GRUPO carso

ANNUAL REPORT 2010

# Generating value


# PLAZA CARSO

This is one of the largest mixed-use real estate developments in Latin America and an example of urban reconversion. A former industrial lot is the site of an integral project of offices, housing, a shopping mall and a cultural area, in addition to proposals to renovate surrounding areas.

This would imply adding green areas, improving roadways and creating a linear park. In addition to the innovation in the architectural project and the engineering efficiency, Plaza Carso was created with a focus on sustainability. The design uses materials and processes that allow for the reduction in consumption of natural resources. For example, thermal windows reduce the use of air conditioning and through recycling, absorption wells and the capture of rain water, consumption of water is reduced throughout the complex.

The new environment created by Plaza Carso also increases cultural options through Teatro Cervantes, Museo Jumex and Museo Soumaya, a vanguard building that houses one of the most important private collections in the world.

**CONTENTS**

**Grupo Carso is a dynamic conglomerate with the ability and experience to adapt to economic cycles, as well as anticipate trends and opportunities.**

It holds a solid competitive position in the commercial, industrial and infrastructure industries thanks to a passion for innovation, a history of proven growth, solid corporate governance and, most importantly, exemplary management of resources and technology.

**Grupo Carso** generates value for shareholders by adapting its portfolio of businesses and taking advantage of market opportunities.

# Generating **value**


# commercial and consumer

51.8%

PARTICIPATION IN **REVENUES**

56.9%

PARTICIPATION IN **OPERATING INCOME**

## GRUPO SANBORNS

Present in Mexico and Latin America, Grupo Sanborns operates some of the best-known and most-successful retail formats in the region, focused on middle, upper-middle and high segments.

### FORMATS

- Department Stores and Boutiques
- Restaurants and Shops
- Music Stores
- Electronic and Software Stores

# industrial and manufacturing

29.1%

PARTICIPATION IN **REVENUES**

23.1%

PARTICIPATION IN **OPERATING INCOME**

## GRUPO CONDUMEX

This company offers a broad range of products and services focused on satisfying needs in the telecommunications, construction, electrical, power, automotive and mining industries.

### PRODUCTS AND SERVICES

- High-tension, telecommunications, electronics, coaxial, mining, fiber optic and construction cables
- Magnetic wire
- Electromechanical installations
- Transformers and reactors
- Mobile electrical substations
- Automotive shock absorbers
- Alternative energy systems
- Low-consumption interior and exterior lighting
- Precision steel tubing
- Specialized transportation
- Turnkey power projects

# infrastructure and construction

18.4%

PARTICIPATION IN **REVENUES**

14.1%

PARTICIPATION IN **OPERATING INCOME**

## Carso Infraestructura y Construcción

Construction firm focused on five areas: oil and chemical industry services, ducts installation, infrastructure, civil construction and housing development.

## INMUEBLES CARSO

Recently spun off from Grupo Sanborns, this division is dedicated to developing and brokering varied real estate assets, including Plaza Carso, as an independent public company.

### BRANDS

- SEARS
- SANBORNS
- SAKS FIFTH AVENUE
- MIXUP
- ISHOP
- PIER 1 IMPORTS

### TYPES OF REAL ESTATE:

- Corporate Offices
- Shopping Malls
- Department Stores
- Restaurants and Shops
- Education Centers
- Hospitals



## MINERA FRISCO

Recently spun-off from CONDUMEX, this division participates in the mining industry as an independent public entity.

### METALS PRODUCED:

- Gold, silver, zinc, lead and copper.
- Six production units in 2010, with a milling capacity of 97,000 tons/day.
- Five expansion projects with additional capacity of 104,000 tons/day.

### MINING UNITS:

- Asientos
- Concheño
- El Coronel
- Minera María
- San Felipe
- San Francisco del Oro
- Tayahua

### MARKETS

- Electrical infrastructure of all types, construction of everything from housing to heavy industry, operators of fixed-line and cellular telephony in Mexico and other Latin American countries, mining and automotive companies.

### MAIN BRANDS

- CONDUMEX CABLES
- LATINCASA
- CONDULAC
- IEM
- MICROM
- GABRIEL
- SINERGIA
- PRECITUBO
- EQUITER
- SITCOM
- LOGTEC

### PRODUCTS AND SERVICES

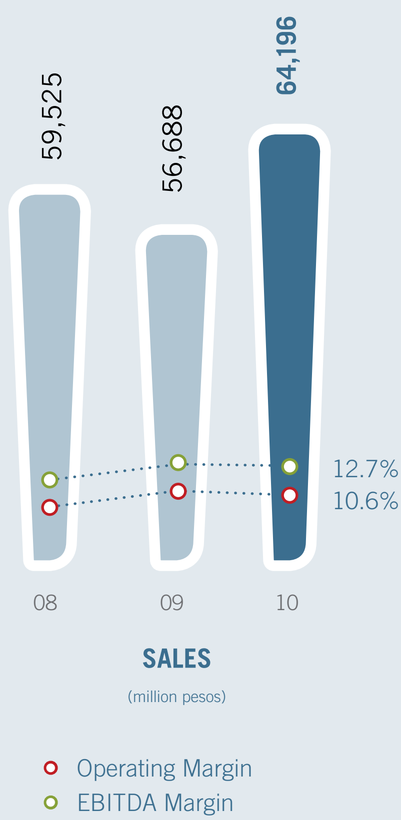
- Platform construction, well perforation and rental of perforation equipment for the oil industry.
- Construction of shopping malls, industrial plants and office buildings.
- Construction of highways, dams, water treatment plants, gas ducts and aqueducts.
- Installation of residential natural gas networks.
- Steel tubing.
- Design and installation of telecommunications networks and radio bases for cellular telephony.
- Low, middle and residential housing.
- Fabrication of pressure vessels, hot and cold-side heat exchangers.
- Fixed-line and cellular phone operators in Mexico and other Latin American countries.
- Concessionaires of infrastructure projects.

### MARKETS

- Local and federal governments and decentralized companies.
- Petroleum producers and natural gas companies.
- Commercial and industrial companies.

### MAIN BRANDS

- CICSA
- CILSA
- GRUPO PC
- SERVICIOS INTEGRALES GSM
- SWECOMEX
- URVITEC

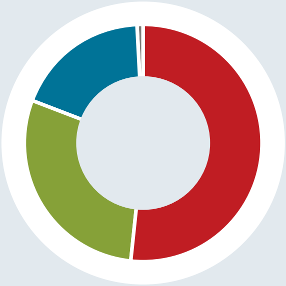

59,525
56,688
64,196
12.7%
10.6%
08
09
10
SALES
(million pesos)
Operating Margin
EBITDA Margin

# key financial data

(Thousand pesos as of December 31, 2010*)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Sales | 59,524,542 | 56,687,753 | **64,196,109** |
| Operating Income | 5,742,068 | 6,133,505 | **6,807,913** |
| Majority Net Income | 6,545,216 | 6,390,360 | **7,064,064** |
| EBITDA | 7,025,138 | 7,467,550 | **8,124,389** |
| Total Assets | 91,099,380 | 97,677,526 | **81,156,498** |
| Total Liabilities | 36,800,532 | 37,980,272 | **42,537,837** |
| Stockholder's Equity | 54,298,848 | 59,697,254 | **38,618,661** |
| Outstanding shares | 2,326,485,500 | 2,323,718,400 | **2,302,750,000** |
| Earnings per share** | 2.81 | 2.75 | **3.06** |

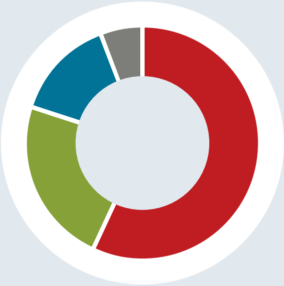
* Except for outstanding shares and earnings per share.
** Majority net earnings divided by weighted average shares outstanding.



BREAKDOWN OF **SALES** BY SUBSIDIARY

(million pesos)

| | | | |
|---|---|---|---|
| Grupo Sanborns | 51.8% | $ | 33,261 |
| Grupo Condumex | 29.1% | $ | 18,680 |
| CICSA | 18.4% | $ | 11,837 |
| Others | 0.7% | $ | 418 |
| **Total** | **100.0%** | **$** | **64,196** |



BREAKDOWN OF **OPERATING INCOME** BY SUBSIDIARY

(million pesos)

| | | | |
|---|---|---|---|
| Grupo Sanborns | 56.9% | $ | 3,877 |
| Grupo Condumex | 23.1% | $ | 1,574 |
| CICSA | 14.1% | $ | 959 |
| Others | 5.9% | $ | 398 |
| **Total** | **100.0%** | **$** | **6,808** |

# letter
# to shareholders

## Economic Panorama

In 2010 Mexico experienced an economic recovery following the 2009 crash and the reactivation of the U.S. economy in some areas, notably the automotive industry. As a result, there was an increase in GDP and the labor market.

During this time, Mexico's Gross Domestic Product grew 5.5%, an increase that was driven by a 9.9% increase in manufacturing, especially automotive vehicle manufacturing, which grew 40.4%, and commercial activity, which increased 13.3%.

The peso appreciated 5.5% against the dollar, finishing 2010 at 12.3496 pesos per dollar. The rate for 28-day CETES averaged 4.41% for 2010, ending the year at 4.45%. Inflation for 2010 was 4.40%, above the 3.57% for 2009. Meanwhile, the average price for the Mexican crude oil mix increased 26.01% in 2010, reaching US$72.33 per barrel. The peso has continued to appreciate in 2011 due to the weakness of the dollar, and the Mexican crude oil mix has continued to rise above 100 dollars per barrel.

The trade balance registered a deficit of US$3.121 billion dollars, a 32.2% decrease in the deficit compared to 2009. This was a consequence of a 29.8% increase in total exports, which were supported by a 34.8% increase in oil exports due to higher prices compared to 2009, as well as a 29.1% increase in non-oil exports.

## Grupo Carso

Improved economic conditions in 2010 allowed us to consolidate the performance of Grupo Carso and carry out activities that illustrate the dynamism of the company, the generation of value and our vision of long-term growth.

One of the most relevant events of the year was the spin-off of the mining and real estate areas, creating Minera Frisco, S.A.B. de C.V. and Inmuebles Carso, S.A.B. de C.V. These two publicly-listed companies allow us to clearly reflect the value of the real estate and mining patrimony of the group, since each independent entity will seek growth and value creation for shareholders with its own strategy and resource allocation.

Meanwhile, we continue to focus on three strategic areas. Through Grupo Condumex, we continued to offer products and services for the telecommunications, construction, power, mining and automotive industries.

Carso Infraestructura y Construcción, S.A.B. de C.V. ("CICSA"), in the infrastructure and civil construction industries, continued to receive new projects and advanced with others that were already in construction, including important strategic projects for the country such as the Linea 12 of the Mexico City subway and the Emisor Oriente deep sewage tunnel, as well as others that were initiated this year.

Other important projects included the Atotonilco Water Treatment Plant and the Culiacan interstate freeway. The duct installation division also had outstanding performance in Mexico and Latin America with the groundbreaking of the Ciudad Juarez aqueduct and the construction of natural gas distribution networks. The division of fabrication and services for the chemical and oil industries decreased business volume for structural reasons, but maintained favorable profitability and will conclude the construction of the Jack-Up Independencia 1 mobile oil platform in June of this year. The housing sector experienced a restructuring process in 2010 that has led to positive results.

At Grupo Sanborns, we continue implementing actions to stay close to our clients and consumers, enriching their purchasing experiences through an innovative selection of formats, products and services.

All these activities and actions taken in the area of inventory management and cost and expense reduction have resulted in solid growth of sales, operating income, EBITDA and net income.

The financial position of the group remains solid, even after adjusting for the effects of discontinued operations. Total assets reached $81.156 billion pesos, while shareholder equity was $38.619 billion pesos. The debt to equity ratio was 1.1 times, while net debt was 1.1 times EBITDA for 2010, adjusted for the accounts receivable mainly of Minera Frisco. The coverage of debt service was a solid 3.22 times.

Part of the dynamism of Grupo Carso is not only developing current businesses, but also evaluating new growth areas. This is why on February 22, 2011, we announced an agreement for an ownership stake in Tabasco Oil Company (TOC), a company dedicated to hydrocarbon exploration, exploitation and commercialization in Colombia. TOC represents an interesting opportunity in South America and opens a new line of action in an industry of activities that we consider complementary.

On the other hand, one of the symbolic and significant events of 2010 was the recent opening of Plaza Carso. With an estimated investment of US$800 million dollars, this mixed-use project exemplifies the urban reconversion activities that the group is successfully carrying out, with a stellar management of resources and technology that supports job growth.

In the area of sustainability, the group foments the use of materials and processes that reduce the consumption of natural resources, and seeks to positively impact the environment and communities where we operate. This is why we are proud of the recent recognition of CICSA as a Socially Responsible Company by the Centro Mexicano para la Filantropía (Cemefi).

Lastly, on behalf of the Board of Directors, I would like to thank our shareholders, clients and suppliers for the support and confidence they have given us, as well as our entire team for their effort and commitment that allow Grupo Carso to achieve its goals, continue generating value and contribute to the development of Mexico.

Sincerely,

**Carlos Slim Domit**
Chairman of the Board

# report
## of the chief operating officer

On December 31, 2010, Grupo Carso spun-off its mining and real estate businesses to create two new public companies: Minera Frisco, S.A.B. de C.V. and Inmuebles Carso, S.A.B. de C.V. As a result, the figures presented in this report do not include operations from these businesses, which are reported as discontinued operations.

In 2010, consolidated revenue of Grupo Carso was $64.196 billion pesos, a 13.2% increase from the prior year. Meanwhile, operating profit grew 11.0% to $6.808 billion pesos, while EBITDA was $8.124 billion pesos, an 8.8% increase from the previous year.

The operating results of Grupo Carso are due to the good performance of Grupo Condumex as well as Grupo Sanborns, which showed improved margins in manufacturing and its main retail formats.

On the other hand, despite a superior backlog compared to 2009, sales and operating profit of CICSA were down due mainly to the conclusion of projects last year and the fact that many projects contracted in 2010 were in the startup phase, without income but with the outlays related to the startup of operations.

Due to the stronger operating results, net profit for the year was $7.064 billion pesos, a 10.5% increase from the net income of 2009.

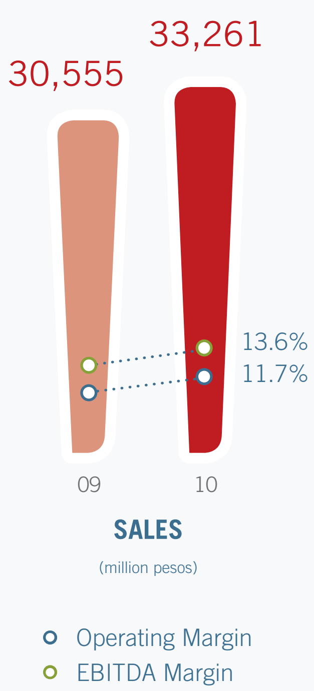
Meanwhile, Grupo Carso made $3.949 billion pesos of capital expenditures in the year, distributed among its three business divisions.


SEARS


Mixup

# **commercial** and **consumer** division

The Commercial and Consumer division of Grupo Carso includes Grupo Sanborns, with a nationwide presence, operating some of the most successful and most recognized retail formats, focused on the middle, upper-middle and upper class segments.




**SALES**

(million pesos)

**Revenues** for Grupo Sanborns during 2010 were:

# 33.261

billion pesos.


# GRUPO SANBORNS

## Total sales for Grupo Sanborns grew 8.9% to $33.261 billion pesos in 2010, compared to $30.555 billion pesos in 2009.

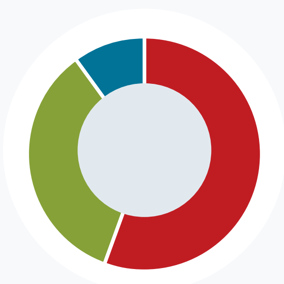
This is due to an increase in annual sales from the principal retail format, which grew 9.0% in the year, while same-store sales were up 9.3%. Similarly, sales at Sears grew 8.3% in 2010, while same-store sales increased 6.1%.

Operating income grew 14.1% to $3.877 billion pesos, which translated into a 0.53 percentage point increase in margin to 11.6%. Meanwhile, EBITDA was $4.529 billion pesos, an 11.5% increase in 2010. EBITDA margin was 13.6%.

Likewise, Sears reported operating margins of 10.8% and EBITDA margins of 12.3%, largely unchanged from 2009.

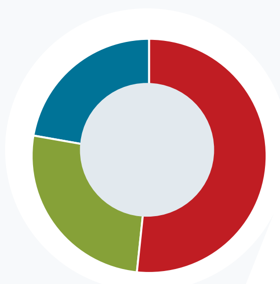
Grupo Sanborns kept its traditional formats current through permanent innovation, introducing new consumer options, exclusive merchandise and promotions. At the same time, organic expansion of the group continued, with special attention on format types and locations.

The second Saks Fifth Avenue store was inaugurated in 2010, located within Plaza Carso. Two new Sanborns stores were also opened for a total of 163 units. In the case of entertainment stores, there were 10 openings of ishop formats, four Edumac centers and the closing of one music store for a total of 101 units to finish the year.

**REVENUES**

| | |
|---|---|
| Sears | 55.7% |
| Sanborns | 34.3% |
| Others | 10.0% |
| **TOTAL** | **100.0%** |



**OPERATING INCOME**

| | |
|---|---|
| Sears | 51.7% |
| Sanborns | 26.2% |
| Others | 22.1% |
| **TOTAL** | **100.0%** |

Sears maintained the same number of units and one Dorian's store was closed, bringing December 2010 to 72 Sears stores and four Dorian's stores.

In all, Grupo Sanborns operates 399 units in Mexico and five in Central America under different formats of the above mentioned and also Tiendas Dax, Sanborns Café, as well as some specialty boutiques.

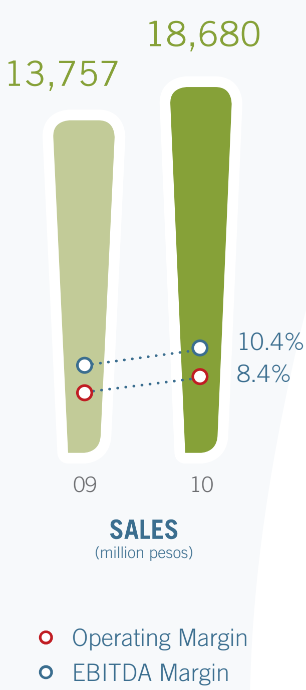
It is important to note that many real estate holdings within this division were spun off and transferred to Inmuebles Carso, S.A.B. de C.V., including those destined for Sears department stores and Sanborns, as well as 10 shopping malls in cities throughout Mexico.

Grupo Sanborns made $207.0 million pesos of capital expenditures in 2010, which included investments in new stores and remodeling.


M.R.
CONDUMEX
CABLES

# industrial and manufacturing division

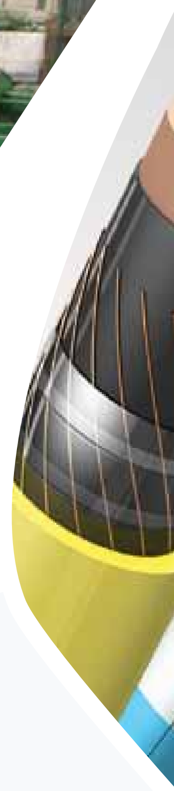
The Industrial and Manufacturing division of Grupo Carso is comprised of Grupo Condumex, an industrial conglomerate focused mainly on the telecommunications, power, construction, mining and auto parts industries.




**Consolidated Revenues** for Grupo Condumex reached:

18.680

billion pesos during 2010.



# GRUPO CONDUMEX

## Consolidated sales at Grupo Condumex were $18.680 billion pesos from January through December of 2010, a solid growth of 35.8% from the $13.757 billion pesos reported for the same period of last year.

The increases were the result of double-digit growth practically across the board in volume of manufactured products. Growth was especially high in products for the telecommunications industry, such as fiber optic and coaxial cable, which increased 176.1% and 99.3%, respectively.

Sales of harnesses and automotive cable increased 51.0% and 50.0% respectively in the automotive division, while within the construction and energy division, sales of transformers increased 30.7% and industrial metals were up 19.6%.

Operating income of Grupo Condumex was $1.574 billion pesos for the past 12 months, a 12.8% increase compared to 2009. EBITDA for the year was $1.942 billion pesos, 8.0% above the EBITDA for the prior year. The results were attributed to solid performance of sales volume, as well as a reduction in costs and expenses throughout the divisions of the company.


Please note that the mining business, which was spun-off, used to be reported within Grupo Condumex. The transaction transferred to Minera Frisco, S.A.B. de C.V. six mining units that produce gold, silver, copper, zinc and lead.

Capital expenditures during the year were about $561 million pesos, mainly for the maintenance programs of industrial assets.

**Operating Income** grew

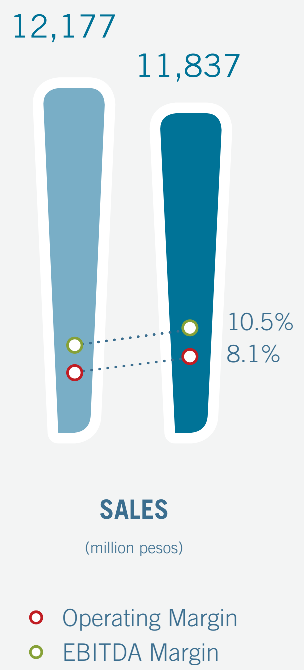
12.8%

compared with 2009.


O.T. 4062
200 t

# infrastructure and construction division

Carso Infraestructura y Construcción has its businesses grouped in five sectors: Fabrication and Services for the Oil and Chemical Industries (Swecomex, Servicios Integrales GSM), Infrastructure Projects (CILSA), Ducts Installation (CICSA), Civil Construction (Grupo PC Constructores) and Housing Development (Urvitec).




**Annual Revenues** of Carso Infraestructura y Construcción reached:

$11.837

billion pesos in 2010.

# CARSO INFRAESTRUCTURA Y CONSTRUCCIÓN

## Annual revenues of Carso Infraestructura y Construcción were $11.837 billion pesos, 2.8% less than 2009.

On the operating front, profits were $959 million pesos, while EBITDA was $1.238 billion pesos, decreases of 9.5% and 5.3%, respectively.

As a result, net income of the controlling interest went from $705 million pesos in 2009 to $485 million pesos in 2010.

It is important to note that the results mentioned do not include operations of Cilsa Panamá, S.A., a subsidiary of Carso Infraestructura y Construcción, due to an agreement reached on November 30, 2010 regarding the sale of the entirety of its shares to Ideal Panamá, S.A.

Meanwhile, total assets of Carso Infraestructura y Construcción were $17.038 billion pesos at the close of the year, representing a 16.3% increase compared to the close of 2009. Shareholder equity rose 8.8% from $9.302 billion pesos in 2009 to $10.121 billion pesos in 2010.

The consolidated financial situation of Carso Infraestructura y Construcción at the close of 2010 included total debt of $2.589 billion pesos and cash and short-term investments of $704 million pesos, resulting in a net debt of $1.885 billion pesos. This compares to a net cash position of $290 million pesos at the


8.8%

**Shareholder Equity** rose 8.8% from $9.302 billion pesos in 2009 to $10.121 billion pesos in 2010.

close of 2009. The increase of net debt of Carso Infraestructura y Construcción is mainly due to investments related to the construction of the Jack-Up Independencia 1.

At the close of 2010, the backlog of Carso Infraestructura y Construcción was $23.546 billion pesos, a 12.0% increase from the same period last year.

Investments in fixed assets for Carso Infraestructura y Construcción for 2010 were $3.109 billion pesos, of which more than 80% went to the Jack-Up Independencia 1, and the rest was allocated for the acquisition of heavy construction and production machinery and equipment.

## Fabrication and Services for the Oil and Chemical Industries

This division had revenues of $2.955 billion pesos in 2010, a 23.8% decrease compared to the prior year. Operating income and EBITDA were $247 million and $380 million pesos, a decrease of 38.4% and 23.5%, respectively.

At the close of the year, the backlog for this division was $6.052 billion pesos for projects to be carried out in 2011 and 2012.

## Infrastructure Projects

Total sales of CICSA infrastructure projects were $3.658 billion pesos at the close of 2010, a 2.6% increase. Operating income and EBITDA were $268 million and $298 million pesos, respectively, increases of 10.2% and 15.5% compared to 2009.

Revenue increases for the period were due mainly to an increase in the number of projects. Important projects that were awarded to CILSA in 2010 include: the Mitla-Tehuantepec highway in the state of Oaxaca, the FARAC II Libramiento Mazatlán interstate highway, the expansion of the Tenango-Ixtapan de la Sal highway and the Atotonilco Residual Water Treatment Plant.

At the close of 2010, this division had a backlog of about $13.780 billion pesos, of which 36.0% is to be completed in 2011 and the rest between 2012 and 2013.


## Ducts Installation

The division of ducts installation reported revenues of $2.978 billion pesos, a 5.7% increase for 2010. Operating income was $284 million pesos, an increase of 61.4% compared to the prior year and a 3.2 percentage point expansion in the margin to 9.5% of sales. Similarly, EBITDA increased 45.7% to $325 million pesos.

The revenue increase was constant throughout the year thanks to the conclusion of projects such as the Monterrey Aqueduct and the Conejos-Médanos de Chihuahua Aqueduct, as well as advances of 87% and 75%, respectively, in the Cactus-Samaria gas ducts and the installation of video cameras for the "Ciudad Segura" project in Mexico City. Additionally, the division began the projects to install gas ducts and commercialize natural gas.

At the close of the year, this division had contracted projects of $1.054 billion pesos.

## Civil Construction

Grupo PC Constructores reported annual sales of $1.862 billion pesos in 2010, a solid growth of 81.3% compared to 2009. Operating profit and EBITDA also showed outstanding results at $113 million and $121 million pesos, increases of 156.8% and 168.8%, respectively, and expansion in margins of 1.8 and 2.1 percentage points.

The results were due to more completed projects compared to the prior year, including: Plaza Mariana in Mexico City, stations of the Línea 12 of the Mexico City subway, the Operations Center for the Federal Police, the Huimanguillo Penitentiary, the Ciudad Segura C-4 building, shopping malls in Villahermosa and San Luis Potosi and two Star Médica hospitals.

## Housing Division

Accumulated revenue of the housing division for 2010 was $756 million pesos, a 22.9% decrease compared to the same period last year. Operating profit and EBITDA decreased 79.6% and 71.3%, respectively.

The decrease in revenue in this division was largely due to delays in the permit process in developments that have been well received and cutbacks in housing construction according to local conditions.

At the close of 2010, the backlog of **Carso Infraestructura y Construcción** was:

23.546

billion pesos.

# discontinued
operations

With the goal of strengthening its participation in strategic industries, toward the end of 2010 Grupo Carso spun-off its divisions to create two new public companies: Minera Frisco and Inmuebles Carso.

## MINERA FRISCO

S.A.B. DE C.V.

With more than 80 years in the industry, Minera Frisco is dedicated to the exploration and exploitation of mineral deposits, as well as the development of metallurgic research. The company is currently focused primarily on the search for precious metals.

In 2010, sales at Minera Frisco were $7.141 billion pesos, a solid growth of 59.3% compared to the same period of the prior year. This was the result of an increase in production volume as well as an increase in metals prices.

Similarly, operating income grew 70.1% from $1.904 billion pesos in 2009 to $3.238 billion pesos in 2010, with a margin of 45.3% over sales.

EBITDA increased 68.7%, with a 3.5 percentage point expansion in EBITDA margin.

At the close of the year, CAPEX for Minera Frisco was $3.143 billion pesos, which was allocated to increase exploration in several mining reserves that the company has maintained for several years in which new operations are beginning.

In April of 2010, the expansion of the "El Coronel" mine was completed. Throughout the year the company continued with the installation of new projects in "San Felipe," "Concheño," "Minera Tayahua," and the expansions in "San Francisco del Oro" and "Asientos." These projects are expected to be completed in the second half of 2011, with the exception of the copper-zinc project of Minera Tayahua, which is planned for the second half of 2012. It should also be noted that Minera Frisco reached an agreement in April 2011 to purchase 39.2% of Minera Tayahua.

Exploration also continued in the mining lots with the highest geological expectations, which are: Santa Fe, Tetela, Lampazos, Guanacevi, Fortuna, Cerro Gordo, El Ranchito, Parralense, El Jordán, Noche Buena Ale, Noche Buena Coronel, Los Federicos, Taita Las Mercedes and Sagrado Corazón.



Regarding social responsibility and sustainability, Minera Real de Ángeles, a subsidiary of Minera Frisco, S.A.B. de C.V., obtained in March recognition from Cemefi as a Socially Responsible Company.

Minera Frisco contributes through biodiversity conservation and with production needs and socioeconomic development through its Management Unit for Wildlife Conservation (UMA) "San Francisco del Oro Reserve" in the municipality of San Francisco del Oro in Chihuahua.

## INMUEBLES CARSO

### S.A.B. de C.V.

Inmuebles Carso was created as a new investment option for the Mexican real estate market. The company has a diversified portfolio of assets, including: shopping malls and retail space, office space, hospitals, educational centers, the real estate of Sanborns restaurants and Sears stores, and the mixed-use Plaza Carso complex.

Sales of Imuebles Carso increased 13.5% in the year to $4.249 billion pesos at the close of December 2010. This was due to revenue from rent at shopping malls, as well as the sale of retail space and apartments in the Plaza Carso development.

Operating profit and EBITDA were $1.465 billion and $1.762 billion pesos, increases of 34.0% and 29.9%, respectively. Operating margin grew a solid 5.3 percentage points from 29.2% to 34.5% of sales.

Operating profit and the improvement in margin is mainly due to the development of Plaza Carso.

Sincerely,

**José Humberto Gutiérrez-Olvera Zubizarreta**
CEO

# Board of Directors

| Board Members | Position* | Years as Board Member** | Type of Board Member*** |
|---|---|---|---|
| **Carlos Slim Domit** | *COB – Grupo Carso*<br>*COB and CEO – Grupo Sanborns*<br>*COB – Telmex Internacional*<br>*COB – Teléfonos de México* | Twenty | Patrimonial<br>Related |
| **Rubén Aguilar Monteverde** | *Member of National Advisory Board –*<br>*Banco Nacional de México, S.A.* | Six | Independent |
| **Antonio Cosío Ariño** | *CEO – Cía. Industrial de Tepeji del Río* | Twenty | Independent |
| **Arturo Elías Ayub** | *Director of Strategical Alliances, Communication and*<br>*Institutional Relations – Teléfonos de México*<br>*CEO – Fundación Telmex* | Thirteen | Related |
| **Claudio X. González Laporte** | *COB – Kimberly Clark de México* | Twenty | Independent |
| **José Humberto Gutiérrez Olvera Zubizarreta** | *CEO – Grupo Carso*<br>*COB – Minera Frisco*<br>*COB and CEO – Grupo Condumex* | Twenty | Related |
| **Daniel Hajj Aboumrad** | *CEO – América Móvil* | Sixteen | Related |
| **David Ibarra Muñoz** | *CEO – Despacho David Ibarra Muñoz* | Nine | Related |
| **Rafael Moisés Kalach Mizrahi** | *COB and CEO – Grupo Kaltex* | Seventeen | Independent |
| **José Kuri Harfush** | *COB – Janel* | Twenty-one | Independent |
| **Juan Antonio Pérez Simón** | *COB – Sanborn Hermanos*<br>*Vice Chairman – Teléfonos de México* | Twenty-one | Independent |
| **Fernando Senderos Mestre** | *COB – Grupo Kuo*<br>*COB – Dine* | Four | Independent |
| **Patrick Slim Domit** | *Vice Chairman – Grupo Carso*<br>*COB – América Móvil*<br>*Director of Retail – Teléfonos de México*<br>*COB – Grupo Telvista*<br>*COB Sears Operadora México* | Fifteen | Patrimonial<br>Related |
| **Marco Antonio Slim Domit** | *COB and CEO – Grupo Financiero Inbursa*<br>*COB – Inversora Bursátil*<br>*COB – Seguros Inbursa*<br>*Vice Chairman – Impulsora del Desarrollo*<br>*y el Empleo en América Latina* | Twenty | Patrimonial<br>Related |
| **Fernando Solana Morales** | *CEO – Solana y Asociados, S.C.* | Six | Independent |
| **Alternate Board Members** | | | |
| **Eduardo Valdés Acra** | *Vice Chairman – Grupo Financiero Inbursa*<br>*COB – Banco Inbursa*<br>*CEO – Inversora Bursátil* | Nineteen | Related |
| **Julio Gutiérrez Trujillo** | *Business Consultant* | Six | Independent |
| **Antonio Cosío Pando** | *General Manager – Cía. Industrial de Tepeji del Río* | Nine | Independent |
| **Fernando G. Chico Pardo** | *CEO – Promecap, S.C.* | Twenty-one | Related |
| **Alfonso Salem Slim** | *Vice Chairman – Impulsora del Desarrollo*<br>*y el Empleo en América Latina*<br>*COB –Inmuebles Carso* | Ten | Patrimonial<br>Related |
| **Antonio Gómez García** | *CEO – Carso Infraestructura y Construcción* | Seven | Related |
| **Carlos Hajj Aboumrad** | *CEO – Sears Roebuck de México* | Thirteen | Patrimonial<br>Related |
| **Ignacio Cobo González** | *COB– Grupo Calinda* | Nine | Independent |
| **Alejandro Aboumrad Gabriel** | *COB– Grupo Proa* | Twenty | Related |
| **Luis Hernández García** | *CEO – Cigatam* | Four | Independent |
| **Treasurer** | | | |
| **Quintín Humberto Botas Hernández** | *Comptroller – Grupo Condumex* | Eight | |
| **Secretary** | | | |
| **Sergio F. Medina Noriega** | *Legal Director – Teléfonos de México* | Twenty-one | |
| **Pro-secretary** | | | |
| **Alejandro Archundia Becerra** | *Legal General Manager – Grupo Condumex* | Nine | |

* Based on board members information.
** Years as board member are considered since 1990, year of listing on the Mexican Stock Exchange.
*** Based on board members information.

Grupo Carso, S.A.B. de C.V. and Subsidiaries

# Corporate and auditing practices committee report

**José Kuri Harfush**
Chairman

Antonio Cosío Ariño
Claudio X. González Laporte
Rafael Moisés Kalach Mizrahi

## Annual Report of the Corporate and Auditing Practices Committee of Grupo Carso, S.A.B. de C.V.

**To the Board of Directors:**

As the chairman of the Corporate and Auditing Practices Committee of Grupo Carso, S.A.B. de C.V. (the "Committee"), I submit the following annual report of activities for the 2010 fiscal year.

### Corporate Practices, Evaluation and Compensation

The director general of Grupo Carso, S.A.B. de C.V. (the "Company") and the executives of the corporate entities controlled by the Company, satisfactorily complied with the stated goals and with their responsibilities.

The transactions with affiliates submitted to the consideration of the Committee were approved. Among them are the following significant transactions, each of which represents more than 1% of the consolidated assets of the Company, executed successively:

1.Teléfonos de México, S.A.B. de C.V., for installation services of the external plant, optical fiber and network design, including the sale of copper and fiber optic telephone cable; call center services, telephone installation services and sale of telephone articles; food service and commission for the sale of junk, salvaging and substitution of automobiles for fleets; Embratel Participacaoes, S.A., for the sale of cable and fiber optics and the construction of ducts and telephone installation in Brazil; Ideal Panamá for construction services of the Bajo de Mina hydroelectric plant in Panamá; Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V. for infrastructure of the Emisor Oriente tunnel project; Inmuebles General, S.A. de C.V. for the construction of housing, the Presa Falcón shopping mall, Museo Soumaya and Teatro Cervantes; the sale of Selmec real estate and the sale of marble for the flooring of Plaza Carso, and Delphi Packard Electric Systems for the sale of harness, cable and automotive engineering services.

All transactions with related parties were reviewed by Galaz, Yamazaki, Ruiz Urquiza, S.C., and a summary of them is contained in a note of the certified financial statements of Grupo Carso, S.A.B. de C.V. and subsidiaries at December 31, 2010.

The director general of Grupo Carso, S.A.B. de C.V. receives no remuneration for his activity. The Company does not have employees, and as to remuneration of the relevant executives of the companies controlled by the Company, we verified that they complied with the policies approved by the Board of Directors.

The Board of Directors of the Company granted no exemption to any members of the Board, relevant executives or anyone in an executive position to take advantage of business opportunities, either for himself or for third parties, that correspond to the Company or to the corporate entities it controls or in which it has a significant influence. The Committee, on its part, granted no exemptions for the operations referred to in paragraph c), Section III, Article 28 of the Securities Market Law.

### Auditing Functions

The internal control and internal auditing system of Grupo Carso, S.A.B. de C.V. and of the corporate entities controlled by it are satisfactory and comply with the guidelines approved by the Board of Directors, as observed in the information provided to the Committee by management of the Company and in the external audit certification.

We have no knowledge of any relevant default on the guidelines and operation and accounting registry policies of the Company or of the corporate entities controlled by it and, consequently, no preventive or corrective measures were implemented.

The performance of the Galaz, Yamazaki, Ruiz Urquiza, S.C. and Camacho, Camacho y Asociados, S.C. accounting firms, the corporate entities that conducted the audit of the financial statements of Grupo Carso, S.A.B. de C.V. and subsidiaries at December 31, 2010, and of the external auditor in charge of said audit, was satisfactory and the objectives agreed at the time they were retained were achieved. In addition, according to the information provided by said firms to the management of the Company, their fees for the external audit represented a percentage less than 20% of their total revenue.

On the other hand, approval was given for Galaz, Yamazaki, Ruiz Urquiza, S.C. to provide to Grupo Carso, S.A.B. de C.V. and to some of its subsidiaries the following additional services: limited review of financial statements and the elaboration of pro-forma balances at June 30, 2010, which the Company required for a legal separation; limited review of the financial statements of Sears Roebuck de México at September 30, 2010, which the subsidiary required to emit securities certificates for its legal separation; preparation of the fiscal annexes that were modified in 2010, and work done for the fiscal consolidation related to the changes in relevant fiscal regulation as of the 2010 fiscal year.

As a result of the review of the financial statements of Grupo Carso, S.A.B. de C.V. and subsidiaries at December 31, 2010, no adjustments were required to the audited figures contained in said financial statements.

Pursuant to the information provided to us by the management of the Company and the meetings we held with the external and internal auditors without the presence of the Company's officers, and to the best of our knowledge, there were no relevant comments from shareholders, members of the Board, relevant executives, employees or, in general, any third party, related to the accounting, internal control and matters related to the internal or external audit, nor claims by said persons regarding any irregularity in the management of the Company.

During the period to which this report refers, we verified that the resolutions adopted by shareholders' meetings and the Board of Directors of the Company were duly complied with. In addition, according to the information provided to us by the management of the Company, we verified that it has controls that allow for determining that it complies with provisions applicable to the stock market and that the legal department conducts a review at least once a year to verify said compliance, and there were no comments in this respect or any adverse change in the legal situation.

With respect to financial information prepared by the Company and filed with the Bolsa Mexicana de Valores (Mexican Stock Exchange) and the Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission), we verified that the information was prepared under the same principles, criteria and accounting practices with which the annual information is prepared.

## Finance and Planning Functions

During the 2010 fiscal year, the Company and some of the entities under its control effected significant investments. In this regard, we verified that the financing was carried out in accordance with the strategic plan of the Company over the medium and long terms. In addition, we evaluated from time to time that the strategic position of the Company conformed to said plan. We also reviewed and evaluated the budget for the 2010

fiscal year together with financial projects that were taken into account for its preparation, which include the principal investments and financial transactions of the Company, which we consider are viable and congruent with investment and financing policies and with the strategic vision of the Company.

For the preparation of this report, the Committee for Corporate and Auditing Practices evaluated information provided by the director general of the Company, the relevant executives of the corporate persons controlled by the Company and by the external auditor.

**The Chairman**
José Kuri Harfush

Grupo Carso, S.A.B. de C.V. and Subsidiaries

# Independent auditors' report

**To the Board of Directors and Stockholders of Grupo Carso, S.A.B. de C.V.**

We have audited the accompanying consolidated balance sheets of Grupo Carso, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial reporting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As mentioned in Note 3, beginning January 1, 2010, the Company adopted Mexican Financial Reporting Standard C-1, Cash and Cash Equivalents and the 2010 Improvements to Mexican Financial Reporting Standards issued by the Mexican Board for the Research and Development of Financial Information Standards.

As mentioned in Note 1.b, effective on December 31, 2010, the Company spun off its real estate and mining resulting in the formation of: i) Inmuebles Carso, S.A.B. de C.V., which is a stock-exchange traded, joint-stock company of variable capital that will own, directly or indirectly through its subsidiaries, certain real estate properties that were previously held by Grupo Carso, S.A.B. de C.V. and its subsidiaries, and ii) Minera Frisco, S.A.B. de C.V., which is a stock-exchange traded, joint-stock company of variable capital that will own, directly or indirectly through its subsidiaries, the mining assets previously held by Grupo Carso, S.A.B. de C.V. and its subsidiaries.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Carso, S.A.B. de C.V. and subsidiaries December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards.

The accompanying consolidated financial statements have been translated into English for the convenience of users.

**Galaz, Yamazaki, Ruiz Urquiza, S.C.**
**Member of Deloitte Touche Tohmatsu Limited**

**C.P.C. Walter Fraschetto**
March 17, 2011

Grupo Carso, S.A.B. de C.V. and Subsidiaries

# Consolidated balance sheets

As of December 31, 2010 and 2009
(In thousands of Mexican pesos)

| ASSETS | 2010 | 2009 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 2,124,418 | $ 3,554,663 |
| Investments in securities | 1,044,667 | 1,186,114 |
| Notes and accounts receivable: | | |
| Trade (net of allowances for doubtful accounts of $ 450,295 in 2010 and $470,006 in 2009) | 13,942,177 | 13,980,904 |
| Other | 2,206,455 | 1,664,903 |
| Due from related parties | 1,562,207 | 3,673,491 |
| | 17,710,839 | 19,319,298 |
| Derivative financial instruments | 412,290 | 736,706 |
| Inventories – net | 14,241,968 | 12,689,026 |
| Prepaid expenses | 174,439 | 490,090 |
| Discontinued operations | 947,054 | 5,172,608 |
| Total current assets | 36,655,675 | 43,148,505 |
| Long-term receivables | 12,591,441 | 103,612 |
| Property, machinery and equipment: | | |
| Buildings and leasehold improvements | 11,316,474 | 11,492,977 |
| Machinery and equipment | 13,260,734 | 13,552,610 |
| Vehicles | 982,229 | 897,116 |
| Furniture and equipment | 2,921,234 | 2,781,729 |
| Computers | 1,386,313 | 1,468,529 |
| | 29,866,984 | 30,192,961 |
| Accumulated depreciation | (17,138,485) | (16,892,796) |
| | 12,728,499 | 13,300,165 |
| Land | 3,028,770 | 3,321,852 |
| Construction in progress | 4,500,466 | 1,690,744 |
| | 20,257,735 | 18,312,761 |
| Real estate inventories | 667,131 | 643,116 |
| Investment in shares of associated companies and others | 9,035,467 | 8,493,825 |
| Net asset projected for labor obligations | 457,647 | 375,538 |
| Deferred income tax asset from tax loss carry-forwards | 199,266 | 131,096 |
| Other assets – net | 899,776 | 720,919 |
| Long-term assets from discontinued operations | 392,360 | 25,748,154 |
| **Total** | **$ 81,156,498** | **$ 97,677,526** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Borrowings from financial institutions | $ 17,158,734 | $ 3,913,439 |
| Current portion of long-term debt | 7,449,346 | 48,278 |
| Trade accounts payable | 6,903,805 | 5,770,511 |
| Direct employee benefits | 593,055 | 521,503 |
| Accrued expenses and taxes other than income taxes | 3,249,276 | 4,981,747 |
| Derivative financial instruments | 550,140 | 49,046 |
| Advances from customers | 1,496,373 | 1,202,110 |
| Due to related parties | 1,941,484 | 906,194 |
| Current liabilities from discontinued operations | 1,024,879 | 5,707,110 |
| Total current liabilities | 40,367,092 | 23,099,938 |
| Long-term debt | 141,564 | 7,987,657 |
| Deferred income taxes | 1,893,346 | 2,545,739 |
| Deferred statutory employee profit sharing | 48,933 | 43,249 |
| Other long-term liabilities | 71,680 | 9,148 |
| Deferred income | – | 37,602 |
| Long-term liabilities from discontinued operations | 15,222 | 4,256,939 |
| Total liabilities | 42,537,837 | 37,980,272 |
| Stockholders' equity: | | |
| Capital stock | 4,282,349 | 6,605,928 |
| Net share placement premium | 1,388,378 | 2,160,658 |
| Additional paid-in capital | 39,900 | 39,900 |
| Retained earnings | 25,337,611 | 41,243,391 |
| Insufficiency in restated stockholders' equity | 605,899 | 1,068,710 |
| Valuation of derivative financial instruments | (64,123) | (345,525) |
| Controlling interest | 31,590,014 | 50,773,062 |
| Non-controlling interest | 7,028,647 | 8,924,192 |
| Total stockholders' equity | 38,618,661 | 59,697,254 |
| **Total** | **$ 81,156,498** | **$ 97,677,526** |

*See accompanying notes to consolidated financial statements.*

Grupo Carso, S.A.B. de C.V. and Subsidiaries

# Consolidated statements of income

For the years ended December 31, 2010 and 2009
(In thousands of Mexican pesos, except per share information)

| | 2010 | 2009 |
|---|---|---|
| Net sales | $ 64,196,109 | $ 56,687,753 |
| Cost of sales | 46,424,788 | 40,363,484 |
| Gross profit | 17,771,321 | 16,324,269 |
| Operating expenses | 10,963,408 | 10,190,764 |
| Income from operations | 6,807,913 | 6,133,505 |
| Other expenses - net | 106,343 | 128,758 |
| Net comprehensive financing result: | | |
| Interest expense | 1,009,972 | 857,495 |
| Interest income | 658,978 | 396,145 |
| Exchange gain - net | 242,291 | 426,784 |
| Monetary position (loss) gain - net | (735) | 327 |
| Loss on valuation of financial instruments - net | (760,057) | (299,061) |
| | (869,495) | (333,300) |
| Equity in income of associated companies and others | 1,034,536 | 1,058,207 |
| Income from continuing operations before income taxes | 6,866,611 | 6,729,654 |
| Income taxes | 1,945,442 | 1,776,018 |
| Income from continuing operations | 4,921,169 | 4,953,636 |
| Income from discontinued operations | 2,618,675 | 2,385,777 |
| **Consolidated net income** | **$ 7,539,844** | **$ 7,339,413** |
| Controlling interest | $ 7,064,064 | $ 6,390,360 |
| Non-controlling interest | 475,780 | 949,053 |
| | **$ 7,539,844** | **$ 7,339,413** |
| **Basic earnings per ordinary share** | **$ 3.06** | **$ 2.75** |
| Income from continuing operations | $ 2.13 | $ 2.13 |
| Income from discontinued operations | 1.13 | 1.03 |
| **Consolidated net income** | **$ 3.26** | **$ 3.16** |
| **Weighted average shares outstanding (thousands)** | **2,311,844** | **2,325,100** |

*See accompanying notes to consolidated financial statements.*

Grupo Carso, S.A.B. de C.V. and Subsidiaries

# Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2010 and 2009
(In thousands of Mexican pesos)

| | Capital stock | Net share placement premium |
|---|---|---|
| Consolidated balances as of January 1, 2009 | $ 6,606,995 | $ 2,160,658 |
| Repurchase of capital stock | (1,067) | – |
| Excess of cost over book value in acquisition of non-controlling interest in subsidiary | – | – |
| Dividends paid (including payments to non-controlling interest of subsidiaries) | – | – |
| Balances before comprehensive income | 6,605,928 | 2,160,658 |
| Consolidated net income | – | – |
| Translation effect of foreign subsidiaries | – | – |
| Valuation of financial instruments | – | – |
| Effect of early adoption of INIF 14 | – | – |
| Comprehensive income | – | – |
| Consolidated balances as of December 31, 2009 | 6,605,928 | 2,160,658 |
| Repurchase of capital stock | (8,082) | – |
| Effects of spin offs | (2,315,497) | (772,280) |
| Excess of book value over cost in acquisition of non-controlling interest in subsidiary | – | – |
| Dividends paid (including payments to non-controlling interest of subsidiaries) | – | – |
| Balances before comprehensive income | 4,282,349 | 1,388,378 |
| Consolidated net income | – | – |
| Translation effect of foreign subsidiaries | – | – |
| Valuation of financial instruments | – | – |
| Comprehensive income | – | – |
| **Consolidated balances as of December 31, 2010** | **$ 4,282,349** | **$ 1,388,378** |

*See accompanying notes to consolidated financial statements.*

| Additional paid-in capital | Retained earnings | Translation effects of foreign subsidiaries | Valuation of financial instruments | Controlling interest | Non-controlling interest | Total stockholders' equity |
|---|---|---|---|---|---|---|
| $ 39,900 | $ 36,568,221 | $ 872,285 | $ (403,095) | $ 45,844,964 | $ 8,453,884 | $ 54,298,848 |
| – | (93,757) | – | – | (94,824) | – | (94,824) |
| – | (68,611) | – | – | (68,611) | 12,175 | (56,436) |
| – | (1,395,891) | – | – | (1,395,891) | (443,459) | (1,839,350) |
| 39,900 | 35,009,962 | 872,285 | (403,095) | 44,285,638 | 8,022,600 | 52,308,238 |
| – | 6,390,360 | – | – | 6,390,360 | 949,053 | 7,339,413 |
| – | – | 196,425 | – | 196,425 | 34,901 | 231,326 |
| – | – | – | 57,570 | 57,570 | (548) | 57,022 |
| – | (156,931) | – | – | (156,931) | (81,814) | (238,745) |
| – | 6,233,429 | 196,425 | 57,570 | 6,487,424 | 901,592 | 7,389,016 |
| 39,900 | 41,243,391 | 1,068,710 | (345,525) | 50,773,062 | 8,924,192 | 59,697,254 |
| – | (968,132) | – | – | (976,214) | – | (976,214) |
| – | (20,492,160) | – | 6,498,987 | (17,080,950) | (1,828,834) | (18,909,784) |
| – | 15,057 | – | – | 15,057 | (15,582) | (525) |
| – | (1,524,609) | – | – | (1,524,609) | (133,158) | (1,657,767) |
| 39,900 | 18,273,547 | 1,068,710 | 6,153,462 | 31,206,346 | 6,946,618 | 38,152,964 |
| – | 7,064,064 | – | – | 7,064,064 | 475,780 | 7,539,844 |
| – | – | (462,811) | – | (462,811) | (43,904) | (506,715) |
| – | – | – | (6,217,585) | (6,217,585) | (349,847) | (6,567,432) |
| – | 7,064,064 | (462,811) | (6,217,585) | 383,668 | 82,029 | 465,697 |
| **$ 39,900** | **$ 25,337,611** | **$ 605,899** | **$ (64,123)** | **$ 31,590,014** | **$ 7,028,647** | **$ 38,618,661** |

Grupo Carso, S.A.B. de C.V. and Subsidiaries

# Consolidated statement of cash flows

For the years ended December 31, 2010 and 2009
(In thousands of Mexican pesos)

| | 2010 | 2009 |
|---|---|---|
| **Operating activities:** | | |
| Income from the continuing operations before income taxes | $ 6,866,611 | $ 6,729,654 |
| Items related to investing activities: | | |
| Depreciation and amortization | 1,316,476 | 1,334,045 |
| Gain from sale of subsidiary shares | (42,489) | (59,798) |
| Gain on sale of property, machinery and equipment | (139,044) | (58,247) |
| Impairment of long-lived assets | 80,411 | 9,273 |
| Equity in income of associated companies | (1,034,536) | (1,058,207) |
| Deferred statutory employee profit sharing | 205,790 | 161,525 |
| Interest income | (690,507) | (396,145) |
| Items related to financing activities: | | |
| Interest expense | 1,075,334 | 857,495 |
| Exchange loss from financings | (347,187) | (237,346) |
| Income from discontinued operations | 2,618,675 | 2,385,777 |
| Items with no impact on cash: | | |
| Estimates and accruals | (83,868) | 1,066,165 |
| | 9,825,666 | 10,734,191 |
| (Increase) decrease in: | | |
| Notes and accounts receivable | 55,565 | (477,500) |
| Inventories | (385,834) | 1,151,348 |
| Prepaid expenses | 315,651 | (353,254) |
| Other assets | (2,337,770) | 7,998 |
| Discontinued operations | 4,225,554 | 2,394,109 |
| Increase (decrease) in: | | |
| Trade accounts payable | 1,133,294 | (578,883) |
| Direct employee benefits | (81,576) | (444,339) |
| Accrued expenses and taxes other than income taxes | (2,142,856) | 217,353 |
| Income taxes paid | (2,368,277) | (4,015,682) |
| Advances from customers | 294,263 | (571,492) |
| Due to related parties | 3,146,574 | 1,954,435 |
| Derivative financial instruments | 825,510 | 1,214,982 |
| Other liabilities | (57,410) | (33) |
| Discontinued operations | (4,682,231) | (4,706,383) |
| | (2,059,543) | (4,207,341) |
| Net cash provided by operating activities | 7,766,123 | 6,526,850 |
| **Investing activities:** | | |
| Sale of investments in securities available, net | 141,447 | (908,502) |
| Purchases of property, machinery and equipment | (3,948,796) | (4,682,364) |
| Sales of property, machinery and equipment | 1,008,783 | 520,607 |
| (Purchase) sale of real estate inventories | (24,015) | 116,308 |
| Investments in concessions | – | (235,557) |
| Sale of subsidiary, net of cash | 42,489 | 6,054,565 |
| Purchase of shares of associated companies | – | (5,395,308) |
| Dividends received | 744,290 | 862,227 |
| Decrease in minority interest in subsidiary | (525) | (56,436) |
| Long-term receivables | (12,487,829) | (107,516) |
| Effects of spin offs | (4,363,139) | – |
| Interest received | 654,578 | 396,145 |
| Other | (130,491) | (39,117) |
| Net cash used in investing activities | (18,363,208) | (3,474,948) |
| Cash to (obtain from) apply to financing activities | (10,597,085) | 3,051,902 |
| **Financing activities:** | | |
| Loans received | 20,409,230 | 6,728,180 |
| Repayment of loans | (7,131,282) | (7,074,811) |
| Interest paid | (1,048,158) | (832,492) |
| Dividends paid (including payments to non-controlling interest of subsidiaries) | (1,657,767) | (1,839,350) |
| Repurchase of capital stock | (976,214) | (94,824) |
| Net cash provided by (used in) financing activities | 9,595,809 | (3,113,297) |
| Net increase (decrease) in cash and cash equivalents | (1,001,276) | (61,395) |
| Adjustment to cash flows due to exchange rate fluctuations | (428,969) | 231,326 |
| Cash and cash equivalents at beginning of year | 3,554,663 | 3,384,732 |
| **Cash and cash equivalents at end of year** | **$ 2,124,418** | **$ 3,554,663** |

*See accompanying notes to consolidated financial statements.*

Grupo Carso, S.A.B. de C.V. and Subsidiaries

# Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009
(In thousands of Mexican pesos)

## 1. ACTIVITIES AND SIGNIFICANT EVENTS

**a. Activities -** The consolidated financial statements include the financial statements of Grupo Carso, S.A.B. de C.V. and Subsidiaries ("the Company" or "Grupo Carso") as a single reporting entity.

The principal subsidiaries and associated companies and their activities are as follows:

| Subsidiaries | Ownership percentage 2010 | 2009 | Activity |
|---|---|---|---|
| Carso Infraestructura y Construcción, S.A.B. de C.V. and Subsidiaries ("CICSA") | 65.76 | 65.72 | Performance of several branches of engineering, including: oil well drilling and oil rig construction projects and all types of civil, industrial and electromechanical projects and facilities; and construction maintenance of highways, water pipes, water treatment plants and hydroelectric stations; housing construction; manufacturing and selling of cold-formed carbon steel tubes; and installation of telecommunication and telephone networks. (4) |
| Grupo Condumex, S.A. de C.V. and Subsidiaries ("Condumex") | 99.57 | 99.57 | Manufacture and sale of products used by the construction, automotive, energy and telecommunications industries; mining metallurgical industry until December 2010. (2) (3) |
| Grupo Sanborns, S.A. de C.V. and Subsidiaries ("Sanborns") | 99.98 | 99.98 | Operation of department stores, gift shops, record stores, restaurants, cafeterias and management of shopping malls through the following commercial brands, principally: Sanborns, Sears, Saks Fifth Avenue and Mix-up. |
| Industrial Cri, S.A. de C.V. and Subsidiaries ("Industrial Cri") | 100.00 | 100.00 | Holding of shares of companies in the following sectors: installation and maintenance of telephone stands, manufacturing all types of candies and manufacture of bicycles. |
| Infraestructura y Transportes México, S.A. de C.V. ("ITM") | 16.75 | 16.75 | Railroad transportation. |
| Philip Morris México, S.A. de C.V. ("Philip Morris") | 20.00 | 20.00 | Manufacture and sale of cigarettes. |
| Elementia, S.A. de C.V. ("Elementia") | 46.00 | 49.00 | Manufacture and sale of high technology products for the cement, concrete, polyethylene, styrene, copper and aluminum production industries. |

## b. Significant events

1. On December 31, 2010, the Company spun off its real estate and mining operations resulting in the formation of: i) Inmuebles Carso, S.A.B. de C.V., which is a stock-exchange traded, joint-stock company of variable capital that will own, directly or proprietor or indirectly through its subsidiaries, certain real estate properties that were previously held by Grupo Carso, S.A.B. de C.V. and its subsidiaries, and ii) Minera Frisco, S.A.B. de C.V., which is a stock-exchange traded, joint-stock company of variable capital that will own, directly or indirectly through its subsidiaries, the mining assets previously held by Grupo Carso, S.A.B. de C.V. and its subsidiaries.

The balance sheets at December 31, 2010 and 2009 before and after the spin offs are summarized as follows:

| | December 2010 | | | | |
|---|---|---|---|---|---|
| | Grupo Carso (historical amounts) | Adjustments and eliminations | Real State sector | Mining sector | Grupo Carso (after spin off) |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 10,634,828 | $ 112,065 | $ (1,237,776) | $ (6,340,032) | $ 3,169,085 |
| Notes and accounts receivable | 21,808,972 | 2,074,451 | (4,529,233) | (1,643,351) | 17,710,839 |
| Derivative financial instruments | 522,687 | – | (63,300) | (47,097) | 412,290 |
| Inventories | 15,301,959 | 214,564 | (7,190) | (1,267,365) | 14,241,968 |
| Prepaid expenses | 210,797 | (11,518) | (14,551) | (10,289) | 174,439 |
| Discontinued operations | 409,386 | 537,668 | – | – | 947,054 |
| Total current assets | 48,888,629 | 2,927,230 | (5,852,050) | (9,308,134) | 36,655,675 |
| Long-term receivables | 95,912 | 12,499,329 | (3,800) | – | 12,591,441 |
| Property, machinery and equipment | 49,033,825 | 594,073 | (23,791,793) | (5,578,370) | 20,257,735 |
| Investment in shares of associated companies and others | 10,156,928 | – | (1,121,461) | – | 9,035,467 |
| Other assets – net | 4,693,422 | 2,766,582 | (53,488) | (5,182,696) | 2,223,820 |
| Long-term assets from discontinued operations | 275,284 | 117,076 | – | – | 392,360 |
| **Total** | **$ 113,144,000** | **$ 18,904,290** | **$ (30,822,592)** | **$ (20,069,200)** | **$ 81,156,498** |
| **Current liabilities:** | | | | | |
| Borrowings from financial institutions | $ 20,967,478 | $ 762,710 | $ (4,454,739) | $ (116,715) | $ 17,158,734 |
| Current portion of long-term debt | 7,514,030 | – | (64,684) | – | 7,449,346 |
| Trade accounts payable | 7,208,302 | 106,992 | (196,920) | (214,569) | 6,903,805 |
| Accrued expenses and taxes other than income taxes | 11,124,702 | 2,399,640 | (4,385,647) | (1,308,367) | 7,830,328 |
| Discontinued operations | 715,301 | 309,578 | – | – | 1,024,879 |
| Total current liabilities | 47,529,813 | 3,578,920 | (9,101,990) | (1,639,651) | 40,367,092 |
| Long-term debt | 2,807,226 | 12,499,330 | (2,665,662) | (12,499,330) | 141,564 |
| Other long-term liabilities | 4,531,095 | 2,810,818 | (1,127,554) | (4,200,400) | 2,013,959 |
| Discontinued operations | – | 15,222 | – | – | 15,222 |
| Total liabilities | 54,868,134 | 18,904,290 | (12,895,206) | (18,339,381) | 42,537,837 |
| Stockholders' equity: | | | | | |
| Controlling interest | 48,670,964 | – | (16,719,158) | (361,792) | 31,590,014 |
| Non-controlling interest | 9,604,902 | – | (1,208,228) | (1,368,027) | 7,028,647 |
| Total stockholders' equity | 58,275,866 | – | (17,927,386) | (1,729,819) | 38,618,661 |
| **Total** | **$ 113,144,000** | **$ 18,904,290** | **$ (30,822,592)** | **$ (20,069,200)** | **$ 81,156,498** |

| | December 2009 | | | | |
|---|---|---|---|---|---|
| | Grupo Carso (historical amounts) | Adjustments and eliminations | Real State sector | Mining sector | Grupo Carso (after spin off) |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 8,595,281 | $ 108,662 | $ (958,512) | $ (3,004,654) | $ 4,740,777 |
| Notes and accounts receivable | 18,522,069 | 5,418,385 | (3,641,019) | (980,137) | 19,319,298 |
| Derivative financial instruments | 987,627 | – | (101,921) | (149,000) | 736,706 |
| Inventories | 14,544,836 | (1,010,973) | (317,168) | (527,669) | 12,689,026 |
| Prepaid expenses | 498,692 | 18,197 | (25,104) | (1,695) | 490,090 |
| Discontinued operations | – | (4,534,271) | 5,043,724 | 4,663,155 | 5,172,608 |
| Total current assets | 43,148,505 | – | – | – | 43,148,505 |
| Long-term receivables | 107,628 | – | (4,016) | – | 103,612 |
| Property, machinery and equipment | 42,269,423 | (405,023) | (20,631,659) | (2,919,980) | 18,312,761 |
| Investment in shares of associated companies and others | 9,640,862 | – | (1,147,037) | – | 8,493,825 |
| Other assets – net | 2,511,108 | (191,116) | (5,371) | (443,952) | 1,870,669 |
| Long-term assets from discontinued operations | – | 596,139 | 21,788,083 | 3,363,932 | 25,748,154 |
| **Total** | **$ 97,677,526** | **$ –** | **$ –** | **$ –** | **$ 97,677,526** |
| **Current liabilities:** | | | | | |
| Borrowings from financial institutions | $ 6,679,273 | $ 3,222,579 | $ (3,118,642) | $ (2,869,771) | $ 3,913,439 |
| Current portion of long-term debt | 72,278 | – | (24,000) | – | 48,278 |
| Trade accounts payable | 6,163,309 | (75,133) | (216,994) | (100,671) | 5,770,511 |
| Accrued expenses and taxes other than income taxes | 10,185,078 | 1,289,056 | (2,971,444) | (842,090) | 7,660,600 |
| Discontinued operations | – | (4,436,502) | 6,331,080 | 3,812,532 | 5,707,110 |
| Total current liabilities | 23,099,938 | – | – | – | 23,099,938 |
| Long-term debt | 10,756,414 | – | (2,768,757) | – | 7,987,657 |
| Other long-term liabilities | 4,123,920 | (116,761) | (1,204,789) | (166,632) | 2,635,738 |
| Discontinued operations | – | 116,761 | 3,973,546 | 166,632 | 4,256,939 |
| Total liabilities | 37,980,272 | – | – | – | 37,980,272 |
| Stockholders' equity: | | | | | |
| Controlling interest | 50,773,062 | – | – | – | 50,773,062 |
| Non-controlling interest | 8,924,192 | – | – | – | 8,924,192 |
| Total stockholders' equity | 59,697,254 | – | – | – | 59,697,254 |
| **Total** | **$ 97,677,526** | **$ –** | **$ –** | **$ –** | **$ 97,677,526** |

Also the Company presents the income statements before and after the effects of the spin offs, which are integrated as follows:

| | December 2010 | | | | |
|---|---|---|---|---|---|
| | Grupo Carso (historical amounts) | Adjustments and eliminations | Real State sector | Mining sector | Grupo Carso (after spin-off) |
| Net sales | $ 74,809,496 | $ 777,114 | $ (4,248,798) | $ (7,141,703) | $ 64,196,109 |
| Cost of sales | 51,111,969 | 539,204 | (1,774,149) | (3,452,236) | 46,424,788 |
| Gross profit | 23,697,527 | 237,910 | (2,474,649) | (3,689,467) | 17,771,321 |
| Operating expenses | 11,959,939 | 464,977 | (1,010,052) | (451,456) | 10,963,408 |
| Income from operations | 11,737,588 | (227,067) | (1,464,597) | (3,238,011) | 6,807,913 |
| Other (expenses) income - net | (366,206) | 132,638 | (72,953) | 200,178 | (106,343) |
| Net comprehensive financing result | (1,674,782) | (56,627) | 244,587 | 617,327 | (869,495) |
| Equity in income of associated companies and others | 1,154,946 | – | (120,410) | – | 1,034,536 |
| Income from continuing operations before income taxes | 10,851,546 | (151,056) | (1,413,373) | (2,420,506) | 6,866,611 |
| Income taxes | 2,915,657 | (26,218) | (212,558) | (731,439) | 1,945,442 |
| Income from continuing operations | 7,935,889 | (124,838) | (1,200,815) | (1,689,067) | 4,921,169 |
| Income (loss) from discontinued operations | (70,347) | 126,795 | 1,166,755 | 1,395,472 | 2,618,675 |
| **Consolidated net income** | **$ 7,865,542** | **$ 1,957** | **$ (34,060)** | **$ (293,595)** | **$ 7,539,844** |
| **Controlling interest** | **$ 7,064,064** | **$ –** | **$ –** | **$ –** | **$ 7,064,064** |
| Non-controlling interest | 801,478 | 1,957 | (34,060) | (293,595) | 475,780 |
| | **$ 7,865,542** | **$ 1,957** | **$ (34,060)** | **$ (293,595)** | **$ 7,539,844** |

| | December 2009 | | | | |
|---|---|---|---|---|---|
| | Grupo Carso (historical amounts) | Adjustments and eliminations | Real State sector | Mining sector | Grupo Carso (after spin-off) |
| Net sales | $ 66,035,556 | $ (1,122,140) | $ (3,741,703) | $ (4,483,960) | $ 56,687,753 |
| Cost of sales | 45,816,901 | (1,422,519) | (1,796,716) | (2,234,182) | 40,363,484 |
| Gross profit | 20,218,655 | 300,379 | (1,944,987) | (2,249,778) | 16,324,269 |
| Operating expenses | 11,145,049 | 243,748 | (852,094) | (345,939) | 10,190,764 |
| Income from operations | 9,073,606 | 56,631 | (1,092,893) | (1,903,839) | 6,133,505 |
| Other (expenses) income - net | (134,306) | (16,926) | (94,114) | 116,588 | (128,758) |
| Net comprehensive financing result | (1,488,941) | (13,977) | 286,783 | 882,835 | (333,300) |
| Equity in income of associated companies and others | 1,169,909 | – | (111,702) | – | 1,058,207 |
| Income from continuing operations before income taxes | 8,620,268 | 25,728 | (1,011,926) | (904,416) | 6,729,654 |
| Income taxes | 1,916,523 | (4,032) | 74,473 | (210,946) | 1,776,018 |
| Income from continuing operations | 6,703,745 | 29,760 | (1,086,399) | (693,470) | 4,953,636 |
| Income (loss) from discontinued operations | 635,668 | (29,760) | 1,086,399 | 693,470 | 2,385,777 |
| **Consolidated net income** | **$ 7,339,413** | **$ –** | **$ –** | **$ –** | **$ 7,339,413** |
| Controlling interest | $ 6,390,360 | $ – | $ – | $ – | $ 6,390,360 |
| Non-controlling interest | 949,053 | – | – | – | 949,053 |
| | **$ 7,339,413** | **$ –** | **$ –** | **$ –** | **$ 7,339,413** |

2. On March 31, 2009, Tenedora de Empresas de Materiales de Construcción, S.A. de C.V. ("Temaco") (formerly Industrias Nacobre, S.A. de C.V.), a subsidiary of the Company, sold 100% of shares of its subsidiary Tubos Flexibles, S.A. de C.V., a company engaged in the manufacture and sale of PVC pipes, for consideration of $402,600. Such transaction generated a gain of $203,308, which is presented in the caption discontinued operations - net in the accompanying consolidated statements of income. (See Note 19)

3. On June 1, 2009, Temaco, subsidiary of the Company, sold to Elementia (formerly Mexalit, S.A.) 100% of the shares in its subsidiaries engaged in the business of copper and aluminum, as well as those assets necessary for the operation of such companies for consideration of $5,404,845. Such transaction generated a gain of $227,593, which is presented in the caption discontinued operations - net in the accompanying consolidated statements of income. (See Note 19). At the same time, Temaco acquired 49% of Elementia's shares for consideration of $4,020,890. Net effect of fair value was for $2,839,984, and therefore goodwill generated by the acquisition of net assets was for $1,180,906.

In August 2010, the shareholders made a capital contribution in Elementia, however, Temaco did not participate in such capital contribution, so its participation in Elementia was diluted by 3% to 46% at December 31, 2010. The income generated by this dilution was $59,552, which was recorded as a credit to investments in associates reducing the goodwill.

4. On September 2009, CICSA concluded an agreement to acquire for consideration of US $30 million, 60% of Bronco Drilling MX, S. de R.L. de C.V. ("Bronco MX"), a wholly owned subsidiary of Bronco Drilling Company, Inc. ("Bronco Drilling") which is engaged in the operation, equipment rent and maintenance and repair of drilling equipment used for oil and gas wells in Mexico and Latin America. Additionally, CICSA acquired from Banco Inbursa S.A., commercial bank, a stock option (warrant) for 5,440,770 shares of Bronco Drilling.

## 2. BASIS OF PRESENTATION

a. **Explanation for translation into English -** The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Mexican Financial Reporting Standards ("MFRS" individually referrend to as or "NIFs"). Certain accounting practices applied by the Company that conform with MFRS may not conform with accounting principles generally accepted in the country of use.

b. **Monetary unit of the financial statements -** The financial statements and notes as of December 31, 2010 and 2009 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

c. **Consolidation of financial statements -** The consolidated financial statements include the financial statements of the holding company and its subsidiaries presented as a single reporting entity. Significant intercompany balances and transactions have therefore been eliminated from these consolidated financial statements.

d. **Translation of financial statements of foreign subsidiaries -** To consolidate financial statements of foreign subsidiaries, the accounting policies of the foreign entity are converted to MFRS. Subsequently, if the functional currency of the foreign operation is different from the currency in which transactions are recorded, the financial information is converted from the currency used to record the transactions to the functional currency. Finally, if the functional and reporting currency are different, the financial information is then converted from the functional to the reporting currency considering the following methodologies:

Foreign operations whose functional currency is the Mexican peso translate their financial statements prepared in the currency in which transactions are recorded, using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for monetary assets and liabilities; 2) the historical exchange rate for non-monetary assets and liabilities and stockholders' equity; and 3) the rate upon accrual in the statement of income for revenues, costs and expenses, except those arising from non-monetary items, which are translated using the historical exchange rate for the related non-monetary item. Translation effects are recorded in comprehensive financing result.

Foreign operations whose functional currency is different from the reporting currency translate their financial statements into Mexican pesos using the following rates: 1) closing rates for assets and liabilities, 2) historical rates for capital and 3) the date of accrual for revenues, costs and expenses. The effects of conversion are recorded in stockholders' equity.

**Inflationary economic environment -** Foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the currency in which transactions are recorded into the functional currency using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for monetary assets and liabilities; 2) historical exchange rates for non-monetary assets and liabilities and stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item. Translation effects are recorded in comprehensive financing result. To translate the financial statements from the functional currency to Mexican pesos, the financial statements are first restated in currency of purchasing power as of the date of the balance sheet, using the price level index of the country, and subsequently translated to Mexican pesos using the closing exchange rate in effect at the balance sheet date for all items; translation effects are recorded in stockholders' equity.

The main subsidiaries whose functional currencies are different from the Mexican peso are:

| Company | Currency in which transactions are recorded | Functional currency |
|---|---|---|
| Cablena, S.A. | Euro | Euro |
| Cablena do Brasil, Limitada | Brazilian real | Brazilian real |
| Cicsa Colombia, S.A. | Colombian peso | Colombian peso |
| Cicsa Dominicana, S.A. | Dominican peso | Dominican peso |
| Cicsa Ingeniería y Construcción Chile, Limitada S. de R.L. | Chilean peso | Chilean peso |
| Cicsa Perú, S.A.C. | Nuevo Sol | Nuevo Sol |
| Cobre de México, S.A. de C.V. | Mexican peso | US Dollar |
| Condumex Inc. | US Dollar | US Dollar |
| Condutel Austral Comercial e Industrial, Limitada | Chilean peso | Chilean peso |
| Grupo Sanborns Internacional, S.A. (Chile) | Chilean peso | Chilean peso |
| Grupo Sanborns Internacional, S.A. (Panamá) | Panamanian balboa | Panamanian balboa |
| Nacel de Centroamérica, S.A. | Quetzal | Quetzal |
| Nacel de Honduras, S.A. | Lempira | Lempira |
| Nacel de Nicaragua, S.A. | Cordoba | Cordoba |
| Nacel de El Salvador, S.A. | US Dollar | US Dollar |
| Procisa Ecuador, S.A. | US Dollar | US Dollar |
| Procisa do Brasil Projetos, Construcoes e Instalacoes, Ltd. | Real | Real |
| Procosertel, S.A. | Argentine peso | Argentine peso |
| Planteir, S.A. | Uruguayan peso | Uruguayan peso |
| Sanborns El Salvador, S.A. | Colon | Colon |

The translation of financial statements effect at December 31, 2010 and 2009 is $(503,474) and $231,326, respectively.

**e. Comprehensive income -** Represents changes in stockholders' equity during the year, for concepts other than capital contributions, reductions and distributions, and is comprised of the net income (loss) of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statement of income. Other comprehensive income (loss) is represented by the effects of translation of foreign operations, and the valuation of financial instruments. Upon realization of assets and settlement of liabilities giving rise to other comprehensive income (loss) items, the latter are recognized in the consolidated statements of income.

**f. Income from operations -** Income from operations is the result of subtracting cost of sales and general expenses from net sales. While NIF B-3, Statement of Income, does not require inclusion of this line item in the consolidated statements of income, it has been included for a better understanding of the Company's economic and financial performance.

**g. Reclassifications -** Certain amounts in the consolidated financial statements as of and for year ended December 31, 2009 have been reclassified to conform to the presentation adopted for 2010.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with MFRS, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Company's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances.

The significant accounting policies of the Company are as follows:

**a. Accounting changes due to issuance of NIFs -**

Beginning January 1, 2010, the Company adopted the following new NIFs and Interpretations to the Financial Reporting Standards (INIFs):

*NIF C-1, Cash and Cash Equivalents* - This standard requires presentation of cash and restricted cash equivalents together within the caption "cash and cash equivalents", as opposed to Bulletin C-1, which required restricted cash to be presented separately. This standard also replaces the concept "temporary investments payable on demand" with "readily available investments" and permits their classification as cash equivalents only when they have a maturity within three months from the date of acquisition.

*Improvements to Mexican Financial Reporting Standards 2010* - The main improvements that generate accounting changes are as follows:

*NIF B-1, Accounting Changes and Correction of Errors* - This improvement requires extended disclosures when the Company applies a new standard.

*NIF B-2, Statement of Cash Flows* - This improvement requires that the impact of changes in value of cash and cash equivalents resulting from exchange rate fluctuations be presented separately within the caption "Effects from exchange rate changes on cash", presented below financing activities. In addition, this caption includes the effects of converting the cash flows and balances of foreign operations to the reporting currency as well as the effects of inflation associated with the cash flows and balances of any entities within the consolidated group that operate in an inflationary economic environment.

*NIF B-7, Business Acquisitions* - This improvement permits the recognition of intangible assets or provisions stemming from above- or below-market leases in a business acquisition only when the acquired business is the lessee of an operating lease. This accounting change may be recognized retroactively beginning January 1, 2010.

*NIF C-7, Investments in Associated Companies and Other Permanent Investment* - This improvement modifies the manner in which the effects of increases in an investment in an associated company are determined. It also requires that the effects of increases or decreases in an investment in an associated company be recognized in equity in income (loss) of associated companies, instead of under non-ordinary items in the statement of income.

*NIF C-13, Related Parties* - This improvement requires that if the direct parent company or the ultimate parent company of the reporting entity does not issue financial statements for public use, the reporting entity should disclose the name of the direct parent company or the closest indirect parent company that does issue financial statements available for public use.

**b. Recognition of the effects of inflation -** Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2010 and 2009, was 14.48% and 15.01%, respectively, the economic environment may be considered non-inflationary in both years and, consequently, no inflationary effects are recognized in the accompanying consolidate financial statements. Inflation rates for the years ended 2010 and 2009 were 4.40% and 3.57%, respectively.

c. **Cash and cash equivalents -** Consist mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses that are highly liquid and easily convertible into cash, and which are subject to insignificant value change risks. Cash is stated at nominal value and cash equivalents are measured at fair value; any fluctuations in value are recognized in the comprehensive financing result of the period. Cash equivalents are represented mainly by daily investments of cash surpluses.

d. **Investments in securities -** According to its intent, from the date of acquisition the Company classifies investments in debt and equity securities in one of the following categories: (1) trading, when the Company intends to trade debt and equity instruments in the short-term, prior to maturity, if any, and are stated at fair value. Any value fluctuations are recognized within current earnings; (2) held-to-maturity, when the Company intends to, and is financially capable of, holding such investments until maturity. These investments are recognized and maintained at amortized cost; and (3) available-for-sale. These investments include those that are classified neither as trading nor as held-to-maturity. These investments are stated at fair value; any unrealized gains or losses, net of income taxes and statutory employee profit sharing, are recorded as a component of comprehensive income within stockholders' equity, and reclassified to current earnings upon their sale. Fair value is determined using prices quoted on recognized markets. If such securities are not traded, fair value is determined by applying technical valuation models recognized in the financial sector.

   Investments in securities classified as held-to-maturity and available-for-sale are subject to impairment tests. If there is evidence that the reduction in fair value is other than temporary, the impairment is recognized in current earnings.

e. **Inventories and cost of sales -** Inventories are stated at the lower of cost or realizable value.

f. **Real state inventories -** Real state inventories are valued at the acquisition costs of land, licenses, materials, labor and overhead incurred in the construction activity of the Company. The Company classifies as long term inventories, real estate for which the construction phase exceeds one year.

g. **Property, machinery and equipment -** Are initially recorded at acquisition cost for those entities operating in noninflationary economic environments. Balances arising from acquisitions made through December 31, 2007 for all entities and to date for those foreign entities operating in inflationary environments are restated by applying factors derived from the National Consumer Price Index ("NCPI"). In the case of fixed assets of foreign origin, acquisition cost is restated for the effects of inflation through the respective date based on the inflation of the country of origin and considering the exchange fluctuations of the Mexican peso against the currency of the country of origin. Depreciation is calculated by the straight-line method based on the remaining useful lives of the related assets, considering a percentage of the estimated salvage value.

   Comprehensive financing cost incurred during the period of construction and installation of qualifying property, plant and equipment s capitalized and was restated for inflation through December 31, 2007 using the NCPI.

h. **Impairment of long-lived assets in use -** The Company reviews the carrying amounts of long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the aforementioned amounts. Impairment indicators considered for these purposes are, among others, the operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than that of previous years, obsolescence, reduction in the demand for the products manufactured, competition and other legal and economic factors.

i. **Investment in shares of associated companies and others -** Permanent investments in entities where significant influence exists, are initially recognized based on the net fair value of the entities' identifiable assets and liabilities as of the date of acquisition. Such value is subsequently adjusted for the portion related both to comprehensive income (loss) of the associated company and the distribution of earnings or capital reimbursements thereof. When the fair value of the consideration paid is greater than the value of the investment in the associated company, the difference represents goodwill, which is presented as part of the same investment. Otherwise, the value of the investment is adjusted to the fair value of the consideration paid. If impairment indicators are present, investment in shares of associated companies is subject to impairment testing. Permanent investments made by the Company in entities where it has no control, joint control, or significant influence, are initially recorded at acquisition cost and any dividends received are recognized in current earnings, except when they are taken from earnings of periods prior to the acquisition, in which case, they are deducted from the permanent investment.

j. **Other assets -** Intangible assets are recognized in the accompanying balance sheets only if they can be identified, provide future economic benefits and control exists over such assets. Intangible assets with an indefinite useful life are not amortized and the carrying value of these assets is subject to annual impairment testing, and intangible assets with a defined useful life are amortized systematically based on the best estimate of their useful life, determined in accordance with the expected future economic benefits. The value of these assets is subject to annual impairment assessment.

   Intangible assets recognized by the Company related to the costs of the development phase are capitalized as other assets and are amortized on the straight-line method over 5 years.

Plans and projects for environmental control are presented within other assets. The expenses that are made for this concept are applied to the provision for environmental remediation and the subsequent increase to such provision is debited to the income statement, only if it corresponds to present obligations or to other future obligations, in the year that they are determined.

**k. Derivative financial instruments -** Derivative financial instruments for trading or to hedge the risk of adverse movements in: a) interest rates, b) exchange rates for long-term debts, c) prices of shares, d) prices of metals, and e) the price of natural gas, are recognized as assets and liabilities at their fair value.

When derivatives are contracted to hedge risks and fulfill all of the hedging requirements, their designation is documented at the start of the hedge transaction, describing the objective, characteristics, accounting recognition and how the effectiveness will be measured, in relation to this transaction.

Changes in the fair value of derivatives designated as hedges are recognized as follows: (1) when they are fair value hedges, the fluctuations in both the derivative and the item hedged are valued at fair value and are recognized in results; (2) when they are cash flow hedges, the effective portion is recognized temporarily in other comprehensive income and is applied to results when the hedged item affects them; the ineffective portion is recognized immediately in results; (3) when the hedge is an investment in a foreign subsidiary, the effective portion is recognized in other comprehensive income as part of the translation effects of foreign subsidiaries; the gain or loss on the ineffective portion of the hedge instrument is recognized in results of the period if it is a derivative financial instrument and, if it is not, it is recognized in other comprehensive income until the investment is sold or transferred.

Although they are contracted for hedging purposes from an economic standpoint, some derivative financial instruments have not been designated as hedging operations for accounting purposes. The fluctuation in the fair value of these derivatives is recognized in results in the comprehensive result of financing.

The Company suspends the accounting for hedges when the derivative has matured, has been sold, is canceled or exercised, when the derivative does not reach sufficiently high effectiveness to offset the changes in the fair value or cash flows from the item hedged, or when the entity decides to cancel the hedge designation.

When the accounting for hedges is suspended in the case of cash flow hedges, any amounts recorded in stockholders' equity as part of other comprehensive income, remain within capital until the effects of the forecast transaction or firm commitment affect results. If it is no longer probable that the firm commitment or forecast transaction will take place, any gains or losses that were accumulated in other comprehensive income are recognized immediately in results. When the hedge of a forecasted transaction was first considered satisfactory and subsequently does not comply with the effectiveness test, the effects accumulated in other comprehensive income within stockholders' equity are carried proportionally to results to the extent that the forecasted asset or liability affects results.

The Company has executed certain contracts with effects yet to be recognized, and which due to their nature include an embedded derivative. These are valued at fair value and the effect is recorded in the statement of income at the close of the period in which they are valued.

**l. Direct employee benefits -** Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly PTU payable, compensated absences, such as vacation and vacation premiums, and incentives.

**m. Provisions -** Provisions are recognized for current obligations that arise from a past event, that will probable to result in the future use of economic resources, and that can be reasonably estimated.

**n. Provision for environmental remediation -** The Company has adopted environmental protection policies within the framework of applicable laws and regulations. However, due to their activities, the industrial subsidiaries, and more specifically its mining subsidiaries, sometimes perform activities that adversely affect the environment. Consequently, the Company implements remediation plans (which are generally approved by the competent authorities) that involve estimating the expenses incurred for this purpose.

The estimated costs to be incurred could be modified due to changes in the physical condition of the affected work zone, the activity performed, laws and regulations, variations affecting the prices of materials and services (especially for work to be performed in the near future), as well as the modification of criteria used to determine work to be performed in the affected area, etc.

**o. Employee benefits from termination, retirement and other -** Liabilities from seniority premiums, pension plans for non-union employees and payments that are similar to pensions and severance payments are recognized as they accrue and are calculated by independent actuaries using nominal interest rates. Therefore, the liability is being recognized that is considered sufficient to cover the present value of the obligation for these benefits to the estimated dates of retirement of all employees working in the Company. As of December 31, 2010 and 2009, some subsidiaries have created investment funds to cover such contingency.

p. **Statutory employee profit sharing (PTU) -** PTU is recorded in the results of the year in which it is incurred and presented under other income and expenses in the accompanying consolidated statements of income. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that such difference will change in such a way that the liabilities will not be paid or benefits will not be realized.

q. **Income taxes -** Income tax (“ISR”) and the Business Flat Tax (“IETU”) are recorded in the results of the year they are incurred. To recognize deferred income taxes, based on its financial projections, the Company determines whether it expects to incur ISR or IETU and recognizes deferred taxes based on the tax it expects to pay. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carry-forwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery.

r. **Foreign currency transactions -** Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the consolidated statements of income.

s. **Revenue recognition -** Revenues are recognized as follows:

1. *Revenues from product sales* - These are recognized in the period in which the risks and rewards of ownership of the inventories are transferred to those who acquire them, which generally coincides with when the inventories are delivered or shipped to the customer and the customer assumes responsibility for them.
2. *Revenues from services* - These are recognized as the service is rendered.
3. *Revenues from long-term construction contracts* - These are recognized based on the percentage-of-completion method, which identifies the revenue in proportion to the costs incurred to reach the progress required to terminate the project. If the final estimated costs determined exceed the revenues contracted, the respective provision is recorded with a charge to results for the year.
4. *Revenues from change orders* - These are recognized when their amount can be reliably quantified and there is reasonable evidence of their approval by the customer. The revenues from claims are recognized when they can be reliably quantified and when, depending on the progress made in the negotiation, there is reasonable evidence that the customer will agree to their payment.
5. *Revenues from real estate developments* - These are recognized at the signing date of the respective contract of purchase and sale, in which the rights and obligations of the real estate property are transferred to the buyer, and at least 20% of the price agreed has been received. If there is uncertainty about future collections, the revenue is recorded as it is received. In those cases where there are indicators of difficulty in recovery, additional allowances for doubtful accounts are created, with a charge against results of the year in which they are determined.

t. **Earnings per share -** Basic earnings per common share are calculated by dividing net income of majority stockholders by the weighted average number of shares outstanding during the year.

## 4. CASH AND CASH EQUIVALENTS

| | 2010 | 2009 |
|---|---|---|
| Cash and bank deposits | $ 1,174,317 | $ 1,714,348 |
| Daily investments of cash surpluses | 950,101 | 1,840,315 |
| | $ 2,124,418 | $ 3,554,663 |

## 5. INVESTMENTS IN SECURITIES

| | 2010 | 2009 |
|---|---|---|
| Trading | $ 1,044,667 | $ 1,186,114 |

## 6. OTHER ACCOUNTS RECEIVABLE

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Sundry debtors | $ | 520,252 | $ | 430,673 |
| Recoverable income tax | | 636,390 | | 531,427 |
| Creditable value-added tax | | 457,682 | | – |
| Recoverable business flat tax (IETU) | | 215,743 | | 360,461 |
| Other recoverable taxes | | 81,995 | | 90,297 |
| Other | | 294,433 | | 252,045 |
| | $ | 2,206,455 | $ | 1,664,903 |

## 7. INVENTORIES

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Raw materials and auxiliary materials | $ | 2,707,052 | $ | 1,962,855 |
| Production-in-process | | 684,620 | | 600,852 |
| Finished goods | | 592,693 | | 424,188 |
| Merchandise in stores | | 7,150,536 | | 6,801,327 |
| Land and housing construction in progress | | 968,011 | | 1,184,639 |
| Allowance for obsolete inventories | | (374,709) | | (382,693) |
| | | 11,728,203 | | 10,591,168 |
| Merchandise in-transit | | 1,355,262 | | 985,349 |
| Replacement parts and other inventories | | 209,806 | | 131,506 |
| Advances to suppliers | | 948,697 | | 981,003 |
| | $ | 14,241,968 | $ | 12,689,026 |
| Real state inventories | $ | 667,131 | $ | 643,116 |

## 8. PROPERTY, MACHINERY AND EQUIPMENT

Given the diversity of the business activities in which the Company is engaged, the estimated useful lives of the assets vary significantly; and it is therefore impractical to disclose them here.

The Company is constantly evaluating its idle assets in order to determine their possible short-term use or take the necessary measures for their realization. The assets which are temporarily out of use refer to machinery and equipment from the mining and industrial sector with estimated net realizable values amounts of $82,489 and $51,311 at net realizable value as of December 31, 2010 and 2009, respectively, which are presented within other expenses in the consolidated income statements.

## 9. INVESTMENT IN SHARES OF ASSOCIATED COMPANIES AND OTHERS

| 2010 | | Stockholders' equity | | Net income | Ownership Percentage | | Investment in shares | | Equity in income |
|---|---|---|---|---|---|---|---|---|---|
| Elementia, S.A. de C.V. [(1)] | $ | 6,171,222 | $ | (182,753) | 46 | $ | 4,031,206 | $ | (24,108) |
| Infraestructura y Transportes México, S.A. de C.V. [(2)] | | 18,613,659 | | 2,227,707 | 17 | | 3,564,137 | | 373,141 |
| Philip Morris México, S.A. de C.V. | | 4,715,346 | | 3,420,441 | 20 | | 943,071 | | 684,088 |
| Grupo Telvista, S.A. de C.V. | | 1,731,234 | | 60,345 | 10 | | 173,123 | | 6,035 |
| Investment in shares of associated companies | | | | | | | 8,711,537 | | 1,039,156 |
| Allis Chalmers Energy, Inc. | | | | | | | 236,552 | | – |
| Others | | | | | | | 87,378 | | (4,620) |
| Investment in shares of associated companies and others | | | | | | $ | 9,035,467 | $ | 1,034,536 |

(1) Investment in shares includes goodwill of $1,121,355.

(2) Investment in shares includes a fair value complement of $446,349.

| | Stockholders' equity | Net income | 2009 Ownership Percentage | Investment in shares | Equity in income |
|---|---|---|---|---|---|
| Elementia, S.A. de C.V. [1] | $ 6,437,892 | $ 142,853 | 49 | $ 4,063,617 | $ 41,122 |
| Infraestructura y Transportes México, S.A. de C.V. [2] | 16,231,077 | 1,535,998 | 17 | 3,165,054 | 257,280 |
| Philip Morris México, S.A. de C.V. | 4,876,357 | 3,579,229 | 20 | 975,272 | 715,845 |
| Grupo Telvista, S.A. de C.V. | 2,000,193 | 417,739 | 10 | 200,019 | 41,774 |
| Investment in shares of associated companies | | | | 8,403,962 | 1,056,021 |
| Others | | | | 89,863 | 2,186 |
| **Investment in shares of associated companies and others** | | | | **$ 8,493,825** | **$ 1,058,207** |

(1) Investment in shares includes goodwill of $909,050.

(2) Investment in shares includes a fair value complement of $446,349.

## 10. OTHER ASSETS

| | 2010 | 2009 |
|---|---|---|
| Guarantee deposits | $ 138,799 | $ 176,913 |
| Investment in concessions | 286,435 | 235,557 |
| Goodwill | 92,706 | 91,051 |
| Derivative financial instruments | 91,209 | 60,754 |
| Others, net | 290,627 | 156,644 |
| | **$ 899,776** | **$ 720,919** |

## 11. LONG-TERM DEBT

| | 2010 | 2009 |
|---|---|---|
| I. Syndicated loan for US 600,000 thousand maturing in September 2011, bearing interest payable on a quarterly basis at interest rate equal to Libor plus 0.275% | $ 7,414,260 | $ 7,835,220 |
| II. Direct loan in euros, with quarterly and semiannual maturities at variable rates, and final maturity in 2014 | 132,092 | 188,124 |
| III. Other loans | 44,558 | 12,591 |
| | 7,590,910 | 8,035,935 |
| Less – current portion | (7,449,346) | (48,278) |
| **Long-term liability** | **$ 141,564** | **$ 7,987,657** |

Long-term debt bears interest at variable rates. The weighted average interest rates during 2010 and 2009 for US dollar loans were 0.65% and 1.20%, respectively.

Maturities of long-term debt as of December 31, 2010 are as follows:

| Year ending December 31 | |
|---|---|
| 2012 | $ 54,390 |
| 2013 | 33,023 |
| 2014 | 33,023 |
| 2015 and thereafter | 21,128 |
| | **$ 141,564** |

The syndicated and direct loan contracts establish affirmative and negative covenants for the borrowers; additionally, based on the Company's and some of their subsidiaries consolidated financial statements, certain financial ratios and percentages must be maintained. All of these requirements have been met at the date of issuance of these consolidated financial statements.

## 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING INSTRUMENTS

The purpose of contracting financial derivative instruments is: (i) to partially cover the financial risks for exposure to exchange rates, interest rates, and prices of natural gas and of certain metals; or (ii) the expectation of a good financial return due to the behavior of the underlyings. The decision to contract an economical financial hedge is based on market conditions, the expectation of such instrument at a given date, and the domestic and international economic context of the economic indicators that influence the Company's operations.

The transactions performed with foreign exchange and/or interest rate forwards and swaps; as well as embedded derivates, are summarized below:

| | | Notional | | | | Valuation as of December 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Comprehensive financing result | | |
| Instrument | Designated as | Amount ('000) | Unit | Maturity | Assets (liabilities) | Of the year | Of prior years | (Profit) loss on settlement into comprehensive financing result |
| Dollar forwards | Purchase | 35,000 | Dollars | March 2011 | $ (2,526) | $ 2,596 | $ – | $ – |
| Dollar forwards | Purchase | 2,055,300 | Dollars | During 2010 | – | – | – | 607,040 |
| Euros forwards | Purchase | 2,708 | Euros | During 2010 | – | – | – | (656) |
| Dollar forwards | Sale | 2,053,000 | Dollars | During 2010 | – | – | – | (669,596) |
| Dollar swaps / Libor in pesos / TIIE | Purchase | 110,000 | Dollars | September 2011 | 154,734 | 93,742 | (248,476) | 61,581 |
| TIIE swaps to fixed rate | Purchase | 8,700,000 | Mexi-can Pesos | May 2017 and September 2018 | (547,431) | 567,357 | (19,925) | 276,446 |
| TIIE swaps to fixed rate | Purchase | 451,846 | Mexi-can Pesos | February and September 2011 | (113) | 113 | – | – |
| TIIE swaps to e fixed rat | Hedge purchase | 3,258,000 | Mexi-can Pesos | During 2010 | – | – | – | 3,699 |
| TIIE swaps to fixed rate | Sale | 1,700,000 | Mexi-can Pesos | June 2017 and May 2018 | 206,027 | (107,708) | (98,319) | (71,955) |
| Warrant | Purchase | 5,440,770 | Shares | 2011 and 2012 | 91,209 | (30,461) | (166) | – |
| Embedded | N/A | 23,942 | Dollars | 2011,2012 and 2020 | 21,359 | 27,889 | (49,248) | – |
| **Total at December 31, 2010** | | | | | **$ (76,811)** | **$ 553,528** | **$ (416,134)** | **$ 206,529** |
| **Total at December 31, 2009** | | | | | **$ 729,287** | **$ (894,169)** | **$ (1,562,873)** | **$ (504,100)** |

a. Open and closed transactions with hedge forwards to purchase foreign currency are summarized below:

| | Notional | | | Valuation as of December 31, 2010 | | |
|---|---|---|---|---|---|---|
| Instrument | Amount | Unit | Maturity | Assets (liabilities) | Comprehensive financing result | (Profit) loss on settlement into comprehensive financing result |
| Euro Forwards | 1,420 | Euros | March 2011 to December 2013 | $ (985) | $ 591 | $ – |
| **Total at December 31, 2010** | | | | **$ (985)** | **$ 591** | **$ –** |

The transactions opened and settled with hedge swap to purchase metals and natural gas.

| | Notional | | | Valuation as of December 31, 2010 | | |
|---|---|---|---|---|---|---|
| Instrument | Amount | Unit | Maturity | Assets (liabilities) | Comprehensive financing result | (Profit) loss on settlement into comprehensive financing result |
| Copper Swap | 1,579 | Tons | January to December 2011 | $ 28,572 | $ (19,172) | $ – |
| Copper Swaps | 16,424 | Tons | During 2010 | – | – | (30,464) |
| Aluminum Swaps | 746 | Tons | January to May 2011 | 1,598 | (1,118) | – |
| Aluminum Swaps | 2,891 | Tons | During 2010 | – | – | (11,841) |
| Natural Gas Swaps | 348,655 | MMBtu | During 2010 | – | – | 3,666 |
| **Total at December 31, 2010** | | | | **$ 30,170** | **$ (20,290)** | **$ (38,639)** |
| **Total at December 31, 2009** | | | | **$ 19,025** | **$ (13,150)** | **$ 109,920** |

## 13. EMPLOYEE RETIREMENT OBLIGATIONS

The Company has plans for retirement, death or total disability payments for non-union employees in most of its subsidiaries. It also maintains seniority premium plans for all employees as stipulated in their employment contracts. The Company is also required to pay severance for reasons other than restructuring. The related liabilities and the annual benefit costs are calculated by an independent actuary on the basis of formulas defined in the plans, using the projected unit credit method.

The present value of these obligations and the rates used for their calculation are:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Vested benefit obligation | $ | (451,137) | $ | (439,272) |
| Nonvested benefit obligation | | (2,010,835) | | (1,757,614) |
| Defined benefit obligation | | (2,461,972) | | (2,196,886) |
| Plan assets at fair value | | 3,029,033 | | 2,723,090 |
| Funded status – overfunded | | 567,061 | | 526,204 |
| Unrecognized items: | | | | |
| Past service costs and changes to the plan | | 205,081 | | 116,734 |
| Unrecognized actuarial gains and losses | | (314,495) | | (267,400) |
| **Net projected asset** | **$** | **457,647** | **$** | **375,538** |
| **Contributions to plan assets** | **$** | **50,209** | **$** | **59,201** |

The rates used in actuarial calculations were as follows:

| | 2010 % | 2009 % |
|---|---|---|
| Discount of the projected benefit obligation at present value | 7.27 | 8.36 |
| Expected yield on plan assets | 6.94 | 8.42 |
| Salary increase | 4.55 | 4.51 |
| Future pension increase | 2.00 | 5.95 |

Unrecognized items are charged to results over a period of five years.

Net period cost (income) comprises the following:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Service costs | $ | 172,864 | $ | 163,483 |
| Interest cost | | 152,151 | | 133,081 |
| Expected yield on plan assets | | (196,195) | | (188,854) |
| Amortization of unrecognized prior service costs | | 62,170 | | 69,164 |
| Actuarial gains and losses – net | | (113,041) | | (113,000) |
| Effect of reduction or early liquidation (other than a restructuring or discontinued operation) | | (2,048) | | (82,276) |
| **Net period cost (income)** | **$** | **75,901** | **$** | **(18,402)** |

Under Mexican legislation, the Company must make payments equivalent to 2% of its workers' daily integrated salary (ceiling) to a defined contribution plan that is part of the retirement savings system. The expense in 2010 and 2009 was $121,289 and $166,753, respectively.

Amounts for the current year and the four preceding years:

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Defined benefit obligation | $ (2,461,972) | $ (2,196,886) | $ (1,559,060) | $ (1,697,719) | $ (1,640,419) |
| Plan assets at fair value | 3,029,033 | 2,723,090 | 2,286,278 | 3,269,477 | 2,802,064 |
| **Funded status** | **$ 567,061** | **$ 526,204** | **$ 727,218** | **$ 1,571,758** | **$ 1,161,645** |
| **Adjustments to defined benefit obligation based on experience** | **$ (314,495)** | **$ (267,400)** | **$ (562,378)** | **$ (998,161)** | **$ (584,864)** |
| **Adjustments to plan assets based on experience** | **$ 205,081** | **$ 116,734** | **$ 165,757** | **$ (26,585)** | **$ (87,826)** |

## 14. STOCKHOLDERS' EQUITY

a. The historical amount of subscribed and paid-in common stock of Grupo Carso as of December 31, 2010 and 2009 is as follows:

| | Number of Shares | | Amount | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Series A1 | 2,745,000,000 | 2,745,000,000 | $ 644,313 | $ 1,058,036 |
| Treasury shares repurchased | (442,250,000) | (421,281,600) | (103,806) | (162,380) |
| **Historical capital stock** | **2,302,750,000** | **2,323,718,400** | **$ 540,507** | **$ 895,656** |

Common stock consists of ordinary, nominative and no par value shares.

Pursuant to a resolution of the general extraordinary stockholders' meeting on November 4, 2010, the Company spun off its real estate and mining net assets resulting in the formation of: i) Inmuebles Carso, S.A.B. de C.V. which is owns directly or indirectly through its subsidiaries, various real estate properties and ii) Minera Frisco, S.A.B. de C.V., which owns directly or indirectly through its subsidiaries, the mining assets. On December 31, 2010 the above spin off took effect and the Company with a historical capital stock of $540,507.

Pursuant a general ordinary Stockholders' meeting on April 29, 2010, the payment of a dividend was approved to the shareholders at the amount of $0.66 per share, payable in two exhibitions of $ 0.33 per share each, on May 18 and October 19, 2010. This payment amounted to $1,524,609.

Pursuant a general ordinary Stockholders' meeting on April 30, 2009, the payment of a dividend was approved to the shareholders at the amount of $0.60 per share, payable on May 18, 2009. This dividend payment amounted to $1,395,891.

Dividends declared in the year were taken from the consolidated net tax income account ("CUFIN") balance.

b. Retained earnings include the statutory legal reserve. Mexican General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at its historical amount (nominal pesos). The legal reserve may be capitalized but may not be distributed unless the Company is dissolved, and must be replenished if it is reduced for any reason. At December 31, 2010 and 2009, the legal reserve of Grupo Carso is $380,635 (nominal pesos) and it is presented as part of retained earnings.

c. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to income tax payable by the Company at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

d. The balances of the stockholders' equity tax accounts as of December 31 are:

| | 2010 | 2009 |
|---|---|---|
| Contributed capital account | $ 4,097,640 | $ 6,034,915 |
| Consolidated net tax income account | 38,659,127 | 44,576,787 |
| **Total** | **$ 42,756,767** | **$ 50,611,702** |

## 15. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

a. At December 31, the foreign currency monetary position in thousands of U.S. dollars is as follows:

| | 2010 | 2009 |
|---|---|---|
| Monetary assets | 404,999 | 157,733 |
| Short-term monetary liabilities | (1,048,731) | (152,502) |
| Long-term monetary liabilities | (11,456) | (611,580) |
| Net monetary asset (liability) position | (655,188) | (606,349) |
| **Equivalent in Mexican pesos** | **$ (8,096,223)** | **$ (7,918,129)** |

b. Transactions denominated in foreign currency in thousands of U.S. dollars were as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Export sales | $ | 376,075 | $ | 230,709 |
| Foreign sales of subsidiaries | | 299,606 | | 253,482 |
| Import purchases | | (1,227,569) | | (677,869) |
| Interest income | | 1,229 | | 829 |
| Interest expense | | (12,806) | | (6,617) |
| Other | $ | (257,077) | $ | (159,401) |

c. The exchange rates in effect at the dates of the consolidated balance sheets and at the date of the independent auditors' report are as follows:

| | December 31, | | | | March 17, | |
|---|---|---|---|---|---|---|
| | | 2010 | | 2009 | | 2011 |
| U.S. dollar | $ | 12.3571 | $ | 13.0587 | $ | 12.071 |

## 16. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions with related parties, carried out in the ordinary course of business, were as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Sales | $ | 11,621,360 | $ | 9,789,283 |
| Rentals collected | | 5,582 | | 13,690 |
| Purchases | | (2,117,775) | | (1,670,432) |
| Prepaid insurance | | (119,487) | | (206,452) |
| Services rendered | | (488,965) | | (224,208) |
| Interest expenses | | (10,615) | | (91,800) |
| Other expenses, net | | (134,508) | | (143,439) |
| Purchases of fixed assets | | (185,611) | | (350) |

b. Transactions with associated companies, carried out in the ordinary course of business, were as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Sales | $ | 1,186,069 | $ | 412,653 |
| Acquired services | | 99,029 | | 180 |
| Rentals collected | | 26,006 | | – |
| Interest income | | – | | 118 |
| Purchases | | (132,206) | | (99,711) |
| Interest expense | | (394) | | – |
| Other income, net | | (67,797) | | – |

c. Balances receivable and payable with related parties are as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Receivable- | | | | |
| Teléfonos de México, S.A.B. de C.V. | $ | 236,698 | $ | 111,910 |
| Minera San Francisco del Oro, S.A. de C.V. | | 172,126 | | – |
| Delphi Packard Electric Systems, Inc. | | 126,623 | | 134,106 |
| Autopista Arco Norte, S.A. de C.V. | | 123,784 | | 340 |
| Minera Real de Ángeles, S.A. de C.V. | | 109,969 | | 2,475,075 |
| Inmuebles General, S.A. de C.V. | | 76,472 | | 30,821 |
| Compañía Dominicana de Teléfonos, C. por A. | | 69,973 | | 10,969 |
| Telmex Colombia, S.A. | | 49,082 | | 6,294 |
| Servicios Minera Real de Ángeles, S.A. de C.V. | | 47,916 | | 30,083 |
| Radiomóvil Dipsa, S.A. de C.V. | | 39,982 | | 264,146 |
| Concesionaria de Vías Troncales, S.A. de C.V. | | 36,071 | | – |
| Telmex, S.A. | | 33,723 | | 3,363 |
| Compañía Internacional Minera, S.A. de C.V. | | 28,692 | | 26,420 |
| Nacional de Cobre, S.A. de C.V. | | 27,053 | | 2,129 |
| Uninet, S.A. de C.V. | | 26,184 | | 17,972 |
| CTE Telecom Personal, S.A. de C.V. | | 25,259 | | 630 |
| Elementia, S.A. | | 23,565 | | 4,887 |
| América Móvil Perú, S.A.C. | | 22,929 | | 736 |
| Telecomunicaciones de Guatemala, S.A. | | 21,632 | | 11,586 |
| Telmex Argentina, S.A. | | 20,877 | | 1,121 |
| Telmex Perú, S.A. | | 20,762 | | 1,284 |
| Compañía de Teléfonos y Bienes Raíces, S.A. de C.V. | | 20,012 | | 8,023 |
| Consorcio Red Uno, S.A. de C.V. | | 19,927 | | 35,819 |
| Empresa Nicaragüense de Telecomunicaciones, S.A. | | 18,318 | | 5,757 |
| Renta de Equipo, S.A. de C.V. | | 17,823 | | 17,443 |
| Ecuador Telecom, L.L.C. | | 16,636 | | – |
| CFC Concesiones, S.A. de C.V. | | 15,760 | | 85 |
| Construcciones y Servicios Frisco, S.A. de C.V. | | 11,908 | | – |
| AMX Paraguay, S.A. | | 11,826 | | – |
| Servicios de Comunicaciones de Honduras, S.A. de C.V. | | 11,350 | | – |
| Minera María, S.A. de C.V. | | – | | 293,105 |
| Minera San Felipe, S.A. de C.V. | | – | | 51,456 |
| Concesionaria de Carreteras y Libramientos del Pacífico Norte, S.A. de C.V. | | – | | 28,962 |
| Construcción, Conservación y Mantenimiento Urbano, S.A. de C.V. | | – | | 11,062 |
| Other | | 79,275 | | 87,907 |
| | $ | 1,562,207 | $ | 3,673,491 |
| Payable- | | | | |
| Patrimonial Inbursa, S.A. de C.V. | $ | 920,610 | $ | 873 |
| Inmuebles y Servicios Mexicanos, S.A. de C.V. | | 411,552 | | 333,305 |
| Minera María, S.A. de C.V. | | 187,506 | | – |
| Fianzas la Guardiana Inbursa, S.A. de C.V. | | 89,100 | | 62,922 |
| Alquiladora de Casas, S.A. de C.V. | | 65,076 | | – |
| Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V. | | 49,667 | | 185,583 |
| Impulsora del Desarrollo y el Empleo en América Latina, S.A.B. de C.V. | | 49,075 | | – |
| Distribuidora Telcel, S.A. de C.V. | | 29,397 | | 34,352 |
| Inmobiliaria las Trufas, S.A. de C.V. | | 27,405 | | 1,236 |
| Claro CR Telecomunicaciones, S.A. | | 23,038 | | – |
| Philip Morris México, S.A. de C.V. | | 22,569 | | 70,052 |
| Cleaver Brooks de México, S.A. de C.V. | | 12,380 | | 14,791 |
| Seguros Inbursa, S.A. | | – | | 156,177 |
| Other | | 54,109 | | 46,903 |
| | $ | 1,941,484 | $ | 906,194 |

d. Borrowings from financial institutions includes balances with Banco Inbursa, S.A. of $2,503,932 and $740,335, as of December 31, 2010 and 2009, respectively, which accrue interest at a variable rate based on general market conditions.

e. Long-term debt includes balances with Banco Inbursa, S.A. of $8,603 as of December 31, 2009, which accrue interest at a variable rate based on general market conditions.

f. Benefits granted to key management and/or executive personnel were as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Short and long-term direct benefits | $ | 135,441 | $ | 141,642 |
| Severance benefits | | 6,349 | | 4,652 |
| Postretirement benefits | | 31,595 | | 234,635 |

g. The accounts receivable include long-term loan granted in December 2010 to related parties of $ 11,943,260, which bears interest at a variable rate of TIIE + 2.25 annually. In addition, the Company granted a loan account on the same day of US 45.000 dollars equivalent to $556,069, which bears interest at a variable rate of LIBOR + 2.5 annually. Both loans mature in December 2015.

## 17. OTHER EXPENSES - NET

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Loss (gain) from sale of subsidiary shares | $ | 42,489 | $ | (59,798) |
| Employee profit sharing ("PTU") | | 205,790 | | 161,525 |
| Sale of brands | | – | | (300,000) |
| Provision for legal dispute (Porcelanite and Atlas Flooring) | | – | | 365,644 |
| Other, net | | (141,936) | | (38,613) |
| | $ | 106,343 | $ | 128,758 |

a. PTU is calculated on taxable income, which for these purposes does not consider the annual adjustment for inflation, while tax depreciation is at historical, not restated values.

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Composed of: | | | | |
| Current expense | $ | 192,140 | $ | 155,458 |
| Deferred benefit | | 13,650 | | 6,067 |
| | $ | 205,790 | $ | 161,525 |

b. The main items comprising the liability balance of deferred PTU are:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Deferred PTU (asset) liability: | | | | |
| Inventories | $ | 3,983 | $ | 1,803 |
| Property, machinery and equipment | | 16,147 | | 6,818 |
| Advances from customers | | (1,838) | | (860) |
| Estimates and reserves | | (9,587) | | 6,281 |
| Other, net | | 40,228 | | 29,207 |
| Long-term liability for deferred PTU | $ | 48,933 | $ | 43,249 |

## 18. TAXES ON INCOME

The Company is subject to ISR and IETU.

The **ISR** rate is 30% and 28% for 2010 and 2009, respectively and will be 30% in 2011 and 2012, 29% in 2013 and 28% in 2014 and thereafter. The Company pays ISR, together with subsidiaries on a consolidated basis.

On December 7, 2009, amendments to the ISR Law were published, to become effective beginning in 2010. These amendments state that: a) ISR relating to tax consolidation benefits obtained from 1999 through 2004 should be paid in installments beginning in 2010 through 2015, and b) ISR relating to tax benefits obtained in the 2005 tax consolidation and thereafter, should be paid during the sixth through the tenth year after that in which the benefit was obtained.

**IETU -** Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. Beginning in 2010 the IETU rate is 17.5% and it was17%, in 2009. The Asset Tax (IMPAC) Law was repealed upon enactment of the IETU Law; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid for the first time, may be recovered, according to the terms of the law. In addition, as opposed to ISR, the parent and its subsidiaries will incur IETU on an individual basis.

Income tax incurred will be the higher of ISR and IETU.

Based on financial projections, in accordance with INIF 8, Effects of IETU, the Company and most of its subsidiaries, determined that they will essentially pay ISR, and therefore only recognize deferred ISR.

Grupo Carso has authorization from the Mexican Treasury Department ("SHCP") to file a consolidated income and asset tax return with its subsidiaries.

a. ISR consists of the following:

| | 2010 | 2009 |
|---|---|---|
| ISR: | | |
| Current | $ 2,580,468 | $ 2,720,041 |
| Deferred | (635,026) | (950,939) |
| Change in valuation allowance for recoverable asset tax and tax loss carry-forwards | – | 19,674 |
| IETU: | | |
| Current | – | 13,254 |
| Deferred | – | (26,012) |
| | $ 1,945,442 | $ 1,776,018 |

b. Following is a reconciliation of the statutory and effective ISR rates expressed as a percentage of income before taxes on income:

| | 2010<br>% | 2009<br>% |
|---|---|---|
| Statutory rate | 30 | 28 |
| Add (deduct) the effect of permanent differences: | | |
| Nondeductible expenses | 1 | 1 |
| Effects of inflation | 1 | 1 |
| Equity in income of associated companies and others | (4) | (4) |
| Effective rate | 28 | 26 |

c. Other comprehensive income amounts and items and the deferred taxes affected during the period are as follows:

| | Amount before income taxes | Income taxes | Amount net of income taxes |
|---|---|---|---|
| Unrealized gain on cash flow hedge | $ 402,004 | $ 120,602 | $ 281,402 |
| Effect of translation of foreign operations | (661,159) | (198,348) | (462,811) |
| | $ (259,155) | $ (77,746) | $ 181,409 |

d. The main items comprising the (asset) liability balance of deferred ISR:

| | 2010 | 2009 |
|---|---|---|
| Property, machinery and equipment | $ 1,571,669 | $ 1,420,080 |
| Inventories | 406,753 | 737,487 |
| Accounts receivable from installment sales | 389,160 | 576,624 |
| Advances from customers | (328,186) | (495,510) |
| Natural gas and metals swaps and futures | (89,310) | 108,595 |
| Revenues and costs by percentage-of-completion method | (16,626) | (174,404) |
| Supplemental estimates for assets, reserves for liabilities | (637,639) | (639,156) |
| Other, net | 297,334 | 624,011 |
| Deferred ISR on temporary differences | 1,593,155 | 2,157,727 |
| Effect of tax loss carry-forwards | 163,554 | 483,082 |
| Difference income tax payable for CUFIN | 195,123 | – |
| Tax loss reserve | (17,422) | (60,302) |
| Losses on sale of shares | (39,865) | (33,962) |
| Deferred ISR payment (long-term CUFINRE) | (1,199) | (806) |
| Net deferred ISR liability | $ 1,893,346 | $ 2,545,739 |

e. Unapplied tax losses and recoverable asset tax of Grupo Carso, S.A.B. de C.V. and its subsidiaries for which a deferred income tax asset and an advanced income tax payment, respectively, have been recognized, may be recovered provided certain requirements are fulfilled. Their maturities and restated amounts at December 31, 2010 are as follows:

| Year of Expiration | Tax loss carryforwards |
|---|---|
| 2016 | $ 290 |
| 2017 | 1,920 |
| 2018 | 265,881 |
| 2019 | 82,659 |
| 2020 and thereafter | 382,681 |
| | $ 733,431 |

## 19. DISCONTINUED OPERATIONS

As discussed in Note 1, during 2010, the Company spun off its mining and real estate assets. In addition, the Company decided to sell the shares in its subsidiaries Hubard y Bourlon, S.A. de C.V., Ingenieria HB, S.A. de C.V., Selmec Equipos Industriales, S.A. de C.V. and CILSA Panamá, S.A. Therefore, in the balance sheets at December 31, 2010, the assets and liabilities of those subsidiaries are classified as held for sale and included within short term and long term assets and liabilities from discontinued operations.

The balance sheets at December 31, 2010 and 2009 of the spun off subsidiaries and / or disposed, are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 201,078 | $ 3,854,504 |
| Accounts receivable – net | 8,999 | 1,937,615 |
| Inventories – net | 389,177 | 1,855,810 |
| Other | 347,800 | (2,475,321) |
| Total current assets | 947,054 | 5,172,608 |
| | | |
| Property, machinery and equipment | 165,487 | 23,956,662 |
| Other assets | 226,873 | 1,791,492 |
| | 392,360 | 25,748,154 |
| | | |
| Total assets | $ 1,339,414 | $ 30,920,762 |
| | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 218,498 | $ 2,789,834 |
| Trade accounts payable | 431,583 | 392,798 |
| Accrued expenses, taxes and others deferred income taxes | 374,798 | 2,524,478 |
| Total current liabilities | 1,024,879 | 5,707,110 |
| Long-term debt | – | 2,768,757 |
| Deferred income taxes | 6,022 | 1,277,245 |
| Long- term taxes and others | 9,200 | 210,937 |
| | 15,222 | 4,256,939 |
| | | |
| Total liabilities | $ 1,040,101 | $ 9,964,049 |

Also, the income statements for the year of the split sector sales to date are presented separately in the consolidated income statement as discontinued operations.

The following are relevant income statement figures of the discontinued subsidiaries, for the period they were held. Such amounts correspond to the real estate and mining subsidiaries, Hubard y Bourlon, S.A. de C.V., Ingenieria HB, S.A. de C.V., Selmec Equipos Industriales, S.A. de C.V. and CILSA Panamá, S.A. to December 31, 2010 and 2009. During 2009, the Company sold shares of its subsidiaries engaged in the processing and sale of copper and aluminum, products and the manufacture and sale of tubes of PVC:

| | 2010 | 2009 |
|---|---|---|
| Net sales | $ 12,371,602 | $ 12,371,771 |
| Costs and expenses | 6,588,324 | 7,805,721 |
| Operating expenses | 1,004,671 | 1,073,803 |
| Other expenses , net | (172,888) | (112,376) |
| Net comprehensive financing result | (811,466) | (1,219,206) |
| Equity in income of associated companies | 120,410 | 111,702 |
| Income before taxes | 3,914,663 | 2,272,367 |
| Income taxes | 970,290 | 236,741 |
| Income of discontinued operations | 2,944,373 | 2,035,626 |
| Gain on sale of subsidiary | – | 350,151 |
| Net income of discontinued operations | 2,944,373 | 2,385,777 |
| Non-controlling interest | 325,698 | – |
| **Net income of discontinued operations** | **$ 2,618,675** | **$ 2,385,777** |

## 20. COMMITMENTS

At the date of the financial statements, the Company has the following commitments of its main subsidiaries:

### I. Commercial group:

a. At December 31, 2010, Sanborns has executed contracts with suppliers for the remodeling and construction of certain stores. These commitments are for an amount of approximately $580,892.

b. In addition, as of December 31, 2010, Sanborns and its subsidiaries executed lease contracts in 280 stores (Sears, Saks Fifth Avenue, Sanborn Hermanos, Sanborns-Café, Mix-Up, Discolandia, I Shop, Dorian's, Corpti, Promusic and Sanborns Panamá). These lease contracts establish mandatory terms ranging from one to 20 years. Lease amounts paid during 2010 and 2009 were $748,096 and $686,356, respectively. Similarly, the Company and its subsidiaries have contracts with terms ranging from one to 15 years, with lease revenues in 2010 and 2009 of $1,109,915 and $835,243, respectively.

c. On September 12, 2006, Sanborns, signed a contract for the payment of consultancy and license of use of trademark fees with an initial term of 15 years, with an option to renew for 10 more years, which establishes an annual minimum payment of 500,000 dollars for the use of the name of Saks Fifth Avenue.

d. Sears Operadora de México, S.A. de C.V. (formerly Sears Roebuck de México, S.A. de C. V. or Sears México) and Sears Roebuck and Co. (Sears US), recently signed an agreement through which the parties decided to extend the same terms in effect in the License and Trademark Use Agreement and contracts related to the sale of goods and the consultancy business covering the relationship between them. The agreement is in place until September 30, 2019, but provides for an additional seven-year extension on the same terms, unless one of the parties decides not to prolong it, by notifying the other party two years in advance.

### II. Infrastructure and construction

a. During December 2009, Operadora signed an agreement to work at unit prices with the System of Highways, Airports, and Related Auxiliary Services of the State of Mexico, *Sistema de Autopistas, Aeropuertos, Servicios Conexos y Auxiliares del Estado de México* (SAASCAEM), a government agency, to modernize the Highway Tenango-Ixtapan de la Sal, 4 lanes, the Km 1 +100 to Km 32 +630, in the State of Mexico. The project consists of the increase from 2 to 4 lanes, including earthworks, drainage works, structures, asphalt paving, construction and adaptation of junctions with a total length of 31.6 km. The value of the project is $492,162 plus VAT and the contract period runs over 20 months. As of the date of the issuance of this report, hit project has already begun.

b. In October 2009, Operadora announced the agreement with Impulsora del Desarrollo y el Empleo en America Latina, S.A.B. de C.V. ("IDEAL") (related party) to carry out works for the Construction and Modernization " North Pacific Project "consisting of: (i) The South Libramiento Culiacán and Mazatlán Libramiento league and its branches, and (ii) The Highway Specifications High-Mazatlán Culiacán and modernization works associated with it. The works to be executed, according to contract signed in February 2010, amount to a total of $3,678,200 plus VAT. CICSA bound serves as support in this project. In the fourth quarter of 2010, this project began with the Libramiento of Culiacán.

c. In July 2009, Servicios Integrales GSM, S.A. de C.V. ( "GSM") and Operadora Cicsa , S.A. de C.V. ( "Operadora") received from Pemex Exploracion y Produccion ( "PEP") the award of the public works contract for the "Work integrated drilling in Tertiary Gulf Oil Project (Additional Package VIII). The value of this contract is approximately $203,528 plus US 119,897 thousand, plus the corresponding VAT, and will be executed over a period of approximately two years. The project implementation began in September 2009 started with the drilling of 144 oil wells.

d. In April 2009, Operadora entered into a contract with CFC Concesiones, S.A. de C.V., a subsidiary of IDEAL, to carry out the construction of phase two of the highway located in the Northeast metropolitan area of Toluca, which consisted of two additional lanes, with a length of 29.4 km, located in the cities of Lerma, Toluca, Otzolotepec, Xonacatlán, Temoaya and Almoloya de Juárez, within a year. The contract is worth approximately $750,675. At the date of issuance of this report, the project continues under the program established.

e. In November 2008, CICSA signed a contract for the construction of the "Túnel Emisor Oriente" in the amount of $9,596 million pesos, which will restore the drainage capacity of Mexico City and thus avoid flooding during the rainy season. Given the need for such construction work and the technical capacity and experience of the Mexican companies involved in the consortium, the National Water Commission, the Federal District Government and the Mexico State Government, through Trust 1928, made a direct award under the Public Works and Related Services Law, to allocate such project to the company named Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V. (COMISSA), whose shareholders are: CICSA with a 40% equity holding, Ingenieros Civiles Asociados, S.A. de C.V. (ICA), Construcciones y Trituraciones, S.A. de C.V. (COTRISA), Constructora Estrella, S.A. de C.V. (CESA) and Lombardo Construcciones, S.A. de C.V. (LOMBARDO).

   The project has already begun engineering and construction work under a mixed construction contract scheme on a unit price, lump sum and fixed term basis, which must be concluded in September 2012. The contract involves the construction of a tunnel measuring 7 meters in diameter, approximately 62 km in length, with flow capacity of 150 $m^3$ a second. The Túnel Emisor Oriente will significantly increase the drainage capacity in the Valley of Mexico and the normal development of maintenance programs deep drainage. At the end of 2010, development has advanced at project Lumbrera 17 and construction of 2 production plants and Huehuetoca Zumpango segments has been completed and have received most of the components of Tunnel Boring Machines (TBMs ). Also, access roads have been completed in section III and there is significant progress on access roads to section IV.

f. In the third quarter of 2008, CICSA obtained the contract to carry out work involving the design, development and engineering and construction of the El Realito reservoir, to provide drinking water to the metropolitan area of San Luis Potosí, S.L.P., located on the Santa María river, in the municipality of San Luis de La Paz, Guanajuato. The contract amount is $550 million pesos, in which CILSA has a 52% participation, and is expected to be completed within a three-year period. At the date of the financial statements, there have been advances in the placement of CCR, the drilling and injection of holes is 44% complete, while construction has advanced 61%.

g. In the second quarter of 2008, the consortium in which CICSA participates together with Ingenieros Civiles Asociados, S.A. de C.V. (a subsidiary of Empresas ICA, S.A.B. de C.V.) and Alstom Mexicana, S.A. de C.V., was assigned the project to construct Line 12 of the Mexico City subway system (also known as Línea Dorada), which would cover a distance of approximately 24 km (from Mixcoac to Tláhuac). This assignment was made by the Department of Public Transportation Works of the Federal District Government, by means of an international public bid. The contract amount is $15,290 million pesos. The participation of CICSA will be 25% of the value of the construction work related to such project. At the end of 2010, the civil works is 99% complete while significant progress has been made on the superstructure. Work continues on the storm sewer pipes, and at the stations.

h. During October 2007, CICSA signed a contract with the Junta Municipal de Agua y Saneamiento de Juárez (JMAS), Chihuahua, to carry out the construction, maintenance, preservation and operation of the Acueducto Conejos Médanos required to supply drinking water to the city of Ciudad Juárez, Chihuahua. The construction will be $254 million pesos and will take two years, while the operating and maintenance services will be $942 million pesos and will be performed over 10 years, through the monthly payment of tariffs guaranteed by an administration trust which the JMAS will handle over the contract term. In 2009, construction of this project was completed, under the program established, and the project has already been opened and is in operation. The investment in this grant through a trust is presented in the consolidated balance sheet as "Investments in concessions."

i. In September 2007, CICSA through Operadora Cicsa signed a construction contract to expand the ethylene oxide plant in the Central Petroquímica Morelos. The contract amount is $485 million pesos. The project work began in October 2007 and is expected to conclude in the first quarter of 2009. At the end of 2010, this project is completed and is in process of settlement and document delivery to the customer.

j. In December 2006, GSM signed a contract for the drilling and termination of 60 oil wells (including infrastructure work) in Villahermosa, Tabasco. The respective construction work began in February 2007 and was concluded during the first quarter of 2010. The contract amount is $1,432 million pesos (nominal value) plus US 280 million.

   In August 2008, a contract was signed to extend the drilling contract described in the preceding paragraph, as a result of which the original contract was increased by 60 additional wells, the original contract and extended the completion deadline to 2010. At the date of these financial statements, the contract has yet to be concluded.

k. In February 2006, Operadora Cicsa signed a contract to dismantle a residential platform located in Dos Bocas and to carry out the engineering, procurement, construction, interconnection, start-up and initial operation of a new residential module with capacity for 84 persons in the Cantarell Field, Campeche Sound, Gulf of México. The contract amount is $198,591 (nominal value) plus US 40,669 thousand. The work began in 2006 and the original project was expected to conclude in September 2007. In 2009 this project was completed and in 2010 100% of related accounts receivable related and additional work performed was recovered.

l. In January 2006, Operadora signed a contract with Autopista Arco Norte, S.A. de C.V., a subsidiary of IDEAL, to carry out projects of coordination, inspection, oversight, construction and execution of the high specification highway named Libramiento Norte de la Ciudad de México, for an approximate length of 141.62 km, beginning at the junction of Tula, Hidalgo and ending at San Martín Texmelucan, Puebla. The original termination deadline, subject to changes derived from the timely and proper release of rights of way, was 24 months computed as of January 2006. The contract value is $2,722 million (nominal pesos) plus construction coordination services.

   During 2008, the 11-kilometer section of the junction of Ciudad Sahagún to Tulancingo, Hidalgo has been delivered for operation, thus completing a total of 69.8 km of this highway. During the first months of 2009, the project continued, and finally, in the third quarter of 2009, this project was completed, except for minor construction, and the road was placed into operation. At the end of 2010, the project is in the process of being finalized.

m. In April 2005, Operadora signed a contract with Concesionaria de Carreteras, Autopistas y Libramientos de la República Mexicana, S.A. de C.V. (related party) for the coordination, inspection, surveillance, construction and operation of the Tepic-Villa Unión Highway. The period of performance of the work was of 553 calendar days from 27 April 2005. The original value of the project was $2,416,229 (nominal value) and in July 2006 an agreement was signed amendment to the coordination, inspection and monitoring section of the highway junction known as San Blas - Estación Yago worth $287,308 (nominal value) plus work coordination services. The project started in 2005 and ended in 2007. At December 31, 2010, final documentation was completed.

   In February 2006, the subsidiary Grupo PC Constructores, S.A. de C.V. (Grupo PC) signed several contracts to produce works of closure and remediation of a landfill to build a sports center in Ciudad Nezahualcóyotl, Estado de México, with a total value of approximately $750,000 (nominal value). The project began in March 2007 and projects completed during September 2007. The project was completed in late 2008; at the end of 2010, it is in process of documentary settlement.

n. During 2004, Grupo Condumex and Operadora jointly signed contracts for the construction of two production oil rigs platforms (including engineering, procurement, manufacturing, loading, tying up and technical assistance during the installation, as well as interconnection, testing and start-up). The construction work began in July 2004 and concluded in December 2006. Also, during 2007, offshore installation and testing work was performed for both platforms. The original amount of this contract was $956,589 (nominal value), plus US 266,684 thousand. Also, between 2005 and 2007, amendment agreements were signed to adjust certain prices, execution deadlines and additional costs incurred. During 2008, the final construction works were realized. Accordingly, in 2008 and continuing throughout 2009, partial recoveries were received and at December 31, 2010, the documentary and financial settlement of the two projects was completed, in which100% of scheduled, as well as additional work was recovered.

o. During 2009 and 2010, the Company signed contracts and work orders with related parties in México and Latin America, for amounts totaling $ 1,361,552 and $ 1,589,000 and U.S. 94 and U.S. 52 million, respectively. Contracts include professional services for construction and modernization of copper wire networks (peers) and outside plant fiber, and to build pipelines and installation of fiber optic links and zonal urban, urban fiber, fiber optic automation, public works, and connections. Most of the projects contracted in Mexico were completed during 2008 and 2009, while Latin American projects, which have been executed normally, are estimated to be completed during 2011.

## 21. CONTINGENCIES

a. There is an investigation of absolute monopolistic practices in the public market of rail freight in country initiated by the Federal Competition Commission ( "Cofeco") by reason of the sale of the shares representing the capital of Ferrosur, S.A. de C.V. and the acquisition of shares representing the capital of Infrastructura y Transportes México, S.A. de C.V. As a result of these transactions, the Cofeco determined absolute monopolistic practice under Article 9 °, fraction I, of the Federal Law on Economic Competition, by and among Grupo Carso and other companies, and ordered the suppression of the monopolistic practice and imposed a fine on, among other companies, Grupo Carso in the amount of $ 82,200, who also was ordered to post bond for the same amount, which was recorded as other assets in the accompanying consolidated balance sheet.

   In response to this resolution, Grupo Carso initiated an indirect trial, with the court Sixth District Administrative Matters in the Federal District. The demand for guarantees is declared admissible and a constitutional hearing was held on September 28, 2010. By court decision rendered on December 16, 2010, the Sixth District Judge in Administrative Matters in the Federal District ordered the dismissal of the trial 887/2009-III, considering that it updated the causes of inadmissibility on the grounds that against the claimed resolution issued by the Federal Competition Commission establish nullification lawsuit came before the Federal Tribunal of Fiscal and Administrative Justice. In response to this resolution, Grupo Carso, among other companies, filed a petition for review, which, to date, is still pending.

b. Certain subsidiaries have court proceedings under way with the competent authorities for different reasons, mainly taxes and the recovery of long-term accounts receivable which they are owed. In the opinion of the Company's officers and attorneys, most of these issues will be resolved favorably; if not, the result of such lawsuits is not expected to substantially affect its financial position or results of operations.

## 22. INFORMATION BY SEGMENT

Information by operating segment is presented based on the management focus and general information is also presented by product, geographical area and homogenous groups of customers.

a. Analytical information by operating segment:

| 2010 | Production for the automotive, construction and telecommunications industries | Retail | Infrastructure and construction | Others and eliminations | Total consolidated |
|---|---|---|---|---|---|
| Net sales | $ 18,680,135 | $ 33,261,013 | $ 11,837,040 | $ 417,921 | $ 64,196,109 |
| Income from operations | 1,573,779 | 3,877,055 | 958,961 | 398,118 | 6,807,913 |
| Consolidated net income | 3,135,618 | 3,502,604 | 452,270 | 449,352 | 7,539,844 |
| Depreciation and amortization | 367,971 | 652,320 | 279,232 | 16,953 | 1,316,476 |
| Investments in shares of associated companies | 4,817,427 | 93,494 | 247,839 | 3,876,707 | 9,035,467 |
| Total assets | 31,971,131 | 27,530,162 | 17,037,985 | 4,617,220 | 81,152,498 |
| Total liabilities | 19,742,126 | 12,822,797 | 6,917,278 | 3,055,636 | 42,537,837 |

| 2009 | Production for the automotive, construction and telecommunications industries | Retail | Infrastructure and construction | Others and eliminations | Total consolidated |
|---|---|---|---|---|---|
| Net sales | $ 13,757,320 | $ 30,554,592 | $ 12,176,923 | $ 198,918 | $ 56,687,753 |
| Income from operations | 1,349,939 | 3,399,374 | 1,060,072 | 279,120 | 6,133,505 |
| Consolidated net income | 2,243,472 | 3,333,163 | 690,545 | 1,072,233 | 7,339,413 |
| Depreciation and amortization | 403,034 | 663,947 | 247,383 | 19,681 | 1,334,045 |
| Investments in shares of associated companies | 4,801,613 | 9,140 | 4,825 | 3,678,247 | 8,493,825 |
| Total assets | 22,830,339 | 49,798,105 | 14,672,324 | 10,376,758 | 97,677,526 |
| Total liabilities | 7,285,234 | 24,312,308 | 5,369,980 | 1,012,750 | 37,980,272 |

b. General segment information by geographical area:

The Company operates in different geographical areas and has distribution channels in México, the United States and other countries through industrial plants, commercial offices or representatives. The distribution of such sales is as follows:

| | 2010 | % | 2009 | % |
|---|---|---|---|---|
| North America | $ 2,840,122 | 4.42 | $ 1,900,721 | 3.35 |
| Central and South America and Caribbean | 5,254,708 | 8.19 | 4,195,462 | 7.40 |
| Europe | 378,782 | 0.59 | 394,169 | 0.70 |
| Rest of the world | 65,953 | 0.10 | 30,271 | 0.05 |
| Total exports | 8,539,565 | 13.30 | 6,520,623 | 11.50 |
| México | 55,656,544 | 86.70 | 50,167,130 | 88.50 |
| **Net sales** | **$ 64,196,109** | **100.00** | **$ 56,687,753** | **100.00** |

c. The Company has a wide variety of customers according to the category of products and services it offers; however, no particular customer represents more than 10% of net sales. The Company offers its products and services in the following industries: energy, automotive, telecommunications, mining, construction, electronics and the general public.

## 23. SUBSEQUENT EVENT

a. On March 1, 2011, Grupo Carso, S.A.B. de C.V. contributed US 23.3 million to Tabasco Oil Company ("TOC") in exchange for a 70% stake in the company. TOC is a certified oil company that was awarded the concession for exploration and production of hydrocarbons in the eastern plains region of northwest Colombia, by the National Hydrocarbon Agency of Colombia ("ANH ") in February 2011. The concession area covers an area of 413 km2, and as part of the initial investment commitment under the concession, the company must make a 3D (three dimensional) seismic study in an area of at least 145 km2 and develop at least one exploratory well the during the first phase. To date, there are basic studies on the prospects of the block, including 2D (two dimensional) seismic studies.

b. On January 14, 2011, Grupo Condumex, S.A. de C.V. (spin off of Inmuebles Corporativos e Industriales CDX, S.A. de C.V., formerly Grupo Condumex, S.A. de C.V.), sold the shares in its subsidiaries Hubard y Bourlon, S.A. de C.V., Ingenieria HB, S.A. de C.V., Selmec Equipos Industriales, S.A. de C.V. which is a related party of Enesa Energía, S.A. de C.V. The sale price of the shares was $515,000, generating an accounting gain of $ 92,040 for the sale of Hubard y Bourlon, S.A. de C.V., an accounting loss of $69 for the sale of Ingenieria HB, S.A. de C.V. and an accounting gain of $78,228 for the sale of Selmec Equipos Industriales, S.A. de C.V. At December 31, 2010, these assets are classified as available for sale.

c. On January 31, 2011, 100% of the shares of the subsidiary Cilsa Panama, S.A. were sold for U.S. 700.000 to Ideal Panamá, S.A. (related party). At December 31, 2010, these assets are classified as available for sale.

## 24. NEW ACCOUNTING PRINCIPLES

As part of its efforts to converge Mexican standards with international standards, in 2009, the Mexican Board for Research and Development of Financial Information Standards ("CINIF") issued the following Mexican Financial Reporting Standards (NIFs), Interpretations to Financial Information Standards (INIFs) and improvements to NIFs applicable to profitable entities which become effective as follows:

a. For fiscal years that begin on January 1, 2011:

B-5, Financial Segment Information

B-9, Interim Financial Information

C-4, Inventories

C-5, Advance Payments and Other Assets

C-6, Property, Plant and Equipment

C-18, Obligations Associated with the Retirement of Property, Plant and Equipment

Improvements to Mexican Financial Reporting Standards 2011

b. For fiscal years that begin on or January 1, 2012:

The provisions of standard NIF C-6, Property, plant and equipment that generate changes from the segregation of components of items of property, plant and equipment with different useful lives, will become effective on January 1, 2012.

At the date of issuance of these consolidated financial statements, the Company has not fully assessed the effects of adopting these new standards on its financial information.

## 25. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2009, the National Banking and Securities Commission published the amendments to its Single Circular for Issuers, which requires companies to file financial statements prepared according to the International Financial Reporting Standards (IFRS) beginning in 2012, and permits their early adoption. The Company decided to adopt IFRS as of January 1, 2012, and as of the date of issuance of this report it is in the process of assessing the impact this decision will have on the main items of its financial statements.

## 26. AUTHORIZATION OF THE ISSUANCE OF THE FINANCIAL STATEMENTS

On March 17, 2011, the issuance of the consolidated financial statements was authorized by C.P. Quintín Botas Hernández. These consolidated financial statements are subject to the approval of the Board of Directors of the Company and the Ordinary Stockholders' Meeting, at which the financial statements may be modified, based on provisions set forth in Mexican General Corporate Law.

# Investor information

## Investor Relations

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cotiza en Bolsa Mexicana
GCARSO

## Share Information

Grupo Carso S.A.B. de C.V. Series A-1 shares are listed on the Bolsa Mexicana de Valores, S.A.B. de C.V. under the ticker symbol "GCARSO".

## ADR Information

Symbol: GPOVY
2:1
Cusip: 400485207

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