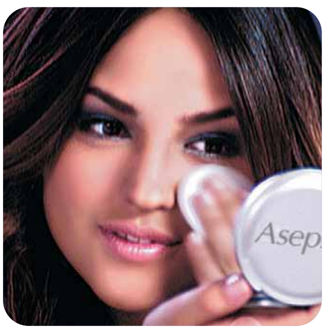
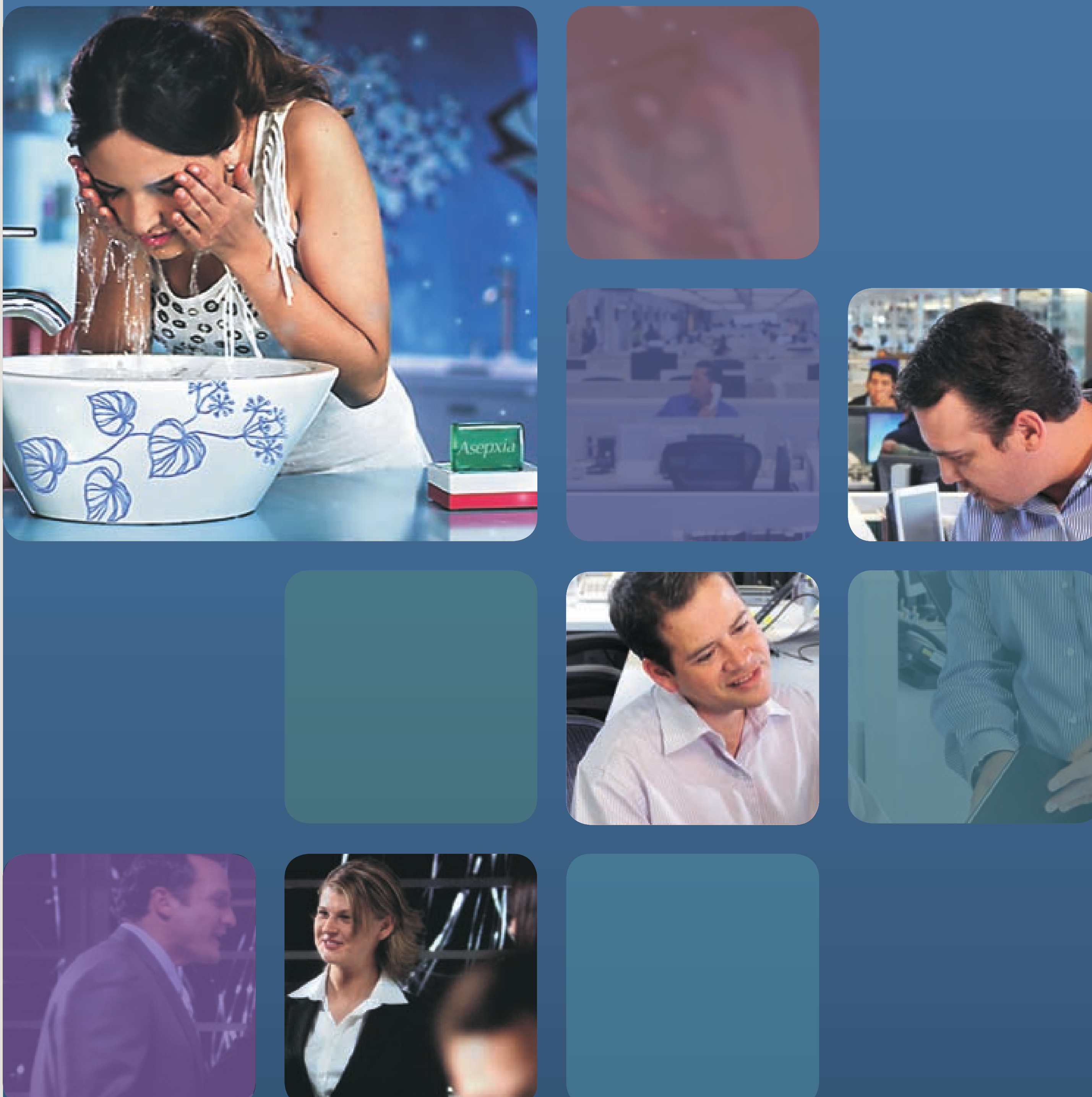
Annual Report **2010**



Innovation that generates...
well-being, development, and value.

Genomma Lab® Internacional


Asepxia

Well-being
for our consumers

*Our goal is to offer **products of the highest quality that enrich the consumer's well-being.***

Development
for our collaborators, suppliers, and clients

*Through the collaborative network we have created, we look to promote the development and improvement of each individual involved, **achieving sustainable growth in the communities where we have presence.***

Value generation
for our investors

*We are committed **to generating value for our shareholders by delivering higher profitability through the efficient use of our resources.***

Corporate Profile

We are a 100% Mexican company, young, dynamic, and innovative; busy and concerned with finding solutions to improve the quality of life and health of all those who benefit from the proper use of our products.

Mission

To improve and preserve the health and well-being of our customers *through innovative, safe, and effective products; to provide development opportunities to our collaborators and profitability for our shareholders; and to positively impact our community and environment.*

Vision

To be the leading company in the pharmaceutical and personal care products markets in which we have presence; *and to be recognized for positively impacting the health and wellness of people, communities, and the environment.*

Values

- Integrity
- Innovation
- Creativity
- Teamwork
- Sustainability
- Efficiency
- Effectiveness

Content

Financial Highlights

Income Statement

Million pesos

	2010	2009	% Change
Net Sales	6,263.6	4,424.7	41.6%
Gross Profit	4,449.1	3,187.1	39.6%
SG&A	2,834.3	2,096.4	35.2%
Operating Income	1,614.8	1,090.7	48.1%
EBITDA	1,693.5	1,123.3	50.8%
% Net Sales	*27.0%*	*25.4%*	*1.6pp*
Net Income	1,093.0	760.0	43.8%
% Net Sales	*17.4%*	*17.2%*	*0.2pp*
Earnings per Share	1.02	0.72	41.7%

Balance Sheet

Million pesos

Assets		Liabilities and Shareholder´s Equity	
Cash and Equivalents	1,454.2	969.1	Suppliers
Accounts Receivable	1,937.4	750.2	Other Liabilities
Inventories	946.7	0.0	Loans with Financial Institutions
Other Assets	1,492.6	4,111.6	Shareholder´s Equity
Total Assets	**5,830.9**	**5,830.9**	**Total Liabilities and Shareholder´s Equity**

Cash Conversion Cycle

	2010	2009
Days of Accounts Receivable	111	109
Days of Inventory	188	183
Days of Suppliers	192	173
Cash Conversion Cycle	**107**	**119**

- *During 2010 Net Sales increased **41.6%**, compared to 2009, reaching **$6.3** billion pesos.*
- *EBITDA reached **$1.7 billion pesos**, a **27.0%** margin over Net Sales.*
- *Sales from International Operations reached **$1.5 billion pesos,** a **134.8%** increase vs. 2009.*
- *In 2010 Genomma Lab became **the number one OTC pharmaceutical company in Mexico.***
- ***Primer Nivel por tu Salud** positioned itself as the **number three generics brand** in the Mexican market.*
- *Earnings per Share during 2010 reached **1.02 pesos,** an increase of **41.7%** compared to 2009.*
- *Genomma Lab's stock price grew **105.3%** in 2010.*
- *During 2010 we launched **107 products** under **21 existing brands** and **16 products** under **nine new brands.***
- *In 2010 we completed the acquisition of **five new brands** and signed **two licensing agreements.***

Message from the CEO

and Chairman of the Board

When the Company was listed in the Mexican Stock Market (BMV) in June of 2008, we set the goal of becoming the leading OTC pharmaceutical company in Mexico within five years. ***Just two years later, in 2010, we are proud to stand as the number one OTC pharmaceutical company in Mexico.***

Dear Shareholders,

Genomma Lab reported outstanding results in 2010, thanks to the loyalty of our clients, the commitment of our collaborators, and your support. During 2010 the Company showed sustained growth and profitability, and delivered consistent returns to its investors.

We had a remarkable year at Genomma Lab, as we achieved important objectives. When the Company was listed in the Mexican Stock Market (BMV) in June of 2008, we set the goal of becoming the leading OTC pharmaceutical company in Mexico within five years. Just two years later, in 2010, we are proud to stand as the number one OTC pharmaceutical company in Mexico.

It is worth noting Genomma Lab's performance in the Mexican Stock Market. In September of 2010 we became part of the Mexican Liquidity Index (IPC). Being part of the index increased the Company's exposure and generated an outstanding investors' profile, increasing the stock's liquidity and improving the share's performance. As of December 2010, Genomma Lab was the 8^{th} most liquid company in the Mexican Stock Market.

We are confident that the solid growth we have had in past periods will continue in the coming years, thanks to our ongoing acquisition and line extension strategy, along with our international expansion. While we are proud of our development in recent years, we will continue to seek new opportunities.

As we begin a new year, we are excited about the challenges that 2011 will bring. Our entry into the Brazilian and U.S. markets offers exceptional potential and both of these operations will surely make major contributions to the Company's sales in the near future. We also aim to re-launch the brands acquired during 2010 and make them leaders in their respective markets. We will continue to drive our existing brands towards strong organic growth.

Genomma Lab's future is promising, and we are confident that in 2011 we will continue with the exceptional performance we have demonstrated in the past years.

Sincerely,

Rodrigo Herrera Aspra
CEO and Chairman of the Board
Genomma Lab Internacional, S.A.B de C.V.

Offering ***Well-being*** *to our consumers*

Our goal is to be the first to deliver the most innovative and highest quality products to our clients. **Each and every one of our products undergoes very strict clinical tests** and a rigorous process of quality assurance. We carry out more than 300 focus groups every year in order to satisfy our customers' specific needs.

We have a comprehensive Marketing department that allows us to respond rapidly to the constant changes in the market as well as to create customized and differentiated marketing campaigns. We produce several in-house marketing TV spots per day, which has made us experts in communicating the benefits of our products to the consumer.

"We carry out more than 300 focus groups a year. *This experience gives us the capacity to make truly unique products and spots."*

Claudia Ortega
Marketing Vice-President

We have ***more than 70 active brands,*** *several of which are leaders in their respective category, such as:*

Brand	Category	Position*
Asepxia	*Anti-acne preparations*	1
X Ray Caps	*Nonsteroidal anti-rheumatics, combinations*	1
Bengue	*Topical anti-rheumatics*	1
Dalay	*Tranquilizers*	1
Next	*Cold and cough preparations without anti-infectives*	1
Nikzon	*Anti-hemorrhoids*	1
Medicasp	*Topical anti-fungal for the scalp*	1
Genoprazol	*Acid inhibitors*	2
Goicotabs	*Systemic anti-varicose*	2
Silka Medic	*Topical dermatological anti-micotics*	3

** Position in their category in Mexico according to market share as of December 2010. Source: IMS Health*

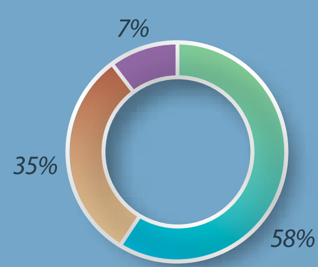
“Our innovation, research, and development capabilities allow us to create and improve formulas in order to offer the consumer ***the best drugs and personal care products that meet the highest standards of quality.”***

Renata Herrera
Director of Research, Development, and Quality

(Research and Technological Development Center and Genomma Lab’s corporate offices located in Santa Fe, Mexico City)

Developing *Opportunities*
for our collaborators, suppliers, and clients

2010 Sales Segmentation in Mexico



Since Genomma Lab was founded, back in 1996, we have made major strides towards institutionalization based on solid corporate governance, helping us become one of the top pharmaceutical companies in Mexico.

Thanks to our wide supply network, we have continuously grown our presence in Mexico and in the international markets. **Currently, we reach more than 33,000 points of sale within Mexico.** We are also entering new distribution channels, such as OXXO[MR], the convenience stores that have more than 8,000 points of sale in Mexico.

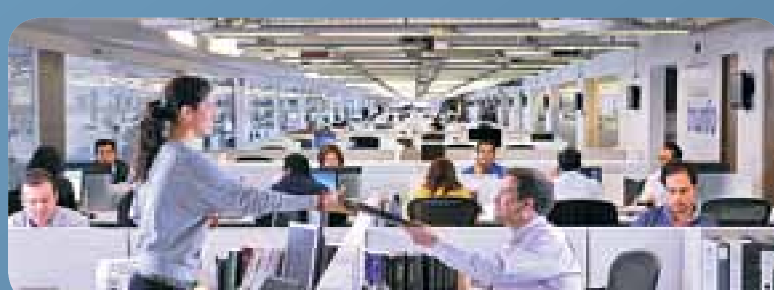
Given the continuous growth of our operations, we have developed our human capital **and significantly increased the number of employees** during 2010. Also, thanks to our business model, **we have generated 2,500 indirect jobs.**

In 2010, in Mexico, the OTC market grew by 4.5%[1], compared to 2009, while the sales of **our OTC products grew 29.1%.** The personal care market experienced a growth of 7.5%[2], and the sales of **our PC products grew 30.1%.**

We are:

***No. 1** in the OTC market in Mexico*

***No. 3** brand in the Generics market in Mexico*



1 Source: IMS Health 2 Source: Euromonitor

The work we do in Genomma Lab in collaboration with our suppliers and clients ***has allowed us to offer high quality products and to always have them available to our consumers.***

"Our business dynamics have allowed us to create more than **3,500 direct and indirect jobs."**

Patricia Faci

Chief Operating Officer

Genomma Lab's Distribution Center located in Lerma, Estado de México

Generating Value
for our shareholders

Since Genomma Lab's Initial Public Offering, in June of 2008, the stock price has increased more than 250% as of December 2010, year in which the share's performance was outstanding, **delivering a 105.3% return to its investors**, making Genomma Lab the best-performing stock in the Mexican Stock Exchange in 2010.

Besides the performance of our stock price, 2010 was a year of significant events for Genomma Lab in the Mexican Stock Market, given that:

- *In July 2010, 2.9 million shares were cancelled,* ***which can be considered as an implicit dividend payment of 0.56% per share.***
- *In August 2010,* ***a 2 to1 stock Split took place,*** *boosting the stock's liquidity.*
- *In September 2010, Genomma Lab officially entered the Mexican Liquidity Index (IPC). This event has increased the stock's liquidity,* ***making Genomma Lab one of the most liquid companies in the Mexican Stock Market.***
- *By the end of 2010,* ***nine financial analysts followed Genomma Lab's stock, locally and internationally,*** *helping investors and the market to better understand the Company.*

LAB.B *Share Performance in 2010*

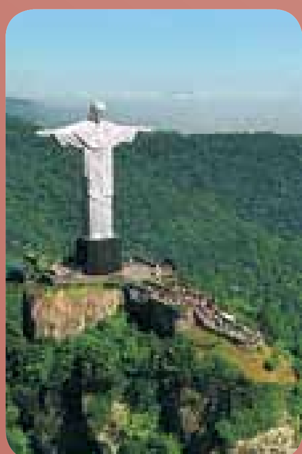
Best performing share *in the Mexican Stock Exchange during 2010.*

"The fundamentals of the business, together with ***the Company's strong results and the stock's performance,*** *have given us an outstanding investors' profile."*

Oscar Villalobos

Chief Financial Officer

International *Expansion*



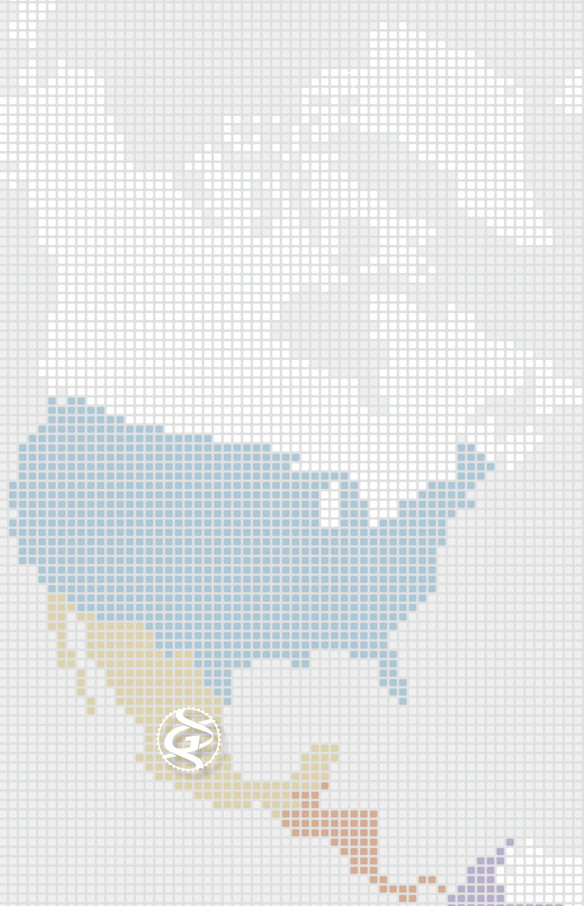
Currently, **we operate in 14 countries outside of Mexico, where we commercialize personal care products and OTC pharmaceutical products through 25 brands.** Net Sales from our international operations increased 134.8% in 2010, reaching $ 1.5 billion pesos. As of December 2010, these operations represented 23% of the Company's total sales.

We continue expanding our presence to new markets. **In 2010 we started operations in Brazil and the U.S.** Both of these markets represent major opportunities for the Company to continue its track record of strong growth.

In our international markets we reach a population of over **550 million people** and more than 53,000 points of sale.

*"**Genomma Lab has a business model that is successful in any country.** In all the markets where we operate, we have been able to replicate our model."*

Rodrigo Herrera
Chief Executive Officer

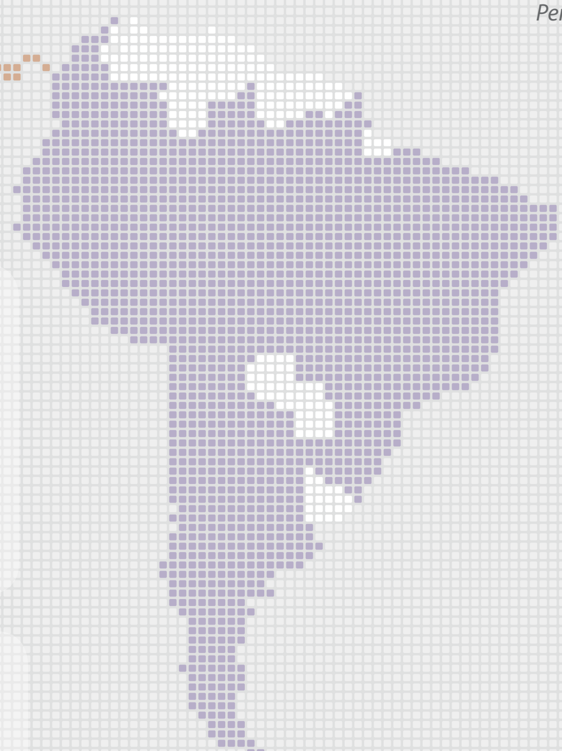


With presence in ***14 countries*** *outside of Mexico*

North America
United States

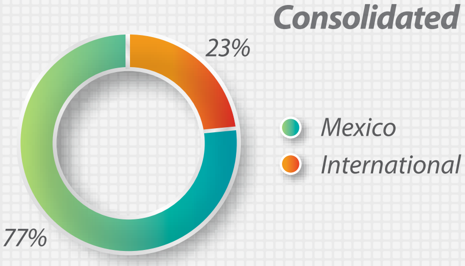
Central America
Costa Rica
El Salvador
Guatemala
Honduras
Nicaragua
Panama

South America
Argentina
Bolivia
Brazil
Colombia
Chile
Ecuador
Peru

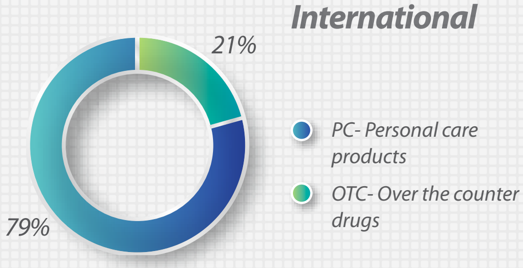


Sales Segmentation *in 2010*

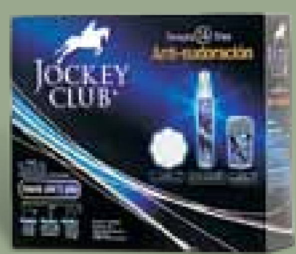
Consolidated



International



2010 **Product Launches**



As part of our organic growth strategy, we constantly launch products to strengthen our existing brands, as well as products under new brands.

During 2010 we launched 107 products under 21 existing brands, as part of our strategy to strengthen brands through line extensions. **We also launched 16 products under nine new brands.** With these launches, the Company enters and strengthens its presence mainly in the ophthalmic medicines, anesthetics, anti-inflammatory and diabetic products, and nasal solutions markets.

During 2010 we also re-launched the brands acquired in 2009. After improving their formula and image, and creating a new marketing campaign, we launched 52 personal care products under the brands **Flor de Naranja Sanborns, Teatrical, Henna Egipcia, and Jockey Club.**

"In Genomma Lab ***we are fanatical about health and well-being."***

Rodrigo Herrera
Chief Executive Officer

Our launch strategy ***is based on innovation, research, and the development of new brands and new products,*** *as well as on launching line extensions under existing brands.*

Acquisitions

- *Micotex*
- *Nasalub*
- *English Leather*
- *Ossart*
- *Santé*
- *Devlyn*[1]
- *XL-3*[1]
- *Vanart*[2]
- *Pomada de la Campana*[2]
- *Galaflex*[2]
- *Affair*[2]

1 License agreement
2 Closed in 2011

Our Innovation, Research, and Development department has vast experience developing new products. Nevertheless, the recognition and tradition of certain brands, given their long time in the market, cannot be replicated in the short term. **During 2010 we continued with our acquisition strategy, buying brands that are well positioned in the consumer's mind and that add value and profitability to the Company.**

The brands acquired during 2010 are: Micotex, Ossart (anti-micotic lotions and powders), Nasalub (nasal solutions), English Leather (male personal care products), and Santé (shampoo). Also, two licensing agreements were signed for the Devlyn (ophthalmic medicines) and XL-3 (anti-flu solutions and analgesics) brands. Besides these operations, we acquired the Vanart, Galaflex (shampoo), Affair (hair dyes), and Pomada de la Campana (ointments) brands. These latter acquisitions were subject to the approval of the Mexican Antitrust Commission, which was obtained in January of 2011. After applying our business model to the brands acquired during 2010, **and renovating their image and formula, they will be re-launched to the market during 2011.**

The acquired brands enter a renovation process that begins with the improvement of their formula.

After applying our business model to the brands acquired during 2010, ***and renovating their image and formula,*** *the brands will be re-launched to the market during 2011.*

Social Responsibility

In 2010, besides continuing the work on our Social Responsibility programs implemented in the past years, we have started new initiatives that complement and expand our previous accomplishments.

"Responsible Value Chain" program

The objective of this program is to include vulnerable groups of society into the value chain of the Company, through inclusive business schemes that generate shared value. Our first project, initiated in 2007, has been a success and continues to bear fruit. In alliance with Veracruzana University, we have integrated two communities from the state of Veracruz belonging to the counties of Zozocolco- Hidalgo and Atzalan- as exclusive suppliers of the dehydrated organic leaf Psidium guajava (raw material for our medicine "QG5"), with the following results since its implementation:

- *Two dehydrating plants were installed in each county.*
- *1,500 producers were integrated to formal economy.*
- *37 "Social Solidarity Societies" (S.S.S.) were created.*
- *One integrative enterprise was founded.*
- *36 tons of dehydrated leaf billed by this integrative enterprise.*
- *Important income for producers.*
- *"2008 Best Practice Corporate Social Responsibility" award in the Value. Chain category, given by the Mexican Center for Philanthropy (CEMEFI).*
- *Publishing of the book "ASIWIT, the leaves that were made medicine: A successful case of the link between the public university and the private enterprise in benefit of the marginal sectors of the rural areas of Veracruz", edited by the Veracruzana University.*

Since 2007, in alliance with the Veracruzana University, ***we have included to Genomma Lab's value chain two communities from the state of Veracruz,*** *making them exclusive suppliers of the dehydrated organic leaf Psidium guajava.*

Philanthropy and Community Development Program

With the objective of helping to improve the quality of life in the communities and/or population groups in vulnerable or risky situations, we have created new alliances with various Non-Governmental Organizations (NGO`s) and strengthened the existing ones for the execution of the following programs:

A) Support to Productive Projects. Through the product line "Agua de Colonia Sanborns", in 2010 we initiated a plan of support to productive projects focused on reducing the causes of poverty, achieving food self-sufficiency, and improving the health and welfare of communities in the states of Mexico, Jalisco, and Veracruz, giving the first round of resources to Spini Staku A.C. and Pro México Indígena I.A.P. organizations.

B) Economic Donations. For the third consecutive year, we supported Teleton Foundation. This year we gave a donation during live transmission the day of the event.

C) In-kind Donations. In 2010 Genomma Lab donated more than one million items of medicines and personal care products, benefitting more than 300 non-governmental organizations, such as: Cruz Roja Mexicana, Junta de Asistencia Privada del Estado de México, Fundación para la Protección de la Niñez, and Fundación para la Dignificación de la Mujer, among others.

It`s worth mentioning that in October 2010 Genomma Lab donated a fully equipped ambulance to the Instituto Nacional de Perinatología "Isidro Espinoza de los Reyes".

D) Support in Natural Disasters. Through this program, we had a rapid response to the natural disasters that caused severe floods in Chalco, Estado de México, in Monterrey, Nuevo León, as well as in the states of Veracruz and Tabasco; with the delivery of hygiene products, oral electrolytes "Suerox", and various medicines. We donated more than 2.7 million items worth more than 10 million pesos to be distributed among the affected population. We also added our efforts to the call made by the Cruz Roja Mexicana to give support to Haiti after the earthquake registered in January 2010, donating more than 1.5 million pieces of medicines, Suerox, and hygiene products which were transported to Puerto Príncipe by the Marine Department.

E) Sponsorships. For the third consecutive year, we sponsored the race "Día de la Familia", organized by El Consejo de la Comunicación, A.C, as well as the race of the "Aquí Nadie se Rinde" foundation, which has as an objective to raise funds for the sarcoma research by the Instituto de Medicina Genómica and by the Instituto Nacional de Pediatría in Mexico.

Environment

Our objectives in this area of Social Responsibility include the generation and execution of initiatives oriented to the continuous improvement of our environmental performance, focusing the efforts on innovation and good manufacturing practices, product optimization through Eco-design, and the introduction of new technologies in packaging matters.

Also, we have continued our reforestation programs with the following results:

A) One Million Shares for the Environment. Three years after the reforestation agreement with the Secretaría del Medio Ambiente y Recursos Naturales (SEMARNAT) was signed, in 2007, in which we committed to donate one million trees, we have managed to maintain a survival index of 73% in the whole plantation. These encouraging results have been possible thanks to the alliance with Protectora de Bosques del Estado de México (PROBOSQUE), which is constantly monitoring and re-planting, and with Patronato Pro-zona Mazahua.

B) Environmental Volunteering "Genomma Lab Forest". For the fourth consecutive year, we held our traditional Reforestation Day "Genomma Lab Forest". This year, we planted 800 pine trees in a hectare of deforested land. 250 collaborators and their families, PROBOSQUE employees, and authorities of the county of Huixquilucan and Estado de México were involved in this event.

Board of **Directors**

Rodrigo Alonso Herrera Aspra
Chairman

Pablo José Monroy Cazorla
Propietary Director

Arturo José Saval Pérez
Propietary Director

Luis Alberto Harvey MacKissack
Propietary Director

Gerardo de Nicolás Gutiérrez
Independent Director

Fernando Paiz Andrade
Independent Director

Pedro Solís Cámara
Independent Director

Juan Alonso
Independent Director

Marco Francisco Forastieri Muñoz
Secretary, non-member of the Board

Committees

Executive Committee

Rodrigo Alonso Herrera Aspra
President

Pablo José Monroy Cazorla
Luis Alberto Harvey MacKissack
Arturo José Saval Pérez

Corporate Practices Committee

Gerardo de Nicolás Gutiérrez
President

Arturo José Saval Pérez
Juan Alonso

Auditing Committee

Pedro Solís Cámara
President

Gerardo de Nicolás Gutiérrez
Fernando Paiz Andrade

Management *Team*

Rodrigo Alonso Herrera Aspra
CEO and Chairman of the Board

Claudia Georgina Ortega Vettoretti
Marketing Vice-President

Ramón Neme Sastre
Corporate Vice-President

Alejandro Bastón Patiño
Commercial Strategy Vice-President

Patricia Faci Villalobos
Vice-President and Chief Operating Officer

Oscar Villalobos Torres
Chief Financial Officer

Renata Virginia Herrera Aspra
Research, Development, and Quality Director

Daniel Ordoñana Prida
Advertising Director

Luis Gerardo Cortés Moreno
Sales Director

Miguel Peinado González
Supply Chain Director

Elías Sidaoui Silva
Human Resources Director

Sabrina Lucila Herrera Aspra
International Operations Director

Francisco Lizardi Calderón
Administration Director

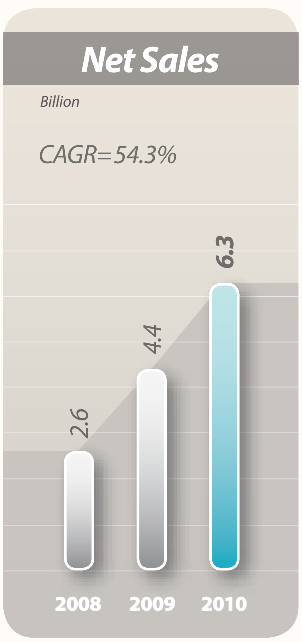
Sergio Herrera Terrones
Social Responsibility Director

Gonzalo Granados Ramos Elorduy
Information Technologies Director

Management Discussion
and Analysis of Results

Amounts in pesos

Income Statement



Net Sales rose 41.6% to \$ 6.3 billion for 2010, from \$ 4.4 billion for 2009. This increase resulted from the combination of the following: i) an increase of 9.4% (\$ 279.9 million) from Base Brands in Mexico to \$ 3.3 billion, including line extensions on these brands; ii) a 63.2% (\$ 515.2 million) increase due to the full year effect of Prior Year Launches in Mexico, including recent line extensions on these brands launched during 2009, to reach \$ 1.3 billion; iii) \$ 210.6 million in 2010 from New Brands in Mexico due to the launch of 16 new products under nine New Brands throughout the year; and, iv) a 134.8% increase (\$ 833.3 million) in our International operations to \$ 1.5 billion.

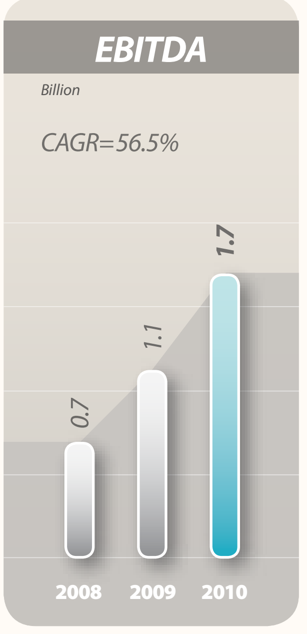
Gross Profit increased by 39.6% to \$ 4.4 billion for 2010, compared to \$ 3.2 billion for 2009. Gross Margin decreased 1.0 percentage point, as a percentage of Net Sales, to 71.0% in 2010, compared to 72.0% in 2009. This decrease was primarily attributable to a higher cost of goods sold as a percentage of Net Sales, due to a change in our product mix, where personal care products, which traditionally have a higher cost of goods sold as a percentage of Net Sales, had a higher participation than in 2009.

Selling, General, and Administrative Expenses, as a percentage of Net Sales, decreased 2.1 percentage points to 45.3% for 2010, from 47.4% for 2009. This decrease was mainly due to economies of scale derived from a more efficient management of advertising expenses, which was achieved by the increase in Net Sales during the period. This decrease was partially offset by a higher amortization, as a percentage of Net Sales, derived from an accelerated amortization of improvement expenses in our old corporate offices and our former distribution center, since the Company moved to different locations.

Operating Income for 2010 increased 48.1% to $ 1.6 billion, compared to $1.1 billion for 2009. Operating margin increased 1.1 percentage points, as a percentage of Net Sales, to 25.8% for 2010, compared to 24.7% for 2009.

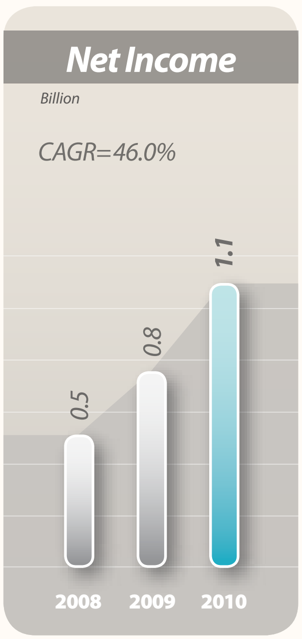
EBITDA for 2010 increased 50.8% to $ 1.7 billion, compared to $ 1.1 billion for 2009. The EBITDA margin increased 1.6 percentage points, as a percentage of Net Sales, to 27.0% for 2010, from 25.4% for 2009.

Comprehensive Financing Result represented a loss of $ 27.3 million in 2010, which was an increase in such loss of $ 14.0 million, compared to the $ 13.3 million loss reported for the same period in 2009. This increase was primarily a result of: i) an increase in financial expenses of $ 27.3 million during 2010 to $41.7 million, compared to $ 14.4 million during 2009, as a result of anticipated collections, which we exercised with our customers in order to increase the Company's cash position so we could comply with contractual obligations derived from brand acquisitions without depending on debt; ii) a lower foreign exchange loss of $ 14.2 million in 2010, from a $ 39.2 million loss during 2009, primarily due to lower foreign cash balances during 2010; iii) a loss in the monetary position of $ 10.7 million in 2010, compared to a loss of $ 1.0 million for 2009; iv) a lower interest income of $ 26.8 million for 2010, from $38.9 million in 2009; and, v) a $ 10.1 million increase related to the effects of



the exchange rate, generated by the conversion of the international subsidiaries' currencies to local currency, resulting in a $ 12.5 million gain in 2010, compared to a $ 2.4 million gain during 2009.

As of December 31, 2010, Genomma Lab had a total cash position, held in dollars and pesos, of $ 1.5 billion.



Consolidated Net Income increased 43.8% to $ 1.1 billion for 2010, compared to $ 760.0 million for 2009. Consolidated Net Income, as a percentage of Net Sales, increased 0.2 percentage points to 17.4% for 2010, from 17.2% for 2009.

Balance **Sheet**

Cash and Equivalents increased 37.3% ($ 394.8 million) to $ 1.5 billion on December 31, 2010, compared to $ 1.1 billion on December 31, 2009. This increase was mainly due to the Company's cash generation of the last twelve months, which was partially offset by the cash consumption related to: i) working capital in the amount of $ 803.4 million; ii) $ 210.0 million for the acquisition and improvements made to the Company's new corporate offices; and, iii) $ 158.8 million paid for acquisitions during 2010.

Accounts Receivable increased 44.9% ($ 600.5 million) to $ 1.9 billion on December 31, 2010, from $ 1.3 billion on December 31, 2009. Days of Accounts Receivable increased 2 days to 111 days on December 31, 2010, from 109 days on December 31, 2009. Accounts Receivable were benefited by the anticipated collection, which was exercised with customers as a strategy to bridge a long term financing, currently under negotiation, in order to comply with contractual obligations derived from brand acquisitions.

Inventories increased 50.2% ($ 316.5 million) to $ 946.7 million on December 31, 2010, compared to $ 630.1 million on December 31, 2009. Days of Inventories increased 5 days to 188 days on December 31, 2010, from 183 days on December 31, 2009. This change was mainly attributable to inventory increases in order to support the strong growth derived from both the Mexican and International operations.

Suppliers increased 63.1% ($ 374.8 million), to $ 969.1 million on December 31, 2010, from $ 594.3 million on December 31, 2009. Days of Suppliers increased 19 days, to 192 days on December 31, 2010, from 173 days on December 31, 2009. This change was mainly due to the Company acquiring strong inventories from suppliers during the last months of 2010.

Cash Conversion Cycle reached 107 days at the end of 2010, which is below the Company`s corporate target of 120 days.

Independent Auditors' Report *and* *Consolidated Financial Statements*

Genomma Lab Internacional, S. A. B. de C. V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2010, 2009 and 2008 and Independent Auditors' Report Dated February 18, 2011

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Independent Auditors' Report to the Board of Directors and Stockholders of Genomma Lab Internacional, S. A. B. de C. V.

We have audited the accompanying consolidated balance sheets of Genomma Lab Internacional, S. A. B. de C. V. and Subsidiaries (the "Company") as of December 31, 2010, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, the Company adopted the following new financial reporting standards (NIFs): a) beginning January 1, 2010, NIF C-1, Cash and Cash Equivalents and Improvements to NIF 2010; b) beginning January 1, 2009, NIF B-7, Business Combinations and NIF D-8, Shared-based Payments; and c) beginning January 1, 2008, NIF B-2, Statement of Cash Flows; and NIF B-10, Effects of Inflation.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Genomma Lab Internacional, S. A. B. de C. V. and its subsidiaries as of December 31, 2010, 2009 and 2008, and the results of their operations, changes in their stockholders' equity and their 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 readers.

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

C. P. C. José A. Rangel

February 18, 2011

Genomma Lab Internacional, S. A. B. de C. V. and Subsidiaries

Consolidated **balance sheets**

As of December 31, 2010, 2009 and 2008 (In thousands of Mexican pesos)

Assets	2010	2009	2008
Current assets:			
Cash and cash equivalents	$ 1,454,437	$ 1,078,416	$ 1,315,132
Accounts receivable – net	2,161,860	1,545,647	755,108
Inventories – net	946,663	630,121	407,710
Prepaid expenses	70,284	81,996	104,477
Due from related parties	47,775	30,795	11,887
Discontinued operation	3,024	3,408	22,917
Total current assets	4,684,043	3,370,383	2,617,231
Buildings, properties and equipment – net	424,996	260,698	112,453
Deferred income taxes	7,024	2,869	1,108
Other assets – net	709,657	582,496	108,711
Investment in associated company	5,189	25,166	-
Discontinued operation	-	38	425
Total	$ 5,830,909	$ 4,241,650	$ 2,839,928

Liabilities and stockholders' equity	2010	2009	2008
Current liabilities:			
Trade accounts payable	$ 969,099	$ 594,279	$ 377,179
Accrued expenses and taxes other than income taxes	429,077	389,292	134,018
Income tax payable	133,745	37,639	-
Statutory employee profit sharing	11,738	3,382	1,838
Due to related parties	-	81	119
Discontinued operation	4,087	4,656	9,870
Total current liabilities	1,547,746	1,029,329	523,024
Long-term liabilities:			
Sundry creditors	94,295	108,090	-
Employee retirement obligations	10,003	7,491	4,765
Deferred income taxes	67,222	46,006	-
Total liabilities	1,719,266	1,190,916	527,789
Stockholders' equity:			
Capital stock	1,931,222	274,923	274,923
Additional paid-in capital	-	1,553,938	1,553,938
Repurchase of stock	(73,898)	(69,415)	(41,157)
Premium on issuance of repurchased stock	19,612	2,729	-
Retained earnings	2,214,253	1,278,378	519,639
Cumulative translation effects of foreign subsidiaries	(6,636)	1,228	4,020
Controlling interest	4,084,553	3,041,781	2,311,363
Noncontrolling interest in consolidated subsidiaries	27,090	8,953	776
Total stockholders' equity	4,111,643	3,050,734	2,312,139
Total	$ 5,830,909	$ 4,241,650	$ 2,839,928

See accompanying notes to consolidated financial statements.

Genomma Lab Internacional, S. A. B. de C. V. and Subsidiaries

Consolidated **statements of income**

For the years ended December 31, 2010, 2009 and 2008 (In thousands of Mexican pesos, except share and per share amounts)

	2010	2009	2008
Revenues:			
Net sales	$ 6,237,929	$ 4,424,655	$ 2,629,430
Services	25,692	-	-
	6,263,621	4,424,655	2,629,430
Costs and expenses:			
Cost of sales	1,814,478	1,237,519	662,246
Selling, general and administrative expenses	2,834,352	2,096,437	1,294,526
	4,648,830	3,333,956	1,956,772
Income from operations	1,614,791	1,090,699	672,658
Other income (expenses) – net	6,932	(50)	(3,275)
Comprehensive financing (cost) income:			
Interest expense	(41,693)	(14,440)	(21,096)
Interest income	26,787	38,871	42,877
Exchange (loss) gain – net	(14,244)	(39,222)	44,207
Monetary position loss	(10,653)	(965)	(3,311)
Effects of exchange rate changes on foreign operations	12,514	2,430	(788)
	(27,289)	(13,326)	61,889
Equity in loss of associated company	(19,112)	(399)	-
Income before income taxes and discontinued operation	1,575,322	1,076,924	731,272
Income tax expense	482,364	305,345	192,419
Income before discontinued operation	1,092,958	771,579	538,853
Discontinued operations – net	-	(11,543)	(26,017)
Consolidated net income	$ 1,092,958	$ 760,036	$ 512,836
Controlling interest	1,072,565	$ 758,739	$ 515,776
Noncontrolling interest	20,393	1,297	(2,940)
Consolidated net income	$ 1,092,958	$ 760,036	$ 512,836
Earnings (loss) per share:			
Basic earnings per common share for continuing operations	$ 1.04	$ 0.73	$ 0.56
Basic loss per common share for discontinued operation	$ -	$ (0.01)	$ (0.02)
Basic earnings per controlling interest common share	$ 1.02	$ 0.72	$ 0.54
Weighted average common shares	1,052,666,686	1,054,607,134	957,845,584

See accompanying notes to consolidated financial statements.

Genomma Lab Internacional, S. A. B. de C. V. and Subsidiaries

Consolidated statements of **changes in stockholders' equity**

For the years ended December 31, 2010, 2009 and 2008 (In thousands of Mexican pesos, except share amounts)

	Number of Shares	Capital Stock	Additional Paid-in Capital	Repurchase of Stock
Consolidated balances as of January 1, 2008	843,396,000	$ 266,316	$ -	$ -
Reclassification of loss from holding non-monetary assets and the initial cumulative effect of deferred income taxes as of January 1, 2008	-	-	-	-
Dividends paid $0.1136 pesos per share	-	-	-	-
Dividends in-kind	-	(45,315)	-	-
Issuance of common stock	215,085,426	53,922	1,553,938	-
Repurchase of stock	-	-	-	(51,281)
Stock-based compensation expense	-	-	-	10,124
Comprehensive income	-	-	-	-
Consolidated balances as of December 31, 2008	1,058,481,426	274,923	1,553,938	(41,157)
Repurchase of stock – Net	-	-	-	(70,162)
Stock-based compensation expense	-	-	-	44,633
Issuance of repurchased stock	-	-	-	(2,729)
Comprehensive income	-	-	-	-
Consolidated balances as of December 31, 2009	1,058,481,426	274,923	1,553,938	(69,415)
Reclassification of additional paid-in capital	-	1,666,762	(1,553,938)	-
Reclassification of repurchase of stock	(5,732,000)	(10,463)	-	34,329
Repurchase of stock – Net	-	-	-	(50,796)
Stock-based compensation expense	-	-	-	25,065
Issuance of repurchased stock under share based plan	-	-	-	(13,081)
Comprehensive income	-	-	-	-
Consolidated balances as of December 31, 2010	1,052,749,426	$ 1,931,222	$ -	$ (73,898)

See accompanying notes to consolidated financial statements.

Premium on Issuance of Repurchased Stock	Retained Earnings	Excess in Restated Stockholders' Equity	Initial Cumulative Effect of Deferred Income Taxes	Cumulative Translation Effects of Foreign Subsidiaries	Valuation of Investments in Securities Available-for Sale	Noncontrolling Interest	Total Stockholders' Equity
$ -	$ 396,356	$ 6,274	$ (80,506)	$ (2,633)	$ (1,227)	$ 2,860	$ 587,440
-	(74,232)	(6,274)	80,506	-	-	-	-
-	(95,796)	-	-	-	-	-	(95,796)
-	(222,465)	-	-	-	-	-	(267,780)
-	-	-	-	-	-	-	1,607,860
-	-	-	-	-	-	-	(51,281)
-	-	-	-	-	-	-	10,124
-	515,776	-	-	6,653	1,227	(2,084)	521,572
-	519,639	-	-	4,020	-	776	2,312,139
-	-	-	-	-	-	-	(70,162)
-	-	-	-	-	-	-	44,633
2,729	-	-	-	-	-	-	-
-	758,739	-	-	(2,792)	-	8,177	764,124
2,729	1,278,378	-	-	1,228	-	8,953	3,050,734
-	(112,824)	-	-	-	-	-	-
-	(23,866)	-	-	-	-	-	-
3,802	-	-	-	-	-	-	(46,994)
-	-	-	-	-	-	-	25,065
13,081	-	-	-	-	-	-	-
-	1,072,565	-	-	(7,864)	-	18,137	1,082,838
$ 19,612	$ 2,214,253	$ -	$ -	$ (6,636)	$ -	$ 27,090	$ 4,111,643

Genomma Lab Internacional, S. A. B. de C. V. and Subsidiaries

Consolidated **statements of cash flows**

For the years ended December 31, 2010, 2009 and 2008 (In thousands of Mexican pesos)

	2010	2009	2008
Operating activities:			
Income before discontinued operation	$ 1,092,958	$ 771,579	$ 538,853
Items related to investing activities:			
Depreciation and amortization	78,750	32,605	18,404
Loss (gain) on sale of fixed assets	1,546	178	(39)
Impairment of long-lived assets	-	4,300	4,053
Income taxes	482,364	305,345	192,419
Accounts receivable forgone in dividends in-kind	-	-	(185,290)
Unearned foreign exchange fluctuations	(156)	1,022	(1,836)
Equity in loss of associated company	19,112	399	-
Items related to financing activities:			
Interest expense	-	-	18,582
	1,674,574	1,115,428	585,146
(Increase) decrease in:			
Accounts receivable	(850,131)	(803,032)	(162,284)
Inventories	(317,088)	(220,822)	(185,221)
Prepaid expenses	11,712	37,481	(75,761)
Related parties	(17,061)	(18,946)	66,376
Decrease (increase) in:			
Trade accounts payable	374,893	216,669	299,216
Accrued expenses and taxes other than income taxes	72,185	203,065	(10,222)
Income taxes paid	(135,203)	(195,979)	(265,635)
Employee retirement obligations, net	2,512	2,726	627
Stock-based compensation cost	25,065	44,633	10,124
Statutory employee profit sharing	8,356	1,544	1,392
Assets and liabilities from discontinued operation	(147)	14,295	(8,849)
Net cash provided by operating activities before other effects	849,667	397,062	254,909
Loss from discontinued operation	-	(11,543)	(26,017)
Net cash provided by operating activities	849,667	385,519	228,892

	2010	2009	2008
Investing activities:			
Purchases of buildings, properties and equipment	(226,903)	(178,281)	(86,161)
Proceeds from sale of equipment	-	-	14
Purchase of other assets	(192,332)	(235,678)	(40,824)
Investment in associated company	865	(25,565)	-
Purchase of subsidiary, net of cash acquired	-	(115,000)	-
Discontinued operation	-	387	2,910
Net cash used in investing activities	(418,370)	(554,137)	(124,061)
Excess cash to be applied to (obtained from) to financing activities	431,297	(168,618)	104,831
Financing activities:			
Issuance of capital stock	-	-	1,566,659
Borrowings	-	-	580,426
Repayment of loans received	-	-	(837,176)
Repurchase of stock	(46,994)	(70,162)	(51,281)
Interest paid	-	-	(19,915)
Dividends paid	-	-	(95,796)
Noncontrolling interest	(2,256)	6,880	856
Net cash (used in) provided by financing activities	(49,250)	(63,282)	1,143,773
Net increase (decrease) in cash and cash equivalents	382,047	(231,900)	1,248,604
Effects from changes in cash value	(6,026)	(4,816)	5,177
Net increase (decrease) in cash and cash equivalents	376,021	(236,716)	1,253,781
Cash and cash equivalents at beginning of year	1,078,416	1,315,132	61,351
Cash and cash equivalents at end of year (includes restricted cash of $269, $19,036 and $24,084, respectively)	$ 1,454,437	$ 1,078,416	$ 1,315,132

See accompanying notes to consolidated financial statements.

1. Nature of business and significant events

Genomma Lab Internacional, S. A. B. de C. V. and subsidiaries (the "Company") is an over-the-counter pharmaceutical (OTC pharmaceutical), generic drugs (GD) and personal care products company in Mexico, with a growing international presence.

The Company engages in the development, sales and marketing of a broad range of premium products within 73 own brands, offering products in various categories, including anti-acne, generic drugs, sexual protection and enhancement, creams to improve appearance of scars, hemorrhoid treatments, varicose vein treatments, and hair loss treatments, topical analgesics, antacids, topical antifungals, colitis treatments, stress management, osteoarthritis treatments, soaps, multivitamins, shampoos and flu treatments. The Company has a focus in building the brand equity of its products through targeted advertising campaigns, primarily through the use of television. Sales from foreign operations represent approximately 23%, 14% and 9% of consolidated net sales for 2010, 2009 and 2008, respectively.

Initial public and private offering – On June 18, 2008, the Company carried out an initial public offering through the Mexican Stock Exchange (Bolsa Mexicana de Valores) and a private offering outside of Mexico in accordance with Rule 144A and Regulation S under U.S. Securities Act of 1933. The Company symbol in the BMV is "LAB B" (see Note 12.c.).

Investment in subsidiaries – During 2009, the Company acquired the shares of Medicinas y Medicamentos Nacionales, S. A. de C. V. ("MMN") (formerly Medicinas y Medicamentos Nacionales, S. A. P. I.), and incorporated the following Mexican entities: Iniciativas de Éxito, S. A. de C. V. and Aero Lab, S. A. de C. V. Likewise, the Company incorporated the following entities outside Mexico: Genomma Laboratories do Brasil, LTDA, Genomma Lab USA, Inc., and Lab Brands International, LLC.

Investment in associated company – During 2009, the Company purchased 49% of the capital stock of Televisa Consumer Products USA, LLC, an entity incorporated in the United States of America.

Foreign operations – In 2008, the Company restarted operations in Colombia. In addition, the Company closed its operation in Guatemala as a strategy to increase efficiency in its commercial operations.

Discontinued operation – During 2008, the Company decided to commence the process of closing its subsidiary in Spain, as a part of a strategy to focus its sales workforce in Central and South America. Such transaction was recorded as a discontinued operation, which for comparability purposes, is presented retroactively in the accompanying consolidated financial statements. During 2009, the Company acquired 100% of the shares that were held by the noncontrolling interest (representing 15% interest in the entity).

Acquisition of trademarks and licenses – During 2010 the Company acquired the English Leather, Ossart, Nasalub, Micotex and Santé trademarks and the XL-3 license. During 2009, the Company acquired the Teatrical, Henna Egipcia, Flor de Naranja, Jockey Club and Por tu Salud (through MMN) trademarks and Devlyn license. During 2008, the Company acquired the Unigastrozol trademark and did not acquire licenses.

2. *Basis of presentation*

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 referred to as Normas de Información Financiera 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.

a. Monetary unit of the financial statements – The financial statements and notes as of December 31, 2010, 2009 and 2008 for the years then ended, include balances and transactions denominated in Mexican pesos of different purchasing power.

b. Consolidation of financial statements – The consolidated financial statements include the financial statements of Genomma Lab Internacional, S. A. B. de C. V. and those of its subsidiaries. Genomma Lab Internacional, S. A. B. de C. V.'s shareholding percentage in the capital stock of its significant subsidiaries, their activities and their local and functional currency is set forth below:

Company	Ownership Percentage 2010 and 2009	Ownership Percentage 2008	Activity	Local currency	Functional currency
México					
Genomma Laboratories México, S.A. de C.V.	100	100	(1)	Mexican peso	Mexican peso
Television Products Retail, S. A. de C. V.	100	100	(2)	Mexican peso	Mexican peso
Medicinas y Medicamentos Nacionales, S.A. de C.V.	100	-	(3)	Mexican peso	Mexican peso
Iniciativas de Éxito, S. A. de C. V.	100	-	(4)	Mexican peso	Mexican peso
Aero Lab, S. A. de C. V.	100	-	(5)	Mexican peso	Mexican peso
Norteamérica					
Genomma Lab USA, Inc.	100	-	(6)	U.S. dollar	U.S. dollar
Lab Brands International, LLC	70	-	(1)	U.S. dollar	U.S. dollar
Centroamérica					
Genomma Lab Centroamérica, S. A.	100	100	(2)	U.S. dollar	U.S. dollar
Sudamérica					
Genomma Lab Perú, S. A.	100	100	(6)	Sol	U.S. dollar
Genomma Lab Chile, S. A.	100	100	(6)	Peso Chileno	U.S. dollar
Genomma Lab Ecuador, S. A.	100	100	(6)	U.S. dollar	U.S. dollar
Genomma Laboratories Argentina, S. A.	85	85	(6)	Peso Argentino	U.S. dollar
Genomma Lab Colombia, LTDA	100	100	(6)	Peso Colombiano	U.S. dollar
Genomma Laboratories do Brasil, LTDA	85	-	(6)	Real	U.S. dollar
Europa					
Operación discontinuada Genomma Laboratorios Médicos, S. L.	100	85	(6)	Euro	U.S. dollar

(1) Investigación y desarrollo de productos OTC farmacéuticos y de cuidado personal.
(2) Prestación de servicios profesionales.
(3) Venta de productos farmacéuticos (GI y OTC farmacéuticos).
(4) Venta de productos OTC farmacéuticos.
(5) Servicios de transportación aérea.
(6) Venta de productos OTC farmacéuticos y de cuidado personal.

Significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

c. **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 using the currency in which transactions are recorded, except for the application of NIF B-10, Effects of Inflation, when the foreign entity operates in an inflationary environment, since this NIF applies to financial statements that have been measured using the functional currency. The financial statements are subsequently translated to Mexican pesos considering the following methodologies:

- Foreign operations whose functional currency is the same as the currency in which transactions are recorded translate their financial statements using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities; 2) historical exchange rates for stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses. Translation effects are recorded in stockholders' equity.

- 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 to 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 upon accrual in the statement of income for 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 under comprehensive financing income. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities; 2) historical exchange rates for stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses. Translation effects are recorded in stockholders' equity. In the case of foreign entities operating in an inflationary environment, the functional currency financial statements are into the currency of purchasing power as of the date of the balance sheet, using the price index of the respective 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.

d. **Comprehensive income –** Represents changes in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income. In 2010, 2009 and 2008, other comprehensive income (loss) items consist of the translation effects of foreign subsidiaries and in 2008, the valuation of investments in securities available-for-sale.

e. **Classification of costs and expenses –** Costs and expenses presented in the consolidated statements of income were classified according to their function in order to be able to calculate gross profit. Consequently, cost of sales is presented separately from other costs and expenses.

f. **Income from operations –** Income from operations is the result of subtracting cost of sales and selling, general and administrative 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.

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. Changes in accounting policies

Beginning January 1, 2010, the Company adopted the following new NIFs:

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 – Extended disclosures when the Company applies a specific new standard.

NIF B-2, Statement of Cash Flows – A separate line item, "Effects from changes in cash value" is required, to show the impact of changes in value on cash and cash equivalents resulting from exchange fluctuations and changes in fair value, in addition to the effects from conversion to the reporting currency of cash flows and balances from foreign operations. This line item should also include the effects of inflation associated with the cash flows and balances of any of the entities making up the group that operate in an inflationary economic environment.

NIF B-7, Business Acquisitions – Intangible assets or provisions above- or below-market leases may only be recognized when the acquired business is the lessee of an operating lease. This accounting change may be recognized retroactively as of January 1, 2010.

NIF C-7, Investments in Associated Companies and Other Permanent Investments – The method to determine the effects of increases in the investment in an associated company is modified. It also requires that the effects of increases or decreases in the 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 available for public use, the reporting entity should disclose the name of the direct parent company or the closest indirect parent company that issues financial statements available for public use.

Beginning January 1, 2009, the Company adopted the following new NIFs:

NIF B-7, Business Acquisitions – Requires valuation of noncontrolling interest (formerly minority interest) at fair value, as of the date of acquisition, and recognition of the total goodwill at fair value. NIF B-7 also establishes that transaction expenses should not form part of the purchase consideration and restructuring expenses should not be recognized as an assumed liability.

NIF D-8, Share-based Payments – Sets the rules for recognition of transactions involving share-based payments (at fair value of goods received, or fair value of equity instruments granted), including granting employees the option to purchase Company shares, thus eliminating supplemental application of International Financial Information Standard No. 2, Share-based Payments. See Note 11.

Beginning January 1, 2008, the Company adopted the following new NIFs:

NIF B-2, Statement of Cash Flows – Supersedes Bulletin B-12, Statement of Changes in Financial Position, and requires the presentation of a statement of cash flows using either the direct or the indirect method; the Company elected to use the indirect method. The statement of cash flows is presented in nominal pesos.

NIF B-10, Effects of Inflation – Considers two economic environments: a) an inflationary environment, where cumulative inflation over a three-year period is 26% or more, in which case, the effects of inflation need to be recognized, and b) a non-inflationary environment, where inflation is less than 26% in the same period, in which case, the effects of inflation may not be recognized in the financial statements. Also NIF B-10 requires that the cumulative gain (loss) from holding non-monetary assets be reclassified to retained earnings, except for the gain (loss) from holding non-monetary assets that is identified with inventories or fixed assets that have not been realized as of the effective date of this standard. Such amounts should be maintained in stockholders' equity and realized within current earnings of the period in which such assets are depreciated or sold. The Company determined it was impractical to identify the cumulative gain (loss) from holding non-monetary assets relating to unrealized assets as of January 1, 2008; therefore, on that date, the Company reclassified the entire balance of excess of restated stockholders' equity. NIF B-10 establishes that this accounting change be recognized prospectively.

b. **Recognition of the effects of inflation –** Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2010, 2009 and 2008, was 14.48%, 15.01% and 11.56%, respectively, the economic environment may be considered non-inflationary in those years. Inflation rates for the years ended 2010, 2009 and 2008 were 4.40%, 3.57% and 6.52%, respectively.

Beginning on January 1, 2008, the Company discontinued recognition of the effects of inflation in its consolidated financial statements for those entities that are no longer considered to operate in an inflationary environment. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

As of January 1, 2008, the Company reclassified the total effect of loss from holding non-monetary assets as retained earnings, since it was impractical to identify the corresponding assets that originated such effects as of the date of the reclassification.

Financial information for operations in other countries that are still considered inflationary, such as Argentina and Costa Rica, continues to include the effects of inflation, thereby resulting in the recognition of monetary gains and losses in the consolidated statements of income.

c. **Cash and cash equivalents –** Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash, 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 comprehensive financing income of the period. Cash equivalents are represented mainly by investments in money market funds. The Company has restricted cash designated for the repurchase of stock of the Company; such cash is invested in short-term money market funds in governmental paper.

d. **Factoring of accounts receivable –** The Company maintains as a policy, the factoring of their customer portfolio through credit institutions, in order to effectively transfer the risks and benefits associated with the receivables to meet its contractual obligations.

e. **Allowance for returns and rebates –** The Company calculates an allowance for returns and rebates based on the history of returs and the commercial conditions agreed with its customers.

f. **Inventories and cost of sales –** Inventories are stated at the lower of their cost or realizable value, using the average cost method.

g. **Buildings, properties and equipment –** Buildings, properties and equipment is recorded at acquisition cost. Balances arising from acquisitions made through December 31, 2007 were restated for the effects of inflation by applying factors derived from the National Consumer Price Index (NCPI) through that date. Depreciation is calculated using the straight-line method based on the following percentages:

	Annual percentage
Buildings	5
Laboratory equipment, molds and machinery	35
Vehicles and airplane	25 y 16
Computers	30
Production and recording equipment	30
Office furniture and equipment	10

The annual percentage rate of amortization for leasehold improvements is determined based on the related lease term.

h. **Investment in shares of associated companies –** 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 using the methodology described in paragraph 3. j. below.

i. **Other assets –** These assets represent costs incurred that the Company has determined will have future economic benefits. The Company classifies intangible assets as having either indefinite or definite useful lives, based on the period in which the Company expects to receive the benefits.

Assets with indefinite useful lives: These assets represent trademarks and other rights from which the Company expects to generate revenues indefinitely. Accordingly, they are not amortized but are subject to impairment testing using the methodology described in paragraph 3. j. below.

Assets with definite useful lives: These assets are mainly related to costs incurred in the development phase of an enterprise resource planning system that meet certain requirements and that the Company has determined will have future economic benefits. Such costs are capitalized and will be amortized based on the straight-line method over five years. Disbursements that do not meet such requirements, as well as research costs, are recorded in results of the period in which they are incurred. Additionally, these assets include security deposits on leased property, which are recorded at the cash value paid as security that is expected to be recovered at the conclusion of the lease, and licenses to sell products which are amortized using the straight-line method during the period of validity of such licenses.

j. **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 amounts mentioned above. Impairment indicators considered for these purposes are, among others, 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 sold, competition and other legal and economic factors. During 2010, no impairment was recorded. During 2009 and 2008 an impairment adjustment was recorded for $4,300 and $4,053, respectively.

k. **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.

l. **Employee benefits –** Liabilities from seniority premiums, payments that are similar to pensions and severance payments are recognized as they accrue and are calculated by independent actuaries using nominal interest rates.

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

n. **Long-term sundry creditors –** This balance corresponds to liabilities bearing interest at an average of the Mexican Interbank Equilibrium interest rate (TIIE) with annual payments due on July 20 of the following nine years.

o. **Statutory employee profit sharing –** 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 basis of assets and liabilities. Deferred PTU is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

p. **Share-based payments –** The Company has implemented a share-based payment plan for its key officers. Payments are settled with the Company's own equity instruments and cash based on equity instruments and are recognized based on the fair value of the instruments at the grant date.

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, accordingly, 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 carryforwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery. According to NIF D-4, Income Taxes, the balance of the initial cumulative effect of deferred income taxes was reclassified to retained earnings as of January 1, 2008.

Income tax provisions of foreign subsidiaries are determined based on the taxable income of each individual company.

r. **Foreign currency balances and 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 income (cost) in the consolidated statements of income.

s. **Revenue recognition –** Revenues are recognized, net of sales discounts and estimated returns, in the period in which the risks and rewards of ownership of the inventories are transferred to customers, which generally coincides with the delivery of products to customers in satisfaction of orders. Revenues from services are recognized in the period in which such services are rendered

t. **Earnings per share –** Basic earnings per common share is calculated by dividing net income of controlling interest by the weighted average number of shares outstanding during the period.

4. Cash and cash equivalents

	2010	2009	2008
Cash and bank deposits	$ 397,736	$ 337,954	$ 188,990
Cash equivalents:			
Money market funds	1,056,432	721,426	1,102,058
Money market funds – Restricted cash	269	19,036	24,084
	$ 1,454,437	$ 1,078,416	$ 1,315,132

5. *Accounts receivable*

	2010	2009	2008
Trade accounts receivable	$ 2,418,772	$ 1,625,679	$ 908,194
Allowance for:			
Doubtful accounts	(9,067)	(4,795)	(34,604)
Returns	(47,024)	(34,760)	(30,686)
Rebates	(425,254)	(249,286)	(153,982)
	(481,345)	(288,841)	(219,272)
	1,937,427	1,336,838	688,922
Officers and employees	1,894	2,499	144
Recoverable taxes	196,956	195,693	47,057
Other	25,583	10,617	18,985
	$ 2,161,860	$ 1,545,647	$ 755,108

The Company sells its products primarily to five customers, two of which are wholesalers that ultimately distribute the Company's products nationwide. Sales to these five customers represented 43.4%, 52.1% and 57.4% of consolidated net sales in 2010, 2009 and 2008, respectively. Similarly, these customers represented 53.0%, 59.3% and 53.0% of the accounts receivable balance in 2010, 2009 and 2008, respectively. To reduce credit risk, the Company periodically assesses the financial position of these customers, although specific guarantees are not required. Similarly, the Company believes that its potential credit risk is adequately covered by the existing allowance for doubtful accounts.

Movement of the allowance for bad debts, returns and rebates was as follows:

	Beginning balance	Additions	Applied provision	Ending balance
2010	$ 288,841	$ 701,492	$ (508,988)	$ 481,345
2009	$ 219,272	$ 461,041	$ (391,472)	$ 288,841
2008	$ 50,909	$ 320,823	$ (152,460)	$ 219,272

6. Inventories

	2010	2009	2008
Finished goods	$ 601,452	$ 434,219	$ 277,759
Raw materials	383,617	184,809	130,175
Allowance for obsolete inventories	(130,345)	(50,478)	(21,250)
	854,724	568,550	386,684
Advances to suppliers	42,984	12,961	16,046
Merchandise in-transit	48,955	48,610	4,980
	$ 946,663	$ 630,121	$ 407,710

7. Buildings, properties and equipment

	2010	2009	2008
Buildings	$ 115,653	$ -	$ -
Leasehold improvements	51,721	47,546	37,178
Laboratory equipment, molds and machinery	28,741	20,224	13,632
Transportation equipment	85,798	84,245	22,372
Computers	37,562	31,582	24,283
Production and recording equipment	30,883	32,555	20,089
Office furniture and sales equipment	50,485	51,661	39,000
	400,843	267,813	156,554
Accumulated depreciation and amortization	(133,813)	(79,096)	(48,836)
	267,030	188,717	107,718
Construction in-progress	121,957	64,885	-
Advances for purchase of land	-	-	4,735
Land	36,009	7,096	-
	$ 424,996	$ 260,698	$ 112,453

8. *Other assets*

	2010	2009	2008
Assets with indefinite useful lives:			
Trademarks	$ 520,335	$ 430,606	$ 80,523
License	616	606	-
Rights	75,000	75,000	-
	595,951	506,212	80,523
Assets with definite useful lives:			
Software - Development costs	34,491	9,972	126
Licenses	40,338	16,905	-
Accumulated amortization	(11,661)	(2,309)	(23)
	63,168	24,568	103
In-progress development costs	40,504	47,145	25,335
Security deposits	7,228	4,041	2,253
Other	2,806	530	497
	$ 709,657	$ 582,496	$ 108,711

9. *Investment in shares of associated company*

The Company purchased 49% of the common stock of Televisa Consumer Products, LLP, an associated company incorporated during 2009 in the United States of America, which began operations during 2010. The associated company's condensed balance sheets and statements of income as of December 31, are as follows:

	2010	2009
Balance sheets:		
Current assets	$ 64,077	$ 52,089
Non-current assets	846	17
Current liabilities	(54,334)	(746)
Common stock	52,344	52,175
Accumulated deficit	(39,004)	(815)
Stockholders' equity	10,589	51,360
Company's share in:		
Stockholders' equity	$ 5,189	$ 25,166
Net loss	$ (19,112)	$ (399)

10. Employee benefits

Net period cost for obligations resulting from postretirement benefits such as severance payments and seniority premiums was $6,658, $4,803 and $6,942 in 2010, 2009 and 2008, respectively. Other disclosures required by financial reporting standards are not considered material.

11. Stock-based payments

During 2008, the Company established a stock-based payment plan for certain of its executives. The plan provisions establish that net shares will be granted to the Company's executives that are still employed at the graduated vesting dates. The established vesting dates were: June 18, 2009, 2010, 2011 and 2012. Such plan was recognized in the accompanying consolidated financial statements measuring, as compensation cost in operating expenses, the respective portion of the fair value of the awards granted in 2010 and 2009, amortized over the related service period of the executives. As of December 31, 2010, 2009 and 2008, the total expense recorded in the consolidated statement of income is $44,858, $44,633 and $10,124, respectively. During 2010, 4,659,920 shares vested and during 2009, 3,116,880 shares vested.

12. Stockholders' equity

a. Capital stock at par value as of December 31, was as follows:

	Number of shares			Value		
	2010	2009	2008	2010	2009	2008
Fixed Capital						
Serie B	82,176	82,176	1,248,000	$ 150	$ 150	$ 150
Variable Capital						
Serie B	1,052,667,250	1,058,399,250	1,057,233,426	1,921,510	265,211	265,211
	1,052,749,426	1,058,481,426	1,058,481,426	1,921,660	265,361	265,361
Revaluation				9,562	9,562	9,562
Total				$ 1,931,222	$ 274,923	$ 274,923

Capital stock consists of no par value nominative shares. Variable capital may be increased without limitation.

Movements in shares

b. At a Stockholders' Ordinary and Extraordinary General meeting held on May 21, 2008, the stockholders approved the following:

- The reclassification of the Series "A" shares representative of fixed and variable capital stock to Series "B" shares.

- A split of outstanding shares of the capital stock of the Company, at the ratio of 3,000 shares for each share outstanding as of that date. Before the split, the capital stock of the Company was comprised of 140,566 shares; after the split, the capital stock of the Company was comprised of 421,698,000 shares.

- Increase the variable portion of the capital stock of the Company of $1,767,263, through the issuance of 110,453,913 Series "B" no par value nominative shares, to carry out the initial public offering as described in paragraph 12. e, resulting in total outstanding shares of 532,151,913.

- A plan to repurchase the Company's shares up to the equivalent of the amount of retained earnings as of December 31, 2008.

c. On June 18, 2008, the Company carried out a combined offering in Mexico, through the BMV, consisting of a initial public offer of subscription and a secondary public offer of sale of shares. Additionally, on the same date, the Company carried out an initial and a secondary private offering outside of Mexico in accordance with Rule 144A and Regulation S under U.S. Securities Act of 1933. As a result of such offerings, the Company recognized additional paid-in capital of $1,713,341 as described in paragraph 12. f, representing the excess of theoretical value of the stock and the a mount paid per share. A total of 2,911,200 shares $46,579 issued in the increase of capital stock were not paid; therefore they were cancelled. The offering and issuance costs of $112,824 (net of deferred taxes) were charged against the proceeds of the offering in the additional paid-in capital account; considering such movement, remaining shares were 529,240,713.

d. At a Stockholders' Ordinary and Extraordinary General meeting held on April 28, 2009, the stockholders approved the following:

- Exchange of 1,165,824 shares of the fixed portion of capital stock into variable shares.

- A plan to repurchase the Company's shares up to the equivalent of the amount of retained earnings as of December 31, 2008.

After these movements, the balance on shares of 529,240,713, did not have movements.

e. At a Stockholders' Ordinary and Extraordinary General meeting held on April 22, 2010, the stockholders approved the following:

- A 2-for-1 split of outstanding shares of the capital stock of the Company, through the emission and delivery to shareholders, free of payment, of 2 ordinary shares, with no nominative value, series "B", against the original owned share, without implying any stock increase. After the split, the capital stock of the Company was comprised of 1,058,451,426 shares. The split was recognized retroactively in the accompanying consolidated financial statements, affecting all share and per share data information.

- After the split discussed in the previous paragraph, the cancellation of 5,732,000 shares from variable stock and, consequently, a decrease in variable stock for $10,463 was approved, through the application of repurchased shares repurchase and retained earnings for $34,329 and $(23,866) respectively, resulting in outstanding shares of 1,052,749,426 at December 31, 2010.

- A plan to repurchase the Company's shares up to the equivalent of the amount of retained earnings as of December 31, 2009.

f. As of December 31, 2010, there are no treasury shares in the repurchase of shares account.

Other disclosures

g. During the first semester of 2010, the Board of Directors agreed to the reclassification of the total amount recorded within additional paid-in capital of $1,553,938, to capital stock for $1,666,762 and retained earnings for $(112,824), respectively. Such movements will be ratified at the Shareholders' Meeting.

h. At a Stockholders' Ordinary General meeting held on March 20, 2008, the stockholders declared a dividend of up to $363,576, of which, up to $100,000, would be paid in cash and the remaining amount in-kind. The stockholders also agreed at such meeting to delegate to the Board of the Company the right to determine the dates, terms and amounts of such dividends. At a Meeting of the Board held on March 27, 2008, the Board approved that the portion of the dividend paid in cash would be for $95,796 and the dividend in-kind by $267,780, through the yield of the right of collection of the accounts receivable. As the total amount of the dividend was $45,315 greater than the total amount of earned capital as of that date, such amount was recorded, for accounting purposes, as a capital stock distribution.

i. According to NIF B-10 and D-4, the Company reclassified to retained earnings the outstanding balances at January 1, 2008 of excess in restated stockholders' equity and the initial cumulative effect of deferred income taxes of $6,274 and $(80,506), respectively.

j. 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 par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason.

k. 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.

l. The balances of the stockholders' equity tax accounts of Genomma Lab Internacional, S. A. B. de C. V. as legal entity as of December 31 are:

	2010	2009	2008
Contributed capital account	$ 2,207,031	$ 2,119,485	$ 2,051,685
Net tax income account	1,573,386	873,758	401,878
Total	$ 3,780,417	$ 2,993,243	$ 2,453,563

13. *Foreign currency balances and transactions*

a. At December 31, the foreign currency monetary position is as follows:

	2010	2009	2008
Thousands of U.S. dollars:			
Monetary assets	63,880	1,766	11,062
Monetary liabilities	(26,394)	(166)	(793)
Net monetary asset position	37,486	1,600	10,269
Equivalent in Mexican pesos	$ 464,140	$ 20,870	$ 141,443
Thousands of euros:			
Monetary assets	411	401	-
Net monetary asset position	411	401	-
Equivalent in Mexican pesos	$ 6,744	$ 7,497	$ -

b. Transactions denominated in foreign currency were as follows:

	(In thousands of U.S. dollars)		
	2010	**2009**	**2008**
Export sales	5,299	6,310	4,381
Import purchases	4,683	2,728	2,408
Purchases of assets	12,565	-	-
Other expenses	3,862	5,185	-

	(In thousands of euros)		
	2010	**2009**	**2008**
Import purchases	-	144	-

c. Mexican peso exchange rates in effect at the dates of the consolidated balance sheets and at the date of issuance of these financial statements were as follows:

	February18,	**December 31,**		
	2011	**2010**	**2009**	**2008**
U.S. dollar	12.0172	12.3817	13.0437	13.7738
Euro	16.2833	16.4095	18.6955	19.4762

14. Transactions and balances with related parties

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

	2010	**2009**	**2008**
Sales	$ -	$ -	$ 196
Administrative services received	(153,397)	(95,248)	(25,113)
Administrative services rendered	-	-	4,983
Marketing and publishing services rendered	16,179	-	13,478
Interest income	-	-	2,926
Other revenues, net	-	-	206

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

	2010	2009	2008
Due from related parties			
Televisa Consumer Products USA, LLC	$ 27,722	$ -	$ -
Officers	20,053	30,776	11,868
Business Aliance, S. A. de C. V.	-	19	19
	$ 47,775	$ 30,795	$ 11,887
Due to related parties			
Thera Desarrollo en Sistemas, S. A. de C. V.	$ -	$ 81	$ -
Lual Servicios Empresariales, S. C.	-	-	119
	$ -	$ 81	$ 119

c. Employee benefits granted to Company key management were as follows:

	2010	2009	2008
Short-term direct benefits	$ 141,313	$ 76,696	$ 50,875

15. Other income (expense)

a. Detail is as follows:

	2010	2009	2008
PTU	$ (14,578)	$ (3,215)	$ (1,791)
Impairment of long-lived assets	-	(4,300)	(4,053)
(Loss) gain on sale of fixed assets	(1,546)	(178)	39
Inflation effects on recoverable tax balances	1,069	240	212
Other, net	21,987	7,403	2,318
	$ 6,932	$ (50)	$ (3,275)

b. PTU expense is comprised as follows:

	2010	2009	2008
PTU:			
Current expense	$ 14,578	$ 3,215	$ 1,791
Deferred benefit	-	-	(910)
Increase in valuation allowance			
for deferred PTU asset	-	-	910
	$ 14,578	$ 3,215	$ 1,791

16. *Income taxes*

The Company is subject to ISR and IETU.

The ISR rate is 30% for 2010 through 2012 and was 28% in 2009 and 2008; it will be 29% for 2013 and 28% for 2014.

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 was 17% in 2009 and 16.5% in 2008. 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.

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

Based on its financial projections and according to Interpretation of Financial Reporting Standard (INIF) 8, Effects of the Business Flat Tax, the Company determined that it will basically pay only ISR. Therefore, it only recognizes deferred ISR.

The income tax rates in Spain and in the Central and South American countries in which the Company operates range from 17% to 35%. In addition, tax losses in those countries have a duration ranging from three to eight years.

Operations in Argentina and Colombia are subject to asset tax.

In Colombia, commencing 2011, a stockholders' equity will be assessed, which results from applying a rate of 4.8% plus a rate of 1.2% to net tax assets owned as of January 1, 2011. Such tax is not deductible against income tax. The payment is deferred to 8 equal parts from 2011 and 2014.

A tax on minimum expected earnings (IGMP) is applied in Argentina. This tax is calculated by applying a 1% rate to certain productive assets and is payable only when it exceeds income tax payable for the same period. Any payment of IGMP is creditable against the excess of income tax over IGMP of the following ten years.

a. Taxes on income are as follows:

	2010	2009	2008
ISR:			
Current	$ 465,084	$ 261,100	$ 172,369
Deferred	17,280	44,245	20,050
	$ 482,364	$ 305,345	$ 192,419

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

	2010	2009	2008
	%	%	%
Statutory rate	30	28	28
Add (deduct) the effect of permanent differences, mainly nondeductible expenses and differences in foreign subsidiary operations	1	-	(2)
Effective rate	31	28	26

c. The main items comprising the asset (liability) balance of deferred ISR are as follows:

	2010	2009	2008
Deferred ISR asset:			
Allowance for doubtful accounts and			
estimated ,returns and rebates	$ 144,301	$ 85,014	$ 61,396
Accrued liabilities	23,764	348	7,105
Tax losses	3,157	5,872	-
Other – net	49,364	35,592	3,439
Deferred ISR asset	220,586	126,826	71,940
Deferred ISR liability:			
Restated inventory of 2004,			
not yet taxable	(20,932)	(26,778)	(24,070)
Prepaid expenses	(112,596)	(15,531)	(46,762)
Other assets	(104,372)	(103,175)	-
Other	(42,884)	(24,479)	-
Deferred ISR liability	(280,784)	(169,963)	(70,832)
Net ISR asset (liability)	$ (60,198)	$ (43,137)	$ 1,108
ISR asset	$ 7,024	$ 2,869	$ 1,108
ISR liability	$ (67,222)	$ (46,006)	$ -

Income taxes balances are not offset when related to different tax jurisdictions.

17. *Discontinued operation*

As mentioned in Note 1, during 2008, the Company decided to commence the process of closing its subsidiary in Spain, as a part of a strategy to focus its sale workforce in Central and South America. The Company expects to conclude the closing process during 2012. As a result of this decision, in 2009 and 2008, the Company recorded an impairment adjustment to the value of the assets of the subsidiary in Spain of $13,511 and $16,040, respectively.

The anticipated closure of the subsidiary constitutes a discontinued operation, which for comparability purposes, was applied retroactively in the accompanying consolidated financial statements. Condensed statements of income of the discontinued operation for the years ended December 31, 2010, 2009 and 2008 are as follow:

	2010	2009	2008
Revenues from discontinued operation	$ -	$ 6,884	$ 14,833
Costs and operating expenses	-	(4,917)	(24,446)
Other expenses	-	(13,510)	-
Comprehensive financing (loss)	-	-	(16,404)
Income taxes	-	-	-
Loss from discontinued operation	$ -	$ (11,543)	$ (26,017)
Non - controlling loss from discontinued operation	$ -	$ -	$ (3,903)

18. *Contingencies*

The Company and its assets are not subject to any such legal action other than routine legal and administrative proceedings in the ordinary course of its business.

19. *Commitments*

The Company leases the properties in which its offices and warehouses are located. Lease expense was $45,957 in 2010, $42,522 in 2009 and $23,720 in 2008. Lease contracts are for term up to five years. Future minimum lease payments are:

Year	Amount
2011	$ 26,992
2012	24,025
2013	24,025
2014	22,390
2015	10,944
	$ 108,376

20. *Business segment information*

Operating segment information is presented according to management's criteria, presenting information by geographical area.

2010	Revenues	Total assets	Investments in productive assets
Mexico	$ 4,811,976	$ 5,015,045	$ 413,348
International	1,451,645	815,864	5,022
Total segments	$ 6,263,621	$ 5,830,909	$ 418,370

2009	Revenues	Total assets	Investments in productive assets
Mexico	$ 3,806,292	$ 4,095,260	$ 403,274
International	618,363	146,390	10,685
Total segments	$ 4,424,655	$ 4,241,650	$ 413,959

2008	Revenues	Total assets	Investments in productive assets
Mexico	$ 2,403,646	$ 2,787,694	$ 120,944
International	225,784	52,234	6,041
Total segments	$ 2,629,430	$ 2,839,928	$ 126,985

21. *New accounting principles*

As part of its efforts to make Mexican standards converge with international standards, in 2009, the Mexican Board for Research and Development of Financial Information Standards (CINIF) issued the following NIFs, INIFs and improvements to NIFs applicable to profitable entities, which become effective for fiscal years beginning on January 1, 2011, as follows:

a) For fiscal years beginning 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
Improvements to Mexican Financial Reporting Standards 2011

Some of the most important changes established by these standards are:

NIF B-5, Financial Segment Information – Establishes management's approach with respect to disclosure of financial information by segment as opposed to Bulletin B-5, which, while using a management's approach, required that the information be disclosed by economic segments, geographical areas or homogeneous groups of customers. The standard does not require that components be subject to different risks from one another in order to consider the component as an operating segment. Additionally, a development stage enterprise can now be considered a segment. The standard also requires the separate disclosure of interest income, interest expense and liabilities, as well as entity-wide disclosures of products, services, geographical areas, and major customers and suppliers. Like the previous Bulletin B-5, this standard is only mandatory for public companies or entities in process of becoming public.

NIF B-9, Interim Financial Information – Unlike Bulletin B-9, this standard requires a condensed presentation of the statement of changes in stockholders' equity and statement of cash flows as part of the financial information at interim dates. For comparative purposes, this standard requires that the information presented at the closing of an interim period be presented together with information at the end of the same interim period of the previous year. In the case of the balance sheet, the standard requires presenting the closing balance sheet of the immediately preceding year.

NIF C-4, Inventories – This standard eliminates direct costing as a permitted method of costing and eliminated the last-in first-out method as a technique for the measurement of cost. The standard also amended the valuation of inventories, such that they should be valued at the lower of cost or market, requiring that market be represented only by net realizable value. The standard also sets rules for valuing inventory of service providers. The standard clarifies that, in the case of inventory acquisitions in installments, the difference between the purchase price under normal credit terms and the actual amount paid be recognized as a financial cost during the financing period. The standard allows that, under certain circumstances, the estimates for impairment losses on inventories that have been recognized in prior periods may be reduced or canceled against current earnings of the period where changes to estimates are made. The standard also requires disclosing the amount of inventories recognized in the results of the period, when cost of sales includes other elements, when part of cost of sales is included as part of discontinued operations, and when the statement of income is classified according to the nature of the P&L items and no cost-of-sales line item is presented, but rather the individual elements making up cost. The standard requires disclosure of the amount of any impairment losses on inventories recognized as cost of the period. It also requires that any change in the cost allocation method be treated as an accounting change. As well, it requires that advances to suppliers be recognized as inventories on upon the time when the risks and benefits of ownership are transferred to the Company.

NIF C-5, Advance Payments and Other Assets – This standard establishes that a basic feature of advance payments is the fact that they do not transfer the risks and rewards of the ownership of goods and services to the Company. Therefore, advances for the purchase of inventories or property, plant and equipment, among others, must be presented separately from inventory or property, plant and equipment if the risks and rewards of ownership of those goods has not transferred to the Company. The standard requires that advance payments be impaired when they lose their ability to generate future economic benefits. This standard also requires classification of advance payments as current or noncurrent, depending on their nature.

NIF C-6, Property, Plant and Equipment – This standard included within its scope property, plant and equipment used to develop or maintain biological assets as well as those of extractive industries. The standard also includes guidance with respect to the treatment of non-monetary exchanges with economic substance. The standard includes the basis for determining the residual value of a component, that being the amount that could be obtained currently from the disposal of the asset, assuming it is of the age and in the condition expected at the end of its useful life. The standard eliminates the requirement to record, at an appraised value, property, plant and equipment which was acquired at no cost or at a minimal cost that does not adequately represent the economic significance of the asset. The standard also establishes the obligation to separately depreciate significant components of an item of property, plant and equipment. This provision of the standard will be effective on January 1, 2012. Finally, the standard establishes a requirement to continue depreciating a component when it is not in use, except when depreciation methods are based on usage.

Improvements to Mexican Financial Reporting Standards 2011 – The main improvements generating accounting changes that should be recognized in fiscal years starting on January 1, 2011 are as follows:

> *NIF B-1, Accounting Changes and Error Corrections* – This standard requires that if the entity has implemented an accounting change or corrected an error, it should present a statement of financial position at the beginning of the earliest period for which comparative financial information is required, retroactively presenting the accounting change or error correction. The standard also requires that each affected line item in the statement of changes in stockholders' equity shows: a) initial balances previously reported, b) the related adjustment, segregating the effects of accounting changes and corrections of errors, and c) the retroactively adjusted balances.

NIF B-2, Statement of Cash Flows – This standard eliminates the requirement to present the total between investing activities and financing activities of the excess cash to be applied in or obtained from financing activities. Presentation of this total is now only a recommendation.

Bulletin C-3, Accounts Receivable – This Bulletin includes standards for the recognition of interest income on accounts receivable, and clarifies that recognition of accrued interest income on receivables whose collection is doubtful is prohibited.

NIF C-10, Derivative Financial Instruments and Hedging Activities – The standard establishes specific criteria in order to exclude certain components of a derivative financial instrument from the determination of hedge effectiveness. The standard also requires that for valuation of options and currency forwards, certain components be excluded for purposes of determining effectiveness, thus resulting in the following recognition, presentation and related disclosure requirements: a) valuation of derivative financial instruments such as an option or a combination of options: changes in fair value attributable to changes in the intrinsic value of the options may be separated from changes attributable to their extrinsic value and only the change attributable to the option's intrinsic value, and not the extrinsic component, may be designated as effective hedging; and b) valuation of currency exchange forwards: separation of the change in fair value attributable to differences between interest rates of the currencies to be exchanged from the change in fair value attributable to changes in the spot prices of the currencies involved is permitted; the effect attributable to the component that was excluded from the cash flow hedge may be recognized directly in current earnings. Hedge accounting is limited when a transaction is carried out with related parties who have different functional currencies. The standard requires that when a hedged position is a portion of a portfolio of financial assets or liabilities, the effect of the hedged risk relating to variances in the interest rate of the portion of such portfolio be presented as a supplement of the primary position, in a separate line. It also states that contribution or margin accounts received, associated with transactions for trading or hedging with derivative financial instruments, be presented as a financial liability separately from the financial instruments line item when cash or marketable securities are received; additionally, only their fair value be disclosed if securities in deposit or qualifying financial warranties are received that will not become the property of the entity. The standard also states that a proportion of the total amount of the hedging instrument, such as a percentage of its notional amount, may be designated as hedging instrument in a hedging relationship. However, a hedging relationship cannot be designated for only a portion of the term in which the instrument intended to be used as hedge is in effect.

NIF C-13, Related Parties – This standard includes a close family member within the definition of a related party.

Bulletin D-5, Leases – Bulletin D-5 removes the obligation to determine the incremental interest rate when the implicit rate is too low; consequently, it establishes that the discount rate to be used by the lessor to determine the present value of minimum lease payment should be the implicit interest rate of the lease agreement, if it can be easily determined. If the implicit rate cannot be easily determined, then the incremental interest rate should be used. The improvement also requires more detailed disclosures by both lessors and lessees. The improvement also requires that when a gain or loss on the sale in a sale and leaseback transaction is deferred, it should be amortized over the term of the agreement and not in proportion to the depreciation of the leased asset. The gain or loss on the sale in a sale and leaseback transaction involving an operating lease should be recognized in results at the time of sale, provided that the transaction is established at fair value. If the sales price is below the carrying value of the asset, the result should be recognized immediately in current earnings, unless the loss is offset by future payments that are below the market price, in which case it should be deferred and amortized over the term of the agreement. If the sales price is greater than the carrying value of the asset, the excess should be deferred and amortized over the term of agreement.

Additionally, Improvements to Mexican Financial Reporting Standards 2011 include modifications that do not generate accounting changes. These improvements are effective immediately. Certain aspects of these improvements are as follows:

1) ***NIF D-4, Income Taxes*** – This improvement establishes that effects of changes to tax law be included in the financial statements when such changes are enacted. The improvement indicates that the changes are considered enacted as of the date of the financial statements when the law has been formally approved and published in the Diario Oficial of Mexico.

2) ***Bulletin D-5, Leases*** – This improvement establishes additional indicators of capital leases, as follows:

    a) Leased assets are of such a specific nature that only the leasee is able to use them without performing any significant modification to them;

    b) The leasee can cancel the leasing agreement however, all losses incurred by lessor as a result of the cancellation must contractually be assumed by the leasee;

    c) Gain or losses derived from fluctuation in the fair value of the residual value of the assets are transferred to the leasee (for example, as a reimbursement or discount in rents for a similar amount of the asset's sale value at the end of the lease); and

    d) The leasee has the possibility to extend the lease for a second period, with lease payments substantially lower than market value.

b) For fiscal years beginning on or after 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.

22. *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 International Financial Reporting Standards beginning in 2012, and permits their early adoption. The Company has decided to adopt IFRS in 2012. As the Company is still in the process of conversion of standards, as of the date of issuance of these consolidated financial statements, the Company has not fully assessed the effects that adoption of IFRS will have on its main financial statement line items.

23. *Financial statements issuance authorization*

On February 18, 2011, the issuance of the consolidated financial statements was authorized by Lic. Oscar Villalobos Torres, CFO, Lic. Francisco Lizardi Calderón, CAO, and C.P. Sonia Almonte Almonte, Controller. These consolidated financial statements are subject to the approval at the general ordinary stockholders' meeting, where they may be modified, based on provisions set forth in Mexican General Corporate Law.

Shareholder **Information**

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This annual report contains forward-looking statements which reflect the current opinions of Genomma Lab Internacional management regarding future events. The words "anticipate", "believe", "expect", "hope", "have the intention of", "might", "plan", "should", and similar expressions generally indicate comments on expectations. These comments are subject to risks, uncertainties, and changing circumstances. The final results may be materially different from current expectations due to several factors, which include, but are not limited to, global and local changes in politics, the economy, business, competition, market and regulatory factors, cyclical trends in the automobile parts and chemical sectors; as well as other factors that are highlighted under the title "Risk Factors" on the annual report submitted by Genomma Lab Internacional to the Mexican Securities and Exchange Commission (CNBV). Genomma Lab Internacional has no obligation whatsoever to update these comments on expectations. Any comment on expectations is valid only on the date on which it is made.

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