAP; (vii) creation of special committees and granting them the power and authority; (viii) matters related to anti-takeover provisions provided for in our bylaws; and (ix) the exercise of our general powers in order to comply with our corporate purpose.

Voting Rights and Shareholders' Meetings

Holders of Ordinary Shares have the right to vote on all matters subject to shareholder approval at any general shareholders' meeting and have the right to appoint our Board of Directors.

General shareholders meetings may be ordinary general meetings or extraordinary general meetings. Extraordinary general meetings are those called to consider specific matters listed in Article 182 of the Mexican General Corporations Law and our bylaws, including the extension of the Company's duration, changes to the corporate purpose, change of the Company's jurisdiction of incorporation, amendments to the corporate bylaws, dissolution, liquidation or spin-offs, issuance of securities, mergers and transformations of our mercantile regime and increases and reductions in the fixed portion of our capital stock. In addition, our bylaws require an extraordinary general meeting to approve the cancellation of the Ordinary Shares' listing with the securities section of the NRS, as the case may be, and with any other Mexican or foreign stock exchange in which our Ordinary Shares or securities represented our Ordinary Shares, such as our ADSs, are registered. General meetings called to consider all other matters are ordinary meetings that are held at least once each year within four months following the end of each year.

The procedure that must be followed in order to call a shareholders' meeting is provided for in the General Corporations Law, the Securities Market Law and the Company's bylaws, which the provisions set forth in the mentioned laws.

In terms of the above-mentioned regulations and our bylaws, the shareholders' meetings shall be called by our Board of Directors, the secretary of the Board or the Audit and Corporate Practices Committee. Any shareholder or group of shareholders representing at least 10% of the capital stock may request that a shareholders' meeting be called. If after 15 days following the request such call has not been made, the shareholder or shareholders may appear before a judge within the Company's jurisdiction, who shall call upon such meeting as requested by the shareholder(s).

Calls for the general ordinary shareholders' meetings must be published in the Official Federal Gazette or in one major newspaper sold within our corporate domicile at least 15 days prior to the date in which the meeting is to be held. Extraordinary shareholders' meetings may be called as described above, although calls for such meetings may be published with at least eight days prior to the meeting.

In order for any shareholder to attend a shareholders' meeting, a shareholder must demonstrate his title to the shares, and only such persons registered as shareholders in the Company's stock registry book shall be deemed shareholders. Once the shareholder of record demonstrates his title to the shares, he shall obtain an admission pass for the meeting, which shall be required in order to be admitted to the corresponding meeting. The admission pass shall be delivered to such shareholders that request the pass in writing to the Secretary of the Board of Directors at least 24 hours prior to the meeting. The shareholder must then deliver their share certificates or the corresponding certificate from the depositary of the shares, as may be the case, to the Secretary.

Holders of ADRs have the same rights as holders of Ordinary Shares. They are entitled to direct the vote of the shares underlying their ADRs by means of instructing the ADRs Depositary, who must ensure that the requirements relating to attendance at shareholder's meetings, which are set forth in the paragraph above, are met. ADR holders also have all of the economic rights inherent to the Ordinary Shares that underlie their respective ADRs, such as the right to receive dividends.

Dividend Rights

At our annual ordinary general shareholders' meeting, our Board of Directors submits our financial statements from the previous year to the holders of our Ordinary Shares for their approval. Once our shareholders approve these financial statements, they must then allocate our net profits for the previous year. Under Mexican law, at least 5% of our net profits must be allocated to a legal reserve, until the amount of this reserve equals 20% of our paid-in capital stock. Thereafter, our shareholders may allocate our net profits to any special reserve. After this allocation, the remainder of our net profits will be available for distribution as dividends. Additionally and prior to the distribution of dividends, Mexican companies are required to contribute 10% of their yearly taxable profits to our employees. However, please note that the Company has no direct employees as of this date, only its subsidiaries. See "Item 3. Key Information—Dividends".

Decisions regarding the payment and amount of dividends are subject to approval by the holders of our Ordinary Shares, generally, but not necessarily, on the recommendation of our Board of Directors. Our controlling shareholder owns 85% of the authorized, issued and outstanding Ordinary Shares, and as long as he continues to do so, he will have, as a result of such ownership, the ability to determine whether dividends are to be paid and the amount of such dividends. See “Item 3. Key Information—Dividends” and “Item 3. Key Information—Risk Factors—Risk Factors Relating to Our Securities—Our Controlling Shareholder Has the Ability to Restrict the Payment and Amount of Dividends”.

In accordance with the General Corporations Law, our shareholders have five years to collect their dividends, beginning on the date the dividends are declared payable. If the dividends are not collected during such period, a shareholder’s right to the dividend is void.

Limitation on Capital Increases

Our bylaws require that any capital increase is represented by new shares of each series of our capital stock in proportion to the number of each series’ outstanding shares. All increases in the capital stock of the Company must be approved at the general shareholders’ meeting. When the increase is to the fixed portion of the capital stock, then the general extraordinary shareholders’ meeting must approve it. If the increase is to the variable portion of the capital stock, then the general ordinary shareholders’ meeting must approve it.

Preemptive Rights

In the event of a capital increase, a holder of Ordinary Shares has a preferential right to subscribe to a sufficient number of Ordinary Shares in order to maintain his existing proportionate holdings of Ordinary Shares. Shareholders must exercise their preemptive rights within the time period established by our shareholders at the meeting approving the issuance of additional Ordinary Shares. This period must continue for at least 15 days following the publication of notice of the issuance in the *Diario Oficial de la Federación*, Mexico’s official newspaper, and in a newspaper of general circulation in Mexico City. Under Mexican law, shareholders cannot waive their preemptive rights in advance or be represented by an instrument that is negotiable separately from the corresponding Ordinary Share. U.S. holders of ADSs may exercise preemptive rights only if we register any newly issued Ordinary Shares under the Securities Act of 1933 or qualify for an exemption from registration. We intend to evaluate, at the time of any offering of preemptive rights, the costs and potential liabilities associated with registering additional Ordinary Shares. See “Item 3. Key Information—Risk Factors—Risk Factors Relating to Our Securities—Preemptive Rights May Be Unavailable to Holders of Our ADSs”.

Forfeiture of Shares.

As required by Mexican law, our bylaws for Ordinary Shares provide that, our non-Mexican shareholders formally agree with the Foreign Affairs Ministry:

- to be consider as Mexicans with respect to Ordinary Shares that they acquire or hold as well as to the property, rights, concessions, participations or interests owned by us or to the rights and obligations derived from any agreements we have with the Mexican government; and
- not to invoke the protection of their own governments. Failure to comply is subject to a penalty of forfeiture of such a shareholder’s capital interest in favor of Mexico.

In the opinion of Mijares, Angoitia, Cortés y Fuentes, S.C., our Mexican counsel, under this provision a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder’s rights as a shareholder, but is not deemed to have waived any other rights he or she may have, including any rights under the United States securities laws, with respect to his or her investment in our Company. If the shareholder should invoke governmental protection, in violation of this agreement, his shares could be forfeited to the Mexican government.

Exclusive Jurisdiction. Our bylaws provide that legal action relating to the execution, interpretation or performance of the bylaws shall be brought only in courts located in Mexico City.

Duration. Our corporate existence under our bylaws shall be indefinite.

Dissolution or Liquidation. Upon any dissolution, liquidation or split-up of our Company, our shareholders will appoint one or more liquidators at an extraordinary general shareholders' meeting to wind up our affairs. In the event of a surplus upon dissolution, liquidation or split-up, a pro-rata payment per Ordinary Share will be made to each of our shareholders.

Redemption. Our bylaws provide that we may redeem our Ordinary Shares with distributable profits without reducing our capital stock by shareholder resolution at an extraordinary shareholders' meeting. In accordance with Mexican law:

- any redemption shall be made on a pro-rata basis among all of our shareholders;
- to the extent that a redemption is effected through a public tender offer on the Mexican Stock Exchange, the shareholders' resolution approving the redemption may empower the Board of Directors to specify the number of shares to be redeemed and appoint the related intermediary or purchase agent; and
- any redeemed shares must be cancelled.

Share Repurchases. As required by Mexican law, our bylaws provide that we may repurchase our shares on the Mexican Stock Exchange at the prevailing market prices. We are not required to create a special reserve for the repurchase of shares, nor do we need the approval of our Board to effect share repurchases. However, we must appoint a person or individuals responsible for effecting share repurchases. The amount of capital stock allocated to share repurchases is determined by our shareholders at a general ordinary shareholders' meeting. Share repurchases must be charged to our net worth if the repurchased shares remain in our possession and to our capital stock if the repurchased shares are converted into treasury shares. The aggregate amount of resources allocated to share repurchases in any given year cannot exceed the total amount of our net profits in any given year. Our capital stock is reduced automatically in an amount equal to the theoretical value of any repurchased shares. If the purchase price of the shares is less than the theoretical value of the repurchased shares, our capital stock account will be affected by an amount equal to the theoretical value of the repurchased shares.

Delisting. In the event that we decide to cancel the registration of our shares with the Mexican Securities Registry, or if the CNBV orders this deregistration, our shareholders who are deemed to have control will be required to make a tender offer to purchase the shares held by minority shareholders prior to such cancellation. Shareholders deemed to have control are those that own a majority of our common shares, have the ability to control our shareholders' meetings, or have the ability to appoint a majority of the members of our Board of Directors. The price of the offer to purchase will generally be the higher of (x) the average trading price on the Mexican Stock Exchange during the last 30 days on which the shares were quoted prior to the date on which the tender offer is made and (y) the book value of the shares as reflected in our latest quarterly financial information filed with the CNBV and the Mexican Stock Exchange.

In accordance with the applicable regulations, in the event that our controlling shareholders are unable to purchase all of our outstanding shares pursuant to a tender offer, they must form a trust and contribute to it the amount required to secure payment of the purchase price offered pursuant to the tender offer to all of our shareholders that did not sell their shares pursuant to the tender offer. The trust may not exist for a period longer than six months.

Modification of Shareholders' Rights. The rights appurtenant to our Ordinary Shares may only be modified through a resolution adopted by at least 50% of our outstanding Ordinary Shareholders acting at a general extraordinary shareholders' meeting.

Appraisal Rights and Other Minority Protections. Whenever our shareholders approve an amendment to our corporate purpose, jurisdiction of organization or the transformation of our corporate form, any dissenting shareholder is entitled, in terms of the General Corporations Law, to request a separation from the Company and receive the amount of his share participation in the Company through the reimbursement of his shares. The dissenting shareholder must exercise his appraisal rights 15 days following the conclusion of the shareholder's meeting in which the matter was approved.

The protections afforded to minority shareholders under Mexican law are generally different from those in the United States and many other jurisdictions. Substantive Mexican law concerning fiduciary duties of directors has not been subject to extensive judicial interpretation in Mexico, unlike many states in the United States where duties of care and loyalty elaborated by judicial decisions helped to shape the rights of minority shareholders. Mexican civil procedure does not contemplate class actions or shareholder derivative actions, which permit shareholders in U.S. courts to file actions on behalf of other shareholders or to enforce rights of the corporation itself. Shareholders cannot challenge corporate actions taken at shareholders' meetings unless they meet stringent procedural requirements.

As a result of these factors, it is generally more difficult for our minority shareholders to enforce rights against us, our directors or principal shareholders than it is for shareholders of a U.S. issuer.

In addition, under U.S. securities laws, as a foreign private issuer we are exempt from certain rules that apply to domestic U.S. issuers with equity securities registered under the U.S. Securities Exchange Act of 1934, including the proxy solicitation rules. We are also exempt from some of the corporate governance requirements of the New York Stock Exchange.

Under our current bylaws, if we decide to cancel, or the CNBV requires us to cancel, the registration of our Ordinary Shares in the NRS, our controlling shareholder will be required to initiate a tender offer for all Ordinary Shares held by minority stockholders at a price equal to the higher of the average trading price of the Ordinary Shares on the Mexican Stock Exchange during the 30-day period prior to the commencement of the tender offer or the book value of the Ordinary Shares. If any Ordinary Shares held by minority shareholders are not tendered pursuant to the tender offer, a trust will be established, into which our controlling shareholder would be required to contribute cash in an amount equal to the consideration for these remaining Ordinary Shares. Those minority shareholders who did not tender their Ordinary Shares in the tender offer have the right to tender their Ordinary Shares to the trust at the tender offer price for up to two years following the completion of the tender offer.

We are organized under the laws of Mexico. Substantially all of our directors and executive officers reside outside of the United States, all or a significant portion of the assets of our directors and executive officers reside outside of the United States and substantially all of our assets are located outside of the United States. As a result, it may be difficult for investors to effect service of process within the United States upon these individuals. It may also be difficult for investors to enforce against these individuals, either inside or outside the United States, judgments obtained against them in U.S. courts, or to enforce in U.S. courts judgments obtained against them in courts in jurisdictions outside the United States, in any action based on civil liabilities under the U.S. federal securities laws.

There is doubt as to the enforceability against these individuals in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities predicated solely on U.S. federal securities laws. We have been advised by our Mexican counsel, Mijares, Angoitia, Cortés y Fuentes, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

Material Contracts

Acquisition of FASA.

On May 17, 2010 we entered into a Promise to Purchase Agreement with a group of entities controlled by Mr. Jose Codner Chijner to acquire up to 100% of the capital stock of Farmacias Ahumada, S.A., or FASA, for a total price of approximately \$637 million. The entities controlled by Mr. Jose Codner Chijner hold approximately 37% of FASA's outstanding shares. Pursuant to the agreement, through a subsidiary to be incorporated under Chilean law, we will launch a tender offer for all of the outstanding shares of FASA on the Santiago Stock Exchange at a price equal or greater than 1,642 Chilean Pesos, and the entities controlled by Mr. Codner will be required to tender their shares. The validity of the offer is conditioned upon the sale of at least fifty percent plus one of the outstanding shares of FASA. The transaction is also subject to the approval of our general shareholders' meeting and of the Mexican Antitrust Commission, among other conditions. A copy of an English translation of the agreement has been filed as an exhibit to this annual report.

The FASA Agreement provides that, if the Acquisition is not completed within the first three weeks of September, 2010, under certain circumstances, we could be subject to contractual penalties of approximately \$50 million.

As a result of the FASA Acquisition, we could face an exchange rate risk against the Chilean Peso, since the financings to be obtained to fund the purchase price will be denominated in Pesos and Dollars and the payment of the purchase price will be in Chilean Pesos. In order to hedge the risk of changes in the exchange rate of the Mexican Peso versus the Chilean Peso, on May 20, 2010 we entered into a currency forward transaction with HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC.

Exchange Controls and Restrictions on Foreign Investment

In the past, the Mexican economy has experienced balance of payments deficits, shortages in foreign currency reserves and other problems that have affected the availability of foreign currencies in Mexico. The Mexican government does not currently restrict or regulate the ability of persons or entities to convert Pesos into U.S. Dollars or other currencies. However, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not institute a restrictive foreign currency exchange control policy in the future. For a description of exchange rate information, see “Item 3. Key Information—Exchange Rate Information”.

Ownership by non-Mexicans of securities issued by Mexican Corporations is regulated by the *Ley de Inversión Extranjera*, or the Foreign Investment Law, and the *Reglamento de la Ley de Inversión Extranjera y del Registro Nacional de Inversiones Extranjeras*, or the Foreign Investment Regulations. The *Comisión Nacional de Inversiones Extranjeras*, or the Foreign Investment Commission, is responsible for the administration of the Foreign Investment Law and the Foreign Investment Regulations. The Foreign Investment Law, as amended, provides that the Company may have up to 100% of foreign participation without requiring any government authorizations. The Foreign Investment Law also requires us to register any foreign owner of our Ordinary Shares, including the depositary for our ADSs, with the National Registry of Foreign Investment, or the NRFI. We have registered The Bank of New York, the depositary for our ADSs, for this purpose.

In addition, as required by Mexican law, our bylaws provide that non-Mexican holders of our Ordinary Shares, including those held in the form of ADSs, formally agree with the Foreign Affairs Ministry:

- to be considered as Mexicans with respect to the Ordinary Shares that they acquire or hold, as well as to the property, rights, concessions, participation or interests owned by us or to the rights and obligations derived from any agreements we have with the Mexican government; and
- not to invoke the protection of their own governments. If a holder of our Ordinary Shares invokes the protection of its own government, the holder’s Ordinary Shares will be forfeited to the Mexican government.

Mexican Tax Considerations

General. The following is a summary of the anticipated material Mexican tax consequences of the purchase, ownership and disposition of ADSs or Ordinary Shares by a person that is not a resident of Mexico, as defined below. The term “U.S. Holder” shall have the meaning ascribed below under the section “—U.S. Federal Income Tax Considerations”.

U.S. Holders should consult with their own tax advisors as to their entitlement to benefits afforded by the tax treaty between the United States and Mexico. Mexico has also entered into and is negotiating with various countries regarding other tax treaties that may have an effect on the tax treatment of ADSs or Ordinary Shares. Holders should consult with their tax advisors as to their entitlement to the benefits afforded by these treaties.

This discussion does not constitute, and shall not be considered as, legal or tax advice to holders. This discussion is for general information purposes only and is based upon the tax laws of Mexico as in effect on the date of this annual report, which are subject to change, including:

- the Income Tax Law;
- the Federal Tax Code; and
- the Convention for the Avoidance of Double Taxation entered into and between Mexico and the U.S., which we refer to as the Tax Treaty.

Holders should consult their own tax advisors as to U.S., Mexican or other tax consequences of the purchase, ownership and disposition of ADSs or Ordinary Shares.

For Mexican income tax purposes, the following principles apply regarding residency:

- Individuals are residents of Mexico if they have established their home or habitual abode in Mexico or, if they have established their principal place of residence outside Mexico, if their core of vital interests (*centro de intereses vitales*) is located in Mexico. Individuals' core of vital interests will be deemed to be located in Mexico if, among other things,
 - at least 50% of the individual's aggregate annual income derives from Mexican sources; or
 - the individual's principal center of professional activities is located in Mexico.
- Individuals are residents of Mexico if they are state employees, regardless of the location of the individuals' core of vital interests.
- Mexican nationals who filed a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico in which his/her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered Mexican residents for tax purposes during the year of filing of the notice of such residence change and during the following three years.
- Unless otherwise proven, a Mexican national is deemed a resident of Mexico for tax purposes.
- Legal entities are residents of Mexico if they maintain their principal place of business or their place of effective management in Mexico.
- If non-residents of Mexico are deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable Mexican tax law.

The applicable corporate income tax rate was 28% in 2009. The income tax rate applicable from 2010 to 2012 is 30%, 29% for 2013 and 28% for 2014 and following years.

Dividends. Under the provisions of the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*), dividends paid to non-resident holders with respect to the ADSs or Ordinary Shares will not be subject to Mexican withholding tax.

Dividends paid from distributable earnings that have not been subject to taxation at the corporate level were subject to a dividend tax at an effective rate of 38.89% in 2009 (42.86% from 2010 to 2012, 40.85% for 2013 and 38.89% for 2014 and following years) at the corporate-level. The corporate-level dividend tax on the distribution of earnings is not final and may be credited against income tax payable during the fiscal year in which the dividend tax was paid and in the following two years. Dividends paid from distributable earnings, after corporate income tax has been paid with respect to these earnings, are not subject to this corporate-level dividend tax.

Sales or Other Dispositions. Gain on the sale or other disposition of ADSs or Ordinary Shares by a non-resident holder will generally not be subject to Mexican tax. Deposits and withdrawals of Ordinary Shares in exchange for ADSs will not give rise to Mexican tax or transfer duties.

Gain on the sale of ADSs or Ordinary Shares by a non-resident holder will not be subject to any Mexican tax if the transaction is carried out through the Mexican Stock Exchange or other stock exchange or securities markets approved by the Mexican Ministry of Finance and Public Credit. Such exemption shall not apply to a person or group of persons

- that directly or indirectly holds 10% or more of the shares if, in a period of 24 months, such person sells 10% or more of the shares, through one transaction or through more than one simultaneous or successive transactions. In addition, such exemption will not apply to a person or group of persons who control the issuing company and sell their control through one or more transactions within a 24-month period.

Gain on sales or other dispositions of the Ordinary Shares made in other circumstances generally would be subject to Mexican tax at a rate of 25% based on the total amount of the transaction or, subject to certain requirements applicable

- to the seller, at a rate of 28% (30% from 2010 to 2012, 29% in 2013 and 28% in 2014 and the following years), of gains realized from the disposition, regardless of the nationality or residence of the transferor, provided that the transferor is not a resident of a country with a preferred or territorial tax regime.

For tender offers conducted on the Mexican Stock Exchange or other approved stock exchanges or securities markets,

- non-resident holders who held the Ordinary Shares as of the date they were initially registered with the CNBV may qualify for the above exemption to the extent that:

- five uninterrupted years have elapsed since the initial public offering of the Common Shares;
- our Ordinary Shares have a public float of at least 35% on the authorized stock exchanges or markets on which they were initially listed;
- the offer is for all shares representing our share capital and at the same price for all shareholders; and
- all shareholders are permitted to accept more competitive offers than those received prior to or during the tender offer period, without penalty.

Under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty and proves such eligibility will be exempt from Mexican tax on gains realized on a sale or other disposition of the Ordinary Shares, in a transaction that is not carried out through the Mexican Stock Exchange or such other approved securities markets, so long as the holder did not own, directly or indirectly, 25% or more of our share capital (including ADSs) during the twelve-month period preceding the sale or other disposition, as long as certain formal requirements are met.

Other Mexican Taxes. There are no estate, gift, or succession taxes applicable to the ownership, transfer or disposition of ADSs or Ordinary Shares. However, a gratuitous transfer of ADSs or Ordinary Shares may, in some circumstances, result in the imposition of a Mexican federal tax upon the recipient.

There are no Mexican stamp, issue, registration, or similar taxes or duties payable by non-resident holders of the ADSs.

U.S. Federal Income Tax Considerations

General. The following summary of U.S. Federal income taxes is based on U.S. Federal income tax laws in force on the date of this Form 20-F, which laws are subject to change, possibly with retroactive effect. It describes the principal U.S. Federal income tax consequences of the purchase, ownership and sale of ADSs or Ordinary Shares, as the case may be, by U.S. Holders. A “U.S. Holder” is a beneficial owner of ADSs or Ordinary Shares that, for U.S. Federal income tax purposes, is an individual who is:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation organized or created under the laws of the United States or any political subdivision thereof, as the case may be;
- an estate, the income of which is subject to U.S. Federal income tax, regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of such trust.

This section applies only to U.S. holders who hold ADSs or Ordinary Shares as capital assets (generally, property held for investment) under the Internal Revenue Code of 1986, as amended (the “Code”). This section does not provide a complete analysis, listing or other description of all of the possible tax consequences of the purchase, ownership, sale or other disposition of ADSs or Ordinary Shares, as the case may be, and does not address tax consequences to persons with a special tax status such as dealers or traders in securities or currencies, U.S. Holders whose functional currency is not the U.S. Dollar, persons holding ADSs or Ordinary Shares as part of a hedge, straddle, conversion of other integrated transaction, certain U.S. expatriates, banks, insurance companies, real estate investment trust (REITs), regulated investment companies (RICs), tax-exempt entities, or persons owning at least 10% of the total combined voting power of our stock.

If a partnership holds ADSs or Ordinary Shares, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding ADSs or Ordinary Shares should consult his, her or its own tax advisor.

Investors should consult their tax advisors with respect to the tax consequences of the purchase, ownership, sale or other disposition of ADSs or Ordinary Shares, including consequences under foreign, state and local tax laws.

For U.S. Federal income tax purposes, a U.S. Holder of an ADS generally will be treated as the beneficial owner of 10 Ordinary Shares.

Taxation of Cash Distributions and Distributions of Stock. The gross amount of any distribution (other than in liquidation), including the fair market value of all distributions of ADSs or Ordinary Shares whenever a U.S. holder may elect to receive cash distributions in lieu of distributions of ADSs or Ordinary Shares, that a U.S. holder receives with respect to our ADSs or Ordinary Shares (before reduction for any Mexican tax, if any, withheld from such distributions) generally will be included in such holder’s gross income on the day on which the Depository receives such distribution on behalf of the holder of the applicable ADSs or Ordinary Shares. Depending on the amount of the dividend and the amount of the U.S. Holder’s tax basis in the applicable ADSs or Ordinary Shares, distributions will be taxed in the following manner: to the extent that distributions paid by us with respect to the underlying Ordinary Shares do not exceed our current and accumulated earnings and profits (“E&P”), as calculated for U.S. Federal income tax purposes, such distributions will be taxed as dividends.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the “Act”), enacted on May 28, 2003, reduced the maximum rate of tax imposed on certain dividends paid prior to January 1, 2011 to U.S. Holders that are individuals to 15 percent (the “Reduced Rate”), so long as certain holding period requirements are met. In order for dividends paid by a foreign corporation to be eligible for the Reduced Rate, the foreign corporation must be a Qualified Foreign Corporation (a “QFC”) within the meaning of the Act and must not be a Passive Foreign Investment Company (a “PFIC”) in either the taxable year of the distribution or the preceding taxable year. We believe that we are, and will continue to be, a QFC and that we are not, and will not become, a PFIC. As a result, dividends paid prior to January 1, 2011 to individual U.S. Holders will generally constitute qualified dividend income (“QDI”) for U.S. Federal income tax purposes and are taxable at the Reduced Rate, provided that certain holding period and other requirements are satisfied. There can be no assurance, however, that we will continue to be considered a QFC or that we will not be classified as a PFIC in the future. Thus, there can be no assurance that our dividends will continue to be eligible for the Reduced Rate. Moreover, it is unclear whether the Reduced Rate will be repealed or extended prior to January 1, 2011 or, in the absence of legislative action, whether it will expire on such date. Special rules apply for purposes of determining the recipient’s investment income (which limits deductions for investment interest) and foreign income (which may affect the amount of foreign tax credit) and to certain extraordinary dividends. Each U.S. Holder that is an individual is urged to consult his, her or its tax advisor regarding the possible applicability of the Reduced Rate under the Act and the related restrictions and special rules.

Because we are not a U.S. corporation, dividends paid by us will not be eligible for the dividends received deduction generally allowable to corporations under the Code.

To the extent that distributions by us exceed our current and accumulated E&P, such distributions will be treated as a tax-free return of capital, by both individual and corporate U.S. Holders, to the extent of each such U.S. Holder's basis in his, her or its ADSs or Ordinary Shares, and will reduce such U.S. Holder's basis in the ADSs or Ordinary Shares (thereby increasing any gain or decreasing any loss on a disposition of the ADSs or Ordinary Shares).

To the extent that distributions exceed the U.S. Holders' basis in the ADSs or Ordinary Shares, each such individual or corporate U.S. Holder will be taxed as having recognized gain on the sale or disposition of the ADSs or Ordinary Shares (see "Taxation of Sale or Other Disposition", below).

We anticipate that any cash distributions on the ADSs and Ordinary Shares will be made in Pesos, and any dividends so paid generally will be included in a U.S. Holder's gross income in a U.S. Dollar amount calculated by reference to the exchange rate in effect on the day the Depository receives the dividend. It is expected that the ADS Depository will, in the ordinary course, convert Pesos received by it as distributions in the Depository into U.S. Dollars. To the extent that the Depository does not convert the Pesos into U.S. Dollars at the time that such U.S. Holder is required to take the distribution into gross income for U.S. Federal income tax purpose, such U.S. Holder may recognize foreign exchange gain or loss, taxable as ordinary income or loss, on the later conversion of the Pesos into U.S. Dollars. The gain or loss recognized will generally be based upon the difference between the exchange rate in effect when the Pesos are actually converted and the "spot" exchange rate in effect at the time the distribution is taken into account. Any gain will generally be treated as U.S.-source income for U.S. foreign tax credit limitation purposes.

Dividends paid by us will generally be treated as foreign source income for U.S. foreign tax credit limitation purposes. Subject to certain limitations, U.S. Holders may elect to claim a foreign tax credit against their U.S. Federal income tax liability for foreign tax withheld (if any) from dividends received in respect of the ADSs or Ordinary Shares, as applicable. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends paid in respect of our ADSs or Ordinary Shares, as applicable, generally will be "passive income", and therefore any U.S. Federal income tax imposed on these dividends cannot be offset by excess foreign tax credits that such U.S. Holders may have from foreign source income not qualifying as passive income. U.S. Holders who do not elect to claim a foreign tax credit may instead claim a deduction for foreign tax withheld (if any).

Distributions of Ordinary Shares and ADSs to U.S. Holders with respect to their holdings of Ordinary Shares and ADSs, as the case may be (such previously held ADSs or Ordinary Shares being "Old Stock"), that are pro-rata with respect to their holdings of Old Stock (and whenever a holder may not elect to receive cash distributions in lieu of distributions of ADSs or Ordinary Shares) will generally not be subject to U.S. Federal income tax (except with respect to cash received in lieu of fractional Ordinary Shares and ADSs, if any). The basis of the Ordinary Shares and ADSs so received will be determined by allocating the U.S. Holder's adjusted basis in the Old Stock between the Old Stock and the Ordinary Shares and ADSs so received.

Taxation of Sale or Other Disposition. Unless a non-recognition provision applies, a U.S. Holder will recognize capital gain or loss upon a sale or other disposition of ADSs or Ordinary Shares in an amount equal to the difference between the amount realized on their disposition and such U.S. Holder's basis in the ADSs or Ordinary Shares. Under current law, capital gains realized by corporate and individual taxpayers are generally subject to U.S. Federal income taxes at the same rate as ordinary income, except that long-term capital gains (i.e., where the U.S. Holder has a holding period greater than one year) realized by individuals, trusts and estates are subject to U.S. Federal income taxes at a reduced rate (15% prior to January 1, 2011). Certain limitations exist on the deductibility of capital losses by both corporate and individual taxpayers. Capital gains and losses on the sale or other disposition by a U.S. Holder of ADSs or Ordinary Shares generally should constitute gains or losses from sources within the U.S.

For cash basis U.S. Holders who receive foreign currency in connection with a sale or other taxable disposition of ADSs or Ordinary Shares, as applicable, the amount realized will be based on the U.S. Dollar value of the foreign currency received with respect to such ADSs or Ordinary Shares as determined on the settlement date of such sale or other taxable disposition.

Accrual basis U.S. Holders may elect the same treatment required of cash basis taxpayers with respect to a sale or other taxable disposition of ADSs or Ordinary Shares, as applicable, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the U.S. Internal Revenue Service. Accrual basis U.S. Holders who do not elect to be treated as cash basis taxpayers (pursuant to the U.S. Treasury Regulations applicable to foreign currency transactions) for this purpose may have a foreign currency gain or loss for U.S. Federal income tax purposes because of differences between the U.S. Dollar value of the foreign currency received prevailing on the date of the sale or other taxable disposition of ADSs or Ordinary Shares, as applicable, and the date of payment. Any such currency gain or loss generally will constitute a gain or loss from sources within the U.S. and generally will be treated as ordinary income or loss and would be in addition to gain or loss, if any, recognized on the sale or other taxable disposition of ADS or Ordinary Shares, as applicable.

Deposits, Withdrawals and Pre-Releases. Deposits and withdrawals by U.S. Holders of Ordinary Shares in exchange for ADSs and of ADSs in exchange for Ordinary Shares will not be subject to any U.S. Federal income tax. The U.S. Treasury Department, however, has expressed concerns that parties involved in transactions where depositary shares are pre-released may be taking actions that are not consistent with the claiming of foreign tax credits by the holders of the applicable ADSs. Accordingly, the analysis of the credibility of Mexican taxes described above could be affected by future actions that may be taken by the U.S. Treasury Department.

United States Backup Withholding and Information Reporting. In general, information reporting requirements will apply to payments of dividends on ADSs or Ordinary Shares and the proceeds of certain sales of ADSs or Ordinary Shares in respect of U.S. Holders other than certain exempt persons. A 28% backup withholding tax (31% for 2011 and thereafter) will apply to such payments if the U.S. Holder fails to provide a correct taxpayer identification number or other certification of exempt status or, with respect to certain payments, the U.S. Holder fails to report in full all dividend and interest income and the U.S. Internal Revenue Service notifies the payer of such under-reporting. Amounts withheld under the backup withholding rules may be credited against a holder's U.S. Federal tax liability, and a refund of any excess amounts withheld under the backup withholding rules may be obtained by filing the appropriate claim form with the U.S. Internal Revenue Service.

Passive Foreign Investment Company Considerations. We believe that we are not currently, and we do not expect to become, a PFIC for U.S. Federal income tax purposes. Because this determination is made annually at the end of each of our taxable years and is dependent upon a number of factors, some of which are beyond our control, including the value of our assets and the amount and type of our income, there can be no assurance that we will not become a PFIC. In general, a corporation organized outside the United States will be treated as a PFIC for U.S. Federal income tax purposes in any taxable year in which either (a) at least 75% of its gross income is "passive income" or (b) on average at least 50% of the value of its assets is attributable to assets that produce passive income or are held for the production of passive income. If a U.S. Holder owns our ADSs or Ordinary Shares at a time when we become a PFIC and is not eligible to make or does not make certain elections with respect to our ADSs or Ordinary Shares, such U.S. Holder could be liable for additional taxes and interest charges upon certain distributions by us or upon a sale, exchange or other disposition of such shares at a gain, whether or not we continue to be a PFIC. In addition, under recently enacted legislation, if we were a PFIC for any taxable year after 2010, all U.S. Holders would be required to file an annual report with respect to their ADSs or Ordinary Shares.

Documents on Display

For further information pertaining to us and our Ordinary Shares and ADSs, please consult the filings we have made with the SEC. Statements contained in this annual report concerning the contents of any contract or any other document are not necessarily complete. If a contract or document has been filed as an exhibit to any filing we have made with the SEC, we refer you to the copy of the contract or document that has been filed. Each statement in this annual report relating to a contract or document filed as an exhibit to any filing we have made with the SEC is qualified in its entirety by the filed exhibit.

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance with these requirements, we file reports and other information with the SEC. These reports and other information, as well as any related exhibits and schedules, may be inspected, without charge, at the public reference facility maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of these reports and other information may also be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C., 20549, at prescribed rates. These reports and other information may also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We furnish The Bank of New York, the depository for our ADSs, with annual reports in English. These reports contain audited consolidated financial statements that have been prepared in accordance with Mexican FRS, and include reconciliations of net income and stockholders' equity to U.S. GAAP. These reports have been examined and reported on, with an opinion expressed by, an independent auditor. The depository is required to mail our annual reports to all holders of record of our ADSs. The deposit agreement for the ADSs also requires us to furnish the depository with English translations of all notices of shareholders' meetings and other reports and communications that we send to holders of our Ordinary Shares. The depository is required to mail these notices, reports and communications to holders of record of our ADSs.

As a foreign private issuer, we are not required to furnish proxy statements to holders of our ADSs in the United States.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a number of different market risks arising from our normal business activities and risk management activities. We do not enter into or hold any market risk sensitive instruments for trading purposes. Market risks arise from the possibility that changes in interest rates or currency exchange rates will adversely affect the value of our financial assets, liabilities or expected future cash flows.

Interest Rate Risk

We are subject to market risks due to interest fluctuations in Mexico. In addition, in the past, we have occasionally entered into swap arrangements and other hedge transactions, and will continue to consider doing so in the future to reduce our exposure to interest rate risks. As of December 31, 2009, we had \$63.6 million Brazilian Real (Ps. 476.1 million) in outstanding short-term debt, related to the Drogasmil acquisition in Brazil that is subject to interest rate risk. As of December 31, 2009, we were not party to any arrangements to reduce our exposure to interest rate risk. See Note 20(d) to our consolidated financial statements.

Foreign Exchange Rate Risk

As of December 31, 2009, we had no interest-bearing liabilities in U.S. Dollars. To the extent that we incur U.S. Dollar-denominated debt in the future, we would be subject to foreign exchange rate risk.

As of December 31 2009, our interest-bearing liabilities reached Ps. 2,382.7 million, a portion of which are held in long-term liabilities that we incurred to fund our acquisition in Brazil. Nevertheless, the majority of such interest-bearing liabilities are in Pesos. As of December 31, 2009, we were not party to any arrangements to reduce our exposure to foreign exchange rate risk. See Note 10 to our consolidated financial statements.

As a result of the FASA Acquisition and the financing to be obtained in connection therewith, we could face an exchange rate risk against the Chilean Peso, since the financings to be obtained to fund the purchase price will be denominated in Pesos and Dollars and the payment of the purchase price will be in Chilean Pesos. In order to hedge the risk of changes in the exchange rate of the Peso versus the Chilean Peso, on May 20, 2010 we entered into a currency forward transaction with HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC.

Item 12. Description of Securities Other than Equity Securities

Item 12A. Debt Securities

Not applicable.

Item 12B. Warrants and Rights

Not applicable.

Item 12C. Other Securities

Not applicable

Item 12D. American Depositary Shares

The Bank of New York Mellon, or the Depositary, serves as the depositary for our ADSs. ADS holders are required to pay various fees to the Depositary, and the Depositary may refuse to provide any services for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the Depositary amounts in respect of expenses incurred by the Depositary or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, facsimile transmission, or conversion of foreign currency into U.S. Dollars. In both cases, the Depositary may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or cash distributions.

ADS holders are also required to pay additional fees for certain services provided by the Depositary, as set forth in the table below:

Fees Payable by ADS holders:	Depositary Service:
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none">• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$.02 (or less) per ADS	<ul style="list-style-type: none">• Any cash distribution to ADS registered holders
\$.02 (or less) per ADS per calendar year	<ul style="list-style-type: none">• Depositary services

The Depositary pays us an agreed amount, which includes reimbursements for certain expenses we incur in connection with the ADS program. These reimbursable expenses include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADR holders. For the year ended December 31, 2009, this amount was \$188,167.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

(a) *Disclosure Controls and Procedures*

As of the end of the period covered by this report, the Company's management (under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer) conducted an evaluation pursuant to Rule 13a-15 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") of the effectiveness of the design and operation of the Company's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures (which include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure) are not effective to provide reasonable assurance that information required to be disclosed by the Company (including its consolidated subsidiaries) in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

In connection with the foregoing, our subsidiary CSB Drogarias, S.A., has deficiencies in its IT General Computer Controls related to administration of user access levels to the financially significant applications which have resulted in users with unauthorized and excessive access to sensitive transactions that will preclude the Company from preventing or detecting a material misstatement in a timely basis. In addition, such subsidiary's IT systems are not capable of maintaining and generating the necessary inventory information for our auditors to be able to audit Drogarias' inventory balance as of December 31, 2009. Moreover, Droguerias lacks controls related to assessing certain contingencies.

As a consequence, the audit report by our independent auditors on the Company's internal control over financial reporting as of December 31, 2009, expressed an adverse opinion on the effectiveness of the Group's internal control over financial reporting. See the audit report by our independent auditor on page F-5.

(b) *Management's Report on Internal Control over Financial Reporting*

Management's Report on Internal Control over Financial Reporting is included under Item 18 on page F-2.

(c) *Attestation Report of the Registered Public Accounting Firm*

The report of Salles, Sáinz-Grant Thorton, S.C., an independent registered public accounting firm, on management's assessment of our internal control over financial reporting is included under Item 18 on page F-4.

(d) *Changes to Internal Control over Financial Reporting and Remediation Activities update*

Our management team has continued working to address and correct the deficiencies that aggregated into a material weakness and that are identified in management's report on internal control over financial reporting. The Company has performed the purchase price allocation of the consideration paid for the acquisition of Drogasmil, except for the value of inventories, however management of the Company carried out a goodwill impairment test during the last quarter of 2009. As a result of such test, the Company has assessed goodwill impairment during the last quarter of 2009 in the amount of Ps. 210 millions.

The Company, at the holding company level, is also reviewing and will revise, if necessary, its internal controls over financial reporting to ensure that it is in a position to react promptly to deficiencies that may arise in the future as a result of integrating an acquired entity. Management, in connection with Drogasmil, is also taking certain steps to improve accounting systems, train accounting personnel, revise and implement additional accounting and internal control processes and procedures at Drogasmil.

During the review and remediation process we may also find other deficiencies or material weaknesses, in addition to the ones already identified. Our management is devoting considerable efforts to resolving these deficiencies; however, we cannot assure you that we will resolve these deficiencies or any other deficiencies that may arise in the future in a timely manner.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

At our annual ordinary shareholders' meeting held on April 30, 2010, our shareholders reelected appointed the following individuals as members of the Audit Committee: Mr. Julio Madrazo García, Mr. Gabriel Alarcón Velázquez and Mr. Juan Carlos Peralta del Río. Our Board of Directors has ratified Mr. Julio Madrazo García as Chairman of the audit committee. Our Board of Directors determined that Mr. Julio Madrazo García, Mr. Gabriel Alarcón Velázquez and Mr. Juan Carlos Peralta del Río are "financial experts" in accordance with the Mexican Securities Market Law and the Mexican Stock Exchange. We believe that Mr. Gabriel Alarcón Velázquez qualifies as an "audit committee financial expert" within the meaning of this Item 16A.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and persons performing similar functions, as well as to our directors and other officers and employees. On December 2, 2009, our code of ethics was amended in its entirety in order to conform it to amendments to the legal framework adopted in recent years, as well as to implement formal improvements to the text. Our code of ethics is available on our web site at www.casasaba.com. Since its adoption, our code of ethics has not been amended and no waivers have been granted thereunder; however, any amendment to the code of ethics or waiver thereto shall be disclosed on our web site at the same address.

Item 16C. Principal Accountant Fees and Services

	For the year ended December			
	31,			
	2008		2009	
	(Ps. millions)			
Audit Fees	Ps.	5.1	Ps.	9.0
Audit-Related Fees		2.6		0.4
Other Fees		0.0		0.0
Total	Ps.	<u>7.7</u>	Ps.	<u>9.4</u>

Audit Fees. The amount set forth as Audit Fees in the table above represents fees billed to us by Salles Sáinz-Grant Thornton, S.C., our independent auditor. The firm was appointed at the shareholders meeting and was hired to render tax and financial audit.

Audit-Related Fees. The amount set forth as Audit-Related Fees in the table above represents fees billed to us by Salles Sainz-Grant Thornton, S.C. in connection with their review of our consolidated financial statements.

Pre-Approval Policies and Procedures. Our Audit Committee has not adopted pre-approval policies and procedures under which all non-audit services provided by our external auditors must be pre-approved by the Audit Committee. However, any matter that is submitted to the Audit Committee for approval must be approved at a meeting and the members of the Board of Directors must be informed.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Significant Differences in Corporate Governance Standards

Pursuant to Rule 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a brief summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards.

Since we are Mexican corporation with shares listed on the Mexican Stock Exchange, our corporate governance standards are governed by our corporate bylaws, the Mexican Securities Market Law and the regulations issued by the Mexican Banking and Securities Commission. In order to comply with the above mentioned laws and regulations, as a public company listed on the Mexican Stock Exchange since December 2003, we are required by the Mexican Banking and Securities Commission to disclose annually the extent to which our corporate governance practices comply with those issued by the Mexican Banking and Securities Commission as general guidelines and which are collected in the Mexican Code of Enhanced Corporate Practices (*Código de Mejores Prácticas Corporativas*), or the Code. This Code was originally created by a group of Mexican business leaders and was acknowledged by the Mexican Banking and Securities Commission in December 2003. Under Mexican legislation, we are not compelled to comply with the guidelines contained in the Code, although compliance is highly recommended by the authorities and disclosure as to the degree of our compliance therewith is mandatory.

NYSE Standards

A majority of the Board of Directors must be independent. Exception for “controlled companies,” which would include our Company if we were a U.S. issuer.

Non-management directors must meet at executive sessions without management.

Nominating/corporate governance committee of independent directors required. Exception for “controlled companies,” which would include our Company if we were a U.S. issuer.

Compensation committee of independent directors required. Exception for “controlled companies,” which would include our Company if we were a U.S. issuer.

Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

Equity compensation plans require shareholder approval, subject to limited exemptions.

Corporate governance guidelines and code of conduct and ethics required, with disclosure of any waiver for directors or executive officers.

CEO Certifications must certify to the NYSE each year that the CEO is not aware of any violation by the Company of the NYSE corporate governance listing standards. Additionally CEO’s must notify the NYSE in writing if any executive officer becomes aware of any material non-compliance with the new listing standards.

Our Corporate Governance Practice

The Mexican Securities Market Law requires that listed companies have at least 25% of independent directors. The 25% of the members of our Board are independent under the Mexican Stock Exchange Law. Our Board of Directors is not required to make a determination as to the independence of our directors. The applicable definition of independence, which differs in certain respects from the definition applicable to U.S. issuers under the NYSE standard, prohibits, among other relationships, an independent director from being an employee or officer of the Company or an independent director from being a shareholder that may have influence over the Company. It also prohibits certain relationships between the Company and the independent director, entities with which the independent director is associated and family members of the independent director.

Our non-management directors are not required to meet in executive sessions. Executive sessions are not recommended by the Mexican Code of Enhanced Corporate Practices. Our Chief Executive Officer is a member of our Board of Directors.

We are not required to have a nominating corporate governance committee, and such committee is not recommended by the Mexican Code of Enhanced Corporate Practices.

We are not required to have a compensation committee, and currently we do not have one.

We have a three member audit committee, which are independent under applicable Mexican standards and for Rule 10A-3. Members of our audit committee do not need to satisfy the NYSE independence standards that are not required by Rule 10A-3. Our audit committee does not have a written charter.

Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity-compensation plan. However, regulations of the Mexican Banking and Securities Commission require shareholder approval under certain circumstances.

The practices for our Board of Directors, including committees and compensation of directors, are described in this annual report. We have adopted a code of ethics applicable to all of our directors and executive officers, which is available at <http://www.casasaba.com>.

We are required to disclose each year our degree of compliance with the Code of Enhanced Corporate Governance Practices, and the truthfulness of such disclosure must be certified by the Chairman of the Board of Directors; however there is no such concept as a violation of the Code of Enhanced Corporate Governance Practices since compliance with these is not mandatory. Furthermore, other than the disclosure provided by our CEO in this annual report, the CEO is not required to provide notification of any non-compliance of which he may be aware of.

PART III

Item 17. Financial Statements

We are furnishing financial statements pursuant to the instructions to Item 18 of Form 20-F.

Item 18. Financial Statements

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 19. Exhibits

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 | Stock Purchase and Sale Promise Agreement* |
| 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 Financial Officer 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 Financial Officer 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.* |

* 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 and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Dated: June 30, 2010

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, 2009.

We have identified deficiencies in the IT General Computer Controls related to the administration of user access levels to financially significant applications in our Brazilian subsidiary, CSB Drogarias, S.A., which has resulted in users with unauthorized and excessive access to sensitive transactions. As a result, we are precluded from preventing or detecting a material misstatement in a timely manner. In addition, this subsidiary's IT systems are not capable of maintaining and generating the necessary inventory information to audit its inventory balance sheet as of December 31, 2009. Furthermore, there is a lack of controls in CSB Drogarias, S.A. related to assessing certain contingencies.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009 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/ Alejandro Sadurni Gomez

Name: Alejandro Sadurni Gomez
Title: Chief Financial Officer

April 29, 2010

Report of Independent Registered
Public Accounting Firm

Board of Directors and Stockholders of

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, 2008 and 2009, 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, 2009. 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.

Except as discussed in the following paragraphs a) and b), 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 provide a reasonable basis for our opinion.

As discussed in Note 1(c), the Group acquired a Brazilian company, Drogasmil (now CSB Drogarias, S.A. or Drogarias), for approximately thousand of Mexican pesos Ps. 911,253 on May 15, 2008. The Group was unable to prepare a purchase price allocation for the acquisition because of inadequate accounting records of Drogasmil as of December 31, 2008. Therefore, we were not able to audit the underlying assets and liabilities or assess the potential impairment of assets as of and for the year then ended. We were also not able to audit the operations of this subsidiary from May 15 to December 31, 2008 of which a net loss for thousand of Mexican pesos Ps. 62,348 was included in the net income in the consolidated statements of income for the year ended December 31, 2008.

At the date of this report, the Group finished clearing and adjusting the accounting records of Drogarias as of December 31, 2008, except the inventory balance of approximately thousands of Mexican pesos Ps. 246,000, as well as certain unquantifiable contingencies as disclosed in Note 15(i). In addition, at December 31, 2009, Drogarias still lacked adequate accounting records to enable us to audit the inventory balance of approximately thousands of Mexican pesos Ps. 217,000, as well as certain unquantifiable contingencies referred in Note 15 (i).

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary if we had been able to audit the balance of inventories as of December 31, 2008 and 2009 and certain unquantifiable contingencies as mentioned above, as well as the operations of Drogarias for May 15 through December 31, 2008, 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, 2008 and 2009, 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, 2009, in conformity with financial reporting standards applicable in Mexico.

Mexican FRS varies 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, 2009 and consolidated stockholders' equity as of December 31, 2008 and 2009 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 18 and 19.

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, 2009, 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 April 29, 2010 expressed an adverse opinion on the effectiveness of the Group's internal control over financial reporting.

Salles, Sainz-Grant Thornton, S.C..

/s/ Salles Sainz-Grant Thornton, S.C.

Mexico City, Mexico

April 29, 2010 (except for Notes 16, 18, 19
& 20 as to which the date is June 30, 2010)

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

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

We have audited Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries' ("Group") internal control over financial reporting as of December 31, 2009, 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) as of December 31, 2009. 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 Company'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 Company'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 Company; (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 Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company'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 weaknesses have been identified and included in management's assessment.

The Group subsidiary CSB Drogarias, S.A., a Brazilian company, has deficiencies in the IT General Computer Controls related to administration of user access levels to the financially significant applications which have resulted in users with unauthorized and excessive access to sensitive transactions that will preclude the Company from preventing or detecting a material misstatement in a timely basis. In addition, the Brazilian subsidiary's IT systems are not capable of maintaining and generating the necessary inventory information for us to be able to audit the Brazilian subsidiary's inventory balance as of December 31, 2009. Moreover, the Brazilian subsidiary lacks controls related to assessing certain contingencies.

In our opinion, because of the effect of the material weaknesses 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, 2009, 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), the consolidated balance sheets of the Group as of December 31, 2008 and 2009, and the related consolidated statements of income and changes in stockholders' equity for each of the three years in the period ended December 31, 2009, as well as the consolidated financial statements of changes in financial position for the year ended December 31, 2007 and cash flows for the years ended December 31, 2008 and 2009. Our report dated April 29, 2010 expressed a qualified opinion on the consolidated financial statements for 2009 and 2008 due to limitations in the scope of our engagement regarding subsidiary CSB Drogarias, S.A., as mentioned in our report of that date.

Mexican financial reporting standards vary in certain material respects to accounting principles generally accepted in the United States of America. Information related to the nature and effects of such differences is presented in Notes 18 and 19 to the consolidated financial statements.

SALLES SAINZ-GRANT THORNTON, S.C.

/s/ SALLES SAINZ-GRANT THORNTON, S.C.

Mexico City, Mexico

April 29, 2010 (except for Notes 16, 18, 19
& 20 as to which the date is June 30, 2010)

**Consolidated balance sheets
as of December 31, 2008 and 2009
(Amounts stated in thousand Mexican pesos (Ps.)
and thousand of U.S. dollars (\$))**

	2008	2009	Convenience translation 2009		2008	2009	Convenience translation 2009
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 3.f)	Ps. 601,261	Ps. 664,261	\$ 50,926	Bank loans (Note 9)	Ps. 271,824	Ps. 1,491,126	\$ 114,318
Accounts receivable, net (Notes 3.h and 4)	5,920,314	6,123,869	469,489	Trade accounts payable	5,881,486	5,052,236	387,332
Inventories, net (Notes 3.i and 5)	5,167,701	5,141,142	394,148	Other payables and accrued liabilities	144,937	132,120	10,129
Prepaid expenses	48,329	45,971	3,524	Employee profit sharing (Notes 3.n and 13.e)	5,851	4,000	307
				Total current liabilities	6,304,098	6,679,482	512,086
Total current assets	11,737,605	11,975,243	918,087				
				LONG - TERM DEBT			
				(Note 9)	1,053,000	891,644	68,358
PROPERTY AND EQUIPMENT, net				RETIREMENT PENSIONS, SENIORITY PREMIUM AND SEVERANCE BENEFITS (Note 3.m)			
(Notes 3.j and 6)	1,404,985	1,355,863	103,948		62,128	68,161	5,226
				DEFERRED INCOME TAX			
				(Notes 3.n and 10)	498,687	675,768	51,808
				OTHER PAYABLES AND ACCRUED LONG-TERM LIABILITIES			
					119,858	121,405	9,308
DEFERRED INCOME TAX				Total liabilities	8,037,771	8,436,460	646,786
(Notes 13.f)		99,961	7,665				
				CONTINGENCIES AND COMMITMENTS			
				(Note 15)			

				STOCKHOLDERS'			
				EQUITY			
OTHER ASSETS, net	199,715	265,312	20,340	Capital stock (Note 12)	1,123,764	1,123,764	86,154
				Premium on stock sold	869,878	869,878	66,690
				Reserve for share repurchases (Note 12)	1,062,201	1,062,201	81,434
GOODWILL, net (Notes 3.k and 7)	1,305,227	1,391,290	106,664	Retained earnings	3,481,122	3,457,781	265,092
				Accumulated translation effect	72,796	137,585	10,548
				Total stockholders' equity	6,609,761	6,651,209	509,918
				Total liabilities and stockholders' equity	Ps. 14,647,532	Ps. 15,087,669	\$ 1,156,704
Total assets	<u>Ps. 14,647,532</u>	<u>Ps. 15,087,669</u>	<u>\$ 1,156,704</u>		<u>Ps. 14,647,532</u>	<u>Ps. 15,087,669</u>	<u>\$ 1,156,704</u>

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

**Consolidated statements of income
for the years ended December 31, 2007, 2008 and 2009
(Amounts stated in thousand Mexican pesos (Ps.)
and thousand of U.S. dollars (\$))**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Convenience translation 2009</u>
Net sales (Note 3.r)	Ps. 25,259,662	Ps. 28,400,059	Ps. 29,791,657	\$ 2,283,988
Cost of sales	22,775,405	25,334,471	26,565,802	2,036,677
Gross profit	<u>2,484,257</u>	<u>3,065,588</u>	<u>3,225,855</u>	<u>247,311</u>
Operating expenses				
Selling	594,300	905,435	937,907	71,905
Administrative	830,552	1,199,448	1,397,223	107,119
	<u>1,424,852</u>	<u>2,104,883</u>	<u>2,335,130</u>	<u>179,024</u>
Operating income	1,059,405	960,705	890,725	68,287
Other (income) expenses, net	(51,756)	(58,189)	136,307	10,450
Comprehensive gain or loss on financing, net				
Interest income	(16,625)	(11,817)	(5,076)	(389)
Interest expense	11,156	190,303	264,479	20,276
Exchange loss (Note 3.o)	1,884	2,632	2,840	218
Loss on monetary position (Note 3.d)	21,433			
	<u>17,848</u>	<u>181,118</u>	<u>262,243</u>	<u>20,105</u>
Non-ordinary item		(59,791)		
Income before provisions	1,093,313	897,567	492,175	37,732
Provisions for income tax	188,226	302,449	211,897	16,245
Net income	<u>Ps. 905,087</u>	<u>Ps. 595,118</u>	<u>Ps. 280,278</u>	<u>\$ 21,487</u>
Basic and diluted net income per share (Note 3.q)	<u>Ps. 3.410</u>	<u>Ps. 2.242</u>	<u>Ps. 1.056</u>	
Weighted average shares outstanding (in thousands)	<u>265,419</u>	<u>265,419</u>	<u>265,419</u>	

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

**Consolidated statements of stockholders' equity
for the years ended December 31, 2007, 2008 and 2009
(Amounts stated in thousand Mexican pesos (Ps.)
and thousand of U.S. dollars (\$))**

	Capital stock		Premium on stock sold	Reserve for share repurchases	Retained earnings	Deficit on restatement	Accrued deferred income tax on earnings	Additional employee retirement liability	Accumulated translation effect	Total
	Historical	Restatement								
Balances as of January 1, 2007	Ps. 167,903	Ps. 955,861	Ps. 869,878	Ps. 1,062,201	Ps. 4,938,724	Ps. (2,381,779)	Ps. (40,695)	Ps. (28,076)	Ps.	Ps. 5,544,017
Dividends paid					(175,372)					(175,372)
Comprehensive income					905,087	(189,961)		8,949		724,075
Balances as of December 31, 2007	167,903	955,861	869,878	1,062,201	5,668,439	(2,571,740)	(40,695)	(19,127)		6,092,720
Dividends paid					(170,000)					(170,000)
Transfer to accumulated earnings (Note 3.d and 3.n)					(2,612,435)	2,571,740	40,695			
Comprehensive income					595,118			19,127	72,796	687,041
Balances as of December 31, 2008	167,903	955,861	869,878	1,062,201	3,481,122				72,796	6,609,761
Dividends paid					(170,000)					(170,000)
New financial reporting standard (Note 3.u)					(133,619)					(133,619)
Comprehensive income					280,278				64,789	345,067
Balances as of December 31, 2009	Ps. 167,903	Ps. 955,861	Ps. 869,878	Ps. 1,062,201	Ps. 3,457,781	Ps.	Ps.	Ps.	Ps. 137,585	Ps. 6,651,209

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

**Consolidated statement of changes in financial position
for the year ended December 31, 2007
(Amounts stated in thousand Mexican pesos (Ps.)
and thousand of U.S. dollars (\$))**

	<u>2007</u>
Operating activities:	
Net income	Ps. 905,087
Add (less) - Non cash items:	
Depreciation and amortization	86,019
Loss on sale of property and equipment	14,020
Provision for retirement pensions, seniority premium and severance benefits	19,859
Deferred income tax	(126,331)
Deferred employee profit sharing	(3,684)
	<u>894,970</u>
Changes in assets and liabilities	
(Increase) decrease in:	
Accounts receivable	(195,862)
Inventories	(1,095,721)
Prepaid expenses	(2,550)
Trade accounts payable	1,042,267
Other payables and accrued liabilities	(148,042)
Employee profit sharing	(2,143)
	<u>(402,051)</u>
Net cash provided by operating activities	<u>492,919</u>
Investing activities:	
Additions of property and equipment, net of retirements	162,707
Increase in other assets	49,275
Reserve for retirement pensions, seniority premium and severance benefits	16,548
Net cash used in investing activities	<u>228,530</u>
Financing activities:	
Dividends paid	(175,372)
Bank loans, net of payments made	(17,044)
Deferred income tax	(27,071)
Deferred employee profit sharing	(147)
Net cash used in financing activities	<u>(219,634)</u>
Net increase in cash and cash equivalents	44,755
Cash and cash equivalents at beginning of year	639,557
Cash and cash equivalents at end of year	<u>Ps. 684,312</u>
Supplementary information:	

Income tax and asset tax paid	Ps. 355,121
Employee profit sharing paid	Ps. 991
Interest paid	Ps. 3,598

The accompanying notes are an integral part of this consolidated financial statement

**Consolidated cash flows statements
for the year ended December 31, 2008 and 2009
(Amounts stated in thousand Mexican pesos (Ps.)
and thousand of U.S. dollars (\$))**

	2008	2009	Convenience translation 2009
OPERATING ACTIVITIES:			
Income before tax on earnings	Ps. 897,567	Ps. 492,175	\$ 37,732
Items relating to investing activities:			
Depreciation and amortization	90,004	108,659	8,330
Interest earned	(11,817)	(5,076)	(389)
Loss on sale of property and equipment	5,152	14,938	1,145
Impairment of goodwill		210,000	16,100
Items related to financing activities :			
Interest expense	190,303	264,479	20,276
Retirement pensions, seniority premium and severance benefits		31,468	2,413
Sutotal	1,171,209	1,116,643	85,607
Accounts receivable	(1,043,300)	(203,555)	(15,606)
Inventories	(49,021)	26,559	2,036
Prepaid expenses	(20,726)	2,358	181
Trade accounts payable	476,075	(829,250)	(63,575)
Other payables and accrued liabilities	(88,701)	(12,817)	(983)
Employee profit sharing	5,851	(1,851)	(142)
Taxes payable	(397,611)	(343,737)	(26,353)
Other payables and accrued liabilities	207,963	1,547	119
Deferred employee profit sharing	(197)		
Net cash flow provided by (used in) operating activities	261,542	(244,103)	(18,716)
INVESTING ACTIVITIES:			
Property and equipment	(237,603)	(31,603)	(2,423)
Other assets	(35,122)	(107,549)	(8,245)
Acquisition of business	(739,957)		
Goodwill		(296,983)	(22,768)
Interest earned	11,817	5,076	389
Net cash used in investing activities	(1,000,865)	(431,059)	(33,047)
FINANCING ACTIVITIES:			
Bank loans	1,053,000	1,050,649	80,548
Retirement pensions, seniority premium and severance benefits	(41,002)	(25,435)	(1,950)
Interest paid	(185,726)	(257,182)	(19,716)
Dividends paid	(170,000)	(170,000)	(13,033)
Net cash flow provided by financing activities	656,272	598,032	45,849
Adjustments to cash flow variations in the exchange rate		140,130	10,743
(Decrease) increase in cash and equivalents	(83,051)	63,000	4,829
Cash and equivalents at beninning of year	684,312	601,261	46,097
Cash and equivalents at end of year	601,261	664,261	\$ 50,926

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007, 2008 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., through its consolidated subsidiaries, distributes pharmaceutical products, as well as health and beauty aids /other products, entertainment products (including magazines and books), food/non-perishable products, and office/electronic products. The Group distributes these product lines through its distribution network to supermarket chains, pharmacies (private and governmental) and retail customers throughout Mexico, as well as Rio de Janeiro, Brasil. The Group does not maintain separate operating results for each of its product lines, and as a result, it considers all of its operations and reporting the results of all of its operations to management as a single business segment. Revenue attributable to each of the product lines is disclosed in Note 14.

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.

The individual and consolidated financial statements and their pertinent notes were authorized to be issued by the Board of Directors on March 30, 2010, and they will be submitted for approval of the Stockholders’ Meeting that will be held on April 30, 2010. The stockholders have the power to amend the financial statements subsequent they have been issued, as provided for in the General Corporate Law and the Company’s bylaws.

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

		Economic Interest (Direct or indirect)	
		2008	2009
Domestic subsidiaries:			
Direct interest			
Casa Saba, S.A de C.V.	(Casa Saba)	99.9%	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%(*)
Grupo Mexatar, S.A. de C.V.	(Mexatar)		99.9%(*)
Other real estate and service companies and Other	(20 subsidiaries)	99.9%	99.9%

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	Economic Interest (Direct or indirect)	
	2008	2009
Indirect interest		
Centennial, S.A. de C.V.	99.9%(*)	
Mexatar, S.A. de C.V.	99.9%(*)	
Casa Saba		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%
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%
Resonancia Sports Clinic, S.A. de C.V.	50.001%	50.001%
Servicios Corporativos Sports Clinic, S.A. de C.V.	50.001%	50.001%
Tampico Sports Clinic Ambulatorias, S.A. de C.V.	50.001%	50.001%
Other service companies (4 subsidiaries)	99.9%	99.9%
Foreign subsidiaries:		
Casa Saba Brasil Holdings Ltda. (**)	(CS Brasil) 100.0%	100.0%
CSB Drogarias, S.A. (**)	(Drogarias) 100.0%	100.0%
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%

(*) At December 2009 year end, Management made internal changes in the stock structure among these Group' subsidiaries (refer to subparagraphs g) and h) hereinbelow).

(**) Entities organized in accordance with the laws of the State of Rio de Janeiro, Brasil.

During 2008 and 2009, the Group's management and its stockholders approved the following agreements to strengthen its corporate structure, as well as to facilitate its consolidated operations. The Group's management constantly reviews its strategies to adapt to any economic changes that may arise.

a) Through an assignment agreement of documents pending collection, dated December 31, 2008, the Group's subsidiaries Centennial, Casa Saba, Citem and Drogueros sold certain collection rights applicable to individuals and legal entities to the Company at a discount in the amount of Ps. 33,881, Ps. 185,624, Ps. 44,364 and Ps. 10,100, respectively. The sales price of the assignment agreed upon amounted to Ps.20,236, Ps. 115,915, Ps. 29,293 and Ps. 6,449, respectively.

b) Through an assignment agreement of documents pending collection, dated November 30, 2009, the Group's 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. 133,074 and Ps. 15,796, respectively. The sales price of the assignment agreed upon amounted to Ps. 86,639 and Ps. 9,666, respectively.

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c) In 2008, the Group incorporated the subsidiary Casa Saba Brasil Holdings Ltda. (CS Brasil), which mainly operates as a holding company of companies that sell pharmaceutical products through retail pharmacies in that region. In turn, CS Brasil is a subsidiary of Mexatar (subsidiary of the Company).

Through a stock purchase agreement dated May 15, 2008, CS Brasil acquired all of the issued and outstanding shares of capital stock of Drogasmil (now CSB Drogarias, S.A. or “Drogarias”), thereby obtaining control thereof. Drogarias sells pharmaceutical products through retail pharmacies. The agreed upon sales price amounted to R\$ 182,500 Brazilian reais, less working capital amounting to R\$ 27,525 (Ps. 911,253, approximately). As a result, an excess of the acquisition cost over the carrying value of the net assets acquired was determined in the amount of R\$ 157,189 (Ps. 924,271, approximately). As part of the agreements, CS Brasil carries a contingent consideration liability that will be paid unless certain events occur in the future. The contingent liability is recorded in the amount of R\$ 9,585 (Ps. 56,406 and Ps. 71,759 for fiscal 2008 and 2009, respectively), which is included in the line item “other payables and accrued long-term liabilities” in the consolidated balance sheet.

At the acquisition date, the Group had recorded a preliminary purchase price allocation based on the estimated net assets identified from the business acquired, because of inadequate accounting records of Drogasmil at December 31, 2008. However, at the date of the auditor’s report, the Group completed clearing and adjusting the accounting records of Drogasmil and therefore the purchase price was allocated except with respect to the value of inventories, whose estimated value at that date amounted to Ps. 246,000. The allocation was performed in accordance with Mexican FRS B-7, “Business acquisition” (FRS B-7), which recognizes the “purchase method” as the sole valuation standard. Toward that end, the information and events subsequent to the acquisition date were taken into account for determining the facts and circumstances existing at the acquisition date that merit an adjustment to the amounts initially recorded, except with respect to the value of inventories. Should there be any, the adjustments will be recognized retroactively at the acquisition date. Consequently, the Group considers that the value of goodwill recognized preliminarily will not undergo a significant change.

Pursuant to the above, the Group assessed goodwill impairment during the last quarter of fiscal 2009, which concurred with the decrease in the economic activity of Drogarias, due to the generalized crisis in the economic environment that had a negative impact on the pharmaceutical industry market in Brasil that year. As a result, at December 31, 2009, an impairment loss was recognized in the line item of “other (income) expenses, net”, since the net carrying value of the cash generating unit exceeded its “value in use” in the amount of Ps.210,000.

At December 31, 2008 and 2009, the balance sheets of CS Brasil reflected the following condensed financial information, translated to Mexican pesos by using the exchange rate at each year end:

	December 2008	December 2009
Current assets	Ps. 412,602	Ps. 435,527
Fixed assets	63,021	71,923
Other assets	11,379	7,127
Goodwill	1,087,850	1,173,913
	<u>Ps. 1,574,852</u>	<u>Ps. 1,688,490</u>
Total liabilities	Ps. 660,127	Ps. 911,923
Stockholders’s equity	914,725	776,567
Total liabilities and stockholders’s equity	<u>Ps. 1,574,852</u>	<u>Ps. 1,688,490</u>

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In August 2007, Drogasmil acquired all of the issued and outstanding shares of the capital stock of Farmalife, Ltda, thereby obtaining control thereof. Farmalife Ltda. distributed pharmaceutical products in Brasil. The agreed upon sale price amounted to R\$ 32,000 Brazilian reais (Ps. 188,160, approximately). As a result, an excess of acquisition cost over the fair value of the net assets acquired was determined in the amount of R\$27,665 (Ps. 162,670, approximately). In August 2008, Farmalife, Ltda. merged with Drogasmil, and Drogasmil was the surviving entity.

d) Through a stock purchase agreement dated April 24, 2008, the Company acquired one of the issued and outstanding shares of the capital stock of Controladora de Clinicas Ambulatorias y de Rehabilitación Sports Clinic, S. A. de C. V. (Controladora de Clinicas Ambulatorias). The agreed upon sales price amounted to Ps. 1. On that date, the stockholders of Controladora de Clinicas Ambulatorias resolved the approval of a capital stock increase in the amount of Ps. 9,438, which was subscribed for and paid by the Company. As a result, the Company holds 50.005 percent of the shares issued and outstanding of the capital stock of Controladora de Clinicas Ambulatorias, which distributes surgical and rehabilitation appliances, and also renders medical services, physical therapy and short-stay surgery.

As a result of the transactions discussed in c) and d) above, the consolidated financial statements at December 31, 2008 include the balance sheets of Drogasmil and Controladora de Clinicas Ambulatorias at the same date, as well as the results of operation as of the date of their respective acquisitions. At the acquisition date, the balance sheet of Drogasmil reflected the following unaudited condensed financial information.

	Unaudited amount
Current assets	Ps. 298,411
Fixed assets	21,806
Other assets	25,139
Goodwill	162,670
Total assets	Ps. 508,026
Total liabilities	Ps. 521,044
Stockholders's equity	(13,018)
Total liabilities and stockholders's equity	Ps. 508,026

Financial information of Controladora de Clinicas Ambulatoria is not significant to be disclosed.

e) On December 8, 2008, Controladora Casa Saba, S. A. de C. V. was incorporated in order to organize and participate in the equity of all types of business associations. That subsidiary is included in the "other real estate and service companies".

f) Through a Minute of the Extraordinary and Ordinary Stockholders' Meeting held on February 26, 2008, the stockholders of Farmacias Solis Hospitalarias y Oncologicas, S. A. de C. V. resolved an approval for a change of corporate name to Farmacias Provee de Especialidades, S. A. de C. V.

g) In December 2009, the General Ordinary Stockholders' Meeting of the subsidiary Casa Saba approved a capital stock increase in the amount of Ps. 1,854,874, by issuing 507,614,478 Series "B" shares with no par value shown. That increase was subscribed by the subsidiary Marproa. Consequently, at December 31, 2009, Marproa holds 51.79% of the shares issued by Casa Saba.

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h) In December 2009, the Company acquired the total shares except one share of fixed and variable capital stock of the subsidiaries, Centennial, Distribuidora Citem, Mexatar, and Estrella del Este, S. A. de C. V. (Estrella del Este and Distribuidora Citem are included in “other real estate and service companies and other. As a result, those entities were converted into subsidiaries of direct interest.

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 Research and Development Board of Financial Reporting Standards (CINIF-Spanish acronym).

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 18. A partial reconciliation of the consolidated net income and stockholders’ equity from Mexican FRS to U.S. GAAP is included in Note 19. 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, 2009. 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.13.0437 (pesos) per U.S. dollar as quoted by Banco de Mexico in the Official Daily Gazette at January 2, 2010. 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.

3. Significant accounting policies:

a) 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 some assets and liabilities and 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, property and equipment 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.

b) Basis of consolidation

Effective January 1, 2008, Mexican FRS B-8, “Consolidated or combined financial statements” (FRS B-8) superseded Bulletin B-8, “Consolidated and combined financial statements and valuation of permanent investments”. In accordance with FRS B-8, the Group has the option of presenting unconsolidated financial statements instead of consolidated financial statements when an intermediate holding company is involved and its stockholders express their agreement not to consolidate.

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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 subsidiaries, acquired, incorporated, disposed of, etc.) in which the Company holds more than 50 percent of the common shares and/or has administrative control. Control exists when there is power 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 Group 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.

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 Group uses audited financial statements of the associate 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 associate 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.

All significant intercompany balances and transactions are eliminated from the Group's consolidated financial statements.

c) Statement of income and statement 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.

In accordance with Mexican FRS B-2, "Statement of cash flows", effective January 1, 2008, the statement of cash flows is part of the basic financial statements, substituting the statement of changes in financial position of the prior Bulletin B-12, "Statement of changes in financial position". Pursuant to the foregoing, the statement 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.

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

Effective January 1, 2008, the Group adopted Mexican FRS B-10, "Impact of inflation" (FRS B-10), substituting Bulletin B-10, "Recognition of the impact of inflation on the financial information (integrated document)" (Bulletin B-10). The main changes were as follows:

i) Effective January 1, 2008, the financial statements that recognize the impact of inflation 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 and the other does not: a) inflationary (inflation equal to or higher than 26% accumulated in the three annual prior years); and b) non-inflationary (inflation below that percentage in the period referred to above). The percentage of inflation of the year and accumulated inflation of the three annual prior years, as measured by the National Consumer Price Index (INPC-Spanish acronym), was as follows:

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Inflation

December 31	Annual	Acumulated
2009	3.6%	19.8%
2008	6.5%	15.0%
2007	3.7%	8.0%
2006	4.1%	4.1%

The percentage of inflation in Brasil is 3.14%, 4.46%, 5.9%, and 4.31% in 2006, 2007, 2008, and 2009, respectively.

ii) Pursuant to the foregoing, the Group has not recognized the impact of inflation for the years ended December 31, 2008 and 2009, due to the non-inflationary economic environment in Mexico and Brasil. Consequently, effective 2008, the amounts of the overall financial statements are presented in nominal Mexican pesos. Through December 31, 2007, the Group recognized the effect of restatement regardless of the level of inflation. 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, by applying the comprehensive method, which is similar to that set forth in the repealed Bulletin B-10.

iii) The accumulated gain or loss on holding nonmonetary assets and the gain or loss on monetary position effect, which were included in the line item “Deficit on restatement” as of December 31, 2007, were reclassified to retained earnings in the amount of Ps (2,571,740) in January 2008.

iv) Through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the impact of inflation was recognized in accordance with Bulletin B-10. That effect is maintained in the financial statements of the last year reported. At December 31, 2007, the restatement procedures were as follows:

- Revenues and expenses related to monetary and nonmonetary items of fiscal year 2007 were restated at constant values at the date of the balance sheet at December 31, 2007, by applying the applicable INPC factor.
- Monetary position was determined by applying the INPC factor to its net monetary position (difference between monetary assets and monetary liabilities), regardless of the level of inflation. That effect was included in the comprehensive gain or loss on financing.
- The value of inventories was restated to replacement costs, which might apply to the last purchase or average price of the last purchase, without exceeding its net realizable value, whereas the value of property and equipment, intangible assets, and goodwill were restated based on the “adjustments due to changes in the general price level method”, by applying the INPC factor to the value of those assets.
- Stockholders’ equity is restated based on the INPC factor by considering the age of contributions and that of earnings or losses generated. The stockholders’ equity restatement represents the amount necessary to maintain shareholders’ investment in terms of the 2007 fiscal year purchasing power of the currency. Subsequent to that period, the Company’s economic environment was no longer considered to be inflationary. At December 31, 2007, the deficit on restatement was reclassified to retained earnings (see subparagraph iii) hereinabove).

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e) Translation of financial statements of foreign operations

The accounting records of the foreign subsidiaries are maintained in the recording currency of the country where those subsidiaries are established. Their financial statements are adjusted to Mexican FRS prior to their translation and consolidation. The translation is carried out in accordance with Mexican FRS B-15, "Foreign currency translation". 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 operation operates in a non-inflationary economic environment and its functional currency is the Brazilian real. Accordingly: (i) monetary and nonmonetary assets and liabilities were translated at 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 foreign exchange fluctuations, as discussed in subparagraph o) below.

At December 31, 2009 and 2008, the translation effect amounted to Ps. 137,585 and Ps. 72,796, respectively, net of income tax. The year end and average exchange rates used in the translation process were Ps. 7.49 and Ps. 6.89, respectively (Ps. 6.14 and Ps. 5.88 for 2008).

f) 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 are included as part of the comprehensive gain or loss on financing.

g) Financial instruments

All financial assets and financial liabilities derived from any type of financial instrument are recognized in the balance sheet, and assessed at fair value. 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, 2008 and 2009, the carrying value of financial instruments approximates their fair value due to their short-term nature. Long-term debt incurred through bank loans with similar terms and due dates accrues variable market prevailing financing rates.

h) 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.

i) Inventories

Inventory value is presented at the lower of its acquisition cost or market. Effective January 1, 2008, during high inflationary periods, inventories are restated by using INPC factors, by considering the guidelines of 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.

j) Property and equipment

Property and equipment are initially recorded at acquisition cost. Effective January 1, 2008, during high inflationary periods, those assets are restated by using INPC factors applicable to the country where those assets are established, in accordance with 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 INPC factors, as discussed in subparagraph iv) of paragraph d) above.

Depreciation is calculated on the value of property and equipment restated through December 31, 2007 or when the inflationary economic environment is applied, as well as on the acquisition cost for additions subsequent to 2007 when the economic environment is not inflationary, in accordance with FRS B-10, by applying the straight-line method based on the remaining economic useful life thereof.

The Group periodically assesses the carrying value of long-lived tangible and intangible assets, including goodwill and permanent investments in associate, to establish whether significant adverse events, changes in the 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 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 present value of estimated cash flows. The impairment loss, if any, is recorded as a charge to operations in "other (income) 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. Property and equipment to be disposed of are recorded at the lower of the carrying value or the fair market value, less any sales related costs.

At December 31, 2008 and 2009, the Group's management determined that there were no impairment indications that had a significant adverse impact on the carrying value of property and equipment.

k) Intangible assets and goodwill

Effective January 1, 2008, Mexican FRS C-8, "Intangible assets" (FRS C-8) superseded Bulletin C-8 with the same name. Adoption of FRS C-8 had no impact on the Group's financial statements.

Intangible assets are initially recorded at acquisition cost, which is equivalent to its fair value at acquisition date. Effective January 1, 2008, during high inflationary periods, those assets are restated by using INPC factors applicable to the country where those assets are established, in accordance with the guidelines of 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 INPC factors, as discussed in subparagraph iv) of paragraph d) above.

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 with a defined economic useful life refer to licenses related to the technological platform with which the Group operates.

Effective January 1, 2009, Mexican FRS B-7, "Business combinations" (FRS B-7) superseded Bulletin B-7, "Business acquisitions". Consequently: (i) the purchase method is used as the sole valuation standard; (ii) the purchase price is allocated on net assets acquired based on their estimated fair value at the acquisition date, except as discussed in Note 1c) above, without exceeding the consideration paid; (iii) the portion of the purchase price not allocated that is not identifiable is included in goodwill which, if applicable, is adjusted by any correction that may arise from events or circumstances subsequent to the acquisition date; and (iv) valuation is performed with certain exceptions to the use of fair value, in which case the pertinent Mexican FRS is applied. Goodwill is allocated to the cash flow generating units. Adoption of FRS B-7 had no impact on the Group's financial statements.

Intangible assets with a defined economic useful life are amortized on their restated value through December 31, 2007 or when the inflationary environment applies, as well as on the acquisition cost for subsequent additions when the economic environment is not inflationary, in accordance with FRS B-10. Toward that end, the straight-line method is applied based on their remaining economic useful life.

Impairment of intangible assets with an undefined economic useful life

These intangible assets, including goodwill, are subject to periodic impairment tests, by applying the "value in use" method, in accordance with Bulletin C-15. Toward that end, "perpetuity value" is applied which considers: (i) the generation of excess value in use of assets other than goodwill ("excess value in use"); and (ii) the recovery of goodwill 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 carrying value over perpetuity value referred to above. The Group considers that its cash flow projections recognize medium and long-term economic variables fairly at the time of the calculation. Economic variables are related to the price of products, changes in operating expenses, industry trend, and discount and growth rates applied in perpetuity.

As discussed in Note 1c) above, at the date of the auditor's report, the Group completed the purchase price allocation, except with respect to the value of inventories at the acquisition date (May 15, 2008) of the subsidiary Drogarias. However, Management carried out the goodwill impairment test during the last quarter of 2009. Consequently, an impairment loss was determined as explained in Note 1c) above. Impairment is due to significant adverse events at Drogarias that occurred in 2009, which are related to changes in the business environment, expectations in operating income, lack of liquidity, etc.

The Group recognizes the excess of fair value over the consideration paid as a bargain that: (i) reduces the value of the assets of the business acquired until they are exhausted. That adjustment is recognized in the acquiring Company; and (ii) the remaining balance is recognized as an unordinary gain at the acquisition date.

l) 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.

m) Labor obligations

i) The Group recognizes the labor obligations derived from defined benefits for retirement pensions and seniority premiums for all of its employees, as well as severance benefits to employees when they complete the employment relationship prior to retirement age due to causes other than restructuring. Severance benefits represent legal ordinary severance payments. Those benefits are recognized in income based on actuarial computations, as employees render their services. 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 guidelines of Bulletin C-9, “Liability, provisions, contingent assets and liabilities, and commitments” of Mexican FRS.

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 2008 and 2009, the contributions to the fund amounted to Ps.15,512 and Ps. 20,696, respectively. Fund assets consisted of investments in equity securities and investments in fixed income securities that are traded on the Mexican Stock Market.

ii) The relevant information regarding labor obligations derived from defined benefits is summarized below. The rates referred to below with regard to actuarial assumptions are stated in real terms (nominal rates discounted by inflation).

	December 31,	
	2008	2009
Labor liability		
Accumulated benefit obligation	Ps. 158,300	Ps. 133,213
Additional benefit related to future compensation increases	55,002	96,758
Projected/defined benefit obligation	213,302	229,971
Fair value of plan assets	79,163	96,698
Funded status	134,139	133,273
Unrecognized net transition obligation	(28,468)	(20,884)
Negative plan amendments	8,903	9,072
Unrecognized net loss	(52,446)	(53,300)
Unfunded accrued pension cost, seniority premium and severance benefits to be recognized	Ps. 62,128	Ps. 68,161

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	December 31,	
	2008	2009
Net periodic cost		
Service cost	Ps. 11,051	Ps. 11,297
Interest cost	17,279	18,816
Expected return on plan assets	(9,491)	(7,597)
Amortization of unrecognized net transition obligation	8,168	7,804
Amortization of plan amendments	(473)	(495)
Amortization of unrecognized net loss		2,052
Other	6,643	(409)
Net periodic cost	Ps. 33,177	Ps. 31,468
Assumptions (real rates)		
Discount rate	9.00%	9.25%
Salary increase rate	5.00%	4.00%
Return on plan assets	9.71%	9.75%
Change in projected benefit obligation		
Actual projected benefit obligation at beginning of year	Ps. 210,452	Ps. 213,300
Service cost	11,193	11,297
Interest cost	17,302	18,816
Plan amendments	776	
Actuarial loss	(6,507)	10,073
Benefits paid	(19,877)	(21,639)
Effect on curtailment on benefit obligation	(136)	(1,177)
Effect on settlement on benefit obligation	97	(700)
Projected benefit obligation at end of year	Ps. 213,300	Ps. 229,970
Change in plan assets		
Fair value of plan assets at beginning of year	Ps. 90,240	Ps. 79,163
Actual return on plan assets	2,393	11,798
Employer contributions		20,696
Benefits paid	(13,470)	(14,959)
Fair value of plan assets at end of year	Ps. 79,163	Ps. 96,698
Funded status	Ps. 134,137	Ps. 133,272
Unrecognized net transition obligation	(23,559)	(20,884)
Negative amendments (unrecognized prior service cost)	10,270	9,072
Unrecognized net loss	(54,232)	(53,299)
Unrecognized amortization	(4,488)	
Unfunded accrued pension cost, seniority premium and severance benefits to be recognized	Ps. 62,128	Ps. 68,161

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At December 31, 2007, the additional employee retirement liability (net present liability over net projected obligation) exceeded the limit amount for recording an intangible asset as an offsetting entry in certain of the Group's subsidiaries. The intangible asset was recorded up to the algebraic sum of the unrecognized net transition obligation plus prior services and amendments of the plan. Therefore, at December 31, 2007, the excess of the additional employee retirement liability over the intangible asset was recognized in stockholders' equity as contra-equity in the amount of Ps. 19,127, under Mexican FRS. Effective January 1, 2008, that balance was eliminated, in accordance with the new Mexican FRS.

iii) At December 31, 2008 and 2009, the amount of the direct short-term benefit due to compensated absences (vacations, sickness, provisional disability, maternity leave, etc.), cumulative and non-cumulative, was immaterial.

iv) Employee profit sharing due is recorded based on the amount payable, determined on taxable income generated, as provided for in the currently enacted tax legislation.

v) Effective January 1, 2008, the Group adopted Mexican FRS D-3, "Employee fringe benefits" (FRS D-3), thereby substituting Bulletin D-3, "Labor obligations" (Bulletin D-3). As a result:

- the additional employee retirement liability, which amounted to Ps. 52,266 at December 31, 2007 and its offsetting entry in the balance sheet ("intangible asset" in the amount of Ps. 33,139 and "additional employee retirement liability" included in stockholders' equity in the amount of Ps. 19,127), were eliminated.
- the unrecognized net transition obligation existing at December 31, 2007 can be amortized in five years if the remaining useful years of service of employees exceeds that period. At December 31, 2008 and 2009, the amortized amount of that item was immaterial.
- the opening transition asset or obligation is not recognized, unless a new defined fringe benefit plan is established. At December 31, 2008 and 2009, the Group did not establish any new plan for such item.
- actuarial gains or losses and prior services of benefits upon termination due to causes other than restructuring are recognized in income. At December 31, 2008 and 2009, that amount was immaterial.
- Employee profit sharing is recognized in income in the line item "other (income) expenses, net". Deferred employee profit sharing is determined by using the "asset and liability method", by applying a 10 percentage 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, 2008 and 2009, the deferred employee profit sharing asset amounted to Ps. 5,699 and Ps. 19,055, respectively. Those amounts were offset by a similar valuation allowance, in accordance with Mexican FRS.

Through December 31, 2007, the effect of employee profit sharing due and deferred was presented in income in "taxes on earnings", and it was determined by applying the statutory rate to temporary differences resulting from the reconciliation between net income and taxable income of the period. The deferred employee profit sharing was only recorded when it was presumed that the temporary items generated an asset or a liability, and there was no evidence that this situation would change. At that date, the Group did not have any temporary items of that nature.

n) Income Tax, Corporate Flat Tax, and Employee Profit Sharing

i) The Company and its subsidiaries account for the provision for taxes on earnings payable, which is determined based on taxable income that is obtained as provided for in the currently enacted tax legislation. To determine taxes on earnings, effective January 1, 2008, the Mexican tax authorities enacted the Corporate Flat Tax Law (IETU-Spanish acronym), which co-exists with the Income Tax Law (refer to Note 13 below).

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ii) In accordance with Mexican FRS D-4, "Taxes on earnings" (FRS D-4), the deferred income tax effect is determined by applying the "asset and liability method". Therefore, the deferred income tax liability is recorded for all temporary differences, whereas the deferred income tax asset is only recorded under certain circumstances. The income tax rate applied to the temporary differences between the accounting and tax values of assets and liabilities as of the date of the financial statements, as well as the amount of the tax loss carryforwards, will be affected at the time it is estimated that the temporary differences are realized. The deferred income tax asset and/or liability are classified as a noncurrent item. 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, in accordance with Mexican FRS.

The Company and its subsidiaries perform a periodic valuation allowance review to determine the amount of the deferred asset (income tax and/or employee profit sharing) that is more likely that not will be realized and recorded based on the available information. Any reduction in 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, 2008 and 2009, the Company and its subsidiaries determined there was no need for a valuation allowance to be recognized as the deferred asset was deemed to be fully recoverable.

The deferred IETU effect is determined on temporary differences, tax loss carryforwards, and tax credits, by applying the "asset and liability method". The applicable IETU rate will be the rate in effect on the date on which it is estimated that temporary differences are reversed and / or when tax loss carryforwards are offset and tax credits are used. The deferred IETU asset or liability will be classified as long-term. As explained in Note 13b) below, the new IETU Law does not contain a regime for tax consolidation purposes.

iii) At December 31, 2008 and 2009, the Company and its subsidiaries determined that the taxes on earnings that will normally be paid (the higher of income tax or IETU) will be that which is obtained from the taxable income base of income tax, which the Company and its subsidiaries estimate will exceed the taxable income base of IETU, in accordance with a projection based on reasonable assumptions, as provided for in IFRS-8 "Effect of Corporate Flat Tax" (IFRS-8). If the Company and its subsidiaries determine 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 Company and its subsidiaries will account for deferred income tax, even though IETU will be due in the period. Management restates this estimate periodically.

iv) The Group does not recognize a deferred income tax liability on the undistributed earnings of its subsidiaries, which are recognized by using the equity method, since those earnings are expected to be reinvested and they will not generate income tax in a foreseeable future.

v) The Company and its subsidiaries prepare the income tax return on a consolidated basis, except as discussed in subparagraph iii) of Note 13a) below. The Company and its other consolidated subsidiaries meet the characteristics for Holding Company and controlled companies, respectively, in accordance with the Income Tax Law. Therefore, the Company recognizes the impact of the eliminations that should be recorded for tax consolidation purposes.

vi) As explained in Note 13) below, effective 2009, the Management decided that some significant subsidiaries were no longer considered as controlled, in accordance with the Income Tax Law for tax consolidation purposes. Consequently, starting with its tax deconsolidation, those controlled companies individually meet the tax obligations set forth in the Income Tax Law.

vii) Effective January 1, 2008, the Group adopted FRS D-4, "Taxes on earnings" (FRS D-4), thereby substituting Bulletin D-4, "Accounting treatment of income tax, asset tax, and employee profit sharing" (Bulletin D-4). As a result: (i) the balance of the "Accrued deferred income tax on earnings" account, which applies to the opening application of Bulletin D-4 in the year 2000, which was presented in stockholders' equity in the amount of Ps. (40,695) at December 31, 2007, was reclassified to retained earnings in January 2008, and (ii) the exception to not calculating deferred income tax on permanent investments in associates was eliminated.

o) 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, 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". The amount of the qualified asset should not exceed the amount of the expected economic benefit.

Foreign currency denominated transactions are recorded at the current exchange rate at the date on which they are entered into or paid. Foreign currency denominated monetary items are translated to Mexican pesos by using the exchange rate published by the Banco de Mexico at the date of the balance sheet. Resulting exchange fluctuations are included in income, except as discussed in the paragraph above. Foreign exchange fluctuations, if any, that arise from the foreign currency debt related to the acquisition of foreign entities and those identified with foreign currency denominated related party balances that are of a long-term investment nature are included in the "Accumulated translation effect".

p) 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.

q) 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". 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.

r) 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 seller's price to the customer is fixed or determinable, (iv) the collection is reasonably assured, and (v) 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.

s) Cost of sales

In 2008 and 2009, the cost of sales represents the acquisition cost of inventories at the time of the sale. Through December 31, 2007, that cost represented the replacement cost, without exceeding their net realizable value.

t) Concentration of risk

The Group sells its products to a large number of customers. Accordingly, no individual customer accounted for a significant amount of sales or receivables in fiscal year of 2007, 2008 and 2009. Furthermore, there are no significant concentrations related to suppliers to the Group that provide it with inventories in those years.

u) Accounting changes fiscal 2009

In connection with the amendments to the Income Tax Law in Mexico, effective January 1, 2010, dated December 15, 2009, the CINIF issued IFRS 18, "Recognition of the effects of the tax reform of 2010 on taxes on earnings" (IFRS-18) to be applied immediately, which sets forth the accounting treatment of the income tax liability derived from the changes to the tax consolidation regime. The change requires that the Group determines income tax due at December 31, 2009 as if the tax consolidation provisions had not existed since fiscal 1999 henceforth. IFRS-18 sets forth that: (i) the liability relative to the effect of the tax reform on intercompany dividends should be 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. The realization of the income tax asset is subject to generating future taxable income in the controlled companies that generated tax losses in the past.

Pursuant to the foregoing, the Group recognized a liability in the amount of Ps. 133,619 with a charge to retained earnings, due to the difference between the consolidated "Net taxable income account" (CUFIN-Spanish acronym) balance and the CUFIN balances of the controlled entities (refer to subparagraph f) Note 13) below).

4. Receivables:

	<u>2008</u>	<u>2009</u>
Trade receivables	Ps. 5,628,079	Ps. 5,814,642
Allowance for doubtful accounts	(405,999)	(586,322)
	<u>5,222,080</u>	<u>5,228,320</u>
Other receivables	373,982	385,808
Related parties	39,091	41,306
Value added tax recoverable	74,833	84,202
Income tax recoverable	138,278	275,536
Other taxes recoverable	72,050	108,697
	<u>Ps. 5,920,314</u>	<u>Ps. 6,123,869</u>

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5. Inventories:

	<u>2008</u>	<u>2009</u>
Pharmaceutical products	Ps. 3,935,784	Ps. 4,182,456
Beauty care products	577,122	657,104
Books and magazines	565,484	243,323
Electric appliances	3,230	4,035
Groceries	33,996	25,464
Other	17,425	21,363
	<u>5,133,041</u>	<u>5,133,745</u>
Estimate for reserve of inventory	<u>(6,517)</u>	<u>(48,103)</u>
	5,126,524	5,085,642
Merchandise-in-transit	41,177	55,500
	<u>Ps. 5,167,701</u>	<u>Ps. 5,141,142</u>

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

6. Property and equipment:

	<u>2008</u>	<u>2009</u>
Buildings	Ps. 998,310	Ps. 1,001,244
Machinery and equipment	184,867	204,659
Transportation equipment	370,985	266,519
Office equipment	223,273	232,404
Computer equipment	425,390	443,867
	<u>2,202,825</u>	<u>2,148,693</u>
Less-accumulated depreciation	<u>(1,152,840)</u>	<u>(1,150,383)</u>
	1,049,985	998,310
Land	355,000	357,553
	<u>Ps. 1,404,985</u>	<u>Ps. 1,355,863</u>

The average annual depreciation rates for 2008 and 2009 were as follows:

Buildings and improvements	2.10%
Machinery and equipment	6.09%
Transportation equipment	10.15%
Furniture and fixtures	6.50%
Computer equipment	11.15%

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7. Goodwill:

	<u>2008</u>	<u>2009</u>
Drogueros	Ps. 128,370	Ps. 128,370
Farmacias ABC	32,551	32,551
Citem	56,456	56,456
CS Brasil	1,087,850	1,173,913
	<u>Ps. 1,305,227</u>	<u>Ps. 1,391,290</u>

8. Related party balances and transactions:

At December 31, 2008 and 2009, the related party balances and transactions were as follows:

	<u>2008</u>	<u>2009</u>
<u>Account receivables</u>		
Aeroxtra, S.A. de C.V.	Ps. 2,000	Ps. 4,489
Xtra Inmuebles, S.A. de C.V.	30	30
Tenedora Farmaceutica de Mexico, S.A. de C.V.	9,590	9,590
Tenedora de Farmacias Morelianas, S.A. de C.V.	20,582	18,597
Grupo Xtra, S.A. de C.V.	6,668	8,600
Administradora Inmas, S.A. de C.V.	221	
	<u>Ps. 39,091</u>	<u>Ps. 41,306</u>
<u>Account payable</u>		
Administradora Inmas, S.A. de C.V.		Ps. 430

During 2008, the related party transactions were as follows:

	<u>Services received</u>	<u>Interest cost</u>	<u>Financing Granted</u>
Aeroxtra, S.A. de C.V.	Ps. 9,874	Ps. 192	Ps.
Xtra Inmuebles, S.A. de C.V.	4,703		
Tenedora Farmacéutica de México			9,590
Tenedora de Farmacias Morelianas			20,582
Administradora Inmas, S.A. de C.V.	549		
Total	<u>Ps. 15,126</u>	<u>Ps. 192</u>	<u>Ps. 30,172</u>

During 2009, the related party transactions were as follows:

	<u>Services received</u>
Aeroxtra, S.A. de C.V.	Ps. 17,686
Xtra Inmuebles, S.A. de C.V.	4,285
Administradora Inmas, S.A. de C.V.	1,194
Total	<u>Ps. 23,166</u>

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At December 31, 2008 and 2009, the total benefits granted to key management personnel or significant directors amounted to Ps. 31,264 and Ps. 41,091, respectively. During 2008 and 2009, the Group had no other material related party agreements.

The Group considers that the related parties referred to above are not “Specific Purpose Entities”, in accordance with the scope of Mexican FRS B-8, “Consolidated or combined financial statements” and, therefore, at December 31, 2008 and 2009, the Group has not consolidated the assets, liabilities, and operating income of those entities.

9. Bank loans:

	<u>Short-term</u>	<u>Long-term</u>
<u>Scotiabank Inverlat, S.A., Institucion de Banca Multiple</u>		
Credit agreement used to finance the acquisition of shares of capital stock of Drogasmil (Note 1c) above). Principal and interests payments are required to be made monthly at the market variable Equilibrium Interbank Interest Rate (TIIE-Spanish acronym) plus certain percentage points. The credit facility matures in May 2015 at which point any remaining outstanding principal is due in full. The borrowing is qualified by the Group.	Ps. 201,890	Ps. 891,644

<u>Borrowing date</u>	<u>Borrowing amount</u>	<u>Installments</u>	<u>Balance</u>	<u>Note</u>
2008				
May	Ps. 670,000	Ps. 65,139	Ps. 604,861	1
August	136,000	13,222	122,778	1
September	107,000	10,403	96,597	1
November	140,000	13,611	126,389	2
2009				
February	65,000	6,319	58,681	2
July	92,000	7,772	84,228	2
	<u>Ps. 1,210,000</u>	<u>Ps. 116,466</u>	<u>Ps. 1,093,534</u>	

1 At December 31, 2009 the interest rate was 5.67%

2 At December 31, 2009 the interest rate was 7.92%

The credit agreement sets forth affirmative and negative covenants, in effect during the term of the credit, which the company and its subsidiaries are in compliance with at December 31, 2009.

Banco Nacional de Mexico, S.A.

150,000

Unsecured credit agreement used to support working capital. The loan bears interest at market variable interest rate. The loan is qualified by the Group. At December 31, 2009 the interest rate was 8.97%.

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	<u>Short-term</u>	<u>Long-term</u>
<p><u>BBVA Bancomer, S.A.</u> Unsecured revolving credit agreement used to support working capital. The loan bears interest at market variable interest rate. The credit facility matures in September 2011. The borrowing is qualified by the Group. At December 31, 2009 the interest rate was 8.40%.</p>	350,000	
<p><u>Banorte, S.A.</u> Unsecured revolving credit agreement used to support working capital. The loan bears interest at the market variable TIIE rate plus certain percentage points. The credit facility matures in September 2010. The borrowing is qualified by the Group. At December 31, 2009 the interest rate was 8.07%.</p>	85,000	
<p><u>Ixe Banco, S.A. Institucion de Banca Multiple Ixe Grupo Financiero(Ixe)</u></p> <p>On October 9, 2009, the Company entered into a program to promote commerce with Nacional Financiera, S.N.C., Institucion de Banca de Desarrollo, whereby the Company can access to factoring and electronic discounts of notes with certain suppliers.</p> <p>Pursuant to the foregoing, the Company entered into an agreement with Ixe in November 2009, whereby Ixe acquired the collection rights presented by certain suppliers of the Company at a discount, and the Company will pay Ixe the nominal value of the discounted collection rights at the due date. The transactions that can be carried out under this agreement amount to a maximum of Ps. 250,000.</p>	220,043	
<p><u>Financiera Bajio, S.A. de C.V. Sociedad Financiera de Objeto Multiple (Financiera Bajio)</u></p> <p>The Company entered into an agreement with Financiera Bajio in October 2009, whereby the latter acquired the collection rights presented by certain suppliers of the Company at a discount, and the Company will pay Financiera Bajio the nominal value of the discounted collection rights at the due date. The transactions that can be carried out under this agreement amount to a maximum of Ps.200,000.</p>	718	
<p><u>Other:</u> Bank loans obtained by Drogarias for working capital and refinancing a short-term debt acquired in these last years. Loans bear interest at market rates and they are summarized as follows:</p>	476,178	

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Banking institution	Opening	Due date	Amount in Brazilian reals (R\$)
Banco ABC S/A	Dic-09	Ene-10	5,050
Banco Brasileiro de Descontos S/A	Dic-09	May-10	1,465
Banco Brasileiro de Descontos S/A	Nov-09	Feb-10	1,492
Banco Brasileiro de Descontos S/A	Ene-09	Ene-10	112
Banco Brasileiro de Descontos S/A	Dic-09	Abr-10	5,000
Banco Citibank S/A	Jul-09	Ene-10	833
Banco Citibank S/A	Sep-09	Ene-10	704
Banco Itaú S/A	Dic-09	Abr-10	12,000
Banco Itaú S/A	Jul-09	Ene-10	671
Banco Safra S/A	Dic-09	Mar-10	809
Banco Safra S/A	Dic-09	Ene-10	11,145
Banco Safra S/A	Oct-09	Ene-10	189
Banco Santander S/A	May-09	Ago-10	2,931
Banco Santander S/A	Dic-09	Feb-10	13,163
Banco Santander S/A	Sep-09	Oct-10	1,550
União de Bancos Brasileiros S/A	Dic-09	Mar-10	4,469
União de Bancos Brasileiros S/A	Nov-09	Ene-10	2,022
Total Brazilian reals			63,605
Equivalent Mexican pesos			Ps. 476,178

As discussed in Note 16) below, the loans referred to in the foregoing chart were settled by being paid in full in March 2010.	7,297
Interest payable	7,297
Total	Ps. 1,491,126 Ps. 891,644

Applicable interest rates are adjusted monthly, in accordance with market rates in effect. Accordingly, at December 31, 2008 and 2009, the carrying value of banking debt approximates its fair value.

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At December 31, 2009, the Group has the following credit facilities available:

Banking institution	Total amount of the credit line	Amount used on December 31, 2009	Available amount on December 31, 2009
Banco Nacional de Mexico, S.A.	Ps. 300,000	Ps. 150,000	Ps. 150,000
Banorte, S.A.	85,000	85,000	
Banco Santander Mexicano, S.A.	440,000		440,000
Scotiabank Inverlat, S.A.	250,000		250,000
BBVA Bancomer, S.A.	450,000	350,000	100,000
Banco Ve por Mas, S.A.	100,000		100,000
	Ps. 1,625,000	Ps. 585,000	Ps. 1,040,000

At December 31, 2008, the short and long-term bank loans amounted to Ps.1,324,824. Payment terms and interest rates at that date were similar to current terms and rates for the loans existing at 2009 fiscal year end.

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

At December 31, 2008 and 2009, the deferred income tax liability, was as follows:

	2008	2009
Cumulative inventory	Ps. 1,576,131	Ps. 1,153,391
Allowance for doubtful accounts and estimate for slow-moving inventory	(394,808)	(577,331)
Property and equipment	493,291	496,392
Other	290,384	262,375
	<u>1,964,998</u>	<u>1,334,827</u>
Tax loss carryforwards	(8,558)	(4,787)
Controlled subsidiaries's tax loss carryforward generated before the tax consolidation	(175,415)	(107,217)
	<u>1,781,025</u>	<u>1,222,823</u>
Income tax rate	28%	30%
	498,687	366,847
Translation effect of foreign operations		75,341
Deferred income tax due to changes in tax consolidation regime (Note 13, paragraph f)		<u>233,580</u>
Deferred income tax liability	<u>Ps. 498,687</u>	<u>Ps. 675,768</u>

i) As discussed in Note 3n) above, the Company and its subsidiaries determined that income tax will be the taxes on earnings that will normally be paid in future years, in accordance with their short-term projections based on reasonable assumptions. Therefore, at December 31, 2008 and 2009, the Holding Company and its subsidiaries individually recognized deferred income tax for classifying that event as permanent.

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 accumulable temporary differences whose reversal occurs in the reversal period of the deductible temporary differences. The Company and its subsidiaries estimate that the deferred income tax asset will be realized considering their business plan, and no IETU will be generated in the short-term. Toward that end, Management takes into account expansion plans, projected taxable income, tax planning strategies, etc.

The Company and its subsidiaries only record deferred IETU if, based on estimates with a reasonably permanent effect, each Company determines that the tax on earnings due in the future will be IETU instead of income tax. In that event, the deferred income tax balance will be adjusted to the resulting amount of IETU. In accordance with the IETU Law, each company should pay IETU individually, since that Law does not contemplate a tax consolidation regime.

Every company that forms part of the consolidated Group (including the Holding Company) should pay IETU individually. Deferred IETU will only be recorded if, based on certain estimates, each Company individually determines that it will be subject to IETU and that event will qualify as permanent. In that case, the deferred income tax balance will be adjusted to the resulting amount of IETU.

(ii) At December 31, 2007, 2008, and 2009, the rate of income tax due (theoretical) was as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Income before taxes on earnings	Ps. 1,093,313	Ps. 897,567	Ps. 492,175
Goodwill impairment (Brasil)			210,000
Permanent and temporary items, net	226,608	250,858	454,652
	<u>1,319,921</u>	<u>1,148,425</u>	<u>1,156,827</u>
Income tax rate	28%	28%	28%
Income tax due	Ps. <u>369,578</u>	Ps. <u>321,559</u>	Ps. <u>323,911</u>

The expense for taxes on earnings is summarized as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Income tax due	Ps. 369,578	Ps. 321,559	Ps. 323,911
Deferred income tax	(126,331)	(95,162)	(131,840)
Asset tax	1,677		
Recovery of asset tax paid in prior years	(56,698)		
IETU due		76,052	19,826
	Ps. <u>188,226</u>	Ps. <u>302,449</u>	Ps. <u>211,897</u>
Effective income tax rate	<u>22%</u>	<u>25%</u>	<u>27%</u>

At December 31, 2009, deferred income tax applied to specific stockholders' equity account that generated it amounted to Ps. 75,341. At 2008 year end, there was no income tax applied to that line item.

At December 31, 2008 and 2009, IETU due in the amount of Ps. 76,052 and Ps. 19,826, respectively, applies to tax on earnings paid individually by every company that forms part of the consolidated Group (including the Holding Company). In those years, the amount of deferred employee profit sharing applied to income amounted to Ps. 0 and (Ps.197) and Ps. 254, respectively.

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11. Foreign currency position:

At December 31, 2008 and 2009, assets and liabilities denominated in foreign currencies, translated into reporting currency, were as follows:

	<u>2008</u>	<u>2009</u>
Assets:		
Current assets	Ps. 458,399	Ps. 516,230
Long-term assets	1,155,276	1,178,317
	<u>1,613,675</u>	<u>1,694,547</u>
Liabilities:		
Current liabilities	540,951	466,850
Long-term liabilities	119,858	476,182
	<u>660,809</u>	<u>943,032</u>
Lending position, net	Ps. <u>952,866</u>	Ps. <u>751,515</u>

At December 31, 2008 and 2009, the exchange rates used in the translation process of the reporting currency, published by the Banco de Mexico, are as follows:

Currency	<u>2008</u>		<u>2009</u>	
	Balance sheet date	Report issuance date	Balance sheet date	Report issuance date
U.S. dollar	Ps. 13.77	Ps. 13.14	Ps. 13.04	Ps. 12.25
Brazilian real	Ps. 5.88	Ps. 6.12	Ps. 7.48	Ps. 7.08

At December 31, 2008 and 2009, the Group had not entered into any derivative financial instruments transactions or hedge transactions against foreign exchange risks.

12. Stockholders' equity:

a) Capital structure

At December 31, 2008 and 2009, paid-in capital stock was as follows:

	<u>Number of Shares</u>	<u>Par value</u>	
		<u>2008</u>	<u>2009</u>
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	<u>265,419,360</u>	<u>Ps. 167,903</u>	<u>Ps. 167,903</u>
Restated capital stock		<u>Ps. 1,123,764</u>	<u>Ps. 1,123,764</u>

At December 31, 2008 and 2009, 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 d) 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 subparagraph iv) of paragraph d) of the same Note.

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 as of December 31, 2002, without exceeding retained earnings at that date. During 2008 and 2009, the Stockholders' Meetings resolved to maintain the same level of reserve approved by its similar on April 22, 2003. During 2008 and 2009, 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, 2008 and 2009, the Company's legal reserve amounted to Ps. 194,721 and Ps. 224,477, respectively, which is included in the "Retained earnings" line item.

c) Distribution of earnings and capital reductions

Any dividends distributed to stockholders must be paid out of the consolidated "Net taxable income account" (CUFIN-Spanish acronym). Any dividends paid out in excess of CUFIN are subject to a 42.9% tax rate payable by the Company and its subsidiaries for 2010 (38.9% for 2009). 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. The consolidated balance of CUFIN is determined as provided for in currently enacted tax legislation. At December 31, 2008 and 2009, the consolidated balance of CUFIN amounted to Ps. 2,725,412 and Ps.3,277,451, respectively.

In April 2007, 2008 and 2009, dividends were declared at the Company's Stockholders' Meeting in the amount of Ps. 175,372, Ps. 170,000 and Ps. 170,000, respectively, to be paid out of retained earnings. Dividends paid did not exceed the consolidated CUFIN balance at those dates. Therefore, no income tax was due.

The excess of capital reimbursement per share paid to stockholders over the balance of the consolidated "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. Restated contributed capital per share account is determined in accordance with currently enacted tax legislation.

d) Dividends among companies of the Group

Dividends paid out of the CUFIN among companies of the Group are subject to the new provisions set forth by the 2010 tax reform (see subparagraph f) Note 13) below).

Through December 31, 2008, the tax consolidated regime set forth that dividends distributed among the Group's companies that were not paid out of the CUFIN were subject to income tax at the time when the shares of the controlled subsidiary that distributed them were sold, either in whole or in part, when the equity stake was reduced in the held company or when the Group was dissolved or no longer consolidated.

On November 5, 2008 and December 18, 2009, the Casa Saba's General Ordinary Stockholders' Meeting, declared the payment of dividends in the amount of Ps. 1,119,732 and Ps. 1,140,000, respectively, in favor of the Company, as well as Ps. 1 (peso) in favor of Inmuebles Visosil, S. A. de C. V.

In 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.

13. Tax system:

Effective January 1, 2008, the tax authorities enacted the IETU Law which co-exists with the Income Tax Law, and repealed the Asset Tax Law. Therefore, effective that date, the Company and its subsidiaries pay the higher of income tax or IETU.

Taxes are computed in Mexican pesos as of the date on which the transactions occurred. Under Mexican FRS, through fiscal year 2007 the taxes were restated to fiscal year end Mexican pesos by applying the INPC factor.

a) Consolidated income tax due

i) In fiscal years 2007, 2008 and 2009 the income tax rate was 28%. The Company and its subsidiaries determine the income tax amount on a consolidated basis, except as discussed in subparagraph iii) hereinbelow. For this purpose, the Holding Company includes the amount of "consolidating tax equity" in tax consolidation, that is, the amount of taxable income/tax loss generated in the year by its controlled companies is included in tax consolidation at 100 percent of the equity stake that the Holding Company holds in the capital stock of its controlled companies. In addition, the Holding Company also includes at 100 percent its individual taxable income/tax loss generated in the same year in tax consolidation.

ii) In 2005, the Company and its subsidiaries chose to deduct the cost of sales of the "base inventory" determined at December 31, 2004 for tax purposes, in accordance with the Income Tax Law. Due to the foregoing, those entities determined the "cumulative inventory" value which is treated as taxable income for income tax purposes. 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, 2008 and 2009, the cumulative inventory amount added to the taxable income for income tax purposes amounted to Ps. 498,508 and Ps. 428,805, respectively.

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iii) Effective December 18, 2009, the Management decided that some significant subsidiaries were no longer considered as controlled for tax consolidation purposes. Consequently, as of that date, those controlled companies individually meet the obligations set forth in the Income Tax Law. As a result of deconsolidation, the Holding Company paid income tax in the amount of Ps. 188,768.

The subsidiary 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 by Marproa, as well as others relative to offset “consumption taxes”.

iv) 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. At December 31, 2008 and 2009, the Group generated consolidated taxable income for income tax in the amount of Ps. 1,148,425 and Ps. 1,156,287, respectively.

At December 31, 2009, income tax assessed on the subsidiaries that do not consolidate for tax purposes amounted to Ps. 211,128.

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

IETU is a direct tax with a flat rate that taxes the remaining net cash flow of the Company that is used to pay production factors for the gross formation of capital.

The IETU Law does not contain a regime for tax consolidation purposes. Accordingly, the Company and its subsidiaries should pay IETU individually. In terms of the Income Tax Law, each company 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 due. At December 31, 2008 and 2009, some controlled companies generated IETU greater than income tax, therefore IETU was the annual tax due individually. In those years, annual IETU paid by the companies amounted to Ps. 76,052 and Ps. 19,826, which is included in income in the line item of “Provisions for income tax”. Payment of that tax is considered final.

While IETU co-exists with income tax (the transition period extends through fiscal year 2010), IETU is paid if it is greater than income tax of the same period. IETU of the period is reduced by income tax (that of derived from taxable income, as the case may be, that of dividends paid) of the same period that has actually been paid. If IETU is less than income tax, the Company is not subject to IETU. Moreover, if the authorized deductions for IETU purposes exceeds its taxable income (negative base), the Company is not subject to IETU.

IETU of the period is obtained by applying the annual tax rate to taxable income determined on a cash flow basis. The annual IETU tax rate is 16.5%, 17%, and 17.5% for fiscal years ending 2008, 2009, and 2010, respectively. Taxable income is obtained by reducing the authorized deductions from the taxable income considered by IETU.

At December 31, 2008 and 2009, the Company and its subsidiaries determined the IETU’s 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, which become effective in fiscal year 2008. The significant tax credits refer to the amount of authorized deductions that exceed taxable income in the year for IETU purposes, salaries and contributions of social security, investments in fixed assets and deferred charges made between January 1, 1998 and August 31, 2007, and existing inventories at December 31, 2007.

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c) Consolidated asset tax

Effective January 1, 2008, the IETU Law repealed the Asset Tax Law, which had no impact in the Group. IETU Law sets forth the possibility of recovering asset tax effectively paid at December 31, 2007, subsequent to that date. At December 31, 2008 and 2009, the Company did not have a recoverable asset tax.

d) Tax loss carryforwards for income tax and negative base for (IETU)

i) Tax loss carryforwards can be offset against taxable income that may be generated in the future over a ten year term. Tax loss carryforwards can be restated based on the INPC factor from the date incurred through the sixth month of the year in which they can be offset against taxable income. At December 31, 2008 and 2009, the Group's subsidiaries had incurred in tax loss carryforwards as follows:

Year incurred	Restated tax loss	Expired date
2000	Ps. 1,639	2010
2001	2,479	2011
2002	4,371	2012
2003	5,816	2013
2004	5,092	2014
2005	99,392	2015
2006	51,662	2016
2007	15,714	2017
2008	125,280	2018
2009	76,589	2019
	<u>Ps. 388,034</u>	

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. Through December 31, 2008, that amount was permitted to be credited against income tax due in the year in which the credit was generated. The negative base can be restated as explained in paragraph i) above. At December 31, 2009, the IETU negative base generated by some subsidiaries was as follows:

Year incurred	Negative base
2008	Ps. 9,732
2009	62,242
	<u>Ps. 71,974</u>

e) Employee profit sharing

The Federal Labor Law requires for the Group to pay profit sharing to their employees. This profit sharing is calculated by applying a 10% annual rate to taxable income for each subsidiary, determined as provided for in the pertinent Law.

f) 2010 Tax reform

On December 7, 2009, the tax authorities approved the amendments to the Income Tax Law that went into effect on January 1, 2010. The significant changes were as follows:

i) The annual income tax rate increased from 28% to 30% from 2010 to 2012. That tax rate decreases to 29% for 2013, and returns to 28% from 2014 and henceforth.

ii) Change in the tax consolidation regime which requires for determining at December 31, 2009 annual income tax as if tax consolidation rules had not existed since 1999 and henceforth. Therefore, companies should pay restated income tax that is related to the benefits of tax consolidation obtained as of that year, in connection with: (a) tax losses used in tax consolidation that would have not been carried forward individually by the entity that incurred them; (b) losses on sales of stock to be carried forward individually by the entity that incurred them; (c) special consolidation items for transactions among entities of the Group; and (d) dividends paid among entities of the Group that are paid out of earnings not taxed for income tax purposes in the past. In addition, companies should determine income tax on the difference between consolidated CUFIN balances and CUFIN balances of controlled entities.

Pursuant to the foregoing, effective 2010, the companies will reverse the benefits obtained in tax consolidation for the 1999-2004 period, whereas those obtained as of 2005 will start to reverse those benefits effective 2011. Consequently, companies should pay 25% income tax in 2010 which results from eliminating the effects discussed above from tax consolidation from 1999 to 2004. The remaining 75%, 25% should be paid in 2011, 20% in 2012, 15% in 2013, and 15% in 2014. The consolidation effect generated as of 2005 should be considered in the sixth year after they were generated and paid in the same proportion (25%, 25%, 20%, 15%, and 15%) in the following five years.

As a result of the foregoing, at December 31, 2009, the Group determined the nominal amount of income tax payable as follows:

Year	Amount
2010	Ps. 23,135
2011	41,737
2012	40,982
2013	33,606
2014	36,637
2015	26,076
2016	13,216
2017	8,529
2018	7,089
2019	2,573
	<u>Ps. 233,580</u>

In accordance with Mexican IFRS-18, this amount was recognized as a tax payable in the balance sheet against a deferred income tax asset in the amount of Ps. 99,961 which the Group expects to realize, as well as the amount of Ps. 133,619 against prior year retained earnings. The realization of this asset is subject to generating future taxable income in controlled companies which in the past incurred tax losses into tax consolidation.

(iii) Through December 31, 2008, the tax consolidation regime set forth the following:

(a) The effect of the tax loss carryforwards of controlled companies used in tax consolidation expired in a 10 year term, as of the date on which they were generated. That effect was reversed in tax consolidation when the subsidiary lost the carryforward right or at the time when it was carried forward individually, whichever occurred first;

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b) Dividends distributed to stockholders should be paid out of the consolidated CUFIN balance. Any payment that exceeded the CUFIN balance was subject to a 38.9% income tax, except as discussed in subparagraph d) Note 12).

14. Segment information:

Although the Group distributes four product lines, it considers all of its operations, and reports the results of all of its operations to Management as a single business segment as discussed in Note 1). As of December 31, 2007, 2008 and 2009, revenue attributable to each product line, was as follows:

	Millions of Mexican pesos		
	2007	2008	2009
Pharmaceutical products	Ps. 22,050	Ps. 24,313	Ps. 25,695
Health and beauty aids/other products	2,119	3,120	3,304
Entertainment products	929	749	763
Food/non-perishable products	162	218	30
Total	Ps. 25,260	Ps. 28,400	Ps. 29,792

15. Contingencies and commitments:

a) On February 11, 2005, the Group filed an appeal for constitutional relief No. 185/2005 with the Tax Court against the provisions that regulated the tax deduction regime of the cost of goods sold, effective January 1, 2005. In October 2007, the Tax Court granted the constitutional relief in order for the subsidiaries affected to recognize the impact of inflation on the acquisition value of inventories that formed part of the cost of goods sold. As a result, the Group determined income tax recoverable in the amount of Ps. 17,063 which was included as a “non-ordinary item” in income 2008.

b) On February 12, 2007, the Group filed appeals for constitutional relief Nos. 147/2007, 284/2007, and 153/2007 with the Tax Court against the tax reform that binds taxpayers to determine asset tax by applying the 1.25% annual rate to the average value of assets and not reduce the value of debts contracted from the taxable base, effective January 1, 2007. In June 2009, Tax Court handed down a favorable ruling regarding to reduce the value of debts mentioned. Management estimates that there is no contingency charged to the Group, since the provisions whose unconstitutionality was challenged were applied by the Companies.

c) On February 8, 2007, Servicios Administrativos Grupo Casa Saba, S.A. de C.V. (formerly Servicios Administrativos Xtra, S.A. de C.V. and, effective March 2008, Daltem Provee Nacional, S.A. de C.V.) filed an appeal for annulment No. 4326/07-17-11-8 with the Tax Court for not solving the petition for criterion confirmation in connection with the provision of the Income Tax Law which limits the tax deduction of tax losses generated on the sale of stock against taxable income may be generated in the future. At the date of the auditors’ report, the Tax Court had not handed down the pertinent ruling. Consequently, the Company, as the case may be, may file an appeal for constitutional relief.

d) On May 11, 2007, the subsidiary Servicios Administrativos Grupo Casa Saba, S. A. de C. V. (now Daltem Provee Nacional, S. A. de C. V.) filed an appeal for constitutional relief No. 868/2007 with the Tax Court against the provision of the Income Tax Law of fiscal year 2002 which limits the tax deduction of tax losses generated on the sale of stock against taxable income may be generated in the future. On September 3, 2008, the Tax Court granted constitutional relief for the subsidiary to be able to deduct the tax losses incurred, without any limitation. As a result, the income tax credit determined in the amount of Ps. 20,378 is included as a “non-ordinary item” in the accompanying statement of income.

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e) In March, April, and July 2008, the Group filed appeals for constitutional relief Nos. 634/2008, 1062/2008, and 1403/2008 with the Tax Court against the provisions of the IETU Law, effective January 1, 2008. In February 2010, the Tax Court denied the appeals for constitutional relief filed by the Group. Management estimates that there is no contingency payable by the Group, since the provisions whose unconstitutionality were challenged were applied by its member entities.

f) On December 5, 2007 and March 28, 2008, the tax authorities issued an “invitation” to the Group to file an amended tax return of consolidated income tax of fiscal year 2005 and prove that it added the amount of certain prior year tax losses to consolidated taxable income for the same year. Those tax losses had been reduced by its controlled companies and the holding company to determine cumulative inventory, in accordance with the Income Tax Law. As a result, the Group filed the amended income tax return that meets with that invitation. Accordingly, there is no contingency payable by the Group. However, the Group 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 Tax Court. In Management’s opinion, the Group is not bound to comply with the criterion set forth by the tax authorities. Accordingly, the Group has serious and reasonable arguments to sustain its interpretation if this matter should be solved in the Tax Court. At the date of the auditors’ report, the tax authorities have neither determined the amount of the presumed nonperformance of the Group, nor has it carried out any legal action that represents present obligation that can be reasonably estimated and recorded in accordance with Mexican FRS. Therefore, it is not possible to foresee or anticipate any result on this matter.

Pursuant to the foregoing, the Group filed a claim for a refund of the income tax payment improperly made in the amount of Ps. 149,295, which had been previously paid through the amended income tax return discussed in the foregoing paragraph. On November 12, 2009, the tax authorities made a partial refund in the amount of Ps. 26,420. Management estimates that it will successfully recover the total amount of the income tax payment made improperly.

g) 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.

h) In accordance with the 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. The tax authorities could reject the amounts determined and demand payment of taxes and related expenses. The Group’s management estimates that all related party transactions were agreed upon at arm’s length basis and, therefore, there is no contingency in its charge.

i) Drogarias records certain provisions for contingencies based on the opinion of its legal advisors. Accordingly, Drogarias maintains a provision for the total labor and tax lawsuits, classified as risk of a probable loss. At December 31, 2008 and 2009, the liability recorded to cover those losses amounted to thousands of Brazilian real R\$ 6,900 and R\$ 2,422, respectively (Ps. 40,572 and Ps. 18,132), which is included in the line item “other payables and accrued long-term liabilities” in the consolidated balance sheet.

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In addition, Drogarias is subject to certain unquantifiable contingencies that may result in present obligations. The solution of these matters is in a preliminary stage and a conclusion might span various years. Drogarias has considered that it has incurred a possible liability. Management considers this possible liability in the amount of R\$7,000. However, it can not 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. Notwithstanding the foregoing, Drogarias has recorded a provision for those contingencies in the amount of thousands of Brazilian real R\$ 2,278 (Ps. 17,054) which is included in the caption “other payables and accrued long-term liabilities” in the consolidated balance sheet.

j) 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. The tax authorities in Mexico have the power to review up to the five fiscal years preceeding the last income tax return filed by the Company and its subsidiaries. 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.

k) In addition, to the issues discussed above, the Company and its subsidiaries are 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 operations.

16. Subsequent events:

(i) On March 25, 2010, Casa Saba entered into a new credit agreement with Scotiabank Inverlat, S. A. to liquidate the bank loans payable by Drogarias discussed in Note 9) above. On March 26, 2010, Casa Saba drew down this credit in the amount of Ps. 520,000, which will be paid every month at the EIIR rate plus certain percentage points.

(ii) As part of our strategy to expand our retail pharmacy operations, in May 17, 2010 the Group entered into a Promise to Purchase Agreement, with a group of entities controlled by Mr. Jose Codner Chijner to acquire up to 100% of the capital stock of Farmacias Ahumada, S.A., or FASA, for a total price of approximately \$637 million, including the assumption of net debt that, as of March 31, 2010 was \$162 million. The transaction is subject to the completion of a tender offer for all of the outstanding shares of FASA on the Santiago Stock Market, at a price equal or greater than 1,642 Chilean Pesos per share. The validity of the offer is conditioned upon the sale of at least fifty percent plus one of the outstanding shares of FASA. The transaction is also subject to the approval of our general shareholders’ meeting and the Mexican Antitrust Commission, *Comision Federal de Competencia*. The Group intend to fund the transaction with a mix of our own resources and bank debt, for which we have received commitments from two Mexican financial institutions.

17. Recently issued financial reporting standards:

The CINIF has issued the Mexican FRS discussed below, which go into effect as of January 1, 2010 or 2011, as indicated.

(i) FRS C-1, “Cash and cash equivalents” (FRS C-1). Effective as of January 1, 2010, this accounting standard supersedes Bulletin C-1, “Cash”. The main change is the presentation in the line item “Cash and cash equivalents” in the balance sheet of “Cash and cash equivalents, restricted”, in addition to certain changes in terminology and definition of the following terms: cost of acquisition, cash equivalents, cash and cash equivalents restricted, trading cash investments, net realizable value, nominal value, and fair value. The new presentation and disclosure are recognized retrospectively. Adoption of this provision by the Group had no impact on its consolidated financial statements.

(ii) FRS B-5, “Financial information by segment” (FRS B-5). Effective as of January 1, 2011, this accounting standard would supersede Bulletin B-5 with the same name. The main changes are as follows:

(a) the companies should disclose segment information that is regularly used by executive management, in addition to the present disclosure of information by products or services, geographic areas, and main customers and suppliers. The Bulletin B-5 that will be eliminated uses the same management approach. However, the disclosure of information by primary and secondary segments will be eliminated; (b) it does not require that business areas be subject to different risks between each other to qualify as operating segments (Bulletin B-5 sets forth this requirement); (c) a business in the preoperating stage may be considered as an operating segment (Bulletin B-5 requires that revenues be generated); (d) disclosures by segment of revenues and financial expenses will be required as well as other RIF components (Bulletin B-5 does not require this disclosure); and (e) disclosures of liabilities by segments will be required (Bulletin B-5 does not require this disclosure). The effectiveness of this Mexican FRS will generate accounting disclosure changes that will be recognized retrospectively, unless considered impractical to do so. The Group foresees that adoption of this provision will have no impact on its consolidated financial statements.

(iii) FRS B-9, "Interim financial reporting". This accounting standard, which would supersede Bulletin B-9 with the same name, will go into effect as of January 1, 2011. In addition to certain changes in terminology, the significant changes are as follows: (a) the statement of changes in stockholders' equity and statement of cash flows, in addition to the balance sheet and the statement of income will be presented on a condensed basis (Bulletin B-9 does not require that the statement of changes in stockholders' equity be presented, and it only suggests that the statement of changes in financial position be presented); and (b) the information presented for interim periods should be compared with the information at the closing of an equivalent interim period of the immediately foregoing year, except in the case of the balance sheet. Accordingly, the balance sheet is required to be compared with the balance sheet at the immediately foregoing annual closing date. The Group estimates that adoption of this provision will have no impact on its consolidated financial statements.

(iv) In addition, the CINIF issued the following Mexican FRS, effective January 1, 2010, which do not apply to the Group:

- FRS B-16, "Financial Statements of Non-Profit Organizations"
- FRS E-2, "Donations received or granted by Non-Profit Organizations"
- IFRS 14, "Construction contracts, sale and rendering of services related to real property"
- IFRS 17, "Concession Service Contracts"

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

The Group's consolidated financial statements are prepared based on Mexican FRS, which differ in certain material respects from U.S. GAAP. The term "SFAS" as used herein refers to U.S. Statements of Financial Accounting Standards. Moreover, the term "FASB" refers to the U.S. Financial Accounting Standards Board.

As discussed in Note 3 d) hereinabove, through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the impact of inflation was recognized in accordance with Mexican Bulletin B-10. That effect is maintained in the financial statements of the last year reported. In accordance with U.S. GAAP, financial statements should be prepared on a historical cost basis.

Effective January 1, 2008, the Group adopted Mexican FRS B-10, "Impact of inflation" (FRS B-10), substituting Mexican Bulletin B-10. Consequently, the financial statements that recognize the impact of inflation are those relative to an entity whose functional currency applies to a country in which there is an inflationary economic environment.

Pursuant to the foregoing, the Group has not recognized the impact of inflation for the years ended December 31, 2008 and 2009, due to the non-inflationary economic environment in Mexico and Brasil. Consequently, effective 2008, the amounts of the overall financial statements are presented in nominal Mexican pesos. 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.

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The reconciliation of the reported net income and stockholders' equity from Mexican FRS to U.S. GAAP at December 31, 2007, does not include the reversal of the adjustments of the restatement of the financial statements to recognize the impact of inflation under Mexican FRS. The application of Bulletin B-10 represented a comprehensive measure of the impact of price-level changes in the inflationary Mexican economy and, as such, is considered a more meaningful presentation than nominal cost-based financial reporting for both Mexican and U.S. accounting 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 adjustment between Mexican FRS and U.S. GAAP.

a) Statement of Cash Flows

Effective January 1, 2008, Mexican FRS B-2, "Statement of cash flows", superseded Bulletin B-12, "Statement of changes in financial position" (Bulletin B-12). The effect of the change is presented prospectively. Accordingly, the statement of changes in financial position for fiscal year 2007 and statements of cash flows for fiscal years 2008 and 2009 are not presented comparatively.

Pursuant to the above, the statements of cash flows at December 31, 2008 and 2009, prepared under the indirect method in a non-inflationary economic environment presents: (i) cash inflows and outflows of the period which do not include the impact of inflation of the period. Consequently, the statement of cash flows prepared in accordance with Mexican FRS for the years ending December 31, 2008 and 2009, presents substantially the same information as required under "Statement of Cash Flows" (ASC 230). Therefore, the Group considers that in connection with the fiscal years 2008 and going forward, it will not be necessary to include any additional information related to cash flows under U.S. GAAP.

Through December 31, 2007, the statement of changes in financial position was presented in accordance with Mexican Bulletin B-12, which specified the appropriate presentation of this statement when the financial statements had been restated to constant Mexican pesos in accordance with Bulletin B-10. Bulletin B-12 identified the generation and application of resources representing differences between beginning and ending balance sheets in constant Mexican pesos, excluding the effect of the line item "Deficit on restatement". The Bulletin also required treating monetary gains or losses and unrealized gains or losses on foreign currency transactions as cash items in the determination of net cash provided by operating activities. Consequently, the changes included in this financial statement constituted cash flow activity stated in constant Mexican pesos.

Under ASC 230, a statement of cash flows that presents only cash movement and excludes non-cash items is required. This standard does not provide guidance on inflation-adjusted statements of changes in financial position. The differences between Mexican FRS and U.S. GAAP in the amounts reported are mainly due to: (i) the elimination of inflationary effects of monetary assets and liabilities from financing and investing activities against the corresponding monetary position result in operating activities; (ii) the elimination of foreign exchange results from financing and investing activities against the corresponding unrealized foreign exchange result included in operating activities and (iii) the recognition in operating, financing and investing activities of the U.S. GAAP adjustments. If the loss on monetary position were treated as a component of financing activities, resources provided by operating activities would be Ps. 514,352 and net cash used in financing activities would be Ps. (241,067) in 2007.

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b) Deferred income tax

i) Effective January 1, 2008, the Mexican tax authorities enacted the IETU Law, which co-exists with the Income Tax Law (Note 13 b) above). At December 31, 2008, the Company and its subsidiaries determined that income tax will be the tax on earnings that will normally be paid instead of IETU in the following years, in accordance with a projection based on reasonable assumptions. As a result, 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".

Under Mexican FRS, the Group determines the deferred income tax effect in a manner similar to U.S. GAAP by applying the "asset and liability method", by using the enacted statutory income tax rate to the total temporary differences resulting from comparing the accounting and tax values of assets and liabilities, tax loss carryforwards as well as other recoverable taxes and tax credits. All of the changes in the required deferred income tax effect during the year are allocated in the income statement, except for the deferred income tax effect derived from temporary differences attributable to changes in other stockholders' equity accounts. In that event, such an effect is applied directly to the specific stockholders' equity accounts that generate such changes.

Nevertheless, there are specific differences as compared to the calculation under "Accounting for Income Taxes" (ASC 740), as follows: (i) through December 31, 2007, Under Mexican GAAP, the recognition of the accumulated initial effect of the asset and liability method at January 1, 2000 was recorded to stockholders' equity in the line item "Accrued deferred income tax on earnings". As a result of the accounting change referred in subparagraph vii), Note 3 n), the balance of that line item in the amount of Ps. (40,695) at December 31, 2007, was reclassified to retained earnings in January 2008; (ii) through December 31, 2007, under Mexican FRS, the impact of inflation on the deferred income tax balance was recognized in the gain (loss) on monetary position; (iii) effective January 1, 2008, a deferred income tax asset or liability should be considered as a monetary item if it is derived from monetary item. Should the deferred income tax asset or liability be derived from nonmonetary item, it is considered nonmonetary item. Under U.S. GAAP, the deferred income tax balance is classified as a nonmonetary item. As a result, for fiscal year 2007, the income statement differed regarding the presentation of the gain (loss) on monetary position and deferred income tax provision.

ii) In addition, for Mexican FRS presentation purposes, the deferred tax assets and liabilities are long-term items, while under U.S. GAAP, deferred tax assets and 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. As of December 31, 2008 and 2009, the deferred income tax effect under Mexican FRS and U.S. GAAP was classified as follows:

	CONSTANT MEXICAN PESOS			
	MEXICAN GAAP		U.S. GAAP	
	2008	2009	2008	2009
Current	Ps.	Ps.	Ps. (22,317)	Ps. (71,352)
Noncurrent	498,687	675,768	521,004	747,120
	<u>Ps. 498,687</u>	<u>Ps. 675,768</u>	<u>Ps. 498,687</u>	<u>Ps. 675,768</u>

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c) 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 purposes, the Group adopted “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 order to be recognized in the financial statements. 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 as of the reporting date. For this assessment, the Group assumes that the tax authorities will examine and have full knowledge of all relevant information (see Note 15 hereinabove). However, this difference between Mexican FRS and U.S. GAAP is not material to the Company’s consolidated financial statements during any of the periods presented herein, and has thus not resulted in a reconciling item.

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. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit.

If during any period after adoption of FIN 48 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 negotiation or litigation with the tax authorities, or the statute of limitations has expired.

At December 31, 2008 and 2009, the Group has recognized the provisions set forth in this standard, except as discussed in the following paragraph:

Tax examinations may involve complex issues and their resolution may carry multiple years, if subject to negotiation or litigation. The Group believes its estimates of the unrecognized tax benefits are reasonable, however uncertainties could affect the amount of unrecognized tax benefits in the future periods. It is difficult to estimate the timing and range of possible change related to the uncertain tax positions, as finalizing audits with the authorities may involve administrative and legal proceedings. Therefore, any settlements or statute expirations may result in a significant increase or decrease in the total unrecognized tax benefits, including those positions related to tax examinations being currently conducted.

d) 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% 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” discussed in Note 3 n) above. At December 31, 2008 and 2009, the deferred employee profit sharing asset amounted to Ps. 5,699 and Ps. 19,055, which were included with a related valuation allowance, in accordance with Mexican FRS and U.S. GAAP.

Employee profit sharing is classified as an operating expense for U.S. GAAP purposes, whereas for Mexican FRS is classified in “other (income) expenses, net”.

e) Additional employee retirement liability and unrecognized net transition obligation

i) At December 31, 2007, the additional employee retirement liability exceeded the limit amount for recording an intangible asset as an offsetting entry. The intangible asset was only recorded up to the algebraic sum of the unrecognized net transition obligation plus prior services and amendments of the plan, under Mexican FRS. Therefore, the excess of additional employee retirement liability over the intangible asset was recognized in stockholders' equity as a contra-equity in the amount of Ps. 19,127.

Effective January 1, 2008, the additional employee retirement liability, which amounted to Ps. 52,266 at December 31, 2007 and its offsetting entry in the balance sheet ("intangible asset" in the amount of Ps. 33,139 and "additional employee retirement liability" included in stockholders' equity in the amount of Ps. 19,127), were eliminated, in accordance with the new Mexican FRS D-3, "Employee fringe benefits" (FRS D-3).

For U.S. GAAP reconciliation purposes, the additional employee retirement liability along with its offsetting entry intangible asset and stockholders' equity existing at December 31, 2007 were reversed in the amounts of Ps. 33,139 and Ps. 19,127, respectively. Therefore a reconciliation line item is shown in Note 19).

ii) Due to the new Mexican FRS D-3, effective January 1, 2008, the Group must now amortize the unrecognized net transition obligation/benefit, unrecognized prior service cost/benefits and net gain/loss existing at December 31, 2007, over a maximum five year term if the remaining useful life of service of employees exceeds that period. At December 31, 2008 and 2009, this effect was immaterial.

iii) Effective January 1, 2005, the revised Bulletin D-3 required that the severance benefits referred in Note 3 m) be assessed upon termination of the employer/employee relationship. Accordingly, severance benefits granted to employees due to causes other than restructuring were valued by using the "projected unit credit method". The same recognition criteria are established under U.S. GAAP in "Employers' Accounting for Postemployment Benefits" (ASC 712) which has been effective since 1994. Under Mexican FRS, the recognition of the accumulated initial effect of the net transition obligation amounting to Ps. 4,428 was fully amortized in income in fiscal year 2006. Under U.S. GAAP this effect was included in income in fiscal year 2005.

For the fiscal year 2007 U.S. GAAP reconciliation, additional severance benefits liability along with its offsetting entry to intangible assets was reversed in the amount of Ps. 2,863. This amount was recognized in income. Therefore a reconciliation line item is shown in Note 19).

iv) For U.S. GAAP purposes, in September 2006, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" was issued (ASC 715, "Compensation-Retirement Benefits"). This statement requires employers to recognize, on a prospective basis, 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. The standard is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities.

At December 31, 2007, the funded status of the defined benefit pension and other postretirement plans which considers the gain or losses and prior service cost amounted to Ps. 25,348. This amount was recognized in other comprehensive income and net periodic cost of the year in the amounts of Ps. 13,288 and Ps. 12,060, respectively. At December 31, 2008, the amount attributed to this concept amounted to Ps. 72,123 which was recorded in other comprehensive income. At December 31, 2009, the amount attributed to this concept amounted to Ps. 66,115 which was recorded in other comprehensive income. Therefore a reconciliation line item is shown in Note 19).

f) Goodwill

Goodwill recognized under Mexican FRS has been adjusted for U.S. GAAP purposes due to 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 19).

As mentioned in Note 3 k) hereinabove, under Mexican FRS, in order to test the balance of its goodwill, the Group determines the “value in use”. The impairment loss results from the excess of the carrying amount over the “value in use”. Based on impairment tests made during the last quarter of 2009 under Mexican FRS, goodwill impairment loss was determined for the Drogarias reporting unit (Brasil) for approximately Ps. 210,000.

Under U.S. GAAP, the Group assesses goodwill 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. 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.

The Group used the same growth and discount rates in determining its projected future cash flows for both Mexican FRS 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, if the carrying amount of the reporting unit exceeds its related fair value, the Group should apply a “second step” by means of which the fair value of such reporting unit should be allocated to the fair value of its net assets in order to determine the reporting unit’s “implied” goodwill. The resulting impairment loss under U.S. GAAP is the difference between the carrying amount of the related goodwill at the valuation date and the implied goodwill amount. This situation, in addition to differences in the determination of the “value in use” by applying the “perpetuity value” (refer Note 3 k) hereinabove) 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, originate, when applicable, different amounts of impairment losses.

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 the Brasil in amount of approximately Ps. 109,000 which differ from impairment loss under Mexican GAAP due to referred to above. Therefore a reconciliation line item is shown in Note 19). In addition, Impairment loss under U.S. GAAP is included in the determination of operating income. Under Mexican FRS, this item is part of “other (income) expenses, net”.

As discussed in Note 1c) above, at the date of the auditor’s report, the Group was still in the process of gathering sufficient information to complete the purchase price allocation at the fair value of inventories, and that of certain contingencies at the acquisition date (May 15, 2008) of the subsidiary Drogarias. However, since the Group expects that there will be no significant changes in the preliminary allocation of the purchase price, Management carried out the goodwill impairment test during the last quarter of 2009. Impairment is due to significant adverse events at Drogarias that occurred in 2009, which are related to changes in the business environment, expectations in operating income, lack of liquidity, etc. Had any significant adjustment be required to be made to the values recorded initially resulting from the completion of the measurement of the impairment charge, will be recognized when known.

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g) Change in the Tax Status of the Group

As discussed in subparagraph f), Note 13), on December 7, 2009, the Mexican tax authorities approved the amendments to the Income Tax Law that went into effect on January 1, 2010. Therefore, a 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. Under Mexican GAAP, this change was recognized against prior year retained earnings in the amount of Ps. 133,619. Under U.S. GAAP a change in tax status that results from a change in tax law is recognized on the enactment date. 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 19).

19. 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 (\$), except per share			
	Year			Convenience translation
	2007	2008	2009	2009
Net income under Mexican FRS	Ps. 905,087	Ps. 595,118	Ps. 280,278	\$ 21,487
Additional employee retirement liability (Note 18.e)	(12,060)	2,200	412	32
Unrecognized net transition obligation (Note 18.e)	(2,863)	743	(1,489)	(114)
Impairment loss (Note 18.f)			101,000	7,743
Change in the tax status the Group (Note 18.g)			(133,619)	(10,244)
	<u>(14,923)</u>	<u>2,943</u>	<u>(33,696)</u>	<u>(2,583)</u>
Net income under U.S. GAAP	<u>Ps. 890,164</u>	<u>Ps. 598,061</u>	<u>Ps. 246,582</u>	<u>\$ 18,904</u>
Weighted average common shares outstanding (thousands)	<u>265,419</u>	<u>265,419</u>	<u>265,419</u>	
Basic and diluted earnings per share under U.S. GAAP	<u>Ps. 3.35</u>	<u>Ps. 2.25</u>	<u>Ps. 0.93</u>	

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**STOCKHOLDERS'
EQUITY**

	2007	2008	2009	Convenience translation 2009
Stockholders' equity under Mexican FRS	Ps. 6,092,720	Ps. 6,609,761	Ps. 6,651,209	\$ 509,917
Additional employee retirement liability	(25,348)	(47,644)	(47,232)	(3,621)
Unrecognized net transition obligation	(2,863)	(2,120)	(3,609)	(277)
Amortization and impairment of goodwill	26,928	26,928	127,928	9,808
	<u>(1,283)</u>	<u>(22,836)</u>	<u>77,087</u>	<u>5,910</u>
Stockholders' equity under U.S. GAAP	<u>Ps. 6,091,437</u>	<u>Ps. 6,586,925</u>	<u>Ps. 6,728,296</u>	<u>\$ 515,827</u>

Changes in stockholders' equity under U.S. GAAP

	2007	2008	2009	Convenience translation 2009
Stockholders' equity under U.S. GAAP as of beginning of the year	Ps. 5,570,945	Ps. 6,091,437	Ps. 6,586,925	\$ 504,989
Comprehensive income under U.S. GAAP	695,864	665,488	311,371	23,871
Dividends paid	(175,372)	(170,000)	(170,000)	(13,033)
Stockholders' equity under U.S. GAAP at year end	<u>Ps. 6,091,437</u>	<u>Ps. 6,586,925</u>	<u>Ps. 6,728,296</u>	<u>\$ 515,827</u>

Comprehensive income under U.S. GAAP

	2007	2008	2009	Convenience translation 2009
Net income under U.S. GAAP	Ps. 890,164	Ps. 598,061	Ps. 246,582	\$ 18,904
Deficit on restatement	(189,961)			
Additional employee retirement liability	(4,339)	(5,369)		
Accumulated effect on translation		72,796	64,789	4,967
Comprehensive income	<u>Ps. 695,864</u>	<u>Ps. 665,488</u>	<u>Ps. 311,371</u>	<u>\$ 23,871</u>

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20. Supplementary U.S. GAAP disclosures:

a) Financial instruments with off-balance-sheet risk

Under “Disclosure of information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk” (ASC 825), the Group sells its products mainly to distributors including supermarket chains, pharmacies and retail customers throughout Mexico, as well as Rio de Janeiro, Brasil. No single customer accounted for a significant amount of the Group’s sales in fiscal 2007, 2008 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 arrangement that has or is reasonably likely to have a current or future 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, and health-and-beauty/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 live, reduced by the operating costs and expenses associated with such cash flows, is less than the net book 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. At December 31, 2007, 2008 and 2009, there were no indications of impairment. 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.

“Accounting for the impairment or disposal of long-lived assets” (ASC 360) sets forth the valuation of fixed assets and some intangibles held for sale at the lower of their net book value or their net realized value. In addition, it specifies the criteria to classify an asset as held-for-sale and the reporting criteria for reporting the effects of the disposal of a business segment. Those rules require showing expected future operating losses from discontinued operations when the losses are incurred. At December 31, 2007, 2008 and 2009, the Group did not hold any long-lived assets held-for-sale or discontinued operations.

d) Quantitative and qualitative disclosures about market risk

The Group is subject to market risks due to interest rate fluctuations that prevail in Mexico and Brasil. Those fluctuations further impact the long-term debt incurred from loans obtained from Mexican banks in order to acquire all of the shares of capital stock of Drogasmil. In addition, the Group obtained various unsecured loans in various amounts from Brazilian banks for the financing of its operations. The Group has managed its interest rate risks considering the available financing rates in the market. At the issue date of the financial statements, the Group had not entered into any arrangements to reduce the exposure of interest rate risk.

e) Segment information

The Group adopted “Disclosures about Segments of an Enterprise and Related Information.” (ASC 280). SFAS 131 establishes standards for the way that public enterprises must determine and report information or operating segments in its annual and interim reports. Although the Group distributes four product lines, it considers all of its operations, and reports the results to management as a single business segment. Accordingly, the Group does not maintain separate operating results for each of its four product lines. Revenue attributable to each of the four product lines for the years ended December 31, 2008 and 2009, is mentioned in Note 14).

f) Variable interest entities

Under U.S. GAAP, the Group applies Interpretation 46R, “Consolidation of Variable Interest Entities, an interpretation” (ASC 810). 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.

In connection with related parties discussed in Note 8), 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, 2007, 2008 and 2009, the Group has not consolidated any assets, liabilities or operating results of such entities.

g) Fair value of financial instruments

The carrying amount of cash, trade accounts receivable, other accounts receivable, receivables due from and payable to related parties, trade accounts payable, other accounts payable and accrued expenses, as well as short-term debt, approximate their corresponding estimated fair values due to the short-term maturity and revolving nature of these financial assets and liabilities. Cash equivalents are recognized at fair value considering quoted market prices for the same or similar instruments. Long-term debt is based on estimated market prices for similar instruments, considering interest rates currently available in connection with bank loans with similar terms and due dates.

h) Fair value measurements

In September 2006, “Fair Value Measurements” (ASC 820) was issued, which defines fair value. ASC establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not change existing accounting rules what can or what must be recognized, reported or disclosed at fair value in the Group’s financial statements. This guidance does not eliminate practicability exceptions that exist in accounting pronouncements amended by this guidance when measuring fair value.

The three levels of the fair value hierarchy under the guidance 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.

The guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group is required to adopt it beginning on January 1, 2008. The adoption of the guidance had no impact on the Group's consolidated financial position and results of operations. (See subparagraph m) below).

i) The fair value option for financial assets and financial liabilities

In February 2007, "The Fair Value Option for Financial Assets and Financial Liabilities: to reduce earnings volatility caused by related assets and liabilities measured differently under U.S. GAAP" was issued. The guidance allows making an irrevocable instrument-by-instrument election to measure eligible items at fair value in their entirety. In addition, unrealized gains and losses will be reported in earnings at each reporting date. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2007 (January 1, 2008 for a calendar-year entity).

In the year in which the guidance initially applied, the cumulative-effect adjustment was (1) measured as the difference between the carrying amounts and the fair values of financial instruments at the date of application and (2) recorded in the opening balance of retained earnings or in other appropriate components of equity or net assets in the statement of financial position. The differences may include unamortized deferred fees, costs, premiums, and discounts; valuation allowances such as the allowance for loan losses; and accrued interest. Any changes in fair value due to the concurrent adoption of the fair value measurement guidance will be included in the cumulative-effect adjustment if the fair value option (FVO) is also elected for that item.

The Company has not elected to measure any eligible item at fair value. Accordingly, the adoption of this guidance had no impact on the Group's consolidated financial position and results of operations

j) Business combinations

In December 2007, ASC 805, "Business Combinations" (ASC 805) was issued. ASC 805 changes how an entity accounts for the acquisition of a business. This guidance is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008 and superseded existing Business Combinations guidance in its entirety.

The standard carries forward the existing requirements to account for all business combinations using the acquisition method (formerly called the purchase method). In general, this guidance requires acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree.

The new measurement requirements results in the recognition of the full amount of acquisition-date goodwill, which includes amounts attributable to noncontrolling interests. The acquirer should recognize in income any gain or loss 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 will be included as part of the business combination accounting. As a result, those costs will be charged to expense when incurred, except for debt or equity issuance costs, which will be accounted for in accordance with other generally accepted accounting principles.

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 allowances and acquired income tax uncertainties in a business combination that occur after the measurement period will impact income taxes.

Adoption of this guidance had no impact on the Group's consolidated results and financial position. This evaluation considers the measurement for completing the allocation of the price paid to identifiable net assets of the business acquired in Brazil, as well as determining the value of goodwill, determined and recorded provisionally, as discussed in Note 1c). The Group completed the valuation referred to above, except with respect to the value of inventories as discussed in the same Note.

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

k) 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 amends ASC 740 to require the Company to recognize changes to the valuation allowance for an acquired deferred tax asset or the effect of changes to 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.

The Group does not have a valuation allowance at December 31, 2007 related to deferred tax assets acquired in a business combination. Any change in the valuation allowance subsequent to December 31, 2008 will be recorded as a reduction of income tax expense rather than as a reduction of goodwill.

The Group considered the impact derived for completing the allocation of the price paid to identifiable net assets of the business acquired in Brazil, as well as determining the value of goodwill, determined and recorded provisionally, as discussed in Note 1c).

Goodwill impairment testing

The new business combination guidance amends the goodwill impairment test requirements. For a goodwill impairment test as of a date after 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, will be determined in accordance with the measurement and recognition guidance on accounting for business combinations under the new standard. This change could effect the determination of what amount, if any, should be recognized as an impairment loss for goodwill recorded before the effective date of the new standard. This accounting will be required effective January 1, 2009 for the Group and applies to goodwill related to all acquisitions.

At December 31, 2008 and 2009, the Group has Ps. 1,305,227 and Ps. 1,391,290 of goodwill related to previous business combinations. Except as discussed in the following paragraph, the Group considers adoption of the new business combination standard had no impact on the results of its impairment testing subsequent to December 31, 2008.

As explained in Note 1c), the Group completed the purchase price allocation, except with respect to the value of inventories at the acquisition date (May 15, 2008) of the subsidiary Drogarias. However, Management carried out the goodwill impairment test during the last quarter of 2009, as discussed in Note 1c).

l) Noncontrolling interests

In December 2007, “Noncontrolling Interests in Consolidated Financial Statements” was issued (ASC 810). The new Statement changes the accounting for, and the financial statement presentation of, noncontrolling equity interests in a consolidated subsidiary. The standard replaces the existing minority-interest provisions by defining a new term—noncontrolling interests—to replace what were previously called minority interests. The new standard establishes noncontrolling interests as a component of the equity of a consolidated entity.

The underlying principle of the new standard is that both the controlling interest and the noncontrolling interests are part of the equity of a single economic entity: the consolidated reporting entity. Classifying noncontrolling interests as a component of consolidated equity is a change from the current practice of treating minority interests as a mezzanine item between liabilities and equity or as a liability. The change affects both the accounting and financial reporting for noncontrolling interests in a consolidated subsidiary.

The new guidance includes reporting requirements intended to clearly identify and differentiate the interests of the parent and the interests of the noncontrolling owners. The presentation and disclosure requirements are required to be applied retrospectively for all periods presented. This guidance is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. Early adoption is prohibited.

The Company adopted this provision effective January 1, 2009, and applied it prospectively. The Groups’s adoption of this provision did not have an impact on its consolidated financial position and results of operation.

Mexican FRS B-7, “Business acquisitions” (FRS B-7), effective January 1, 2009, is virtually identical to U.S. GAAP.

m) Effective date of FASB “Fair value measurements” (ASC 820)

In February 2008, ASC 820 was issued. ASC 820 defers the effective date of SFAS No. 157 to fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). 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.

The adoption of ASC 820 on January 1, 2008 with respect to financial assets and financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis did not have a material impact on the Company’s consolidated financial statements, as well as of the remainder of the other nonfinancial assets and liabilities.

n) Employers Disclosures about Postretirement Benefit Plan Assets

In December 2008, “Employers Disclosures about Postretirement Benefit Plan Assets,” (included in ASC 715, “*Compensation-Retirement, 20, Defined Benefits Plans-General, 50*”) was issued. This standard provides additional guidance regarding employers’ disclosures about plan assets of a defined benefit pension or other postretirement plan.

This interpretation is effective for financial statements issued for fiscal years ending after December 15, 2009. The Group will adopt the provisions of ASC 715 at January 2, 2010. The adoption of this interpretation will increase the disclosures in the financial statements related to the assets of the Group’s postretirement benefit plans.

o) Recently Issued Accounting Pronouncements

In October 2009, the Accounting Standards Update (“ASU”) 2009-13, “*Multiple-Deliverable Revenue Arrangements*” (“ASU 2009-13”) was issued. This standard modifies the fair value requirements of ASC 605-25, “Revenue Recognition-Multiple Element Arrangements” by 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. The Group is currently evaluating the effect ASU 2009-13 may have on its audited consolidated financial statements.

In June 2009, the Accounting Standards Codification (“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. This standard is effective for interim and annual periods beginning after November 15, 2009. The Groups’s adoption of this provision had not an impact on its consolidated financial position and results of operation.

In June 2009, ASC 860, “*Transfers and Servicing*” was issued. ASC 860 requires more information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. ASC 860 eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosure. This standard is effective for fiscal years beginning after November 15, 2009. The Group plans to adopt this provision on January 1, 2010 and does not expect it to have an impact on its consolidated financial position and results of operation.

In June 2009, ASC 105, “*Generally Accepted Accounting Principles*” was issued. ASC 105 establishes the FASB ASC as the single source of authoritative nongovernmental U.S. GAAP, except for 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.

In April 2009, ASC 825, “*Financial Instruments*” was issued. ASC 825 requires disclosures of fair value for any financial instruments not currently reflected at fair value on the balance sheet for all interim periods. ASC 825 enhances consistency in financial reporting by increasing the frequency of fair value disclosures and is effective for interim and annual periods ending after June 15, 2009, and is to be applied prospectively. Adoption of this provision did not have an effect on the Group’s consolidated financial statements.

In April 2009, transition guidance ASC 820-10-65-4, “*Fair Value Measurements and Disclosures—Overall—Transition Guidance*”, the provisions of which have been incorporated in ASC 820-10-50-2, “*Fair Value Measurements and Disclosures—Overall—Disclosures*”. ASC 820 requires disclosures about fair value of financial instruments for interim reporting periods and annual financial statements of publicly traded companies. This guidance is effective for interim and annual periods ending after June 15, 2009. Adoption of this provision did not have an effect on the Group’s consolidated financial statements.

In March 2008, ASC 815, “*Derivatives and Hedging*” was issued. ASC 815 requires enhanced disclosures about an entity’s derivative and hedging activities including how and why an entity uses, how an entity accounts for derivative instruments; and related hedged items and how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. ASC 815 is effective beginning January 1, 2009. Adoption of this provision did not have an effect on the Group’s consolidated financial statements.

STOCK PURCHASE AND SALE PROMISE AGREEMENT

FARMACIAS AHUMADA, S.A.

In Santiago de Chile, May 17, 2010, on one hand:

1. José Codner Chijner, Chilean, married under the separate property regime, businessman, national identity card number 4.255.530-4, with domicile for these purposes at Alonso de Córdova 2600, office 22, Comuna de Vitacura, Santiago;

 2. Inversiones Galia, S.A., RUT number 79.799.330-1, a closed-end stock company (*"sociedad anónima cerrada"*), incorporated in accordance with Chilean law, herein represented by the abovementioned Mr. José Codner Chijner, both of them domiciled for these purposes at Alonso de Córdova 2600, office 22, Comuna de Vitacura, Santiago ("**Galia**");

 3. Inversiones Los Alpes, S.A., RUT number 96.508.010-4, a closed-end stock company incorporated in accordance with Chilean law, herein represented by the abovementioned Mr. José Codner Chijner, both of them domiciled for these purposes at Alonso de Córdova 2600, office 22, Comuna de Vitacura, Santiago ("**Alpes**");
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4. Inversiones JCC Limitada, RUT number 76.112.460-9, a limited liability company, incorporated in accordance with Chilean law, herein represented by the abovementioned Mr. José Codner Chijner, both of them domiciled for these purposes at Alonso de Córdova 2600, office 22, Comuna de Vitacura, Santiago (“**JCC**”);

5. Asesorías e Inversiones ECD Limitada, RUT number 76.012.021-9, a limited liability company, incorporated in accordance with Chilean law, herein represented by the abovementioned Mr. José Codner Chijner, both of them domiciled for these purposes at Alonso de Córdova 2600, office 22, Comuna de Vitacura, Santiago (“**ECD**”);

6. Asesorías e Inversiones KCD Limitada, RUT number 76.012.027-8, a limited liability company, incorporated in accordance with Chilean law, herein represented by the abovementioned Mr. José Codner Chijner, both of them domiciled for these purposes at Alonso de Cordova 2600, office 22, Comuna de Vitacura, Santiago (“**KCD**”);

7. Asesorías e Inversiones DCD Limitada, RUT number 76.012.111-8, a limited liability company, incorporated in accordance with Chilean law, herein represented by the abovementioned Mr. José Codner Chijner, both of them domiciled for these purposes at Alonso de Cordova 2600, office 22, Comuna de Vitacura, Santiago (“**DCD**”) (Galia, Alpes, JCC, ECD, KCD and DCD, jointly, the “**Promising Sellers**”); and, on the other hand:

- Grupo Casa Saba, S.A.B. de C.V., a stock company (“sociedad anónima”) incorporated in accordance with Mexican law, herein
8. represented by Mr. Manuel Saba Ades, a Mexican national, married, businessman, both of them domiciled at Paseo de la Reforma 400, second floor, Mexico City, 11,000, Mexico (the “**Promising Purchaser**” and, together with the Promising Sellers, the “**Parties**”).

All of the above state the following:

WHEREAS

1. Farmacias Ahumada, S.A. (“**FASA**”), RUT number 93.767.000-1, is an open-end stock company (“*sociedad anónima abierta*”), validly incorporated in accordance with the laws of the Republic of Chile, filed in the Registry of Securities of the Superintendence of Securities and Insurance (“*Registro de Valores de la Superintendencia de Valores y Seguros*”) under number 629 on October 15, 1997, its stock being also listed in the Registry of Securities. The domicile of FASA is located at Miraflores 383, sixth floor, Comuna de Santiago. FASA was incorporated by means of public instrument dated November 28, 1977 issued at the Notarial Office for Santiago held by Mr. Alvaro Bianchi Rosas, and an excerpt of such instrument was recorded in pages 310 number 167 of the Registry of Commerce for Santiago for the year 1978, and published in the Official Register dated January 16, 1978.

2. Galia owns five million seven hundred fifty one thousand one hundred and forty-one (5,751,141) shares of FASA, fully subscribed and paid, without par value, all of them of the same Series, representing approximately 3.8% of the capital stock and the voting rights of FASA.

3. Los Alpes owns four million six hundred ninety nine thousand and eighteen (4,699,018) shares of FASA, fully subscribed and paid, without par value, all of them of the same Series, representing approximately 3.1% of the capital stock and of the voting rights of FASA.

4. JCC owns thirty five million seven hundred fifty eight thousand seven hundred and fifty-two (35,758,752) shares of FASA, fully subscribed and paid, without par value, all of them of the same Series, representing approximately 23.8% of the capital stock and the voting rights of FASA.

5. ECD owns three million two hundred eighty nine thousand seven hundred and sixty four (3,289,764) shares of FASA, fully subscribed and paid, without par value, all of them of the same Series, representing approximately 2.2% of the capital stock and the voting rights of FASA.

6. KCD owns three million two hundred eighty nine thousand seven hundred and sixty one (3,289,761) shares of FASA, fully subscribed and paid, without par value, all of them of the same Series, representing approximately 2.2% of the capital stock and the voting rights of FASA.

7. DCD owns three million two hundred eighty nine thousand seven hundred and sixty-three (3,289,763) shares of FASA, fully subscribed and paid, without par value, all of them of the same Series, representing approximately 2.2% of the capital stock and the voting rights of FASA.

8. The Promising Purchaser is interested in purchasing at least 50% plus one share of the voting capital stock of FASA.

9. The Promising Sellers wish to sell and transfer to the Promising Purchaser fifty six million seventy eight thousand one hundred and ninety-nine (56,078,199) shares of FASA owned by them, which represent approximately 37.4% of the capital stock and voting rights of FASA, and they also wish to be bound, as a third party's promise ("*promesa de hecho ajeno*"), upon the terms of Article 1450 of the Civil Code, to the fact that third parties will also sell and transfer to the Promising Purchaser a total of, at least, eighteen million nine hundred twenty one thousand eight hundred and two (18,921,802) additional shares of FASA, which together with the shares of the Promising Sellers represent more than one half of the shares of said company.

10. This Stock Purchase and Sale Promise Agreement (hereinafter, the "**Agreement**") is executed as an inducement for the Promising Purchaser to launch a public offer for the purchase of shares, under the following Articles.

DEFINITIONS

The terms herein defined which are capitalized, shall have the meanings ascribed to them below, unless the Parties expressly give such term a different meaning in the specific case. This definition shall prevail over the sense that the respective law or science, art, technique or industry where such term is ordinarily used may give to such term. The use of any such term in singular or plural or in masculine or feminine form, within the context of a sentence, does not modify the definition that the Parties have given to such term in this Agreement. The definitions hereinbelow contained are only applicable for this Agreement, unless otherwise stated.

1. “**Shares**” means the amount of fifty six million seventy eight thousand one hundred and ninety-nine (56,078,199) shares of FASA (each, one “**Share**”), which represent approximately 37.4% of the capital stock and the voting rights of FASA.
2. “**Additional Shares**” means the amount of eighteen million nine hundred twenty one thousand eight hundred and two (18,921,802) shares of FASA (each, one “**Share**”) and that, together with the Shares, represent 50% plus one of the shares of FASA.
3. “**Conciliation Agreement**” means the agreement reached by FASA and FNE within the framework of the Free Competition Lawsuit.
4. “**Current Assets**” means the sum of the following items, all of them of the Consolidated Statement of Financial Condition of FASA:
(a) commercial debtors and other accounts receivable, net, current; (ii) inventories, (iii) accounts receivable from related entities, current; (iv) advance payments, current; (v) accounts receivable for taxes, current; and (vi) other assets, current.
5. “**Tax Authority**” means: (i) in Chile, the Internal Revenue Service (“*Servicio de Impuestos Internos*”), the General Treasury of the Republic (“*Tesorería General de la República*”), the National Customs Service (“*Servicio Nacional de Aduanas*”) and the Municipalities; (ii) in Peru, the National Superintendence of Tax Administration (“*Superintendencia Nacional de Administración Tributaria*”) and the Municipalities; and (iii) in Mexico, the Tax Administration Service (“*Servicio de Administración Tributaria*”), an agency of the Ministry of Finance and Public Credit (“*Secretaría de Hacienda y Crédito Público*”) and the Treasury of the Federation (“*Tesorería de la Federación*”) or the applicable State Treasuries.

6. “**Start Notice**” means the notice substantially in the form of Exhibit II.2 (as amended, according to the requirements of any legal or regulatory changes, or as instructed by the competent Chilean authority) which must be published by the Promising Purchaser pursuant to Article 202 of the Securities Market Law on the day prior to the start of the term of the OPA, which must be published in the El Mercurio and La Tercera newspapers.
7. “**Result Notice**” means the notice that accounts for the result of the OPA, which must be published within the terms and pursuant to the provisions of the Securities Market Law.
8. “**BCS**” means Bolsa de Comercio de Santiago.
9. “**BMV**” means Bolsa Mexicana de Valores, S.A.B. de C.V.

10. “**Cashier**” means the sum of the following items, all of them of the Consolidated Statement of Financial Condition of FASA: i) cash and cash equivalents, ii) financial assets at reasonable value with changes in results, and iii) non-current assets and groups in divestiture kept for sale. The foregoing result must be added the portion of the account receivable corresponding to the amounts pending collection from insurance companies as a result of the earthquake occurred in Chile on February 27, 2010.
11. “**Chamber**” means Cámara de Comercio de Santiago, A.G.
12. “**Material Adverse Change**” means any event, fact or circumstance (or a series of events, facts or circumstances derived from the same cause) that shall have produced, or reasonably expected to produce, a material adverse effect in the legal, financial or economic condition of the business, assets, liabilities, results or operations of the Companies, as a whole, considering as material for these purposes a loss in the net equity value of FASA in excess of 17.5% compared to the one held in March 31, 2010, which is not attributable to (i) variation in accounting standards, or (ii) the announcement of the operations contemplated by this Agreement (including any impact in the operations contemplated by this Agreement in the relationships with clients, suppliers or employees).
13. “**Working Capital**” means the difference between Current Assets and Current Liabilities.

14. “**Cause of Expiration**” means any of the causes of expiration of OPA included in the Start Notice.

15. “**Bring Down Certificate**” means the certificate to be issued by the Promising Sellers through the Representative of the Promising Sellers, substantially in the form of the model certificate attached as Exhibit IV.7, indicating the changes produced in the Exhibits to this Agreement between that date and the date of issuance thereof.

16. “**Financial Compliance Certificate**” means the certificate to be issued by the Promising Sellers through the Representative of the Promising Sellers, substantially in the form of the model certificate attached as Exhibit VIII.2.f hereto, accounting of the EBITDA of FASA for the second quarter of 2010 and of the consolidated net worth of FASA as of June 30, 2010.

17. “**Chile**” means the Republic of Chile.

18. “**COFECO**” means the Mexican Federal Competition Commission (“*Comisión Federal de Competencia*”).

19. “**Companies**” means FASA, together with

- Laboratorios Fasa, S.A.;
- ABF, Administradora de Beneficios Farmacéuticos, S.A.;
- Compañía de Nutrición General, S.A.;

- Droguería y Distribuidora Fasa, S.A.;
- Fasa Investment Limitada;
- Fasa Chile, S.A.;
- Inversiones Internacionales Inverfar, S.A.;
- Inmobiliaria Fasa, S.A.;
- Administradora Fasa, S.A.;
- Farmacias Peruanas, S.A.;
- Droguería La Victoria, S.A.C.;
- Farmacias del Oriente, S.A.;
- Farmacias Benavides, S.A.B. de C.V.;
- Benavides de Reynosa, S.A. de C.V.;
- Servicios Operacionales Benavides, S.A. de C.V.;
- Servicios Logísticos Benavides, S.A. de C.V.;
- Exportadora Regional del Norte de México, S.A. de C.V.; and
- Farmacias Ahumada Internacional, S.A.

20. “**Chilean Companies**” means FASA, together with

- Laboratorios Fasa, S.A.;
- ABF Administradora de Beneficios Farmacéuticos, S.A.;
- Compañía de Nutrición General, S.A.;
- Droguería y Distribuidora Fasa, S.A.;
- Fasa Investment Limitada;
- Fasa Chile, S.A.;
- Inversiones Internacionales Inverfar, S.A.;
- Inmobiliaria Fasa, S.A.; and
- Administradora Fasa, S.A.

21. “**Mexican Companies**” means, jointly,

- Farmacias Benavides, S.A.B. de C.V.;
- Benavides de Reynosa, S.A. de C.V.;
- Servicios Operacionales Benavides, S.A. de C.V.;
- Servicios Logísticos Benavides, S.A. de C.V.; and

- Exportadora Regional del Norte de México, S.A. de C.V.

22. “**Peruvian Companies**” means, jointly,

- Farmacias Peruanas, S.A.;
- Droguería La Victoria, S.A.C.; and
- Farmacias del Oriente, S.A.

23. “**Purchase and Sale**” means the purchase and sale of Shares and of the Additional Shares that shall be perfected through the OPA that the Promising Purchaser must start pursuant to this Agreement.

24. “**Knowledge**” means, with respect to any particular subject matter, area or aspect of the Business of a Company, or to one of the representations that refer to this item, the knowledge of the Promising Sellers or Mr. José Codner Chijner, and any knowledge they should have obtained acting in a diligent manner.

25. “**Agreement**” means this stock purchase and sale promise agreement which accounts for this instrument, including the Exhibits thereto.

“**Relevant Agreements**” means the contracts or agreements executed by the Companies which (i) individually, or together with others related to the same business, impose obligations on the respective Company in amounts equal to or exceeding the equivalent to two thousand five hundred (2,500) Encouragement Units within a term not to exceed one year; or (ii) are necessary for the ordinary business and the line of business of the Companies, so that in the event that they are not performed by any of the parties thereto, it might be reasonably expected to originate a Material Adverse Change; or (iii) have not been executed in the Ordinary Course of Business of the respective Company, and involve disbursements in amounts equal to or exceeding two thousand five hundred (2,500) Encouragement Units; or (iv) establish a payment obligation of the respective Company in favor of a current or past employee, executive or senior officer of such Company, in amounts equal to or exceeding two thousand five hundred (2,500) Encouragement Units, except for the respective labor agreements; or (v) contain exclusiveness clauses with respect to the purchase or sale of products or services or which restrict the ordinary performance of the Business; or (vi) are related to a sale or potential sale of the assets of the Companies valued at an amount equal to or exceeding two thousand five hundred (2,500) Encouragement Units; or (vii) which involve a joint venture, or partnership or shareholders agreement; or (viii) have been executed with any of the Promising Sellers or a third party which is a Related Party of any of them, and which is not, in turn, a Company.

27. “**Ordinary Course of Business**” means the performance or execution of any actions necessary and appropriate for the due and normal development of the line of business or commercial negotiation of the Companies, and to preserve their business, properties and relationships with employees, clients and suppliers and which are recurring and consistent with past practices.

28. “**Financial Debt**” means the sum of the following accounts, all of them of the Consolidated Statement of Financial Condition of FASA: i) loans that accrue interest, current
ii) other financial liabilities, current iii) loans that accrue interest, non-current, and iv) other financial liabilities, non-current.
29. “**Net Financial Debt**” means the difference between the Financial Debt and the Cashier.
30. “**Weighted Devaluation**” means the figure resulting from applying the formula contained in Exhibit VIII.2.h.
31. “**Business Days**” means the days of the week, excluding Saturdays, Sundays and holidays and any other day on which the banks that do business in Santiago, Chile, or the Federal District, Mexico, are required to close pursuant to the law.
32. “**Trading Days**” means the days of the week, except for Saturdays, Sundays and holidays, and those in which no securities market operations are conducted in the Chilean stock exchanges.
33. “**Due Diligence**” means the process of review and knowledge, among other things, of the information and financial, accounting, operating, legal, tax and human resources information and documentation, permits and information technology systems of the Companies available in the virtual data room, the interviews and presentations with the personnel, auditors and advisors of the Companies and the review and inspection of the different sale premises and distribution centers in Mexico and Chile.

34. “**EBITDA**” means the operating profit plus depreciation and redemption accounts for the second quarter of the calendar year, resulting from the consolidated financial statements issued by FASA in June of the respective calendar year.
35. “**Main Executives**” means the executives of the Companies identified in **Exhibit V11.e**.
36. “**Financial Statements**” means the consolidated audited financial statements of FASA, of Farmacias Peruanas, S.A. and of Farmacias Benavides, S.A.B. de C.V., all of them as of December 31, 2009.
37. “**Interim Financial Statements**” means the consolidated financial statements of FASA, of Farmacias Peruanas, S.A., and of Farmacias Benavides, S.A.B. de C.V., all of them as of March 31, 2010.
32. (sic) “**FASA**” has the meaning stated in Whereas Clause Number 1 of this Agreement.
38. “**Closing Date**” or “**Closing**” means the date of publication of the Result Notice, declaring the OPA successful.
39. “**FNE**” means the National Economic Inspector’s Office (“*Fiscalía Nacional Económica*”) of Chile.

40. “**Line of Business**” means the line of business consisting of the import and/or storage, and/or distribution, and/or marketing, of pharmaceutical products, toiletries, personal hygiene items, the operation of drugstores or convenience stores where the main activity is the sale of pharmaceutical products, without prejudice to the ancillary sale of photography, perfumery, cosmetics, personal hygiene, confectionery, and toy items to final consumers.

41. “**Lien**” means any kind of mortgage, pledge, attachment, prohibition, usufruct, right-of-way, or any other real right, lien, filing of lawsuit, outstanding lawsuits, cautionary measures (whether judicial or pre-judicial), option or preferential right, or any other limitation or restriction, whether real or personal, to the full property, use, usufruct, enjoyment or disposal of one or more assets, and any ordinary condition subsequent or preferential right thereon, constituted in favor of any Person.

42. “**Authorized Lien**” means the following Liens: (i) asset lease agreements performed in the Ordinary Course of Business, (ii) conditions subsequent implied in purchase and sale transactions with deferred payment made in the Ordinary Course of Business; and (iii) those which guarantee any debt reflected as a liability in the Financial Statements and which existence is expressly indicated in the notes thereto.

43. “**Tax**” means any income tax, asset tax or value added tax, tax on capital earnings, and/or any other tax, assessment, rate, duty or contribution, together with any readjustment, interest or fine required by any Tax Authority.

44. “**Reserved Information**” means all the oral or written information of any kind or nature which is or shall have been made available by the Companies or the Promising Sellers to the Promising Purchaser, including, without limitation, any information made available to the Promising Purchaser by virtue of the Due Diligence, and any information delivered by any of their senior officers, executives, employees or representatives (understanding as such, without limitation, their financial advisors, counsels and accountants) to the Promising Purchaser or any of their senior officers, executives, employees or representatives (understanding as such, without limitation, the technical and financial advisors, counsels and accountants of the Promising Purchaser). Any information which is publicly known, known to the Promising Purchaser before it was disclosed by the Promising Sellers, or disclosed by a third party legally authorized to disclose such information, shall be considered as Reserved Information.

45. “**Maximum Contractual Interest**” means the maximum interest allowed to be contemplated under the Chilean law at the time of assessment of such interest.

46. “**Free Competition Lawsuit**” means the free competition lawsuit styled “Requirement of FNE versus Farmacias Ahumada, S.A.”, File CN 184-08.

47. “**Environmental Legislation**” means all the laws, regulations, warnings, judgments, guidelines, official standards, orders and decrees expressly applicable to the Companies and the contractual obligations related to the environment, including those related to: (i) air pollution; (ii) water pollution, both superficial and underground; (iii) soil pollution; (iv) noise; (v) territorial planning and zoning; (vi) flora, fauna and protected wild areas; and (vii) protection of human health and safety. The laws and regulations applicable to the generation of Hazardous Substances or those otherwise related to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation or management of Hazardous Substances, and the laws and regulations applicable to safety and health in the employment, in each case applicable to the business of the Companies, are expressly included.

48. “**Drugstore Legislation**” means all the laws, regulations, warnings, judgments, guidelines, contractual obligations, official sanitary and health standards, the orders and executive orders expressly applicable to the Companies, related in any manner to the import, manufacture, processing, distribution, storage, disposal, transportation, management and marketing, whether or not to the public at large, of pharmaceutical products, psychotropic substances, phytodrugs, homeopathic and natural products, cosmetics, food, and to the operation of drugstores, laboratories or any other establishment related in any manner to the abovementioned activities.

49. “**Securities Market Law**” means the Law N° 18.045 of the Republic of Chile.
50. “**Mexico**” means the United Mexican States.
51. “**Business**” means the business currently conducted by the Companies, as described in the Annual Memory of FASA as of December 31, 2009.
52. “**OPA**” means the acquisition public offering of all the shares of FASA which pursuant to Article Two and Title XXV of the Securities Market Law must be released by the Promising Purchaser.
53. “**Current Liabilities**” means the sum of the following items of the Consolidated Statement of Financial Condition of FASA: i) commercial creditors and other accounts payable, current, ii) accounts payable to related entities, current, iii) accounts payable for taxes, current, iv) other liabilities, current, and v) deferred income, current; less the item of the Consolidated Classified Statement of Financial Condition of FASA, provisions for proposed dividends.
54. “**Person**” means any individuals and legal entities, including partnerships, companies, individuals and any other entity or organization with, or without legal capacity.
55. “**Related Person**” means, in connection with any of the Parties, that resulting from the application of Article 100 of the Securities Market Law.

56. “**Pesos**” or “**\$**” means the lawful currency of Chile.

57. “**Peru**” means the Republic of Peru.

58. “**OPA Price**” means the amount of one thousand six hundred and forty-two (1,642) Pesos for each share of FASA, considering that FASA has an aggregate capital stock as of the date of this Agreement of one hundred fifty million (150,000,000) shares.

59. “**Share Price**” means the amount of one hundred twenty three billion one hundred fifty million one thousand six hundred and forty-two (123,150,001,642) Pesos resulting from multiplying the Price of OPA by the number of Shares plus the Additional Shares.

60. “**Promising Purchaser**” has the meaning ascribed to such term in the preface of this Agreement.

61. “**Promising Sellers**” has the meaning ascribed to such term in the preface of this Agreement.

62. “**Acquisition Proposal**” means any operation intended to (i) substantially acquire all the assets of the Companies or a majority of the shares of capital stock of FASA and/or the Companies, (ii) acquire by any means control of FASA and/or the Companies, or (iii) merge FASA and/or the Companies with a third party and transfer the business of FASA and/or the Companies to the merging company or the company resulting from the merger or its affiliates. No internal restructuring transactions occurring among the Companies shall be deemed to be an Acquisition Proposal.

63. “**Representative of the Promising Sellers**” has the meaning contemplated by Article Thirteen of this Agreement.

64. “**Hazardous Substances**” means any product, material, substance or waste, which due to its composition or characteristics is hazardous, and which generation, manufacture, processing, distribution, use, management, treatment, storage, disposal, or transportation is currently forbidden, restricted or regulated by any applicable Environmental Legislation.

65. “**SVS**” means the Securities and Insurance Superintendence (“*Superintendencia de Valores y Seguros*”) of the Republic of Chile.

66. “**Encouragement Unit**” means the Encouragement Unit which varies from day to day and which is published from time to time in the Federal Register by the Chilean Central Bank pursuant to Law Number 18,840, Organic Constitutional Law of the Chilean Central Bank, and published by such body in the Federal Register, as provided by Article II.B. three of the Compilation of Financial Standards of the Chilean Central Bank or any standards which may replace it in the future.

ARTICLE ONE:
STOCK PURCHASE AND SALE PROMISE

1. The Promising Sellers, duly represented, hereby promise to sell, assign and transfer to the Promising Purchaser, which, through its appearing attorney-in-fact, promises to purchase, accept and directly acquire through OPA and upon the terms and conditions of, and within the periods of time established by this Agreement, the Shares which represent approximately 37.4% of the capital stock and of the voting stock rights of FASA. The stock purchase and acquisition promise by the Promising Purchaser is subject to the condition that the OPA is started in the manner contemplated by this Agreement and does not elapse by virtue of any of the Causes of Expiration mentioned in the Start Notice.

2. Likewise, the Promising Sellers agree as a third party's promise upon the terms of Article 1450 of the Civil Code, that any other shareholders, shall jointly offer at least the Additional Shares in OPA made by the Promising Purchaser, so that the latter obtains at least 50% plus one of the shares of FASA.

3. The Shares and Additional Shares shall be acquired by the Promising Purchaser, as long as they are free from any type of Lien as of the date of such Purchase and Sale.

4. The purchase price for each of the Shares and of the Additional Shares shall be equal to the OPA Price.

5. Upon the terms and conditions of this Agreement, the Purchase and Sale shall be perfected through the OPA that the Promising Purchaser must start in the manner provided by Article Two below.

**ARTICLE TWO:
OPA PROCEDURE**

1. Upon the terms and conditions contemplated by this Agreement, the Promising Purchaser must make a public acquisition offer of shares pursuant to Title XXV of the Securities Market Law, for the total amount of shares issued by FASA. The OPA must be made pursuant to item (a) of Article 199 of the Securities Market Law, at a price per FASA share equal to the OPA Price.

2. The OPA shall be irrevocable, and may only be subject to the Causes of Expiration and other documentation of OPA, which text is included in **Exhibit II.2** to this Agreement. The OPA shall be for the total number of issued shares of FASA and, provided that the abovementioned Causes of Expiration shall have not occurred, it shall be sufficient for it to be declared successful by the Promising Purchaser, for the same to receive, within the terms of the OPA and without consequent withdrawal, the sale offering of the Shares and of the Additional Shares upon the terms of the Start Notice, the same being equivalent to at least 50% plus one share of the voting capital stock of FASA as of the closing date of the OPA.

3. Subject to the performance of the condition precedent established in Article Eight item 1, and to the fact that the conditions consequent stated in Article Eight item 2 below are not satisfied or waived, the Promising Purchaser agrees to publish the Start Notice within ten (10) Business Days of the performance of the abovementioned condition precedent, and in all events not before July 8, 2010 and no later than August 15, 2010. The publication of this notice shall represent the beginning of the OPA process for 100% of the FASA shares.

4. The OPA shall be effective for thirty (30) days, from the day after the publication of the Start Notice, without the Promising Purchaser being able to extend the OPA pursuant to Article 205 of the Securities Market Law. Consequently, the OPA must expire no later than September 14, 2010.

5. The Promising Sellers agree to offer the Shares in the OPA for sale, without being able to exercise the total or partial withdrawal right contemplated by Article 211 of the Securities Market Law and therefore, not being able to offer the Shares in the competitive offers referred to in Article 206 of the Securities Market Law, unless the Promising Purchaser, as provided by item 8 below, fails to publish, in a timely manner, the Result Notice pursuant to Article 212 of the Securities Market Law; all the foregoing, without prejudice to the other rights derived from this Agreement for the Promising Sellers. The Promising Sellers must offer the Shares in OPA for sale within the first five (5) Business Days of its term, except for the four million seven hundred two thousand eight hundred and five (4,702,805) Shares owned by ECD, KCD and DCD, equivalent to approximately 3.1% of the capital stock of FASA, which must be offered for sale in the OPA as soon as the pledges encumbering them are released and, in all events, before the term of the OPA expires.

The Promising Sellers agree, as a third party's promise, upon the terms of Article 1450 of the Civil Code that (i) the Additional Shares shall be offered in the OPA, and (ii) the holders of the Additional Shares shall be not exercise the withdrawal right contemplated by Article 211 of the Securities Market Law with respect to such Additional Shares and, consequently, do not participate in the competitive offers referred to in Article 206 of the Securities Market Law, so that at least 50% plus one of the FASA shares are offered.

6. Failure to comply with this obligation shall make the Promising Sellers liable as provided by Article Eleven of the Agreement. The Promising Sellers must act in a diligent manner so that the Additional Shares are offered for sale in the OPA as soon as reasonably possible.

The obligations indicated in items 5 and 6 above shall immediately cease for the Promising Sellers if, pursuant to the provisions of this Agreement, and after the conditions contemplated thereunder are satisfied, the Promising Purchaser fails to start the OPA upon the terms and within the period of time provided by item 3 above.

7.

On the third day after the expiration of the term of the OPA, the Promising Purchaser must publish the Result Notice. Consequently, the Result Notice must be published no later than September 17, 2010.

8.

9. The OPA Price shall be paid no later than within two (2) Trading Days after the publication of the Result Notice that declares the OPA successful, in cash and in the manner stated by the Promising Purchaser in the Start Notice.
- The Promising Purchaser may, in its sole discretion, increase the OPA Price pursuant to Article 210 of the Securities Market Law, which shall benefit the Promising Sellers (without right of reimbursement to the Promising Purchaser for the excess received by the Promising Sellers) and to all the other shareholders of FASA that sell their FASA shares in the OPA.
- 10.
11. Each of the Promising Sellers agrees to act in a diligent manner and in good faith to assist any of the Companies and its management in order to prevent any of the events included as OPA Causes of Expiration from occurring.

ARTICLE THREE:
MANAGEMENT OF THE BUSINESS OF THE COMPANIES TO
THE CLOSING DATE

Except as otherwise consented to in writing by the Promising Purchaser, the Promising Sellers agree to cause, between the date of execution of this Agreement and the date of the Extraordinary Shareholders Meeting at which the Board of Directors must be reelected pursuant to Article Four below, the Companies to continue to be managed and conducted in the Ordinary Course of Business. Additionally, unless the same is not permitted by the applicable legislation, in the opinion of an independent and renowned legal counsel of the respective jurisdiction or the Promising Purchaser authorizes the same, the Promising Sellers agree, as a promise of their own or as a third party's promise, upon the terms of Article 1450 of the Civil Code, as applicable, that the Companies shall refrain from:

1. Amending their corporate by-laws;

2. With respect to FASA and Farmacias Benavides, S.A.B. de C.V., distribute or approve the distribution of capital, provisions, dividends or profits, whether definitive or provisional, either charged against previous fiscal years or the current fiscal year, in addition to the dividends referred to in **Exhibit III.2** to this Agreement.

3. Except as otherwise provided by **Exhibit III.3**, acquire, issue, redeem, and authorize the subscription or sale, or disposal, or promise to sell or dispose of shares or corporate rights of any of its affiliates or related companies.

4. Pass any resolution intended to approve the division, transformation, merger or any corporate restructuring of the Companies, except for the process in course of the allocation of some of the Business performed by FASA in Chile, to its affiliate FASA Chile, S.A.

5. Except as otherwise provided by **Exhibit III.5**, approve new bonds, fees, retirement, benefits or compensations plans, increase in severance payments for years of service by virtue of termination exceeding any applicable legal requirements (a) with respect to those contemplated under the labor agreements of the Main Executives, (b) with respect to employees subject to collective bargaining agreements, in terms other than those already approved under such agreements, and unless they must be renegotiated under the applicable law; and (c) with respect to employees who are not subject to collective bargaining agreements, in terms such that the benefits represent in the aggregate an increase of more than 3% in the total costs of the staff of the Companies, or involving an increase in severance payments for years of service due by virtue of termination exceeding any applicable legal requirements.

- Except as otherwise provided by **Exhibit III.6**, and concerning the sale of goods and assignment of accounts receivable in the Ordinary
6. Course of Business, sell or dispose of, or promise to sell or dispose of assets of any kind or nature for an individual or joint value exceeding two thousand five hundred (2,500) Encouragement Units.

 7. Increase its Net Financial Debt, so that the same exceeds the amount of four million three hundred seventy five thousand (4,375,000) Encouragement Units.

 8. Allow the Working Capital to be less than the amount of minus one million (-1,000,000) Encouragement Units. For clarity purposes, a Working Capital of minus one million one thousand (-1,001,000) Encouragement Units is less than the abovementioned limit.

9. Voluntarily constitute any kind of lien, except for the Authorized Liens on its assets which, individually or jointly, represent more than two thousand five hundred (2,500) Encouragement Units.

10. Execute, promise, amend, expressly renew, settle or terminate any agreement in an amount exceeding two thousand five hundred (2,500) Encouragement Units or any Relevant Agreement, other than (a) the purchase and sale of inventories for the performance in the Ordinary Course of Business; (b) the property purchase or lease agreements in the Ordinary Course of Business; (c) the opening and closing of sale premises in the Ordinary Course of Business; (d) the service agreements of support to the performance of the ordinary line of business; and (e) the partial or total settlement agreements with insurers as a result of the earthquake occurred in Chile on February 27, 2010.

11. Terminate any of the Main Executives, and hire those who will replace them.

12. Failure to comply with the terms and conditions of any Relevant Agreement in a manner such that such default may have an adverse effect in excess of ten thousand (10,000) Encouragement Units to the Companies considered as a whole.

13. File judicial actions or reach settlements or transactions with respect to any judicial proceedings which involve a payment exceeding two thousand five hundred (2,500) Encouragement Units.

14. Voluntarily file an action for adjudgement in bankruptcy or restructuring, or present proposals of arrangements to their creditors or other procedures related to its insolvency, pursuant to the applicable regulations.
15. Execute or promise to execute new agreements with Related Parties to the Promising Sellers, which are not in turn a Company.

Make changes in their accounting methods, principles, practices or policies, except as otherwise required by the authorities of the respective country, especially those resulting from the implementation of the IFRS (*International Financing Reporting Standards*), as applicable.
16. Directly or indirectly, (1) request, start or perform any action intended to facilitate any Acquisition Proposal, (2) start or participate in conversations, discussions or negotiations with any Person (excluding the Promising Purchaser) with respect to an Acquisition Proposal, (3) support, cooperate, facilitate or encourage the efforts of any Person with respect to an Acquisition Proposal, and (4) provide information on the activities, assets or liabilities, financial or operating condition, or operation results of FASA and/or the Companies to any Person within the context of an Acquisition Proposal, except to the extent required by any applicable law.
17. Directly or indirectly, (1) request, start or perform any action intended to facilitate any Acquisition Proposal, (2) start or participate in conversations, discussions or negotiations with any Person (excluding the Promising Purchaser) with respect to an Acquisition Proposal, (3) support, cooperate, facilitate or encourage the efforts of any Person with respect to an Acquisition Proposal, and (4) provide information on the activities, assets or liabilities, financial or operating condition, or operation results of FASA and/or the Companies to any Person within the context of an Acquisition Proposal, except to the extent required by any applicable law.
18. Take any action intended to (i) cause any of the representations and warranties contained in Articles Five and Six to be incorrect, inaccurate or incomplete as of the Closing Date, or (ii) cause the occurrence of any Cause of Expiration.

19. Incorporate new affiliates or related companies, or acquire relevant interests in other companies.

**ARTICLE FOUR:
OTHER OBLIGATIONS OF THE PARTIES**

1. The Promising Sellers agree to request the board of directors of FASA to summon an extraordinary shareholders meeting, to be held five (5) Business Days after the Closing Date in order to renew the entire board of directors.

2. Except for the transfers authorized by this Agreement, each of the Promising Sellers agrees not to sell, transfer or create Liens, or otherwise dispose of, or encumber, directly or indirectly, any of the Shares, or take any action which may in any manner limit, restrict or interfere with the performance by any of the Promising Sellers of its obligations under this Agreement.

3. Each Party agrees to notify to the other Party, as soon as they become aware thereof, of the occurrence of any Cause of Expiration.

4. The Promising Sellers agree to act in a diligent manner in order to cause FASA to make the filings and requests and applicable modifications to such filings and requests made by SVS to FASA and/or the Promising Sellers, as applicable, in connection with the OPA, and for such filings and requests to comply in all their relevant aspects with the applicable regulations and not to contain any false or incomplete representations.

5. Subject to the applicable legal restrictions, the Promising Sellers agree to act in a diligent manner in order to cause FASA to deliver to the Promising Purchaser any information it may reasonably require and to cooperate in order for the executives of FASA and the advisors of the Promising Sellers to cooperate with the Promising Purchaser in connection with the reasonable enquiries made with respect to the materialization of the transactions contemplated by this Agreement.

6. The Parties agree to cause and exercise all the applicable rights to prevent, before and after the Closing Date, as applicable, the shares of Farmacias Benavides, S.A.B. de C.V. owned by any of the Companies, from being offered in the public offering for acquisition of shares of such company that the Promising Purchaser must release to comply with the applicable Mexican laws in connection with the performance of the obligations contained in this Agreement.

7. The Promising Sellers must deliver the Bring Down Certificate to the Promising Purchaser on the first to occur of (i) August 11, 2010, and (ii) the fifth Business Day after the date the Representative of the Promising Sellers receives from the Promising Purchaser a written request to issue such certificate, once the condition precedent contemplated by Article Eight, item 1 below is satisfied.

ARTICLE FIVE:
REPRESENTATIONS AND WARRANTIES OF THE PROMISING
SELLERS WITH RESPECT TO THE COMPANIES

For purposes of this Agreement, except as otherwise indicated in each of the Exhibits mentioned in this Article Five, each of the Promising Sellers makes the representations contained in the following items thereof, and guarantees to the Promising Purchaser that they are complete and true as of this date and shall be such as of the Closing Date.

1. Existence of the Companies.

- a. The Chilean Companies are duly incorporated, legally existing and currently in force under Chilean laws, with sufficient capacity and authorities to hold their assets and conduct their Business as conducted to date.

- b. The Mexican Companies are duly incorporated, legally existing and currently in force under Mexican laws, with sufficient capacity and authority to hold their assets and conduct their Business as conducted to date.

- c. The Peruvian Companies are duly incorporated, legally existing and currently in force under Peruvian laws, with sufficient capacity and authority to hold their assets and conduct their Business as conducted to date.

d. Farmacias Ahumada Internacional S.A. is duly incorporated, legally existing and currently in force under Uruguayan laws, with sufficient capacity and authority to hold its assets and conduct its Business as conducted to date.

e. The minutes books of the Shareholders Meetings, of the Board of Directors Meetings, the shareholders registry and capital variations registry books, as applicable, of the Companies, are current and contain all the resolutions passed by the abovementioned bodies and meet the requirements contemplated by the applicable law.

2. **No Default.**

Except as otherwise provided by **Exhibit V.2**, neither the execution and signature of this Agreement nor the performance of the operations contemplated thereunder shall breach any order, regulation, rule, warning, judgment, decree, assessment, or other restriction issued by any governmental authority or court, applicable to the Companies, or any provision of the corporate by-laws of the Companies.

3. **Capital Stock of the Companies.**

a. Pursuant to the financial statements of FASA as of December 31, 2009 and approved by its ordinary shareholders meeting of April 28, 2010, this company has a capital stock of fifty nine billion two hundred seventy four million one hundred seventy five thousand five hundred and eight (59,274,175,508) Pesos, represented by one hundred and fifty million (150,000,000) shares, without par value, all of them of the same class, which are fully subscribed and paid. All the shares of FASA and the shares and corporate rights of the Companies directly or indirectly owned by FASA have been duly and validly issued, without there being any liability, obligation or ancillary claim related to the title thereto which is outstanding, in addition to those provided by law and the corporate by-laws.

Pursuant to the financial statements of Farmacias Peruanas S.A., as of December 31, 2009 and approved by its ordinary shareholders meeting of March 30, 2010, this company has a capital stock of twenty eight million three hundred eighty six thousand one hundred and ninety-three point one zero (28,386,193.10) nuevos soles, represented by twenty eight million three hundred eighty six thousand one hundred and ninety-three (28,386,193) shares, without par value, all of them of the same class, which are fully subscribed and paid. All the shares of Farmacias Peruanas S.A. have been duly and validly issued, without there being any liability, obligation or ancillary claim related to the title thereto which is outstanding, in addition to those provided by law and the corporate by-laws and which are free from any Lien.

Pursuant to the financial statements of Farmacias Benavides, S.A.B. de C.V., as of December 31, 2009 and approved by its ordinary shareholders meeting of March 30, 2010, this company has a capital stock of seven hundred thirty two million five hundred ninety-three thousand one hundred and ten point nine two (732,593,110.92) Mexican Pesos, represented by four hundred eight million eight hundred forty four thousand three hundred and ninety (408,844,390) shares, divided into fifty million (50,000,000) Series A shares, fixed capital stock, and three hundred fifty eight million eight hundred forty four thousand three hundred and ninety (358,844,390) Series B shares, variable capital stock. All the shares are fully subscribed and paid. All the shares of Farmacias Benavides, S.A.B. de C.V. have been duly and validly issued, without there being any liability, obligation or ancillary claim related to the title thereto which is outstanding, in addition to those provided by law and the corporate by-laws, and the shares of Farmacias Benavides, S.A.B. de C.V. are free from any Lien.

d. Currently, there are no rights or certificates outstanding which entitle the receipt of shares or corporate rights of the Companies, such as preferential acquisition rights, warrants, option rights, certificates convertible into or exchangeable for shares, except for those expressly indicated in the corporate by-laws of the Companies and the applicable legislation.

e. The shares or corporate rights of the affiliates of FASA have been duly and validly issued, and validly and legally subscribed, and paid or acquired by FASA or their respective affiliates, as applicable, and are free from any Lien. **Exhibit V.3.e** to this Agreement indicates the ownership percentages of FASA in such Companies.

None of the Companies owns shares of its own issuance. The Companies have not registered any contributions for future capital increases, and the payment or distribution of any amount has not been resolved in connection with the refund of capital to the shareholders of the Companies which is outstanding or pending distribution. No payment or distribution of any amount has been resolved concerning dividends to the shareholders of FASA and Farmacias Benavides, S.A.B. de C.V. which is outstanding or pending distribution, except as otherwise indicated by Exhibit III.2.

To the knowledge of the Promising Sellers, and except as otherwise indicated in **Exhibit V.3.g** to this Agreement, there are no joint action agreements, voting trusts, letters of proxy, shareholders agreements or other agreements or covenants in force in connection with the exercise of the voting rights related to the Companies, except for FASA.

4. Bolsa de Comercio de Santiago and Bolsa Mexicana de Valores.

The shares of capital stock of FASA are listed in the BCS; (ii) except for any infringements which have no relevant negative effect for FASA, FASA has filed in due time and form all the information, reports, notices and notifications with BCS and SVS and any other authority, necessary pursuant to the Securities Market Law and any other applicable order; and (iii) none of the reports, notices or notifications delivered by FASA to BCS, to SVS, or to any other securities authority, contains any false data or information and except for any omissions which sanction would have no relevant negative effect for FASA, omit any datum or information required to be included in such reports, notices or notifications.

- The shares of capital stock of Farmacias Benavides, S.A.B. de C.V. are listed in the BMV; (ii) except for any defaults described in **Exhibit V.4.b.** and except for any infringements which would have no negative relevant effect for Farmacias Benavides, S.A.B. de C.V., it has filed in due time and form all the information, reports, notices and notifications with BMV and any other authority required pursuant to the Mexican Securities Market Law and any other applicable provision; and (iii)
- b. (i) none of the reports, notices or notifications delivered by Farmacias Benavides, S.A.B. de C.V. to BMV or any other securities authority contains any false data or information, and except for any omissions which sanction would have no relevant negative effect for Farmacias Benavides, S.A.B. de C.V., omit any datum or information required to be included in such reports, notices or notifications.

5. Corporate Accounts.

- The Financial Statements and Interim Financial Statements (attached as **Exhibit V.5.a** to this Agreement) appropriately reflect the financial condition of such Companies as of the dates thereof, as well as their operation results and equity status. In the case of FASA, such financial statements have been prepared pursuant to the Chilean generally accepted accounting principles, as compiled in the IFRS and the SVS standards, that is, pursuant to the accounting standards applicable in Chile.
- a. In the case of Farmacias Peruanas S.A., such financial statements have been prepared pursuant to the Peruvian generally accepted accounting principles, as compiled in the IFRS previously approved by the Accounting Regulatory Board. In the case of Farmacias Benavides, S.A.B. de C.V., such financial statements have been prepared pursuant to the Mexican generally accepted accounting principles, in application of the Mexican Financial Information Standards (*NIF*).

- The Financial Statements and the Interim Financial Statements contain provisions consistent with generally accepted accounting principles and that the Companies have usually applied in the past with respect to uncollectible or doubtful collection debts, obligations and liabilities (real, contingent and otherwise), including, among others, tax obligations, obligations with related companies, and financial commitments existing as of the date thereof, all the foregoing pursuant to generally accepted accounting principles. All the provisions contained in the Financial Statements and the Interim Financial Statements accurately and sufficiently reflect the amounts of such obligations and liabilities, pursuant to generally accepted accounting principles. As of the date of the Financial Statements and the Interim Financial Statements the Companies did not have any obligations or liabilities of a cumulative, unconditional, contingent or other nature, derived from their business activities or events occurring on or prior to such dates, which are not reflected therein, even if they must be reflected according to the accounting principles described in the above item.
- b.

c. From March 31, 2010 to the date of execution of this Agreement, the Companies have continued to be managed in the Ordinary Course of Business.

d. The books and files of the Companies have been kept in accordance with the corresponding accounting standards for Chile, Peru and Mexico, as applicable, are complete and correct in all their material aspects, and duly reflect the terms and conditions of the financial condition and results of the Companies.

e. As of December 31, 2009, the Working Capital of the Companies, considered as a whole, amounted to less than forty billion four hundred ninety eight million (-40,498,000.000).

The Companies have no Financial Debt other than (a) those reflected in the Financial Statements and in the Interim Financial Statements, and (b) the credit or financing agreements executed by the Companies listed in **Exhibit V.5.f** to this Agreement, all the foregoing pursuant to generally accepted accounting principles, and without prejudice to any contingencies indicated in the notes to the Financial Statements and to the Interim Financial Statements. The Companies have granted no guarantees with respect to obligations of third parties other than the Companies which are currently in force.

6. Agreements.

Except for the real estate lease agreements regulated by the representation of Article V.8.c, the Relevant Agreements, which list is included in **Exhibit V.6.a** to this Agreement, are valid and enforceable, according to their nature and terms. To this date, no substantial default has occurred with respect to such agreements, which negative consequences for the Companies, if any, are not reflected in such Exhibit V.6.a., or in the Financial Statements and/or in the Interim Financial Statements, if applicable, pursuant to the corresponding accounting principles, as described in Article V.5.a.

Except for the agreements executed with the executives of the Companies related to plans for the acquisition of shares, **Exhibit V.6.b** to this Agreement contains a list of all the contracts or agreements executed by the Companies where a third party which is one of the Promising Sellers, any senior officer or main executive of any of the Companies, or any Related Person, and which is not in turn an affiliate or related company of the Companies participates as a counterparty. Such agreements have been executed in the Ordinary Course of Business, in equity conditions similar to those prevailing in the market.

There are no Relevant Agreements executed by the Companies which contain articles of acceleration, default, early termination or change in their conditions as a consequence of the execution of this Agreement, of the OPA and of the subsequent transfer of shares and of the Additional Shares, except for those listed in **Exhibit V.6.c** to this Agreement.

7. **Litigation and Administrative Proceedings.**

There are no litigation or administrative proceedings against, or filed by, the Companies for a value exceeding two thousand five hundred (2,500) Encouragement Units or which, having a lower value, exceed five thousand (5,000) Encouragement Units as a whole, except for those contained in **Exhibit V.7.a** to this Agreement, which are duly contemplated by the respective financial statements, if applicable, pursuant to generally accepted accounting principles of the corresponding jurisdiction.

b. To their Knowledge, there are no written threats of actions or complaints pending notice to any of the Companies for securities exceeding those listed in item a. above.

c. FASA has complied with each and all of the obligations undertaken in the Conciliation Agreement in connection with the Free Competition Lawsuit.

d. Except as otherwise reported in **Exhibit V.7.d**, there are no accusations, complaints, claims, summaries, investigations, litigation or complaints or written threats of complaints of any nature filed by clients, employees, former employees or competitors of FASA, authorities or any third party notified to FASA or the Promising Sellers, or which are Known to FASA of the Promising Sellers, and which are based on the facts described by FASA or FNE in the Conciliation Agreement or in the Free Competition Lawsuit.

8. Assets.

a. **Exhibit V.8.a** to this Agreement contains a list of the assets which net worth exceeds two thousand five hundred (2,500) Encouragement Units owned by the Companies. Except for the Liens indicated in such Exhibit V.8.a to this Agreement and for the Authorized Liens, there are no Liens affecting the ownership of the Companies with respect to such real properties.

b. The Companies have sufficient ownership title, pursuant to the law, to all real properties listed in Exhibit V.8.a, and to the Knowledge of the Promising Sellers, there is no cause that may or which allows third parties to dispute the full ownership of the Companies of such real properties.

c. **Exhibit V.8.c** to this Agreement contains an explanatory table which contains, with respect to all real property lease and sublease agreements executed by the Companies (i) the location of the real properties; (ii) the parties to the agreement; (iii) the date of termination of each lease agreement; (iv) the amount of the lease or sublease payment; and (v) whether the agreement contains or not a unilateral option of renewal upon expiration, and the term of such renewal.

d. Except for those listed in **Exhibit V.8.d** to this Agreement, there are no lease and/or sublease agreements executed by the Companies which contain articles of acceleration, default or early termination, or change in their conditions as a consequence of the execution of this Agreement, of the OPA and of the subsequent transfer of Shares.

e. Except for any assets referred to in **Exhibit V.8.e** to this Agreement, there are no Liens which guarantee third parties' obligations other than the Companies or attachments on any personal properties of the Companies.

Except as otherwise provided by **Exhibit V.8.f**, the Companies have good title to the personal properties used in the Business, and the same are in good physical and appropriate use conditions. The facilities, machinery, equipment and personal properties of the Companies are appropriate for their daily ordinary operation, consistently with the daily operation prior to the execution of this Agreement. The personal properties owned by the Companies are free from any Lien, except for the Authorized Liens on such personal properties owned by the Companies.

9. Taxes.

Except for the contingencies that may result from the litigation and administrative proceedings referred to in item c. below, the Companies have fully paid, pursuant to the current tax law, all Taxes, both of their own and those they are required to pay as a third party obliged to the payment of Taxes, except for those which payment becomes due after this date (which have been duly provisioned in accordance with generally accepted accounting principles for the respective jurisdiction), and to date, there are no claims to such effect. Likewise, the Companies have not requested any tax credit reimbursements which refund may be challenged by the Tax Authority.

Except as otherwise provided by **Exhibit V.9.b** to this Agreement, the Companies have complied with their duty to make Tax returns, which were filed in a timely manner in accordance with the applicable tax laws and to the Knowledge of the Promising Sellers, such tax returns were, at the time of their filing, true, complete and accurate, including, as the case may be, the determination of the tax loss, and to date, there are no citations, settlements or business outstanding with respect to such returns made by the Tax Authority.

Except as otherwise indicated in **Exhibit V.9.c** to this Agreement, there are, with respect to the Companies, no litigation, administrative proceedings, or notices related to citations, liquidations or business, whether or not claimed, and to their Knowledge, there are no written threats by the Tax Authority in connection with the fact that the citations, liquidations or business may be materialized.

10. Inventory of Unsold Available Goods.

All the levels of inventory kept by the Companies are consistent with the previous policies and practices thereof, and are appropriate to conduct their Business as they have to date. The assets which are a part of such inventories are free from Liens, except for the Authorized Liens on such assets which are a part of the inventory. Such inventories are reasonably fit for their intended purposes, and are free from any significant damages and defects. The inventory is reported in the Interim Financial Statements of the Companies using appraisal methods and practices based on the average acquisition cost, consistent with those used in the preparation of the Financial Statements.

11. Directors, Senior Personnel and Employees.

Except for any defaults or contingencies identified in **Exhibit V.11.a** or which constitute irrelevant infringements or defaults,

a. the Companies are in compliance with their labor and social security obligations, including social security fees, health fees and unemployment insurance.

b. There are no persons providing services to the Companies in the form of fees which, pursuant to the applicable legislation, should be contracted as employees.

c. There are no labor lawsuits, filed with courts with labor jurisdiction, or administrative proceedings with labor authorities and notified to the Companies, or Knowledge of the existence of any written threats of actions or complaints pending notification to any of the Companies, except for those listed in **Exhibit V.11.c** to this Agreement.

d. The collective bargaining agreements currently in force of the Companies are included in **Exhibit V.11.d** to this Agreement. Except as otherwise indicated in Exhibit V.11.d, the Companies are not currently in process of collective negotiation with their employees.

Exhibit V.11.e to this Agreement contains the names of the Main Executives of the Companies, indicating their titles.
e. Such Main Executives do not receive any bonus or payment for the services provided to the Companies which are not duly documented in their respective labor agreements and exhibits thereto, or under Exhibit V.11.f.

Exhibit V.11.f to this Agreement contains the list of all the employees of the Companies which have payments for change of comptroller, stock options or indemnification rights for termination of labor relationships, exceeding the legal requirements.
f.

From the date of the Interim Financial Statements, and except as otherwise provided by **Exhibit V.11.g**, no loan or advance has been granted to the senior officers or Main Executives of the Companies, and no increase has been granted in the benefits, compensations or indemnifications payable currently or in the future to any of the senior officers or Main Executives, and
g. with respect to the remaining employees of the Companies, only the increases in benefits or compensations contemplated by the compensation or benefit plans for employees, or under any individual labor agreement, collective bargaining agreement or otherwise have been made, and in the case of advances, other than those contemplated in the policies followed by the Companies on the subject and consistent with past practices.

12. Industrial and Intellectual Property and Dominion Names.

The brands owned and currently used by the Companies to perform their Business are included in **Exhibit V.12.a** to this Agreement and constitute the brands necessary to perform the Business in substantially the same form as performed to date.

a. Such brands are duly filed with the corresponding authorities pursuant to the applicable regulations and may be used by the Companies free from any payment of royalties. There are no Liens with respect to such brands or the validity of the registrations.

b. The brands in process of registration by the Companies are included in **Exhibit V.12.b** to this Agreement.

The Companies are beneficiaries under agreements for the license or use of industrial and intellectual property rights

c. contained in **Exhibit V.12.c** to this Agreement, which are the only ones necessary to perform the Business substantially in the manner performed to date.

The dominion names owned by the Companies are included in **Exhibit V.12.d** to this Agreement and constitute the dominion

d. names necessary to perform the Business substantially as performed to date. There are no Liens with respect to such dominion names.

e. The domain names of Companies in process of registration are included in **Exhibit V.12.e** to this Agreement, there being no opposition with respect to such processes.

f. The Companies have not been judicially notified and have received no written claims for contravention or infringement of industrial or intellectual property rights of third parties, except for those listed in **Exhibit V.12.f** to this Agreement.

13. Computer Systems.

a. **Exhibit V.13.a** to this Agreement lists and describes: (i) the computer systems of the Companies; (ii) the details of servers and applications; (iii) the storage detail; (iv) monitoring systems; and (v) the IT supports; all of which are owned by it or licensed by third parties, and are appropriate and sufficient to conduct the business of the Companies substantially as conducted to date.

b. The computer systems, servers and applications described in Exhibit V.13.a to this Agreement, have valid licenses for the Companies to use them as they have to date.

c. There is no known technical fact or cause which may result in lack of continuity or in interruption, or affect the use of the computer systems, servers and applications described in Exhibit V.13.a to this Agreement, after this date, to the extent they continue to be used as to date, which lack of continuity or interruption may substantially and negatively affect the assets, financial condition or results of the Companies in a manner different from that in which they are reflected in the Financial Statements.

d. The Promising Sellers and the Companies, and their respective representatives (i) have not sold, leased, or licensed or provided by any other means, and have not made available to third parties with which no agreements or benefit plans shall have been executed for their employees, the information included in the databases of clients, whether current or historical, of property of or used in their line of Business; and (ii) all the client databases (and their copies, if any), whether current or historical, owned by or used in the line of Business of the Companies, are stored in the computer systems owned by the Companies.

14. Insurance.

a. **Exhibit V.14.a** contains a copy of all insurance policies that evidence the inventories, equipment, supplies, real properties and fixed assets owned by the Companies or leased by the same, and of all insurance policies of civil and professional liability applicable to the business of the Companies.

Such insurance policies are currently in force.

b. The Companies have paid all the premiums or rights necessary to keep in full force and effect each of the insurance policies listed in Exhibit V.14.a.

c. Except for the claims and litigation listed in **Exhibit V.14.c**, there are no litigation or claims against or filed by the Companies in connection with the insurance policies listed in Exhibit V.14.a.

15. Dissolution, Liquidation or Bankruptcy.

The Companies (a) have not incurred any cause of dissolution, liquidation, bankruptcy, and are not subject to any proceedings to such effect, (b) do not know that any of its creditors shall have filed any procedure of dissolution, liquidation or bankruptcy, or (c) have not filed or do not intend to file a voluntary demand of dissolution, liquidation or bankruptcy.

16. Permits, Environmental and Safety Issues.

a. The Companies comply and have complied with all the applicable Environmental Legislation in all its aspects, except for any default that would not constitute a Material Adverse Change.

b. Without limitation of the foregoing, the Companies have obtained, complied with, and are in compliance with all the permits, licenses and other authorizations demanded by the Environmental Legislation for the occupation of their facilities and the performance of their activities, except for any default which would not constitute a Material Adverse Change.

The Companies have not received any written notification with respect to the infringement or alleged infringement of the Environmental Legislation, or with respect to any liability already determined or pending termination, and have no

c. Knowledge thereof, including any obligation of investigation, remediation or correction with respect to themselves or their facilities, pursuant to the Environmental Legislation, except for any notification related to any issue that would not constitute a Material Adverse Change.

The Companies have not treated, stored, disposed of, or ordered or authorized the disposal, transportation, management or generation of Hazardous Substances, in contravention of the provisions of the Environmental Legislation, or have possessed or operated any assets or facility (and such assets or facilities are not contaminated by such Substances), in a manner such

d. that it shall have resulted or may result in liabilities, including any liabilities on account of response cost, costs of preventive or corrective measures, personal injuries, damages to assets and damages to the environment pursuant to the Environmental Legislation, except for any treatment, storage, disposal, transportation, management or generation of Hazardous Substances, or for any liability and any costs which would not constitute a Material Adverse Change.

e. Neither this Agreement, nor the completion of the operations contemplated thereunder, shall result in any obligation of research or cleaning with respect to a site, or to give notice to any governmental body or third party or obtain their consent, pursuant to the Environmental Legislation, except for any obligation which existence or failure would not constitute a Material Adverse Change.

17. Permits and Compliance with Regulatory Standards and Sanitary Registrations.

a. The Companies hold of all the authorizations (including sanitary authorizations and municipal patents) which allow them to do their Business according to the Drugstore Legislation and in the manner they have done to date, particularly, without limitation, all the authorizations, registries and permits necessary for the manufacture, import, export, distribution, storage and marketing of drugs, food and, in general all products that are a part of their line of business, except for the authorizations listed in **Exhibit V.17.a.**, or for those which absence would not substantially and negatively affect the operation of the Business, and to the Knowledge of the Promising Sellers: (i) there is no reason to believe that such authorizations and any other permits shall not be extended, (ii) no authorization has been revoked or is in discussion and the Companies are not in relevant default of any term or condition thereof, and (iii) there are no investigations or similar procedures pending which affect or may affect the business of the Companies, or intended to revoke, restrict or suspend any of their authorizations.

b. The Companies hold the necessary sanitary registrations to perform the Business as they have to date, which are currently in force and, to the Knowledge of the Promising Sellers, there is no reason for such registrations: (i) not to be extended; and (ii) to be revoked, except for those which lack of renewal or revocation would not substantially and negatively affect the Companies.

18. Commissions.

The Companies are not required to pay any sum as intermediation, finders fee or any similar commission, in connection with the transactions contemplated by this Agreement.

**ARTICLE SIX:
OTHER REPRESENTATIONS AND WARRANTIES
OF THE PROMISING SELLERS.**

Each of the Promising Sellers hereby represents and warrants to the Promising Purchaser that, with respect to itself, as of this date and as of the Closing Date:

1. Legal Existence, Capacity, Execution, Enforceability of the Agreement and Execution of the Purchase and Sale.

Each of the Promising Sellers is duly incorporated and validly existing under the laws for the Republic of Chile, and is fully authorized to perform its activities and has the necessary powers-of-attorney to execute and bind itself upon the terms and conditions of this Agreement, and take the actions necessary to perfect and comply with the Purchase and Sale, all of which are valid and mandatory agreements with respect to which compliance may be demanded upon their terms.

2. Contractual and Legal Compliance.

The execution of this Agreement, as well as the participation of the Promising Sellers in the OPA and in the execution of the Purchase and Sale shall not result in:

- a. Breach of the corporate by-laws of any of the Promising Sellers, or of any agreement, contract or covenant under which a Promising Seller of its assets, including its Shares, are obliged.

- b. The breach of any law or regulation, or any judicial or administrative order of any court or administrative authority mandatory for any of the Promising Sellers.

3. Consent.

Except for any authorizations and formalities to be obtained under the law or by agreement for the execution of this Agreement and for the Purchase and Sale which have already been obtained or performed to date, including, without limitation, those corresponding under the shareholder agreements to which the Promising Sellers are a party, and except as otherwise provided by **Exhibit VI.3**, no third parties' consent, or authorization of any authority is required for the execution of this Agreement, the participation in the OPA, the sale and transfer of Shares by the Promising Sellers.

4. Title to the Shares.

a. The Promising Sellers are the sole owners, beneficiaries and holders of title to the Shares they promise to sell pursuant to this Agreement. The Promising Sellers have full capacity to transfer the Shares to the Promising Purchaser. The Promising Sellers are not a party to any agreement related to options, optional certificates, purchase rights or any similar agreement or commitment (other than this Agreement), involving that, as a result of the execution of this Agreement (and the performance of all acts involved by the same) the Promising Sellers are required to sell, transfer or otherwise dispose of any portion of the capital stock of the Companies.

b. On the other hand, the Additional Shares shall be, at the time of being offered in the OPA and as of the Closing Date, fully and exclusively owned by the shareholders appearing as holders thereof. Such shareholders shall have, at the time of offering their Additional Shares in the OPA and as of the Closing Date, full capacity to transfer the Additional Shares to the Promising Purchaser pursuant to this Agreement.

c. The Shares have been duly and validly issued, and validly and legally subscribed and paid or acquired by the Promising Sellers. The Additional Shares have been duly and validly issued, and validly and legally subscribed and paid or acquired by the holders thereof. After being acquired by the Promising Purchaser, the Shares and Additional Shares shall allow the exercise of all political and economic rights contemplated by the applicable regulations and the corporate by-laws of FASA, so that the Promising Purchaser is able to file such title in its name in the respective registry and have full capacity to receive and freely dispose of the same and of their proceeds.

d. The delivery of the certificates of Shares and Additional Shares, the performance of the necessary actions indicated in the Start Notice for the perfecting and compliance with the Purchase and Sale and the registration of transfers in the FASA Shareholders Registry Book, are sufficient to transfer to the Promising Purchaser legal and valid title to the Shares and the Additional Shares, with all rights inherent thereto.

e. On the date of offering in the OPA, and as of the Closing Date, the Shares and Additional Shares shall be free from any Lien.

5. Payments to Intermediaries.

The Promising Sellers have no liability or obligation related to the payment of any fees or commissions to any intermediaries or agents by virtue of the operations contemplated by this Agreement, with respect to which the Companies may be responsible or obliged.

6. Sole Representations.

The Promising Sellers do not make any other representation or warranty in favor of the Promising Purchaser, either expressed or implied, other than the representations and warranties contemplated by Article Five above and this Article Six of this Agreement.

**ARTICLE SEVEN:
REPRESENTATIONS AND WARRANTIES OF THE PROMISING PURCHASER**

The Promising Purchaser hereby represents and warrants to the Promising Sellers that, with respect to itself, as of this date:

1. Legal Existence, Capacity, Execution, Enforceability of the Agreement and Performance of the Purchase and Sale.

It is duly incorporated and validly existing under the Mexican laws, and is fully authorized to perform its activities, and except as otherwise provided by **Exhibit VII.3**, it has the necessary powers-of-attorney to execute and bind itself upon the terms and conditions of this Agreement, and to perform the actions necessary for the perfecting and performance of the Purchase and Sale, all of which constitute valid and mandatory agreements which performance may be demanded upon their terms.

2. Contractual and Legal Compliance.

The execution of this Agreement, as well as the participation of the Promising Purchaser in the OPA and in the execution of the Purchase and Sale shall not result in:

- a. Breach of the corporate by-laws of the Promising Purchaser, or of any agreement, contract or covenant under which the same or its assets are obliged.
- b. In the breach of any law or regulations, or of any judicial or administrative order of any court or administrative authority, which are mandatory for the Promising Purchaser.

3. Consents.

Except as otherwise provided by **Exhibit VII.3**, it does not require, or if required it, has obtained to date, or on the date of payment of the OPA Price for the Shares it shall have the consent of third parties or the authorization of the corresponding authorities for the execution of this Agreement, the participation in the OPA and subscription and performance of the Purchase and Sale by the Promising Purchaser. Especially, the Promising Purchaser does not require, or if required it has obtained to date, or on the date of payment of the OPA Price for the Shares it shall have, the authorization of the antitrust and securities authorities and bodies of all the jurisdictions where the Companies do business, for the performance of the necessary acts for the perfecting and performance of the Purchase and Sale.

4. Availability of Funds.

The Promising Purchaser hereby represents that it shall have the necessary funds for the payment of the price of the FASA shares it shall acquire in the OPA, including the Shares.

5. Representation.

a. The Promising Purchaser is a sophisticated entity, experienced in similar business investments; and capable of undertaking the economic risk associated with the purchase of Shares.

b. The Promising Purchaser acknowledges that the Promising Sellers have not made any representation or warranty with respect to the projections related to the Companies, including financial, cash flow and business plan projections.

**ARTICLE EIGHT:
CONDITIONS**

1. The obligation of the Promising Purchaser to publish the Start Notice and, consequently, start the OPA, is subject to the performance of the condition precedent, consisting of the obtainment of the resolution of no objection or constructive acceptance by COFECO for the acquisition of the Shares and of the Additional Shares and/or the indirect acquisition of control of Farmacias Benavides, S.A.B. de C.V. The condition precedent referred to above shall be deemed to have failed if it has not been performed or waived by the Promising Purchaser within sixty (60) Business Days of the execution of this Agreement, with the consequences derived therefrom, pursuant to Article Eleven item 1 below.

2. Likewise, the obligation of the Promising Purchaser to publish the Start Notice and, consequently, start the OPA, is subject to resolution in case of occurrence of any of the following conditions subsequent:

a. That any of the Parties files an action for its adjudgement in bankruptcy or presents proposals of arrangements to their creditors, or any creditor of the Companies files a procedure tending to obtain the adjudgement in bankruptcy of any of them and such procedure is not dismissed.

b. If any of the Parties (i) amends its by-laws in any manner (ii) if FASA or Farmacias Benavides, S.A.B. de C.V. declares or pays any dividend or makes other distribution in connection with its shares, except for any dividends of distributions which are declared and publicly announced and indicated in Exhibit III.2, (iii) sells, disposes of, mergers or otherwise disposes of the shares or corporate rights in any of its affiliates to third parties other than the Companies, or (iv) agrees to sell, dispose of, or deliver the management of relevant assets which are a part of its fixed assets in any manner out of its Ordinary Course of Business, to such effect, relevant assets shall be those which individually or jointly represent more than 0.5% of the item of assets according to the consolidated balance sheet of FASA as of March 31, 2010, excluding the assets listed in Exhibit III.6.

- c. If any of the events that constitutes a Cause of Expiration occurs even before the Start Notice is published.

- d. If the Bring Down Certificate is not delivered pursuant to Article Four item 7, or if a Material Adverse Change results from or is otherwise produced by virtue of the Bring Down Certificate.

- e. In case of default of any of the obligations contained in Article III, items 1, 2, 3, 4, 7, 8, 9, 11, 13, 14, 15, 17 or 19 of this Agreement.

- f. In the event that: (i) a reduction of EBITDA is produced in the second quarter of 2010, compared to the second quarter of 2009, exceeding fifteen percent (15%). For such purpose, no variations in the EBITDA resulting from variations in the exchange rate must be included in the calculation; or (ii) a decrease exceeding five percent (5%) occurs in the consolidated net worth of FASA, excluding for the calculation thereof the balance sheet lines corresponding to other provisions (provisions for conversion), all resulting from the consolidated financial statements of FASA as of June 30, 2010, compared to the consolidated net worth of FASA appearing in the Interim Financial Statements. To such effect, the Promising Sellers must deliver to the Promising Purchaser, no later than August 11, 2010, and in all events, no later than within (5) Business Days of the request by the Promising Purchaser, which may not be requested before July 8, 2010, the Financial Compliance Certificate.

g. In the event that the Financial Compliance Certificate is not delivered by the Promising Sellers to the Promising Purchaser, within the term and in the manner provided by subparagraph f. of this item 2.

h. If a Weighted Devaluation exceeding 20, resulting from the application of the formula described in **Exhibit VIII.2.h** has occurred between this date and the day prior to the publication of the Start Notice.

3. The conditions subsequent indicated in item 2 shall not be deemed to be satisfied if the respective event has been remedied to the satisfaction of the Promising Purchaser, acting reasonably, before the date of publication to the Start Notice. The Promising Purchaser may waive the conditions subsequent indicated above in its sole discretion.

4. The Parties hereby expressly waive any other resolutive action that may be derived from this instrument and which is not contemplated in this Article Eight, especially waiving those derived from Articles 1,489 and 1,857 of the Civil Code. Without prejudice to the foregoing, these resolutive actions shall not be deemed to be waived in the event that the obligations contemplated by items 1 and 2 of Article Eleven are infringed, in which case the non-defaulting Party may, in its discretion, demand the mandatory performance of the infringed obligation or the resolution thereof, in both cases, with the corresponding indemnifications for losses.

ARTICLE NINE
OBLIGATIONS AFTER THE CLOSING

1. Obligation not to Compete. Subject to the occurrence of the acquisition of the Shares and the Additional Shares, each of the Promising Sellers and Mr. José Codner Chijner hereby agree, for a term of 3 years from the Closing Date, that none of them, including the spouse and daughters of Mr. Codner in this obligation (with respect to the latter, as a third parties' promise upon the terms of Article 1450 of the Civil Code), acting directly or indirectly, by themselves or through a third party, shall:

(a) perform individually or jointly with other Persons, an activity in Chile, Mexico, or Peru, which competes with the Line of Business of any of the Companies (a "**Competing Business**"), which for clarity purposes includes the provision of outsourced management services to any Person who competes with the Line of Business of such Companies, the use of know-how, trade secrets or other information directly related to the Line of Business, and directly or indirectly cause (or help any Person to cause) any client or supplier relevant for the performance of the Line of Business to infringe the contractual duties contracted with any of the Companies and/or the termination of an agreement relating it to any of the Companies; or

- (b) keep or acquire, individually or jointly with other Persons, directly or indirectly, an interest exceeding 10% in the capital stock of no company which performs a Competing Business.

The Promising Sellers and Mr. José Codner Chijner declared that they expressly acknowledge that the negative covenants contained in this Article Nine, item 1, are necessary to protect and keep the ownership interests and other legitimate interests of the Promising Purchaser and its Related Parties, and that any breach of any of them could result in an irreparable loss for the Promising Purchaser and its Related Persons that could not be compensated in monetary terms, and, therefore, the Promising Purchaser and its Related Persons shall be entitled to seek from any competent court a temporary, preliminary or permanent cautionary measure, and an indemnification for losses, which rights shall be cumulative and additional to any other right or remedy to which they may be entitled. The Promising Sellers and Mr. José Codner Chijner agree that both themselves and their Related Persons shall declare and acknowledge that the Promising Purchaser or its Related Persons and its successors or assignees, shall be irreparably damaged by a breach of this Article Nine, item 1, and that they shall not oppose the granting of any cautionary measure in case of breach, and they specifically waive any requirement for the granting of a guarantee as a condition precedent for the filing of a request for the application of the appropriate measure.

The Promising Sellers and Mr. José Codner Chijner agree that, in the event that any provision of this Article Nine, item 1, is finally declared to be illegal, void or unenforceable for any reasons, such provision must be construed as limited to the legal, valid and enforceable portion thereof, to the greatest extent possible, without voiding the remaining provisions of this Article.

2. No solicitation. Subject to the occurrence of the acquisition of the Shares and the Additional Shares, each of the Promising Sellers and Mr. José Codner Chijner hereby agree, for a term of 3 years from the closing date, including in this obligation the spouse and daughters of Mr. Codner (with respect to the latter, as a third party's promise upon the terms of Article 1450 of the Civil Code), whether directly or indirectly, by themselves or through a third party, not to employ or contract (either as an employee, consultant, independent worker or otherwise) any person who acts as an executive of the Companies and who is listed in Exhibit V.11.e (except for Mr. Alejandro Roseblatt).

Notwithstanding anything herein to the contrary, the Promising Sellers and Mr. José Codner Chijner shall not be prohibited from making general job offers for activities other than the Line of Business which are not specifically addressed to the employees of the Companies.

ARTICLE TEN
INDEMNIFICATIONS.

1. The representations and warranties contained in Article Five above shall be effective and, consequently, the indemnifications that may be applicable by virtue of falseness or inaccuracy thereof under this Article may be claimed, from the payment of the OPA Price for Shares and the transfers thereof, without prejudice to the provisions of item 10 below; and the representations and warranties contained in Article Six and Seven above shall be effective and, consequently, the applicable indemnifications for falseness or inaccuracy thereof may be claimed from the date of this Agreement.

2. The Promising Purchaser must indemnify the Promising Sellers in connection with any loss or damage incurred by the latter as a consequence of the falseness or inaccuracy of the representations and warranties contained in Article Seven or for the infringement of any of the obligations undertaken by virtue of this Agreement, other than those contemplated in Article Eleven below. The amount to be indemnified by the Promising Purchaser shall be the amount of the loss or damage actually incurred by the Promising Sellers, with the limitations contemplated by this Agreement, unless this Agreement contemplates any specific penalties as advance appraisal of the damages, in which case such penalties shall be applicable.

3. The Promising Sellers must indemnify the Promising Purchaser in connection with any loss or damage incurred by the latter or by the Companies as a consequence of the falseness or inaccuracy of the representations and warranties contained in Articles Five and Six or the infringement of any of the obligations undertaken by them by virtue of this Agreement, other than those contemplated in Article Eleven below. The amount of the indemnification must be equal to that of the damage or loss actually incurred by the Promising Purchaser or the Companies, with the limitations contemplated by this Agreement, unless any specific penalties are contemplated hereunder as indemnification, in which case such penalties shall be applied.

Without prejudice to the foregoing, in the event that the infringement consists of any falseness or inaccuracy in the representations and warranties made by the Promising Sellers in Article Five above, or an infringement of the obligations contemplated by Article Three above, the indemnification amount shall be limited to 43.1% of the damage or loss accrued by such falseness, inaccuracy of infringement for FASA, with the limitations contemplated under this Agreement.

4. In order to determine the amount of damages and losses that must be indemnified pursuant to the provisions of item 3 above, the following must be deducted:

a. The present value of any tax credit or tax benefit attributable to the deduction of expenses or costs, that may be applicable by virtue of the indemnifiable event, and which decreases the total amount of taxes payable.

b. The indemnifications received on account of the same or a portion of the same losses which indemnification is pursued. If these indemnifications are received after the payment of the indemnifications applicable under this Article, then the Promising Purchaser must immediately repay them to the Promising Sellers.

5. The Promising Sellers must be notified in a clear and timely manner of any claim, complaint of litigation that may affect their liability to the Promising Purchaser after the Closing Date, so that the Promising Sellers are able to exercise their discharge and defense, be a party to the proceedings, or directly participate therein as they may deem appropriate. Likewise, the Promising Purchaser must provide, at the sole cost of the Promising Sellers, and upon written requirement of the latter, the collaboration that may be reasonable for such defense. Likewise, the Promising Sellers must provide, at their sole cost, upon written requirement of the Promising Purchaser, the collaboration that may be reasonable for the abovementioned defense. In the event of a default on these obligations by the Promising Purchaser, the indemnification amount payable by the Promising Sellers as a consequence of the losses, or damages accrued by virtue of such claim, complaint or litigation shall be determined by the arbitrator designated under this Agreement, who may proportionally reduce the indemnification that may be applicable once the breach of the Promising Purchaser is taken into consideration.

In all events, the Promising Purchaser must collaborate in the claim that may be filed by any of the Promising Sellers against any third party, with respect to any sum that the Promising Sellers shall have actually disbursed in favor of the Promising Purchaser by virtue of the application of this Article.

6. No damages or losses derived from any acts or omissions of the Promising Purchaser shall be indemnified. None of the Parties must indemnify indirect, unforeseen damages.

7. The payment of indemnification shall only be applicable whenever the accrued amount of indemnifications to be paid for losses or damages pursuant to the provisions of item 3 above, exceeds one hundred thousand (100,000) Encouragement Units. The latter amount shall in no event operate as deductible of the amounts to be indemnified, but only as a threshold which, once exceeded, entitles to request the applicable full indemnification. Only the infringements or applicable defaults of an event or sum of related, similar or recurring events, from which losses in an amount of six hundred and fifty (650) Encouragement Units are derived, shall be accounted in the minimum amount to be indemnified. In all events, the maximum amount to be indemnified by the Promising Sellers or the Promising Purchaser pursuant to this Article Ten, for all events that may occur, shall be one million (1,000,000) Encouragement Units, unless the cause for the respective indemnifications is the falseness or inaccuracy of the representations and warranties contained in item 4 of Article Six above, in which case the abovementioned limit shall be increased in up to 100% of the price received by the Promising Sellers.

8. If any of the Parties considers it appropriate to request an indemnification pursuant to this Agreement, it must notify the same to the other Party in writing, describing to the extent reasonably possible, the grounds and foundations for its requirement, as well as its estimated amount, which shall not affect the right of the Party requesting the indemnification to establish a different amount in the complaint that may be filed by it pursuant to the provisions of this Agreement, all within the terms contemplated by the following item.

All sums to be paid by one Party to the other by virtue of this Article shall be paid within ten (10) Business Days of the date the claim shall have been expressly accepted by the Party to which it shall have been addressed, or in case of rejection or objection, within a term of ten (10) Business Days of the date of notification of the final arbitration award which so provides. The simple delay in the payment of the corresponding sums shall accrue the Maximum Contractual Interest on due amounts.

9. The liability of the Promising Sellers with respect to the representations and warranties contained in Article Five above shall remain in force for up to eighteen (18) months from the date of execution of this Agreement, except for those indicated in items 1, 9 and 16 of this Article, which shall remain in force for the term of the statute of limitations and, in both cases, shall at all times refer to facts occurred prior to the Closing Date.

10. If any of the conditions subsequent indicated in Article Eight item 2 subparagraphs c, d, and e above, occurs, and the same is imputable to any of the Parties, the other Party shall be entitled to the loss indemnifications that may be applicable under the rules established in this Article Ten. Notwithstanding the foregoing, if the Promising Purchaser waives the condition subsequent mentioned in Article Eight item 2, subparagraph d, no indemnification shall be provided on such account.

11. Notwithstanding that the facts related to the Conciliation Agreement shall have been disclosed, the Promising Sellers hereby agree to indemnify the Promising Purchaser from any damage or loss suffered by FASA or the Promising Purchaser as a result of the Conciliation Agreement, the Free Competition Lawsuit, or any other accusation, investigation, claim or lawsuit related to the facts and actions that resulted in the Conciliation Agreement or the Free Competition Lawsuit, including, without limitation, the eventual civil liabilities for indemnification of losses to which the clients of FASA, the employees or former employees of FASA, or any third party affected by these facts and actions may be entitled. This special indemnification commitment shall fully elapse in the event that the disposal to a third party of FASA, FASA Chile, S.A. or the Business performed by the Companies in Chile is materialized. The liability of the Promising Sellers for the applicable indemnifications according to this item shall be ruled by the provisions of Article Ten; upon the same terms as if it was an infringement of the representations and warranties contained in Article Five, with the following variations:

(i) The maximum amount to be indemnified for all events that may occur in connection with the facts described above shall be six hundred twenty five thousand (625,000) Encouragement Units. Such maximum amount shall be increased in the balance of the maximum indemnifiable amount indicated in item 7 of this Article Ten, outstanding upon expiration of the term contemplated in item 9 of this Article Ten. That is, if upon expiration of the abovementioned term any indemnifications are requested for only two hundred and fifty thousand (250,000) Encouragement Units, thus with seven hundred fifty thousand (750,000), Encouragement Units remaining of the amount referred to in item 7 of this Article Ten, the Promising Purchaser may request indemnifications for a full value of up to one million three hundred seventy five thousand (1,375,000) Encouragement Units, invoking losses incurred as a result of the facts described in this item 11 of this Article Ten.

- (ii) The liability of the Promising Sellers for the applicable indemnifications according to this item shall remain in force for a term of sixty (60) months from the date of execution of this Promise Agreement.

ARTICLE ELEVEN
CRIMINAL PROVISIONS

1. In case of breach by the Promising Purchaser of its obligation to start and terminate the OPA by publication of the Start Notice and the Result Notice, respectively, and to pay the Share Price, pursuant to and within the periods of time provided by Article Two above of this Agreement, the latter must indemnify the Promising Sellers in connection with any loss or damage suffered by them as a consequence of such default. The Parties, by mutual agreement, appraise this loss or damage in advance in the sum of one million two hundred fifty thousand (1,250,000) Encouragement Units.

2. In case of breach by the Promising Sellers of their obligation to offer for sale the Shares in the OPA, or to cause the Additional Shares to be offered in the OPA, or not to exercise or cause the holders of Additional Shares not to exercise, the total or partial withdrawal right established in Article 211 of the Securities Market Law pursuant to the provisions of items 5 and 6 of Article Two above of this Agreement, these must indemnify the Promising Purchaser in connection with any loss or damage suffered by it as a consequence of such default. The Parties, by mutual agreement, appraise this damage or loss in advance in the sum of one million two hundred fifty thousand (1,250,000) Encouragement Units.

3. The Parties hereby expressly state that the obligations referred to in items 1 and 2 above are result obligations and at their sole risk; therefore, they may not be released from their liability by alleging an absence of guilt.

4. The Parties state that the indemnifications contemplated by Articles Ten and Eleven are the sole indemnifications or remedies for the losses or damages that may be incurred by them in connection with breaches of the provisions of this Agreement.

**ARTICLE TWELVE:
CONFIDENTIALITY AND PUBLIC ANNOUNCEMENTS**

1. This Agreement is confidential in all its Articles and the Parties agree not to disclose any information related to the contents thereof without the written consent of the other Party,

2. The disclosure in whole or in part of the Agreement in compliance with any legal standard (including those related to securities markets) or with a court or administrative order, as well as the transfer of information from financial and legal advisors and auditors of the Parties, is exempted from the confidentiality duty, provided that the same are legally or contractually required to preserve its confidentiality.

3. If the OPA is not made for any reason, the Promising Purchaser and its senior officers, executives, employees or representatives (understanding as such, without limitation, the technical and financial advisors, counsels and accountants) also hereby commit themselves not to disclose or to use individually or collectively, directly or indirectly, the Reserved Information to compete with the Business performed by the Companies.

4. This Confidentiality Article does not void the confidentiality commitments previously executed with the Promising Sellers or with the Companies, all of which remain fully in force according to their terms and conditions.

ARTICLE THIRTEEN

REPRESENTATIVES OF THE PARTIES

1. For purposes of this Agreement, the Promising Sellers hereby irrevocably designate, upon the terms of Article 241 of the Code of Commerce, Mr. José Codner Chijner as their representative (the “**Representative of the Promising Sellers**”), with authorities to act on behalf of the Promising Sellers, and to bind any and all Promising Sellers, including any Promising Seller who is absent or in disagreement with any act that the other Promising Sellers or the Representatives of the Promising Sellers must perform or refrain from performing, in connection with any action taken or to be taken under this Agreement. Additionally, the Promising Sellers hereby ratify all the actions taken by the Representative of the Promising Sellers on their behalf to this date, and waive their right to act by themselves in any situations in which, under this Agreement, the Representative of the Promising Sellers is entitled to act.

2. On the other hand, the Promising Purchaser hereby irrevocably authorizes, upon the terms provided by Article 241 of the Code of Commerce, Mr. Pablo Iacobelli del Río, for him to be validly summoned in the name and on behalf of Promising Purchaser in any arbitration proceedings filed against the latter by virtue of this Agreement. The Promising Purchaser hereby agrees to keep such representative in Chile, or any other representative with the same authorities located in Chile, for five years from this date. Mr. Pablo Iacobelli del Río, participates in this act, and expressly accepts the mandate granted by the Promising Purchaser. To such effect, within a term of twenty (20) Business Days of the date of execution of this Agreement, the Promising Purchaser shall grant a special irrevocable power-of-attorney to Mr. Pablo Iacobelli del Río which must be evidenced in a Mexican public instrument issued by a Notary Public in Mexico, and a copy of such instrument must be legalized within the same term pursuant to the Chilean law.

ARTICLE FOURTEEN
JOINT DEBT

1. In order to guarantee the full, effective and timely performance of the obligations contracted by the Promising Sellers under this Agreement, each of them hereby becomes the joint co-debtor in favor of the Promising Purchaser with respect to the obligations undertaken by the remaining Promising Sellers under this Agreement.

2. Likewise, Mr. José Codner Chijner personally becomes the joint co-debtor of each and all the Promising Sellers for each and all the obligations undertaken by the latter under this Agreement.

3. Additionally, Mr. José Codner Chijner hereby states that none of the Companies owes anything to him in any account, consequently, granting to each of them the fullest settlement and waiving any action or right that may correspond to him with respect to the same.

ARTICLE FIFTEEN

MISCELLANEOUS

1. **Notifications.** The Parties hereby state as their domiciles for any communication or notification related to this Agreement, the following:

- For the Promising Sellers:

José Codner Chijner
Alonso de Córdova 2600, oficina 22
Vitacura - Santiago
Chile

Fax: (562) 206 7148
E-mail: jcodner@mi.cl

With copy for:

Juan Francisco Gutiérrez
Avda. El Golf No. 40, piso 20
Las Condes - Santiago
Chile

Fax: (562) 364 3796
E-mail: jfgutierrez@philippi.cl

- For the Promising Purchaser:

Grupo Casa Saba, S.A.B. de C.V.
Attn: Alejandro Sadurni Gómez
Paseo de la Reforma No. 215, Piso 2,
Colonia Lomas de Chapultepec
11000 - Mexico City, Federal District
México

Fax: (5255) 5284-6633
E-mail: asadurni@casasaba.com

With copy for:

Mijares, Angoitia, Cortés y Fuentes
Attn: Francisco Fuentes-Ostos
Montes Urales 505, 3er Piso
Lomas de Chapultepec
11000 Mexico City, Federal District

Fax: (5255) 55201065 / 1075
E-mail: ffuentes@macf.com.mx

and

Carey y Cía.
Attn: Pablo Iacobelli Del Río
Miraflores 222, Piso 24
Santiago
Chile

Fax: (562) 633 1980
E-mail: piacobelli@carey.cl

Any notification made to any of the abovementioned domiciles shall be contractually effective, unless the establishment of a new domicile is previously communicated in writing to the other Party, which shall only be effective from the date of receipt of such document by the intended recipient.

All notifications or communications intended to be made under this Agreement, must be made in writing to the domiciles or fax numbers stated above, and shall be made, as applicable, (i) delivery by hand, or (ii) by internationally reputable courier, in which case it shall be deemed to be received on the fifth (5th) Business Day after its dispatch, or (iii) whenever it is made by transmission by fax (after confirmation of receipt thereof).

2. **Conversion of Currencies.** In the event that for any reason related to this Agreement, the equivalence of a certain amount of Mexican pesos or Peruvian nuevos soles into Chilean pesos must be known, then the equivalence thereof in dollars of the United States of America must be calculated at the exchange rate to settle obligations in foreign currency, as published in the Federal Register, in the case of Mexican pesos, and at the “sale” exchange rate published by the Superintendence of Banks, Insurance and Administrators of Pension Funds, in the case of nuevos soles; then, such amount must be converted from dollars of the United States of America into Chilean pesos at the observed dollar value, as published by the Chilean Central Bank, both transactions on the date the equivalence is made. In case of any doubts in the application of the exchange rates, the one that reflects the lowest value in Chilean pesos shall be applied.

3. **Waiver.** Failure to exercise or waiver by any Party of any of the rights that may correspond to it under the Agreement shall not involve any waiver or limitation in connection with the other rights that may result therefrom.

No waiver, withdrawal or failure to exercise a right under the Agreement by any of the Parties, shall constitute a waiver or a legal impediment of the right of such Party to demand the performance of the corresponding Article at a subsequent time, or the performance of any other Article of the Agreement, and shall not be used to construe the sense or scope of the provisions of this Agreement.

4. **Exhibits.** The Exhibits to this Agreement shall be deemed for all legal purposes as an integral part thereof.

5. **Successors or assignees.** This Agreement shall be mandatory for the signatory Parties and their successors. Given the nature of the Agreement, the same may not be assigned by any means or in any form by any of the Parties (not even when the assignee belongs to the same group) without the prior written consent of the other Party. Notwithstanding the foregoing, the Promising Purchaser may duly comply with its promise to release the OPA, to acquire the Shares and to pay the Price of the Shares, acting to such effect through an affiliate owned by it. The Promising Sellers shall be authorized to transfer shares between them without the consent of the Promising Purchaser, all of them being liable for the performance of their joint obligations pursuant to the provisions of Article Fourteen above. All the foregoing shall in no event constitute an assignment of this Agreement or release or modify the obligations incurred by the corresponding Party, for which it shall continue to be directly liable, notwithstanding that it acted in the abovementioned form.
6. **Amendments.** No variation or amendment to this Agreement shall be effective unless prepared in a written document duly subscribed by the Parties.
7. **Headings.** The headings are used in the Agreement only for systematic purposes and do not limit, affect or condition the terms of the corresponding articles.

8. Unenforceability. If for any reason, any provision of this Agreement is void or unenforceable, to the extent possible, it shall be adjusted and shall not be voided in order to achieve the purpose of the Parties to the Agreement to the fullest extent possible. In any case, all the other provisions of this Agreement shall be deemed to be valid and enforceable to the fullest extent possible.

9. Applicable Law. This Agreement shall be ruled and construed pursuant to the laws of the Republic of Chile.

10. Settlement of Controversies. Any conflict, difference, difficulty or controversy that may arise between the Parties, either by virtue of the existence, validity, efficacy, construction, nullity, performance or default of this Agreement, without limitation, shall be settled by arbitration pursuant to the provisions of the law 19971, prosecuted by a court comprised of one arbitrator pursuant to the International Commercial Arbitration Regulations of the Arbitration and Mediation Center of Cámara de Comercio de Santiago A.G. (the “Chamber”) in force at the time of filing thereof, which is deemed as reproduced and included in this Article in full.

The Parties hereby designate Mr. Enrique Barros Bourie as arbitrator, and in the event that he is unable or unwilling to accept the position, Mr. Claudio Undurraga Abbot and, in the event that he is unable or unwilling to accept the position, Mr. Juan Carlos Dorr Zegers.

In the event that none of the foregoing is able or willing to accept the position, the Parties shall by mutual agreement designate the arbitrator within ten (10) Business Days of the date the last of the abovementioned arbitrators notifies to the Parties that he is unable or unwilling to accept the position. In case of failure to reach an agreement with respect to the person who shall act as arbitrator, the designation shall be made upon written request of any of the Parties by the Chamber pursuant to the International Commercial Arbitration Regulations, for which purpose, the Parties hereby grant him a special and irrevocable power-of-attorney.

The arbitration site shall be the city of Santiago, and any location (“comuna”) within the jurisdiction of the Santiago Court of Appeals.

The arbitration shall be substantiated, formalized and conducted in Spanish language. The arbitrator shall be authorized to resolve anything related to his competence and jurisdiction.

- 11. Expenses.** On the date the payment of the Shares and of the Additional Shares is made, the Promising Purchaser shall pay Goldman, Sachs & Co. the gross amount of four million fifty thousand dollars of the United States of America (US\$4,050,000), and to Servicios Financieros Altis S.A., the gross amount of two billion twenty six million fourteen thousand Pesos (\$2,026,014,000). The taxes or withholdings that may be applicable shall be in charge of Goldman, Sachs & Co. and Servicios Financieros Altis S.A. The compensation of all advisors and of the investment bank contracted by the Promising Purchaser to make the OPA, shall be at the exclusive cost of the Promising Purchaser, as well as all expenses incurred by such advisors by virtue of this Agreement.

12. **Amounts.** All amounts of money, shares and the terms stated in this Agreement are indicated in letters and in figures. In case of any difference between one and the other, the amount stated in letters shall be taken into account.
13. **Counterparts.** This Agreement and the Exhibits thereto shall be executed in three counterparts, each of which shall be considered as an original but all of them together shall constitute one and the same instrument.

* * *

(Signed)

José Codner Chijner
on his own behalf
C.N.I. Number 4.255.530-4

(Signed)

José Codner Chijner
C.N.I. Number 4.255.530-4
p.p. Inversiones Galia S.A.
p.p. Inversiones Los Alpes S.A.
p.p. Inversiones JCC Limitada
p.p. Asesorías e Inversiones ECD
Limitada
p.p. Asesorías e Inversiones KCD
Limitada
p.p. Asesorías e Inversiones DCD
Limitada

(Signed)

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

p.p. Manuel Saba Ades

Passport

Number _____

(Signed)

Pablo Iacobelli del Río
C.N.I. Number 9.490.580-K

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

<u>Direct Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage Stake</u>
Alta del Centro, S.A. de C.V.	Mexico	99.50%
Alycom Saba, S.A. de C.V.	Mexico	99.99%
Capa, S.A. de C.V.	Mexico	99.50%
Centennial S.A. de C.V.	Mexico	99.99%
Comercializadora Casa Saba, S.A. de C.V.	Mexico	99.99%
Controladora Casa Saba, S.A. de C.V.	Mexico	99.99%
Controladora de Clínicas Ambulatorias y de Rehabilitación, S.A. de C.V.	Mexico	50.01%
Daltem Provee Nacional, S.A. de C.V.	Mexico	99.99%
Distribuidora Casa Saba, S.A. de C.V.	Mexico	99.99%
Distribuidora Centennial, S.A. de C.V.	Mexico	99.99%
Distribuidora CITEM, S.A. de C.V.	Mexico	99.99%
Distribuidora Eclipse, S.A. de C.V.	Mexico	99.99%
Distribuidora y Griega, S.A. de C.V.	Mexico	99.99%
Estrella del Este, S.A. de C.V.	Mexico	99.99%
Estrella del Pacífico, S.A. de C.V.	Mexico	99.99%
Farmacias ABC de México, S.A. de C.V.	México	99.99%
Grupo Mexatar, S.A. de C.V.	Mexico	99.99%
Inmobiliaria Iliria, S.A. de C.V.	Mexico	99.99%
Inmobiliaria Osa Mayor, S.A. de C.V.	Mexico	99.50%
Inmobiliaria Perceval, S.A. de C.V.	Mexico	99.99%
Inmuebles La Laguna, S.A. de C.V.	Mexico	99.50%
Medicamentos Doctorgen, S.A. de C.V.	Mexico	99.99%
Organización Sip, S.A. de C.V.	Mexico	99.99%
Publicaciones CITEM, S.A. de C.V.	Mexico	99.99%
Repartos a Domicilio, S.A. de C.V.	Mexico	99.99%
Seadefarm, S.A. de C.V.	Mexico	99.99%
Servicios Corporativos Citem, S.A. de C.V.	Mexico	99.99%
Servicios Corporativos Doctorgen, S.A. de C.V.	Mexico	99.99%
Solo, S.A. de C.V.	Mexico	99.99%
Transportes Marproa, S.A. de C.V.	Mexico	99.50%
Ultima del Golfo, S.A. de C.V.	Mexico	99.50%
<u>Indirect Subsidiaries</u>		
Casa Saba, S.A. de C.V.	Mexico	100% ¹
Casa Saba Brasil Holding, Ltda.	Brazil	100%
CSB Drogarias, S.A.	Brazil	100%
Distribuidora Drogueros, S.A. de C.V.	Mexico	99.99%
Daltem Provee Norte, S.A. de C.V.	Mexico	99.99%
Drogueros S.A. de C.V.	Mexico	99.99%
Farmacias Provee de Especialidades, S.A. de C.V.	Mexico	99.99%
Inmuebles Visosil, S.A. de C.V.	Mexico	99.99%
Resonancia Sports Clinic, S.A. de C.V.	Mexico	50.01%
Servicios Corporativos Sports Clinic, S.A. de C.V.	Mexico	50.01%

Tampico Sports Clinic Ambulatorias, S.A. de C.V.	Mexico	50.01%
Servicios Corporativos Drogueros, S.A. de C.V.	Mexico	99.99%
Servicios Corporativos Saba, S.A. de C.V.	Mexico	99.99%

¹ Grupo Casa Saba, S.A.B. de C.V. directly owns 48.21% of the shares of Casa Saba and the remaining 51.79% is held through its subsidiary Transportes Marproa, S.A. de C.V.

CERTIFICATION

I, Gabriel Saba D'jamus, certify that:

1. I have reviewed this annual report on Form 20-F of Grupo Casa Saba, S.A.B. de C.V. (the "Registrant");
 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
 4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation, as of the end of the period covered by this annual report; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
 5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: June 30, 2010

By: /s/ Gabriel Saba D'jamus

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

CERTIFICATION

I, Alejandro Sadurni Gomez, certify that:

1. I have reviewed this annual report on Form 20-F of Grupo Casa Saba, S.A.B. de C.V. (the “Registrant”);

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;

4. The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

- (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

- (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- (c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation, as of the end of the period covered by this annual report; and

- (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent function):

- (a) all significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: June 30, 2010

By: /s/ Alejandro Sadurni Gomez

Name: Alejandro Sadurni Gomez

Title: Chief Financial Officer

**Certificate of CEO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 20-F of Grupo Casa Saba S.A.B. de C.V. (the "Company") for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Gabriel Saba D'jamus, as Chief Executive Officer of the Company, and Alejandro Sadurni Gomez, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, except with respect to the paragraph below, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Because the independent auditors of the Company were unable to audit the balance of inventories as of December 31, 2008 and 2009 and certain unquantifiable contingencies in connection with our subsidiary CSB Drogarias, S.A. (f/k/a Drogasmil Medicamentos e Perfumaria, S.A.), the independent auditors issued a qualified audit opinion which is included in the Annual Report on Form 20-F of the Company for the year ended December 31, 2009.

By: /s/ Gabriel Saba D'jamus
Name: Gabriel Saba D'jamus
Title: Chief Executive Officer
Date: June 30, 2010

By: /s/ Alejandro Sadurni Gomez
Name: Alejandro Sadurni Gomez
Title: Chief Financial Officer
Date: June 30, 2010

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.