

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Consolidated financial statements

Years ended December 31, 2009, 2008 and 2007
with Report of Independent Auditors

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Consolidated financial statements

Years ended December 31, 2009, 2008 and 2007

Contents:

Report of Independent Auditors

Consolidated financial statements:

Balance Sheets

Statements of Income

Statements of Changes in Stockholders' Equity

Statements of Cash Flows (2009 and 2008)

Statement of Changes in Financial Position (2007)

Notes to financial statements

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Consolidated balance sheets

(Figures in thousands of Mexican pesos (Ps.))

	As of December 31,	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	Ps. 3,122,074	Ps. 1,140,140
Restricted cash (Note 4)	129,342	128,045
Trade accounts receivable, net (Note 5)	13,038,211	11,845,530
Inventories (Note 6)	4,007,374	5,090,904
Prepaid expenses and other current assets, net (Note 7)	545,298	443,166
Total current assets	20,842,299	18,647,785
Land held for future development (Note 6)	10,912,389	9,254,469
Property and equipment, net (Note 8)	1,110,582	1,402,928
Goodwill (Note 3j)	731,861	731,861
Other assets, net (Note 9)	324,393	468,369
Deferred income taxes (Note 23)	643,640	328,598
Total assets	Ps. 34,565,164	Ps. 30,834,010
Liabilities and stockholders' equity		
Current liabilities:		
Current debt and current portion of long-term debt (Note 10)	Ps. 270,595	Ps. 1,417,404
Current portion of leases (Note 12)	108,437	89,255
Trade accounts payable (Note 14)	2,233,481	4,005,853
Land suppliers (Note 15)	1,338,226	2,326,036
Advances from customers	1,277,810	365,962
Taxes other than income taxes	744,780	357,821
Income taxes	143,920	129,141
Employee statutory profit-sharing	16,989	70,445
Provision for unrecognized tax benefits (Note 23f)	248,781	-
Total current liabilities	6,383,019	8,761,917
Long-term debt (Note 10)	9,460,163	5,990,119
Long-term leases (Note 12)	254,679	314,639
Financial instruments (Note 11)	119,084	-
Other long-term liabilities (Note 25)	-	18,403
Long-term land suppliers (Note 15)	74,659	405,426
Employee benefits obligations (Note 13)	98,187	85,150
Deferred income taxes (Note 23)	4,952,410	3,741,099
Total liabilities	21,342,201	19,316,753
Stockholders' equity (Note 16):		
Common stock	528,011	528,011
Additional paid-in capital	3,280,223	3,280,223
Treasury stock, at cost	(93,290)	(99,342)
Retained earnings	9,349,993	7,508,715
Derivative instruments (Note 11)	(87,872)	-
Other stockholders' equity accounts	10,906	53,307
Total stockholders' equity of controlling interest	12,987,971	11,270,914
Total stockholders' equity of non-controlling interest	234,992	246,343
Total stockholders' equity	13,222,963	11,517,257
Total liabilities and stockholders' equity	Ps. 34,565,164	Ps. 30,834,010

See accompanying notes to these consolidated financial statements.

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Consolidated statements of income

(Figures in thousands of Mexican pesos (Ps.) except earnings per share)

	For the years ended December 31,					
	2009		2008		2007	
Revenues (Note 3b)	Ps.	19,425,182	Ps.	18,850,496	Ps.	16,222,524
Cost of sales (Note 3b)		13,748,416		13,473,257		11,041,456
Gross profit		5,676,766		5,377,239		5,181,068
Operating expenses (Note 20)		2,506,756		2,377,646		1,798,429
Income from operations		3,170,010		2,999,593		3,382,639
Other income (expenses), net (Note 21)		49,475	(	109,926)		209,223
Net comprehensive financing cost (Note 6):						
Interest expense (Note 22)		383,765		237,033		344,928
Interest income	(	184,140)	(	157,351)	(	140,202)
Exchange (gain) loss	(	59,510)		164,841		26,782
Valuation effects of derivative instruments (Note 11)		66,451		313,962	(	147,977)
Monetary position loss (Note 3a)		-		-		195,373
		206,566		558,485		278,904
Income before income tax		3,012,919		2,331,182		3,312,958
Income tax (Note 23)		1,182,992		712,175		951,280
Consolidated net income	Ps.	1,829,927	Ps.	1,619,007	Ps.	2,361,678
Net income of controlling interest	Ps.	1,841,278	Ps.	1,580,876	Ps.	2,233,066
Net income of non-controlling interest	(	11,351)		38,131		128,612
Consolidated net income	Ps.	1,829,927	Ps.	1,619,007	Ps.	2,361,678
Weighted average shares outstanding (in thousands)		334,830		334,870		335,688
Basic and diluted earnings per share of controlling interest	Ps.	5.50	Ps.	4.72	Ps.	6.65

See accompanying notes to these consolidated financial statements.

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2009, 2008 and 2007

(Figures in thousands of Mexican pesos (Ps.))

	Common stock	Additional paid-in capital	Treasury stock, at cost	Retained earnings	Derivative instruments	Other stockholders' equity accounts	Stockholders' equity of controlling interest	Stockholders' equity of non-controlling interest	Total stockholders' equity (Note 16)
Balances as of January 1, 2007	Ps. 528,011	Ps. 3,280,223		Ps. 3,348,132	Ps. -	Ps. 347,405	Ps. 7,503,771	Ps. 88,733	Ps. 7,592,504
Comprehensive income				2,233,066	-	(4,577)	2,228,489	128,612	2,357,101
Shares repurchased for employee stock option plan			Ps. (99,342)				(99,342)		(99,342)
Dividends paid by consolidated subsidiary (Note 16f)								(9,133)	(9,133)
Balances as of December 31, 2007	528,011	3,280,223	(99,342)	5,581,198	-	342,828	9,632,918	208,212	9,841,130
Reclassification to retained earnings from the accumulated monetary position (Note 3a)				346,641		(346,641)			
Initial adoption of MFRS D-3 Employee benefits (Notes 3a and 13)						33,764	33,764		33,764
Comprehensive income				1,580,876		23,356	1,604,232	38,131	1,642,363
Balances as of December 31, 2008	528,011	3,280,223	(99,342)	7,508,715	-	53,307	11,270,914	246,343	11,517,257
Shares repurchased for employee stock option plan			(3,188)				(3,188)		(3,188)
Shares repurchased (Note 16g)			(1,398)				(1,398)		(1,398)
Shares-based payment transactions (Note 16g)				10,638			10,638		10,638
Changes in fair value of derivative instruments, net of deferred taxes (Note 11)					(87,872)		(87,872)		(87,872)
Comprehensive income				1,841,278	-	(42,401)	1,798,877	(11,351)	1,787,526
Balances as of December 31, 2009	Ps. 528,011	Ps. 3,280,223	Ps. (93,290)	Ps. 9,349,993	Ps. (87,872)	Ps. 10,906	Ps. 12,987,971	Ps. 234,992	Ps. 13,222,963

See accompanying notes to these consolidated financial statements.

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Consolidated statements of cash flows

(Figures in thousands of Mexican pesos (Ps.))

	For the years ended December 31,	
	2009	2008
Cash flows generated by (used in) operating activities		
Income before income tax	Ps. 3,012,919	Ps. 2,331,182
Items related to investing activities:		
Depreciation and amortization	483,409	425,021
Loss (gain) on sale of property and equipment	26,706	(8,771)
Interest income	(184,140)	(157,351)
Gain on sale of other investment	(11,676)	-
Items related to financing activities:		
Interest expense	886,149	663,765
Share-based payment transactions	10,638	-
Valuation effects of derivative instruments	66,451	313,962
Deferred profit-sharing	26,606	3,061
Exchange (gain) loss	(184,346)	715,500
	4,132,716	4,286,369
Increase in trade accounts receivable	(1,192,681)	(4,296,272)
Increase in inventories and land held for future developments	(574,390)	(2,878,188)
(Increase) decrease in prepaid expenses and other assets	(220,817)	92,611
Interest income collected	184,140	157,351
(Decrease) increase in trade accounts payable	(1,651,851)	429,063
Decrease in accounts payable to land suppliers	(1,318,577)	(1,016,245)
Increase in other liabilities	1,246,549	418,151
Increase in employee benefits obligations	13,037	40,242
Payments of derivative instruments	(123,271)	(340,912)
Income tax recovered (paid)	43,272	(123,531)
Net cash flows from operating activities	538,127	(3,231,361)
Cash flows generated by (used in) investing activities		
Increase in the investment in associate	-	(27,727)
Acquisition of property and equipment	(89,352)	(563,723)
Proceeds from sale of property and equipment	30,625	98,720
Net cash flows from investing activities	(58,727)	(492,730)
Cash flows generated by (used in) financing activities		
Proceeds from new borrowings	15,749,151	9,145,280
Payments of notes payable	(13,337,871)	(5,861,061)
Interest paid	(874,911)	(665,807)
Shares repurchased	(4,586)	-
Net cash flows from financing activities	1,531,783	2,618,412
Net increase (decrease) of cash and cash equivalents	2,011,183	(1,105,679)
Translation adjustment	(27,952)	10,940
Cash, cash equivalents and restricted cash at the beginning of the year (1)	1,268,185	2,362,924
Cash, cash equivalents and restricted cash at the end of the year (1)	Ps. 3,251,416	Ps. 1,268,185

(1) This balance is composed by Ps. 3,122,074 and Ps. 1,140,140 of cash and cash equivalents and Ps. 129,342 and Ps. 128,045 of restricted cash as of December 31, 2009 and 2008, respectively.

See accompanying notes to these consolidated financial statements.

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Consolidated statement of changes in financial position

(Figures in thousands of Mexican pesos (Ps.))

		For the year ended December 31, 2007
Operating activities		
Consolidated net income	Ps.	2,361,678
Add items that did not require the uses of resources:		
Depreciation		196,307
Amortization of intangibles		105,410
Labor obligations		18,416
Deferred income taxes, net of inflation		818,407
		3,500,218
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable	(	2,008,172)
Inventories and land held for future development	(	2,090,087)
Other assets	(	124,375)
Increase (decrease) in:		
Trade accounts payable		1,321,131
Land suppliers		245,812
Taxes payable	(	154,829)
Other liabilities	(	29,529)
Net resources generated by operating activities		660,169
Financing activities		
Proceeds from new borrowings		2,647,276
Payments of notes payable	(	2,408,739)
Changes in fair value of financial instrument	(	147,976)
Debt issuance costs		—
Shares repurchased for employee stock option plan	(	99,342)
Dividends paid by subsidiary company	(	9,133)
Net resources used in financing activities	(	17,914)
Investing activities		
Restricted cash	(	118,493)
Investment in associates	(	17,869)
Acquisition of property and equipment, net	(	680,748)
Net resources used in investing activities	(	817,110)
Cash and cash equivalents:		
Net decrease	(	174,855)
Balance at beginning of year		2,381,689
Balance at end of year	Ps.	2,206,834

See accompanying notes to these consolidated financial statements.

**DESARROLLADORA HOMEX, S.A.B. DE C.V.
AND SUBSIDIARIES**

Notes to consolidated financial statements

For the years ended December 31, 2009 and 2008

(Figures in thousands of Mexican pesos (Ps.),
except as otherwise indicated)

1. Nature of business

Desarrolladora Homex, S.A.B. de C.V. and its subsidiaries (the “Company”) is comprised of a group of companies engaged mainly in the promotion, design, development, construction and sale of affordable entry level and middle income residential housing. Substantially all sales are made in Mexico.

To carry out its activities, the Company engages in land acquisition, obtaining permits and licenses, designing, constructing, marketing and selling homes, obtaining individual financing for its customers and developing communities to satisfy housing needs in Mexico.

The Company participates in housing supply offers from the main housing funds in Mexico, such as the National Workers’ Housing Fund, or Instituto Nacional del Fondo de Ahorro para la Vivienda de los Trabajadores (“INFONAVIT”), the Social Security and Services Institute Public-Segment Workers’ Housing Fund, or Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (“FOVISSSTE”) and the governmental mortgage providers such as the Federal Mortgage Society, or Sociedad Hipotecaria Federal (“SHF”). Additionally, the Company participates in the market, where mortgage financing is provided by commercial banks and cash transactions.

For the years ended December 31, 2009, 2008 and 2007, revenues obtained through INFONAVIT mortgage financing accounted for 76%, 76% and 75% respectively, of the Company’s total revenues, with other sources accounting for 24%, 24% and 25%, respectively.

The Company’s operations are on a seasonal basis: normally, the highest volume of sales takes place in the second half of the year. Construction times of real-estate developments vary depending on the type of housing: entry-level, middle-income or upper-income; accordingly, construction revenues are recognized in different fiscal years, and the revenues from work completed and generation of accounts receivable fluctuate depending on the date of the beginning of the project and that of its completion.

On April 27, 2010, the Financial Director (CFO), Carlos Moctezuma Velasco, and the Controlling Director, Ramón Lafarga Bátiz, authorized the issuance of the Company’s consolidated Mexican Financial Reporting Standards (MFRS) financial statements and notes as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009. Those consolidated financial statements must also be approved by the Audit Committee, the Board of Directors and the Company’s stockholders at their next meetings. These bodies have the authority to modify the accompanying consolidated financial statements, as appropriate.

2. Basis of preparation

Consolidation of financial statements

The consolidated financial statements include those of Desarrolladora Homex, S.A.B. de C.V. and its subsidiaries, whose shareholding percentage in their capital stock is shown below:

Company	Ownership percentage		Activity
	2009	2008	
Proyectos Inmobiliarios de Culiacán, S.A. de C.V. ("PICSA")	100%	100%	Promotion, design, construction and sale of entry-level, middle-income and upper-income housing.
Nacional Financiera, S.N.C. Fid. del Fideicomiso AAA Homex 80284	100%	100%	Financial services.
Administradora Picsa, S.A. de C.V.	100%	100%	Administrative services and promotion related to construction industry.
Altos Mandos de Negocios, S.A. de C.V.	100%	100%	Administrative services.
Aerohomex, S.A. de C.V.	100%	100%	Air transportation and lease services.
Desarrolladora de Casas del Noroeste, S.A. de C.V. (DECANO)	100%	100%	Construction and development of housing complexes.
Homex Atizapán, S.A. de C.V.	67%	67%	Promotion, design, construction and sale of entry-level and middle-income housing.
Casas Beta del Centro, S. de R.L. de C.V. (1)	100%	100%	Promotion, design, construction and sale of entry-level and middle-income housing.
Casas Beta del Norte, S. de R.L. de C.V.	100%	100%	Promotion, design, construction and sale of entry-level housing.
Casas Beta del Noroeste, S. de R.L. de C.V.	100%	100%	Promotion, design, construction and sale of entry-level housing.
Hogares del Noroeste, S.A. de C.V. (2)	50%	50%	Promotion, design, construction and sale of entry-level and middle-income housing.
Opción Homex, S.A. de C.V. (4)	100%	100%	Sale, lease and acquisition of properties.
Homex Amuéblate, S.A. de C.V. (4)	100%	100%	Sale of housing related products.
Homex Global, S.A. de C.V. (3)	100%	100%	Holding company for foreign investments.
Sofhomex, S.A. de C.V. S.F.O.M. E.R.	100%	100%	Financial services.
Nacional Financiera, S.N.C. Fid. del Fideicomiso Homex 80584	100%	100%	Employee stock option plan administration.
HXMTD, S.A. de C.V. (5)	100%	100%	Promotion, design, construction and sale of upper-income tourism housing.
Homex Central Marcaria, S.A. de C.V. (5)	100%	100%	Administration of industrial and intellectual property.

3.

Significant intercompany balances and transactions have been eliminated during the consolidation of these entities.

- (1) Casas Beta del Centro, S. de R.L. de C.V. (CBC) owns 100% of the outstanding stock of Super Abastos Centrales y Comerciales, S.A. de C.V. and 50% of the outstanding stock of Promotora Residencial Huehuetoca, S.A. de C.V. (Huehuetoca), which are engaged in the promotion, design, construction and sale of entry-level housing. Huehuetoca is fully consolidated in accordance MFRS B-8 *Consolidated or Combined Financial Statements*, since the Company has control over this subsidiary. Through October 20, 2009, CBC owned 100% of the outstanding stock of Comercializadora Cántaros, S.A. de C.V. That company was sold to a third party on that date.
- (2) Hogares del Noroeste, S. A. de C.V. is a 50% owned and controlled subsidiary of Desarrolladora Homex, S.A.B. de C.V., which is engaged in the promotion, design, construction and sale of entry-level and middle-income housing. This entity is fully consolidated in accordance with MFRS B-8, since the Company has control over this subsidiary.
- (3) Homex Global, S.A. de C.V, (Homex Global) owns the outstanding stock of the following companies:
 - (a) Effective March 2008, Homex Global owns 100% of the outstanding stock of Homex India Private Limited, a subsidiary located in India and that performs the construction and development of entry-level and middle-income housing in India. This company had no significant operations during 2008 and 2009.
 - (b) Effective September 2007, Homex Global owned 15% of the outstanding stock of Orascom Housing Communities “S.A.E.”, a company located in Cairo, Egypt that performs the construction and development of entry-level and middle-income housing in Egypt. Pursuant the application of MFRS C-7, *Investments in Associates and Other Permanent Investments*, effective January 1, 2009, this company was no longer considered an associated but other permanent investment. On December 31, 2009 the Company sold its total investment in this company to a third party (see Note 9).
 - (c) Effective February 2008, Homex Global owns 100% of the outstanding stock of Desarrolladora de Sudamérica, S.A. de C.V., a Mexican company that had no operations during 2008 and 2009.
 - (d) Effective November 2008, Homex Global owns 100% of the outstanding common stock of Homex Brasil Incorporacoes a Construcoes Limitada (Homex Brasil), through its subsidiaries Éxito Construcoes e Participacoes Limitada and HMX Empreendimentos Imobiliarios Limitada. Through eight subsidiaries, Homex Brasil performs construction and development of entry-level housing in Sao Paulo, Brasil. During 2009, Homex Brasil started operations in Brazil with a 1,300-unit affordable entry-level development in San Jose dos Campos, northeast of Sao Paulo. As of December 31, 2009 the Company had recognized revenues for Ps. 62,178 for its Brazilian operations.
- (4) These companies were incorporated in 2007; however, they had no significant operations during 2007, 2008 and 2009.

(5) These companies were incorporated in 2008; however, they had no significant operations during 2008 and 2009.

3. Summary of significant accounting policies

The accompanying consolidated financial statements were prepared in conformity with Mexican Financial Reporting Standards (MFRS).

a) New accounting standards

The most relevant standards that came into force in 2009 are described below:

MFRS B-7, Business Acquisitions

This MFRS substitutes Bulletin B-7 *Business Acquisitions* and was issued by the Consejo Mexicano para la Investigación y Desarrollo de Normas de la Información Financiera, A.C. (Mexican Financial Information Standards Research Development Board or “CINIF” to replace Mexican accounting Bulletin B-7 *Business Acquisitions*. This standard establishes general rules for the initial recognition of net assets, non-controlling interests and other items, as of the acquisition date.

According to this statement, purchase and restructuring expenses resulting from acquisition process, should not be part of the consideration, because these expenses are not an amount being shared by the business acquired.

In addition, MFRS B-7 requires a company to recognize non-controlling interests in the acquiree at fair value as of the acquisition date.

MFRS B-7 is effective for future acquisitions and did not have any effect on the Company’s consolidated financial statements.

MFRS B-8, Consolidated or Combined Financial Statements

The CINIF issued on December 2008, MFRS B-8 Consolidated or Combined Financial Statements which replaces Mexican Bulletin B-8 *Consolidated Financial Statements* and describes general rules for the preparation, presentation and disclosure of consolidated and combined financial statements.

The main changes of this MFRS are as follows: (a) this rule defines “Specific-Purpose Entity” (SPE), establishes the cases in which an entity has control over a SPE, and when a company should consolidate this type of entity; (b) addresses that potential voting rights should be analyzed when evaluating the existence of control over an entity; and, (c) set new terms for “controlling interest” instead of “majority interest,” and “non-controlling interest” instead of “minority interest.”

The adoption of this MFRS did not have any effect on the Company’s consolidated financial statements.

5.

MFRS C-7, Investments in Associates and Other Permanent Investments

MFRS C-7 was issued by CINIF on December 2008 and describes the accounting treatment for investments in associates and other permanent investments, which were previously treated within Bulletin B-8 *Consolidated Financial Statements*. This MFRS requires the recognition of a Specific-Purpose Entity, through equity method. Also, this MFRS establishes that potential voting rights should be considered when analyzing the existence of significant influence.

In addition, this rule defines a procedure and a limit for the recognition of losses in an associate.

The adoption of this MFRS required the Company to consider the associate in Egypt as other permanent investment effective January 1, 2009, and no longer as an associate, and therefore to stop recognizing the equity method over this company.

MFRS C-8, Intangible Assets

This rule substitutes Bulletin C-8 *Intangible Assets*. The new rule defines intangible assets as non-monetary items and broadens the criteria of identification, indicating that an intangible asset must be separable; this means that such asset could be sold, transferred, or used by the entity. In addition, intangible asset arises from legal or contractual rights, whether those rights are transferable or separable from the entity.

On the other hand, this standard establishes that preoperative costs should be eliminated from the capitalized balance, affecting retained earnings, and without restating prior financial statements.

This amount should be presented as an accounting change in consolidated financial statements.

The adoption of this MFRS did not have any effect on the Company's consolidated financial statements.

MFRS D-8, Share-Based Payments

MFRS D-8 establishes the recognition of share-based payments. When an entity purchases goods or pay services with share-based payments, the entity is required to recognize those goods or services at fair value and the corresponding increase in equity. According with MFRS D-8, if share-based payments cannot be settled with equity instruments, they have to be settled using an indirect method considering MFRS D-8 parameters.

The adoption of this MFRS did not have material effect on the Company's consolidated financial statements.

IMFRS 18, Effects on Recognition from the 2010 Tax Reform Bill in Income Taxes

On December 15, 2009 the CINIF published the Interpretation 18 of Mexican Financial Reporting Standards (IMFRS) with the objective to provide guidance in regards to the 2010 Tax Reform Bill about the accounting recognition that should be completed in the companies' financial statements.

This IMFRS establishes certain parameters for the recognition of changes to the new Tax Reform, mainly in regards to Income Tax rates changes, changes to the consolidation regime (fundamentally related to tax losses), losses on stock transfers, special consolidation terms, distributed dividends not from Net Tax Profit Account (CUFIN), consolidation tax benefits and differences between CUFIN. See effects of the application of IMFRS 18 in Note 23.

The most relevant standards that came into force in 2008 are described below:

MFRS B-2, Statement of Cash Flows

In November 2007, MFRS B-2 was issued by the CINIF to replace Mexican accounting Bulletin B-12, *Statement of Changes in Financial Position*. This standard establishes that the statement of changes in financial position is substituted by a statement of cash flows as part of the basic financial statements. The main differences between both statements lie in the fact that the statement of cash flows shows the entity's cash receipts and disbursements for the period, while the statement of changes in financial position showed the changes in the entity's financial structure rather than its cash flows. In an inflationary environment, the amounts of both financial statements are expressed in constant Mexican pesos. However, in preparing the statement of cash flows, the entity must first eliminate the effects of inflation for the period and, accordingly, determine cash flows at constant Mexican pesos, while in the statement of changes in financial position, the effects of inflation for the period were not eliminated.

MFRS B-2 establishes that in the statement of cash flows, the entity must first present cash flows derived from operating activities, then from investing activities, the sum of these activities and finally cash flows derived from financing activities. The statement of changes in financial position first shows the entity's operating activities, then financing activities and finally its investing activities. Under this new standard, the statement of cash flows may be determined by applying the direct or indirect method.

The transitory rules of MFRS B-2 establish that the application of this standard is prospective. Therefore, the financial statements for 2007 include the statement of changes in financial position, as previously established by Mexican accounting Bulletin B-12.

MFRS B-10, Effects of Inflation

In July 2007, the CINIF issued MFRS B-10, *Effects of Inflation*. MFRS B-10 defines the two economic environments in Mexico that will determine whether or not entities must recognize the effects of inflation on financial information: i) inflationary, when inflation is equal to or higher than 26%; accumulated in the preceding three fiscal years (an 8% annual average); and ii) non-inflationary, when accumulated inflation for the preceding three fiscal years is less than the aforementioned accumulated 26%. Based on these definitions, the effects of inflation on financial information must be recognized only when entities operate in an inflationary environment.

7.

This standard also establishes the accounting rules applicable whenever the economy changes from any type of environment to another. When the economy changes from an inflationary environment to a non-inflationary one, the entity must maintain in its financial statements the effects of inflation recognized through the immediate prior year, since the amounts of prior periods are taken as the base amounts of the financial statements for the period of change and subsequent periods. Whenever the economy changes from a non-inflationary environment to an inflationary one, the effects of inflation on the financial information are recognized retrospectively, meaning that all information for prior periods must be adjusted to recognize the accumulated effects of inflation of the periods in which the economic environment was considered non-inflationary.

This standard also abolishes the use of the specific-indexation method for the valuation of imported fixed assets and the replacement-cost method for the valuation of inventories, thus eliminating the result from holding non-monetary assets.

The Interpretation 9 of MFRS establishes that comparative financial statements for years prior to 2008 must be expressed in Mexican pesos with purchasing power at December 31, 2007, which was the last date on which the effects of inflation were recognized.

The realized result from holding non-monetary assets must be reclassified to retained earnings, while the unrealized portion must be maintained as such within stockholders' equity, and reclassified to results of operations when the asset giving rise to it is realized. Whenever it is deemed impractical to separate the realized from the unrealized result from holding non-monetary assets, the full amount of this item may be reclassified to the retained earnings.

The effect of the adoption of this standard on the Company's 2008 financial statements is the Company's ceasing to recognize the effects of inflation on its financial information; therefore no monetary result was determined. The accumulated monetary position as of December 31, 2007 that was Ps. 346,641 was reclassified to the retained earnings.

MFRS B-15, Foreign Currency Translation

MFRS B-15 incorporates the concepts of recording currency, functional currency and reporting currency, and establishes the methodology to translate financial information of a foreign entity, based on those terms. Additionally, this rule is aligned with NIF B-10, which defines translation procedures of financial information from subsidiaries that operate in inflationary and non-inflationary environments. Prior to the application of this rule, translation of financial information from foreign subsidiaries was according to inflationary environments methodology.

The Company's foreign operations are insignificant at this time and thus the impact of the adoption of this MFRS on the Company's consolidated financial statements was also insignificant.

MFRS D-3, Employee Benefits

MFRS D-3, *Employee Benefits* replaces the previous MFRS accounting Bulletin D-3, *Labor Obligations*. The most significant changes contained in MFRS D-3 are as follows:

- i) shorter periods for the amortization of unamortized items such as transition obligations, with the option to credit or charge actuarial gains or losses directly to results of operations, as they accrue. As further disclosed in Note 13, during 2008 the Company prospectively changed the amortization periods for its transition liability from those of 10-22 year periods in prior years, to a four year period starting in 2008, resulting in Ps. 5,559 in additional labor costs being recognized in its 2008 statement of income as compared to prior periods;
- ii) elimination of the recognition of an additional liability and resulting recognition of an intangible asset and comprehensive income item. As further disclosed in Note 13, upon the adoption of MFRS D-3 the Company reversed its intangible asset of Ps. 30,092 and additional liability of Ps. 34,189 resulting in a credit to shareholders equity of Ps. 4,097 in 2008;
- iii) accounting treatment of current-year and deferred employee profit-sharing, requiring that deferred employee profit-sharing be recognized using the asset and liability method established under MFRS D-4. The Company recorded a deferred profit sharing asset of Ps. 29,667 upon adoption of MFRS D-3. That asset has been adjusted to a value of Ps. 26,606 as of December 31, 2008. As of December 31, 2009 there was no deferred profit sharing.
- iv) current-year and deferred employee profit-sharing expense is to be presented as an ordinary expense in the income statement rather than as part of taxes on profits.

The impact of the adoption of MFRS D-3 is as indicated above.

MFRS D-4, Taxes on Profit

The CINIF also issued Mexican FRS D-4, *Taxes on Profits* which replaces Mexican accounting Bulletin D-4 *Accounting for Income Taxes, asset Tax and Employee Profit-sharing*. The most significant changes attributable to MFRS D-4 are as follows:

- i) the concept of permanent differences is eliminated. The asset and liability method requires the recognition of deferred taxes on all differences in balance sheet accounts for financial and tax reporting purposes, regardless of whether they are permanent or temporary;
- ii) because current and deferred employee profit-sharing is now considered as an ordinary expense under MFRS D-3, it is excluded from this standard;
- iii) asset taxes are required to be recognized as a tax credit and, consequently, as a deferred income tax asset only in those cases in which there is certainty as to its future realization; and
- iv) the cumulative effect of adopting Mexican accounting Bulletin D-4 is to be reclassified to retained earnings, unless it is identified with comprehensive items in stockholders' equity not yet taken to income.

The application of this standard is prospective in nature; therefore the comparative financial statements from prior years were not modified. The adoption of this MFRS did not have any effect on the Company's consolidated financial statements.

9.

The most relevant standard that came into force in 2007 is described below:

MFRS D-6, Capitalization of the Comprehensive Financing Cost

MFRS D-6 establishes that entities must capitalize comprehensive financing cost (CFC), which had been optional, under Mexican accounting Bulletin C-6, *Property, Plant and Equipment*.

Capitalized CFC is defined as the amount attributable to qualifying assets that could have been avoided if its acquisition had not taken place, which in the case of Mexican peso denominated financing, includes its interest and the net monetary position, and in the case of foreign currency denominated financing, it also includes any exchange gain or losses. Qualifying assets are defined as those assets acquired by an entity requiring a prolonged period of time to carry out the activities to get them ready for their intended use, that are to be sold or leased, that require a prolonged period to be acquired or readied for its sale or lease including inventories that require a period of time to take possession or to get them in conditions for their sale. The capitalization of the comprehensive result of financing starts and continues while investments for its acquisition are being made, the activities required for conditioning the asset for sale or use are underway and interest is being accrued.

MFRS D-6 establishes that the amount of capitalized CFC will be determined based on the loans that were specifically used to acquire the qualifying assets, or if such identification cannot be made, by applying the weighted average capitalization rate for financing to the weighted average number of investments in qualifying assets made during the acquisition period. Financing with imputed interest cost may be capitalized against the cost of acquired assets, since the financing is recognized at its present value.

The application of MFRS D-6 for the years ended December 31, 2009, 2008 and 2007 represented a decrease in CFC of Ps. 563,154, Ps. 1,250,080 and Ps. 179,304, respectively, although Ps. 670,127 (of which Ps. 419,338 is related to the current year CFC and Ps. 250,789 is related to prior years) in 2009, Ps. 976,707 (of which Ps. 931,682 is related to the current year CFC and Ps. 45,025 is related to prior years) in 2008 and Ps. 119,286 in 2007 were ultimately charged to cost of sales as the underlying projects were sold.

b) Revenue and cost recognition

Revenues from the Company's activities as a developer are recorded pursuant to the percentage-of-completion method, measured by the percentage of actual costs incurred to total estimated costs for each development and each project. Under this method, the estimated revenue for each development and project is multiplied by such percentage to determine the amount of revenue to be recognized. Management periodically evaluates the fairness of estimates used to determine the percentage of completion. If, as a result of such evaluation, it becomes apparent that estimated costs on uncompleted projects exceed expected revenues, a provision for estimated costs is recorded in the period in which such costs are determined. The Company begins applying the percentage-of-completion method when the following conditions have been met:

- the homebuyer has submitted all required documents in order to obtain the financing from the mortgage lender;
- the Company established that the homebuyer will obtain the required financing from the mortgage lender;
- the homebuyer has signed a purchase application for the processing and granting of a loan to buy a property to be used as housing; and
- the homebuyer has made a down payment, where down payments are required.

The cost of sales represents the cost incurred in the development of housing revenues by the Company during the year. These costs include land, direct materials, labor and all the indirect costs related to the development of the project such as indirect labor, equipment, repairs, depreciation and the capitalization of the comprehensive financing costs.

Refer to Note 26 for a discussion of Interpretation 14 to MFRS which will change the Company's accounting for revenue and cost recognition beginning in 2010.

c) Recognition of the effects of inflation

Effective January 1, 2008 the Company adopted MFRS B-10, *Effects of Inflation*. Based on this Standard, the Company did not recognize the effects of inflation in the financial information for the years ended December 31, 2009 and 2008. However, for prior period's information of 2007 presented for comparative purposes, it is stated in pesos of purchasing power as of December 31, 2007, last date that the inflation was recognized.

Cumulative inflation over 2007, 2008 and 2009 is less than 26% and therefore, in conformity with MFRS B-10, Mexico's current economic environment is considered non-inflationary and so the Company's financial information for 2009 and 2008 was prepared without recognizing the effects of inflation. Interpretation 9 of MFRS establishes that comparative financial statements for years prior to 2008 must be expressed in Mexican pesos with purchasing power at December 31, 2007, which was the last date on which the effects of inflation were recognized. Therefore amounts as of December 31, 2009 and 2008 do not include inflation effects, and the comparative figures as of December 31, 2007, are stated in thousands of pesos as of December 31, 2007.

d) Use of estimates

In conformity with MFRS, the preparation of financial statements requires the use of estimates and assumptions in certain areas. Actual results could differ from these estimates.

e) Cash and cash equivalents

Cash and cash equivalents consist basically of bank deposits and highly liquid investments with maturities of less than 90 days. These investments are stated at cost plus accrued interest, which is similar to their market value.

f) Allowance for doubtful accounts

The Company's policy is to provide for doubtful accounts based on balances of uncollected accounts receivable, applying several percentages based on their aging status.

11.

g) Inventories and costs of sales

Construction-in-process, construction materials and land for development and future development are recorded at acquisition cost. Cost of sales for the year ended December 31, 2007, was restated using the NCPI (see Note 3c). The balance of this account is similar to its market value.

Land for future developments refers to land reserves to be developed by the Company.

MFRS D-6 establishes the determination of the amount from the comprehensive financing cost (CFC) that shall be capitalized. The land under development inventories and construction-in-process include the capitalized CFC. The Company capitalizes the CFC that results from the application of the weighted average rate of the debt to the weighted average of the construction-in-process investment and the land under development during the acquisition period. In regards to debt in foreign currency, the capitalized CFC includes the corresponding exchange gains and losses (see Note 6).

The Company has land trusts agreements for the homebuilding development sites, in where each one of the trustees participates in the income generated by these developments in percentages that vary between 9% and 14% for lands not urbanized and 32% for urbanized lands. As per the agreements the Company recognizes the land as inventory when the construction starts (but only for the portion of land used).

h) Property and equipment

Property and equipment is recorded at acquisition cost. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	<u>Years</u>
Buildings	20
Machinery and equipment	4 and 10
Transportation equipment	4
Air transportation equipment	10
Office furniture and equipment	10
Computers	4
Communication equipment	4

The value of property and equipment is reviewed whenever there are indications of impairment. See Note 3k for the accounting policy regarding impairment of long-lived assets.

i) Leases

The Company classifies agreements to lease property and equipment as operating or capital, in conformity with the guidelines of Bulletin D-5, *Leases*.

Lease arrangements are recognized as capital leases if they meet at least one of the following conditions:

- a) Under the agreement, the ownership of the leased asset is transferred to the lessee upon termination of the lease.
- b) The agreement includes an option to purchase the asset at a reduced price.
- c) The term of the lease is basically the same as the remaining useful life of the leased asset.
- d) The present value of minimum lease payments is basically the same as the market value of the leased asset, net of any benefit or scrap value.

When the lessor retains the risks or benefits inherent to the ownership of the leased asset, the agreements are classified as operating leases and rent is charged to results of operations.

j) Goodwill

Goodwill represents the difference between the purchase price and the fair value of the net assets acquired at the date of purchase in accordance with the purchase method of accounting.

Goodwill is recorded initially at acquisition cost and until December 31, 2007 was restated using adjustment factors derived from the NCPI.

Goodwill is not amortized; however, it is subject to annual impairment tests, and is adjusted for any impairment losses. Goodwill is allocated to the affordable entry-level segment.

Goodwill as of December 31, 2009 and 2008 was Ps. 731,861.

k) Impairment of long-lived assets in use

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

l) Other assets

Expenses related to the placement of the various borrowings disclosed in Note 10 are recorded at cost. These amounts will be amortized under the straight-line method over the respective loan terms. The value assigned to the BETA trademark is amortized under the straight-line method over five years, which is the estimated useful life.

13.

m) Employee retirement obligations

The Company grants seniority premiums and termination pay, covering all its employees. The related calculations are based on the provisions of the Mexican Federal Labor Law (FLL). Under FLL, workers are entitled to certain benefits at the time of their separation from the Company under certain circumstances. Seniority premiums and termination payments are recognized periodically using the projected unit-credit method and financial assumptions (2007 net of inflation).

As disclosed in Note 13, effective January 1, 2008 the Company adopted MFRS D-3. As a result of this adoption, the transition liability of labor obligations is now being amortized over a four-year period. Prior to 2008, this liability was amortized on a straight-line basis over the labor life of our covered employees.

n) Derivative financial instruments

Derivative financial instruments are used for hedging purposes. At December 31, 2009 and 2008, all derivative instruments were recognized in the balance sheet at fair value, initially represented by the amount of consideration agreed (both assets and liabilities). Transaction costs and cash flow received or delivered to adjust these instruments to fair value at the beginning of the transaction, not related to premiums on options, are amortized during the respective term. The changes in the fair value of derivative financial instruments that do not qualify as hedging instruments are recognized in income in valuation effects of derivative instruments caption. Financial instruments that qualify as hedging instruments are recognized in stockholders' equity as part of other comprehensive income.

o) Liabilities, provisions, contingent assets and liabilities and commitments

Liability provisions are recognized whenever (i) the Company has current obligations (legal or assumed) derived from past events, (ii) the liability will probably give rise to a future cash disbursement for its settlement and (iii) the liability can be reasonably estimated.

Contingent liabilities are recognized when they will probably likely give rise to a future cash disbursement for their settlement. Contingent assets, if any, are only subject to disclosure, unless they can be definitely realized. Also, commitments are only recognized when they generate a loss.

p) Deferred taxes

The Company recognizes deferred taxes using the asset and liability method. Under this method, deferred taxes are recognized on all temporary differences between the book and tax values of assets and liabilities, using the enacted income tax or flat rate business tax (IETU) rate at the time the financial statements are issued, which is the enacted rate that will be in effect at the time the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

Deferred tax assets are evaluated periodically in order to determine their recoverability.

q) Deferred employee statutory profit sharing

Beginning January 1, 2008 the Company uses MFRS D-3, *Employee Benefits* that considers the accounting treatment for Employee Statutory Profit-Sharing. This Standard establishes the Companies to use the asset and liability method to compute and recognize the deferred liability or asset for profit-sharing, in a similar manner as the deferred income tax computation, and establishes the initial recognition of the deferred profit-sharing, if any, to be reclassified to retained earnings, unless it is identified with comprehensive items in stockholders' equity not yet taken to income.

Until December 31, 2007 deferred employee profit sharing was recognized only on temporary differences determined in the reconciliation of current year net income and the income base determined for employee profit-sharing purposes, only when there is no indication that the resulting liability or asset will not be realized in the future.

Current-year and deferred employee profit-sharing expense is to be presented as an ordinary expense in the income statement rather than as part of taxes on profits.

During the year ended December 31, 2008, the deferred profit-sharing amounted Ps. 26,606 (see Note 9). The initial recognition of the deferred profit-sharing under MFRS D-3 amounts Ps. 29,667 that was recorded in the other stockholders' equity account. The deferred asset effect generated during 2008 amounts to Ps. 127,305, of which the Company created a valuation allowance of Ps. 100,699, which according with the Company's projections were more likely than not to not be recovered. As of December 31, 2009 there was no deferred profit sharing.

r) Foreign currency balances and transactions

As mentioned in Note 3a beginning January 1, 2008 the Company adopted MFRS B-15 *Foreign Currency Translation*, Standard that replaces Bulletin B-15 *Transactions in Foreign Currency and Translation of Financial Statements of Foreign Operations*. This Standard is applicable for the recognition of transactions and amounts in foreign currency.

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

See Note 17 for the Company's consolidated foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

s) Stock option plan

In November 2007, the Company implemented a plan through which certain of its executives and company officials receive remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments.

15.

Given the settlement feature contained within the plan, the awards were treated as “Liability Awards” from its implementation and through December 31, 2008, compensation cost was measured by reference to the fair value of the awards at each balance sheet date. As of December 31, 2009 and as a result of certain modifications made to the plan, the award was modified so as to become equity-settled, but its terms were otherwise unchanged. The fair value is determined using an appropriate pricing model (see Note 16e).

t) Earnings per share

Earnings per share are calculated by dividing net income of controlling interest by the weighted average number of shares outstanding during the year. The Company does not have any dilutive securities beyond the stock options disclosed in Note 16e, the effects of which were immaterial in all periods. Accordingly basic and diluted earnings per share were the same.

u) Comprehensive income

Comprehensive income is represented by net income, the effects of labor obligations (until December 31, 2007), the effect of the translation of the financial statements of the subsidiaries and foreign associated company and the effect of the change in the fair value of financial instruments that meet the criteria of hedge accounting.

v) Statement of income presentation

The costs and expenses reflected in the statement of income are presented according to their function, since this classification allows an adequate analysis of gross profits and operating margins. The Company’s operating income is presented because it is an important indicator of its overall performance and results, and includes ordinary income, operating costs and expenses. Other ordinary income (expenses) is therefore excluded.

w) Reclassifications

Certain amounts in the 2008 consolidated financial statements have been reclassified in order to conform with 2009 presentations. The effects of these reclassifications were recognized with retrospective application in the consolidated balance sheet as of December 31, 2009, in accordance with MFRS B-1, Accounting changes and error corrections.

	Original amounts 2008	Reclassified amounts 2008
Deferred income taxes, liability	Ps. (3,412,501)	Ps. (3,741,099)
Deferred income taxes, asset	-	328,598
Deferred income taxes, net	Ps. (3,412,501)	Ps. (3,412,501)

x) Segment reporting

Segment reporting is presented in accordance with the information prepared for the internal decision making process. The information is presented according to the type of housing on sale by the Company.

4. Cash and cash equivalents

	<u>2009</u>		<u>2008</u>
Cash	Ps. 143,851	Ps.	225,669
Cash equivalents	2,978,223		914,471
	Ps. 3,122,074	Ps.	1,140,140

Cash and cash equivalents consist basically of bank deposits and highly liquid investments. The Company has restricted cash as of December 31, 2009 and 2008 for Ps. 129,342 and Ps. 128,045, of which Ps. 122,809 and Ps. 128,045 are related to restricted amounts (see Note 14), respectively. Ps. 6,533 in 2009 was deposited into an escrow account (see Note 25).

5. Trade accounts receivable

	<u>2009</u>		<u>2008</u>
As promoter:			
Total incurred construction costs	Ps. 8,993,810	Ps.	7,487,205
Estimated gross profit on costs incurred	3,723,682		3,082,839
Unbilled revenues on developments in progress	12,717,492		10,570,044
Due from customers (1)(2)	403,925		1,343,786
Services and other	48,919		61,382
	13,170,336		11,975,212
Allowance for doubtful accounts	(57,279)	(	48,184)
	13,113,057		11,927,028
Trade accounts receivable, long-term (3)	(74,846)	(	81,498)
	Ps. 13,038,211	Ps.	11,845,530

Unbilled revenues on developments in progress represent revenues recognized on costs incurred, in accordance with the percentage-of-completion method, which have not yet been billed.

The Company does not believe that it has a significant concentration of credit risk. While some of its receivables are from homebuyers, the majority are from entities in the home finance business, whose characteristics differ from other receivables.

- (1) These amounts include balances due from INFONAVIT, FOVISSSTE, SOFOLES (*Sociedades Financieras de Objeto Limitado*), commercial banks and homebuyers. With the exception of commercial banks and homebuyers, all such categories exceed 10% of accounts receivable balances as of December 31, 2009 and 2008.
- (2) The Company participates in a program referred to as “Programa de Entrega Anticipada de Vivienda INFONAVIT”. This program provides for factoring of INFONAVIT receivables without recourse, thereby providing for more timely collection.
- (3) The long-term trade account receivable is due to an agreement with the Housing Institute of the Federal District, or Instituto de Vivienda del Distrito Federal (“INVI”), on which it was agreed that the Company will receive monthly payments, including interest at a rate of TIIE plus 4%, during a five-year period, beginning June 2009, due to the sale of houses in Mexico City.

17.

6. Inventories

	<u>2009</u>	<u>2008</u>
Land:		
Titled land	Ps. 9,189,849	Ps. 6,780,335
Contracted land	2,673,289	4,939,990
Advances to land suppliers	391,868	143,666
	12,255,006	11,863,991
Land held for future developments	(10,912,389)	(9,254,469)
Total land	1,342,617	2,609,522
Other inventories:		
Construction-in-process	2,069,229	1,542,577
Construction materials	512,355	638,488
Advances to suppliers	83,173	300,317
Total other inventories	2,664,757	2,481,382
Total inventories	Ps. 4,007,374	Ps. 5,090,904

The Company's policy is to locate and acquire land each year, classifying land currently being developed and land planned to be developed within the next year as part of current assets, and classifying all remaining land as non-current assets.

Due to the application of MFRS D-6 during 2009 and 2008, the net comprehensive financing cost related to qualified assets for the same periods was Ps. 563,154 and Ps. 1,250,080. Total CFC related to inventories sold and subsequently applied to cost of sales was Ps. 670,127 (of which Ps. 419,338 is related to the current year CFC and Ps. 250,789 is related to prior years) and Ps. 976,707 (of which Ps. 931,682 is related to the current year CFC and Ps. 45,025 is related to prior years) for the same periods, respectively. The average period for the amortization of the capitalized comprehensive financing cost is 6 months. The annual capitalization rates are 6.5% and 24.3%, respectively.

The Company utilizes certain land trust agreements in order to obtain its supply of land for construction purposes. As of December 31, 2009 and 2008 the Company has recognized Ps. 241 and Ps. 4,438, related to this inventory, which are part of the "contracted" land inventory.

During the years ended December 31, 2009 and 2008, the net comprehensive financing cost capitalized in inventories was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total accrued net comprehensive financing cost before capitalization	Ps. 769,720	Ps. 1,808,565	Ps. 458,208
Comprehensive financing cost capitalized in inventories	(563,154)	(1,250,080)	(179,304)
Comprehensive financing cost after capitalization	Ps. 206,566	Ps. 558,485	Ps. 278,904

7. Prepaid expenses and other current assets

	<u>2009</u>		<u>2008</u>
Sales commissions paid in advance	Ps. 161,833	Ps.	103,665
Sundry debtors	126,927		101,198
Refundable taxes	208,908		215,747
Other current assets	32,049		15,928
Insurance and bond contracts	9,613		2,401
Prepaid interest	5,968		4,227
	<u>Ps. 545,298</u>	Ps.	<u>443,166</u>

8. Property and equipment

	<u>2009</u>		<u>2008</u>
Buildings	Ps. 253,412	Ps.	253,412
Machinery and equipment	1,458,178		1,399,166
Transportation equipment	102,251		103,799
Air transportation equipment	75,203		75,203
Office furniture and equipment	101,781		106,760
Computers	99,802		128,066
Communication equipment	38,490		38,360
	<u>2,129,117</u>		<u>2,104,766</u>
Accumulated depreciation	(1,050,426)	(	733,729)
	<u>1,078,691</u>		<u>1,371,037</u>
Land	31,891		31,891
	<u>Ps. 1,110,582</u>	Ps.	<u>1,402,928</u>

The amount of assets acquired via capitalized leases during the years ended December 31, 2009, 2008 and 2007, was Ps. 47,035, Ps. 97,131 and Ps. 350,854, respectively.

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was Ps. 371,402, Ps. 323,727 and Ps. 196,307, respectively.

9. Other assets

	<u>2009</u>		<u>2008</u>
Net value of the "BETA" trademark (1)	Ps. 45,527	Ps.	136,581
Trade accounts receivable, long-term (see Note 5)	74,846		81,498
Financial instruments (see Note 11)	4,375		65,975
Debt issuance costs, net	158,364		79,468
Investment (2)	-		59,226
Deferred profit-sharing (Note 3q)	-		26,606
Guarantee deposits	29,305		14,479
Other	11,976		4,536
	<u>Ps. 324,393</u>	Ps.	<u>468,369</u>

Amortization expense for the years ended December 31, 2009, 2008 and 2007 was Ps. 112,007, Ps. 101,294 and Ps. 105,410, respectively. The expected amortization of the “BETA” trademark and debt issuance costs for the years 2010 to 2015 is as follows:

Year	<u>Amortization</u>
2010	Ps. 68,498
2011	22,971
2012	22,971
2013	21,724
2014 and thereafter	67,727
	<u>Ps. 203,891</u>

(1) “BETA” Trademark is allocated to the affordable entry-level segment.

(2) Until December 31, 2009, the Company had an investment in the 15% of the Egyptian company Orascom Housing Communities “S.A.E.”. The Company sold this investment to a third party in US\$4.3 million on December 31, 2009 with a net gain of Ps. 11,676.

10. Debt

a) As of December 31, 2009 and 2008, the outstanding balances of short-term indebtedness with financial institutions consist of the following:

	<u>2009</u>	<u>2008</u>
HSBC México, S.A. A revolving line of credit granted by HSBC Mexico, S.A. on December 26, 2008 and September 14, 2009 for Ps. 50,000. The borrowings matured on January 23 and December 11, 2009 and bear interest at the Mexican interbank equilibrium interest rate (TIIE) plus 4.1% and plus 5.5%, respectively.	Ps. -	Ps. 50,000
Banco Regional de Monterrey, S.A. A revolving credit line granted by Banco Regional de Monterrey S.A. on December 11, 2008 for Ps. 90,284 and September 3, 2009 for Ps. 49,284. The borrowings matured on January 8 and October 1, 2009, and beared interest at TIIE plus 4%.	-	90,284
Grupo Financiero Inbursa, S.A. A revolving credit line granted by Grupo Financiero Inbursa, S.A. on December 19, 2008 and September 28, 2009 for Ps. 600,000. The borrowings matured on January 19 and October 28, 2009, and beared interest at TIIE plus 4.5%.	-	600,000
Banco Mercantil del Norte, S.A. A revolving credit line granted by Banco Mercantil del Norte S.A. on December 30, 2008 and August 27, 2009 for Ps. 300,000. The borrowings matured on January 29 and October 28, 2009, and beared interest at TIIE plus 3.25% and 3.75%, respectively.	-	300,000
Banco Santander México, S.A. A revolving credit line granted by Banco Santander México, S.A. on November 12, 2008 for Ps. 100,000. The borrowing matured on May 7, 2009, and beared interest at TIIE plus 1%.	-	100,000
Banco Itau BBA, S.A. Seven credit lines granted by Banco Itau BBA, S.A. (Brazilian financial institution) on May, September and October 2009 for 9.1 million Brazilian Reals. The borrowings mature on March, April, May and July 2010, and bear interest at 6.5%.	68,535	-
Banco Fibra, S.A. A revolving credit line granted by Banco Fibra, S.A. (Brazilian financial institution) on July 22, 2009 for 1.3 million Brazilian Reals. The borrowing matures on July 20, 2010, and bears interest at 9.9%.	9,569	-
Banco ABC Brasil, S.A. Three credit lines granted by Banco ABC Brasil, S.A. (Brazilian financial institution) on August, October and November 2009 for 12 million Brazilian Reals. The borrowings mature on February, October, and November 2010, and bear interest at 8.5%.	90,171	-
Banco HSBC, S.A. A revolving credit line granted by Banco HSBC, S.A. (Brazilian financial institution) on November 23, 2009 for 1.5 million Brazilian Reals. The borrowing matures on November 18, 2010, and bears interest at 3.1%.	11,277	-
Interest payable	881	3,448
Total	Ps. 180,433	Ps. 1,143,732

21.

b) As of December 31, 2009 and 2008, the outstanding balances of long-term debt with financial institutions consist of the following:

	<u>2009</u>	<u>2008</u>
Bond issuance (“Senior Guaranteed Notes 2015”) by Credit Suisse First Boston and Merrill Lynch. These obligations are guaranteed by PICSA, DECANO and other subsidiary companies. They are USD denominated in the amount of US \$250 million, with a fixed annual interest rate of 7.5%, payable on September 28, 2015. Interest is payable semiannually.	Ps. 3,260,925	Ps. 3,443,450
Bond issuance (“Senior Guaranteed Notes 2019”) by Credit Suisse Securities LLC and HSBC Securities Inc. These obligations are guaranteed by PICSA, DECANO and CBC. They are USD denominated in the amount of US \$250 million, with a fixed annual interest rate of 9.5%, payable on December 11, 2019. Interest is payable semiannually.	3,232,500	-
Banco Nacional de México, S.A. A line of credit granted by Banco Nacional de México, S.A. on July 16, 2009 for Ps.1,000 million. The borrowing matures on July 16, 2013 and bears interest at the Mexican interbank equilibrium interest rate (TIEE) plus 4.5%.	888,738	-
HSBC México, S.A. A line of credit granted by HSBC Mexico, S.A. on July 1, 2005 for Ps. 1,081 million, with semiannual payments beginning on March 14, 2008. The borrowing ultimately matures on September 14, 2010, and bears interest at TIEE plus 1%. This line of credit was paid out on December 24, 2009.	-	360,334
GE Capital, S.A. A line or credit granted by GE Capital, S.A. on July 29, 2005 for US\$2.3 million. The borrowing ultimately matures on July 29, 2010, and bears interest at an annual rate of 7.4%.	4,520	11,136
Grupo Financiero Inbursa, S.A. A line of credit granted by Grupo Financiero Inbursa, S.A. on June 26, 2008 for Ps. 2,078 million. The borrowing ultimately matures on June 26, 2013 and bears interest at TIEE plus 1.5%.	2,078,000	2,078,000
Hipotecaria Nacional, S.A. de C.V. Three separate lines of credit granted by Hipotecaria Nacional, S.A. de C.V. for amounts totaling Ps. 299,795. Borrowings were granted on November 6, 2008, November 20, 2008 and December 11, 2008. The borrowings mature in November and December 2010, and bear interest at TIEE plus 4%. This line of credit was guaranteed by five of the Company’s land lots. These three lines of credit were paid out on December 23, 2009.	-	299,795
Interest payable, primarily Senior Guaranteed Notes	85,642	71,076
Total long-term debt	9,550,325	6,263,791
Current portion of long-term debt	(90,162)	(273,672)
Long-term debt balances	Ps. 9,460,163	Ps. 5,990,119

Covenants

Loan covenants require the Company and its guarantors subsidiaries to meet certain obligations. These covenants cover changes in ownership control, restrictions on incurring additional debt that does not meet certain requirements established in the loan contracts, restrictions on the sale of assets and the sale of capital stock in subsidiaries, unless they meet certain requirements, and restricted payments where dividends cannot be paid or capital reimbursed to stockholders' equity unless they are made between the guarantor subsidiaries.

Most significant financial covenants, contained within loan agreements, require the Company to maintain:

- A total of stockholders' equity of at least Ps. 11,850,000;
- A ratio of interest coverage (EBITDA/net financing expense) over 3.0 times; and
- A ratio of leverage (liabilities with cost/EBITDA) of less than 2.50 to 1.0;

There are also restrictions applicable to additional debt based on EBITDA levels. In the event the Company does not comply with any of the above provisions, it will be limited in its ability to pay dividends to its stockholders.

As of December 31, 2009 and 2008, the Company was in compliance with the financial covenants contained within its debt agreements.

Debt maturities

As of December 31, 2009, long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
2013	Ps. 2,966,738
2015	3,260,925
2019	3,232,500
	<u>Ps. 9,460,163</u>

The value of the TIIE published in the Federal Official Gazette as of December 31, 2009 and 2008 was 4.9150% and 8.6886%, respectively. The exchange rate used to convert debt denominated in US Dollars and Brazilian Reals for the year ended December 31, 2009 was 13.0437 Mexican pesos and 7.5183 Mexican pesos, respectively. The exchange rate used to convert debt denominated in US Dollars for the year ended December 31, 2008 was 13.7738 Mexican pesos. The Company did not have debt denominated in Brazilian Reals as of December 31, 2008.

11. Financial instruments

Financial Instruments Related to the Senior Guaranteed Notes 2015

As disclosed in Note 10, the Company's Senior Guaranteed Notes 2015 are U.S. dollar denominated. In order to convert the principal of the U.S. dollar bonds to Mexican pesos, in September 2005 the Company entered into two "Principal-Only Swaps" with a notional value of US\$250 million, which entitled the Company to receive this amount in 2015 in return for a payment in Mexican pesos at a fixed exchange rate of 10.83 Mexican pesos per U.S. Dollar. As part of this agreement, the Company paid interest of 2.92% a year on the total notional amount in U.S. dollars, in semiannual payments.

The Principal-Only Swap transaction did not meet hedge accounting requirements, and thus all changes in the fair value of the underlying derivative were recorded in the Company's current earnings as a component of comprehensive financing cost within the valuation effects on derivative instruments account. As of December 31, 2007, the fair value of this derivative was Ps. 79,098 (US\$7.2 million) which represented the estimated present value of future cash flows to be paid out by the Company.

On July 5, 2008 the Company cancelled its Principal-Only Swap by paying Ps. 54,434 (US\$ 5.3 million). No gain or loss was recorded upon cancellation of the Principal-Only Swap agreement as it was already recorded at fair value.

On July 6, 2008 the Company entered into new derivative instruments in order to cover the possible changes in the exchange rate of future interest payments of the Senior Guaranteed Notes for US\$250 million ("Interest-Only Swap"). This new transaction also does not meet hedge accounting requirements, and thus changes in the fair value of the underlying derivative have been and will be recorded in the Company's current earnings as a component of comprehensive financing cost within the exchange (gain) losses account. As of December 31, 2009 and 2008 the fair value of this derivative was a favorable asset position of Ps. 4,375 (US\$ 0.3 million) and Ps. 65,975 (US\$ 4.8 million), respectively (see Note 9).

The net accumulated expense in the statement of income of the Interest-Only Swap for the year ended December 31, 2009 was Ps. 66,451. The net accumulated income of the Principal-Only Swap and the Interest-Only Swap was Ps. (90,639) for the year ended December 31, 2008.

Financial Instruments Related to the Senior Guaranteed Notes 2019

As disclosed in Note 10, the Company's Senior Guaranteed Notes 2019 are U.S. dollar denominated. In order to decrease the risk of future changes in the exchange rate between U.S. dollar and Mexican pesos, in December 11, 2009 the Company entered into two "Principal-Only Swaps" with a notional value of US\$250 million, which entitled the Company to receive this amount in 2019 in return for a payment in Mexican pesos at a fixed exchange rate of 12.93 Mexican pesos per U.S. Dollar. As part of this agreement, the Company will pay interest of 3.87% a year on the total notional amount of Ps. 3,232.5 million Mexican Pesos, in semiannual payments. In addition, on the same date the Company entered into two "Interest-Only Swaps" in order to cover the possible changes in the exchange rate of the first six interest payments of the Senior Guaranteed Notes 2019 for US\$250 million ("Interest-Only Swap").

The Principal-Only Swap and Interest-Only Swap transactions met hedge accounting requirements, and thus all changes in the fair value of the underlying derivative were recorded in the Company's other stockholder's equity accounts as a component of stockholders' equity. As of December 31, 2009, the fair value of this derivative was Ps. 119,084 (US\$ 9.1 million), and represented a liability.

As of December 31, 2009 the Company has the following financial instruments:

Financial instruments	Type	Notional (in US \$)	Fair value asset (liability) (in Ps.)	Changes in comprehensive income, net of taxes (in Ps.)	Changes in statement of income (in Ps.)
Interest-only swap	No hedge accounting	56.25 million	Ps. <u>4,375</u>	Ps. -	Ps. 61,600
Principal-only swap	Hedge accounting	250.00 million	Ps. (109,970)	Ps. (84,592)	Ps. -
Interest-only swap	No hedge accounting	71.25 million	(9,114)	(3,280)	4,851
			Ps. (119,084)	Ps. (87,872)	Ps. 66,451

Other Financial Instruments

During the normal course of operations the Company maintains net liability positions in foreign currency (US dollars) which are originated by its operations' short and long-term liabilities. During 2008, the Company entered into hedging derivative financial instruments that were expected to mitigate the risk associated with the exchange loss in the acquisition of foreign currencies. However, due to the recent volatility in the exchange rate between the Mexican Peso and US dollar, the Company decided to cancel and or otherwise restructure all its hedging derivative financial instruments. At December 31, 2008, the Company only has the Interest-Only Swap described above. The Company had an impact in its statement of income of approximately Ps. 404,601.

The net valuation effects of financial instruments for the years ended December 31, 2009, 2008 and 2007, were Ps. 66,451, Ps. 313,962 and Ps. (147,977), respectively.

25.

12. Leases

a) Capital leases

As of December 31, 2009 there are contracts of capital leases of machinery and equipment for a 5 year period. The capital leases as of December 31, 2009 and 2008 are shown as follows:

	<u>2009</u>	<u>2008</u>
Financial leases provided by Bancomer, S.A. in June 2007, with maturity in January 2013 and an interest rate at TIIE plus 0.8%.	Ps. 221,550	Ps. 288,857
Financial leases provided by Bancomer, S.A. in September 2008, with maturity in October 2013 and interest rate at TIIE plus 0.8%.	44,524	53,725
Financial leases provided by Bancomer, S.A. in December 2008, with maturity in January 2014 and interest rate at TIIE plus 3.5%.	48,565	56,525
Financial leases provided by Bancomer, S.A. in March 2009, with maturity in April 2014 and interest rate at TIIE plus 3.5%.	19,481	-
Financial leases provided by Banco Itau, S.A. (Brazilian financial institution) from May through October 2009, with maturities from May through October 2012 at an average interest rate of 20.6%.	8,534	-
Financial leases provided by Banco Bradesco, S.A. (Brazilian financial institution) in November and December 2009 with maturities in November and December 2012 at an average interest rate of 14%.	18,751	-
Other	-	2,315
Interest payable	1,711	2,472
Total capital leases	363,116	403,894
Current portion of long-term capitalized leases	(108,437)	(89,255)
Total long-term capital leases	Ps. 254,679	Ps. 314,639

Minimum compulsory payments relating to these contracts as of December 31, 2009, including interest payable monthly, are as follows:

<u>Year</u>	<u>Total</u>
2010	Ps. 108,437
2011	115,904
2012	104,813
2013	30,851
2014	3,111
Total	Ps. 363,116

Covenants

The most significant financial covenants of the leases require the Company and its subsidiaries to maintain:

- A liquidity ratio of current assets to short-term liabilities no less than 1.50 to 1.0;
- A financing ratio of total liabilities to stockholders' equity no greater than 1.70 to 1.0;
- A relation of operational income to net comprehensive financing cost at a minimum level of 2.0;

As of December 31, 2009 and 2008, the Company was in compliance with these financial covenants.

b) Operating leases

As of December 31, 2009 the Company had entered into agreements for the operating lease of machinery and equipment for a period of 5 to 6 years. The minimum compulsory payments relating to these agreements are as follows:

Year	2009
2010	Ps. 49,232
2011	46,065
2012	32,695
2013	20,494
2014	283
Total	Ps. 148,769

Operating leases expensed for the years ended December 31, 2009, 2008 and 2007 amounted to Ps. 50,426, Ps. 52,833 and Ps. 33,694, respectively.

13. Employee benefits obligations

The Company has a plan for covering seniority premiums which consists of a lump sum payment of 12 days' wages for each year worked, calculated using the most recent salary, not to exceed twice the legal minimum wage established by law. Since 2005, the Company has recognized a liability for personal severance pay. The related liability and annual cost of such benefits are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method.

As mentioned in Note 3, during 2008 the Company applied the provisions of new MFRS D-3, *Employee Benefits* which replaces the previous MFRS accounting Bulletin D-3, *Labor Obligations*. The most significant effects of its application were as follows:

- i) Additional labor cost of Ps. 5,559 being recognized in its 2008 statement of income as compared to prior period.
- ii) Elimination of the recognition of an additional liability and resulting recognition of an intangible asset and comprehensive income item. Upon the adoption of MFRS D-3 the Company reversed its intangible asset of Ps. 30,092 and additional liability of Ps. 34,189 resulting in a credit to shareholders equity of Ps. 4,097 in 2008.

As of December 31, 2009 and 2008 and for the years ended 2009, 2008 and 2007, the present values of these obligations and the rates used for the calculations are as follows:

For the year ended December 31, 2009					
		Severance pay	Seniority premium		Total
Integration of Net Period Cost:					
Labor cost	Ps.	23,428	Ps.	1,932	Ps. 25,360
Financial cost		10,605		478	11,083
Transition liability		3,643		140	3,783
Amortization of prior services and changes to the plan		6,341		156	6,497
Actuarial gains	(	3,437)	(	825)	(4,262)
Net period cost	Ps.	40,580	Ps.	1,881	Ps. 42,461

For the year ended December 31, 2008					
		Severance pay	Seniority premium		Total
Integration of Net Period Cost:					
Labor cost	Ps.	14,002	Ps.	1,748	Ps. 15,750
Financial cost		9,084		309	9,393
Transition liability		3,643		139	3,782
Amortization of prior services and changes to the plan		9,144		306	9,450
Actuarial losses (gains)		78,392	(	367)	78,025
Net period cost	Ps.	114,265	Ps.	2,135	Ps. 116,400

For the year ended December 31, 2007					
		Severance pay	Seniority premium		Total
Integration of Net Period Cost:					
Labor cost	Ps.	8,062	Ps.	1,182	Ps. 9,244
Financial cost		3,020		118	3,138
Transition liability		3,416		38	3,454
Actuarial losses		1,346		6	1,352
Inflation adjustment		1,135		93	1,228
Net period cost	Ps.	16,979	Ps.	1,437	Ps. 18,416

Balances as of December 31, 2009					
		Severance pay	Seniority premium		Total
Vested benefit obligations	Ps.	116,356	Ps.	5,273	Ps. 121,629
Transition liability	(	10,930)	(	418)	(11,348)
Prior services and changes to the plan	(	17,900)	(	594)	(18,494)
Non-recognized actuarial gain		6,286		114	6,400
Net projected liability	Ps.	93,812	Ps.	4,375	Ps. 98,187

Balances as of December 31, 2008

	Severance pay	Seniority premium	Total
Vested benefit obligations	Ps. 112,617	Ps. 4,122	Ps. 116,739
Transition liability	(14,573)	(558)	(15,131)
Prior services and changes to the plan	(24,241)	(750)	(24,991)
Non-recognized actuarial gain	8,381	152	8,533
Net projected liability	Ps. 82,184	Ps. 2,966	Ps. 85,150

The changes in the balance of labor obligations for the years ended December 31, 2009 and 2008 are as follows:

	Severance pay	Seniority premium	Total
Initial balance	Ps. 82,184	Ps. 2,966	Ps. 85,150
Labor cost	23,428	1,932	25,360
Financial cost	10,605	478	11,083
Transition liability	3,643	140	3,783
Amortization of prior services and changes to the plan	6,341	156	6,497
Actuarial gains	(3,437)	(825)	(4,262)
Benefits paid	(28,952)	(472)	(29,424)
Ending balance	Ps. 93,812	Ps. 4,375	Ps. 98,187

	Severance pay	Seniority premium	Total
Initial balance	Ps. 42,291	Ps. 2,617	Ps. 44,908
Labor cost	14,002	1,748	15,750
Financial cost	9,084	309	9,393
Transition liability	3,643	139	3,782
Amortization of prior services and changes to the plan	9,144	306	9,450
Actuarial losses	78,392	(367)	78,025
Benefits paid	(74,372)	(1,786)	(76,158)
Ending balance	Ps. 82,184	Ps. 2,966	Ps. 85,150

The following is an analysis at December 31 of the Company's liabilities that make up its labor obligations related to seniority premiums and employee termination payments for reasons other than corporate restructuring:

Year	Seniority premium			Severance pay		
	Defined Benefit Obligations	Plan situation deficit	Pending amortized Items	Defined benefit obligations	Plan situation deficit	Pending amortized Items
2009	Ps. 5,273	Ps. 5,273	Ps. 1,176	Ps. 116,356	Ps. 116,356	Ps. 35,367
2008	4,122	4,122	1,156	112,617	112,617	30,443
2007	5,125	5,125	1,452	111,052	111,052	35,376
2006	2,685	2,685	1,305	55,469	55,469	39,967
2005	1,870	1,870	1,253	46,639	46,639	38,689

Beginning in 2008, the transition liability is being amortized over a four-year period.

The rates used in the actuarial analysis are as follow:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Discounts of labor obligations	8.50%	8.50%	5.25%
Salary increases	4.50%	4.50%	1.25%
Inflation rates	3.50%	3.50%	4.00%

14. Trade accounts payable

	<u>2009</u>	<u>2008</u>
Suppliers	Ps. 1,618,256	Ps. 2,680,141
Revolving credit lines *	220,853	996,534
Other creditors	394,372	329,178
Total accounts payable	Ps. 2,233,481	Ps. 4,005,853

* The Company established a trust that allows its suppliers and land suppliers to obtain financing from various financial institutions, in part through a factoring program sponsored by Nacional Financiera S.N.C. ("Nafinsa"). In relation to this program, the Company established a trust fund called Fideicomiso AAA-Homex with Nacional Financiera, S.N.C. ("Nafinsa"), which granted a line of credit for Ps.1,000,000 with a guarantee fund of Ps. 122,809 and Ps. 128,045, respectively (investment account), as of December 31, 2009 and 2008. Under this program, the AAA-Homex trust can make use of the Nafinsa line of credit to finance a portion of the accounts receivable of the Company's suppliers. As mentioned in Note 2, the AAA Homex trust is a consolidated subsidiary of the Company. As of December 31, 2009 and 2008, this factoring program encompassed approximately 4,270 and 3,895 suppliers and land suppliers, respectively, where the financing resources are covered by the suppliers themselves.

15. Land suppliers

	<u>2009</u>	<u>2008</u>
Short-term	Ps. 548,586	Ps. 2,326,036
Short-term revolving credit line *	789,640	-
Total short-term	Ps. 1,338,226	Ps. 2,326,036
Long-term	Ps. 74,659	Ps. 405,426

* See Note 14 above.

Land suppliers represent the outstanding balance payable to the Company's suppliers of land currently in use or estimated to be developed. Long-term land suppliers represent payables with maturities of over twelve months.

16. Stockholders' equity

a) Common stock issued at par value (historical Pesos) as of December 31, 2009 and 2008 is as follows:

	Number of Shares		Amount	
	2009	2008	2009	2008
Fixed capital: Sole series	335,869,550	335,869,550	Ps. 425,443	Ps. 425,443

b) Retained earnings include the statutory legal reserve. The 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. 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. The legal reserve as of December 31, 2009 and 2008 amounted Ps. 105,602 and is included as part of the retained earnings.

c) The balances of the stockholders' equity tax account as of December 31, 2009 and 2008 are:

	2009	2008
Contributed capital account	Ps. 4,107,124	Ps. 3,965,554

Earnings distributed in excess of the balances of the Net Tax Profit Account (CUFIN) will be subject to income tax payable by the companies at the rate in force. At December 31, 2009 the Company's CUFIN balance is Ps. 727,418.

d) On February 27, 2007, the Board of Directors authorized a stock option plan, as an incentive to key executives of the Company (see paragraph e) below).

e) As of December 31, 2009 and 2008, the Company has a stock option plan that consists of 1,072,432 and 999,200 approved stock options of the Company, respectively. As of December 31, 2008, the shares for which were held in a trust especially created for that purpose.

A total of 978,298 stock options were initially granted to the key executives. During 2007 these grants were made at an exercise price of 98.08 Mexican pesos, which was in excess of the shares underlying fair value at the grant date. During 2008, a total of 29,929 options were exercised, and 335,853 options were cancelled upon separation of the related employees. In addition, during 2009 the Company increased the stock option plan in 73,232 approved stock options and granted 321,549 options at an exercise price of 43.54 Mexican pesos.

The executives have the right to exercise one-third of their total options granted per year. The right to exercise the option expired after one year from the grant date or, in some cases, after 180 days from the departure of the executive from the Company. Given the condition of the equity markets in 2008 and 2009, the Company's Chief Executive Officer authorized the modification of the terms of the awards. Specifically, the duration of the program for options granted up to December 31, 2008, was extended whereby the exercise of awards if not made in the previously specified period, could be exercised one year following but not later than December 31, 2010.

On October 27, 2009 certain modifications to the plan were made, as a result, the plan change from a cash-settled award to an equity-settled award.

31.

The following information is an analysis of stock option activity during the years:

	Number of stock options		Weighted average price of year (in pesos)
Stocks repurchased for future grant as of November 20, 2007	999,200	Ps.	98.08
Granted	(978,298)		98.08
Exercised	-		-
Cancelled	-		-
Stock options pending to be granted at December 31, 2007	20,902		98.08
Granted	-		-
Exercised	29,929		118.78
Cancelled	335,853		-
Stock options pending to be granted at December 31, 2008	386,684	Ps.	98.08
Stock repurchased for future grant	73,232		
Granted	(321,549)		43.54
Stock options pending to be granted at December 31, 2009	138,367	Ps.	98.08

The average fair value of all the stock options granted was 15.63, 6.02 and 18.42 Mexican pesos per stock option, as of December 31, 2009, 2008 and 2007, respectively.

Key assumptions used to calculate fair value for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Expected dividend yield	0%	0%
Expected stock price volatility	59.56%	72.21%
Risk-free interest rate	5.54%	7.72%
Expected life of options in years	3 years	2.5 years
Model used	Black Scholes Merton	Black Scholes Merton

Compensation cost related to vested stock option awards totaled Ps. 10,638 at December 31, 2009. Total compensation cost related to vested stock option awards not recognized was Ps. 3,687 and Ps. 18,019 at December 31, 2008 and 2007, respectively.

f) On September 26, 2007, Promotora Residencial Huehuetoca, S.A. de C.V. (Huehuetoca) declared dividends to its stockholders which included the Company and minority shareholders. Dividends paid to minority shareholders were Ps. 9,133 and have been reflected as a reduction of non-controlling interest in the accompanying consolidated financial statements.

g) On March 10, 2008, the Board of Directors authorized the Company to repurchase up to \$250 million in treasury stock through market transaction. During the year ended December 31, 2009, the Company repurchased Ps. 1,398 treasury stock. There was no repurchase of treasury stock during 2008.

17. Foreign currency balances and transactions

a) As of December 31, 2009 and 2008, the foreign currency monetary position is as follows:

	2009		2008	
	Thousands of U.S. dollars:	Thousands of Brazilian reals:	Thousands of U.S. dollars:	Thousands of Brazilian reals:
Monetary assets	US\$ 6,046	BR\$ 10,444	US\$ 6,014	BR\$ 23
Monetary liabilities	(563,074)	(69,880)	(298,270)	(5,140)
Monetary liability position, net	US\$ (557,028)	BR\$ (59,436)	US\$ (292,256)	BR\$ (5,117)
Equivalent in Mexican pesos	Ps. (7,265,706)	Ps. (446,858)	Ps. (4,025,476)	Ps. (30,113)

b) The exchange rates in effect at the dates of the consolidated balance sheets and issuance of the consolidated financial statements were as follows:

	(In Mexican pesos)		
	December 31, 2009	December 31, 2008	April 27, 2010
U.S. dollar	13.0437	13.7738	12.1973
Egyptian pound	2.3921	2.5242	2.1784
Brazilian real	7.5183	5.8849	6.9409
Indian rupee	0.2788	0.2800	0.2742

18. Transactions and balances with related parties

a) The following agreements have been entered into with related parties:

The Company was a party to an administrative service agreement with two entities whose principal owners are officers of the Company (Serviasesorías and Administradores de la Empresa en Equipo), for which PICSA paid a 5% based on total expenses. The amounts paid under this agreement totaled Ps. 55,389 in 2007. No amounts were paid in 2009 and 2008. As of April 1, 2007, these companies entered in a liquidation process and the employees were transferred to subsidiaries of the Company.

b) For the years ended December 31, 2009 and 2008, there are no balances from/to related parties.

c) Compensation paid to the Company's key managerial personnel or relevant directors is as follows:

	2009	2008	2007
Short and long-term direct benefits	Ps. 201,058	Ps. 191,148	Ps. 140,326
Termination benefits	6,508	35,276	40,781
Stock option benefits	10,638	616	-
	Ps. 218,204	Ps. 227,040	Ps. 181,107

During 2007, certain stock option benefits were granted to key employees as disclosed in Note 16e.

There were no post retirement benefits payments during the years presented herein.

19. Segment reporting

The Company generates separate reports by affordable entry-level and middle-income operations. The following segment reporting information is presented according to the information used by management for decision-making purposes. The Company segregates the financial information by segments, (affordable entry-level and middle-income) considering the operational and organizational structure of the business (which was established by house models as explained in the next paragraph), according to the provisions of Bulletin B-5 *Segment reporting*.

General description of the products or services

Mexico's developer-built housing industry is divided into three segments according to cost: affordable entry-level, middle-income, and residential. The prices of affordable entry-level segment range between Ps. 195 and Ps. 540; those of the middle-income segment are between Ps. 541 and Ps. 1,885 and those of the residential segment are above Ps. 1,885. The focus is to provide affordable entry-level and middle-income housing for our customers. Therefore, the operating segments that will be presented in detail are the affordable entry-level and the middle-income segments, in conformity with guidelines of Bulletin B-5.

Affordable entry-level developments range in size from 500 to 20,000 homes and are developed in stages typically comprising 300 homes each. During 2009, 2008 and 2007, affordable entry-level homes had an average price of approximately Ps. 284, Ps. 276 and Ps. 260, respectively. A typical affordable entry-level home consists of a kitchen, living-dining area, one to three bedrooms, and one bathroom.

Middle-income developments range in size from 400 to 2,000 homes and are developed in stages typically comprising 200 homes each. During 2009, 2008 and 2007, middle-income homes had an average price of approximately Ps. 823, Ps. 817 and Ps. 781, respectively. A typical middle-income home consists of a kitchen, dining room, living room, two or three bedrooms, and two bathrooms.

The following table shows the operating results by each segment identified as of December 31, 2009, 2008 and 2007:

Year ending December 31, 2009	Entry-level	Middle-income	Consolidated
Revenues	Ps. 15,193,178	Ps. 4,232,004	Ps. 19,425,182
Income from operations	2,479,386	690,624	3,170,010
Depreciation and amortization	378,093	105,316	483,409
Year ending December 31, 2008	Entry-level	Middle-income	Consolidated
Revenues	Ps. 14,511,293	Ps. 4,339,203	Ps. 18,850,496
Income from operations	2,309,116	690,477	2,999,593
Depreciation and amortization	327,185	97,836	425,021
Year ending December 31, 2007	Entry-level	Middle-income	Consolidated
Revenues	Ps. 12,545,899	Ps. 3,676,625	Ps. 16,222,524
Income from operations	2,616,011	766,628	3,382,639
Depreciation and amortization	233,337	68,380	301,717

The income from operations caption in the tables above were calculated as the total revenue from each segment, less allocated total consolidated operating cost and expenses. The allocation of total consolidated operating costs and expenses into the segments was based on the percentage that the sales in each segment represent of the total consolidated sales. Depreciation and amortization expense is allocated to each segment using the same basis as operating costs and expenses.

The Company does not segregate its total assets by operating segment.

20. Operating expenses

	2009		2008		2007
Administrative	Ps. 1,332,178	Ps.	1,259,870	Ps.	855,687
Selling	1,083,524		1,026,722		849,784
Amortization expense of BETA trademark	91,054		91,054		92,958
	Ps. 2,506,756	Ps.	2,377,646	Ps.	1,798,429

The table below shows the most significant operating expenses:

	2009		2008		2007
Salaries and other benefits	Ps. 711,366	Ps.	614,560	Ps.	439,113
Office expenses	88,271		99,411		70,761
Advertising	72,044		203,211		31,997

21. Other income (expenses)

	2009		2008		2007
Brazilian settlement (1)	Ps. -	Ps.	(48,536)	Ps.	-
Recovery of taxes (2)	-		-		394,510
Current profit-sharing	-		(67,707)		(30,684)
Deferred profit-sharing	-		(3,061)		-
Other income (expenses), net (3)	49,475		9,378		(154,603)
	Ps. 49,475	Ps.	(109,926)	Ps.	209,223

(1) See Note 25.

(2) During 2007, the Company recovered from tax authorities value-added tax related to the years 2006, 2005 and 2004.

(3) Includes a Ps. 65,917 expense recorded in 2007 related to the final outcome of litigation between the Company and BETA's founders.

22. Interest expense

	2009		2008		2007
Interest expense related to senior guaranteed notes (1)	Ps. -	-	Ps. -	-	Ps. 141,532
Other interest expense	162,069		127,526		86,850
Commissions and financing costs (2) (3)	221,696		109,507		116,546
	Ps. 383,765	Ps.	237,033	Ps.	344,928

(1) As of December 31, 2009 and 2008 the interest expense related to senior guaranteed notes was Ps. 288,156 and Ps. 269,052, respectively; however due to the MFRS D-6 application, these amounts were fully capitalized in both years (see Note 6). As of December 31, 2007 the interest expense related to senior guaranteed notes was Ps. 290,509, of which Ps. 149,157 was capitalized, while Ps. 141,352 remained in the comprehensive financing cost. During 2007, the Company adopted the provisions of MFRS D-6, resulting in the capitalization of a portion of its net financing cost.

(2) Includes the commissions paid by the Company to INFONAVIT and Registro Único de Vivienda (RUV), when obtaining approval of individual financing for its customers. The commissions facilitate the home sales and cash inflows recovery, so the Company considers these commissions as part of the financing costs. The amounts expensed in 2009, 2008 and 2007 were Ps. 87,881, Ps. 75,818 and Ps. 65,585, respectively.

(3) Due to anticipated payments made by the Company of short-term lines of credit during December 2009 (see Note 10), the Company amortized Ps. 45,873 related to commissions previously capitalized in other assets.

23. Income tax, asset tax and Flat Rate Business Tax (IETU)

In accordance with Mexican tax law, the Company is subject to income tax (ISR), since 2008 Flat Rate Business Tax (“IETU”) and until 2007 asset tax (IMPAC) and files its tax returns on an individual entity basis and the related tax results are combined in the accompanying consolidated financial statements. The ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component, which is similar to the gain or loss from monetary position.

The Company files ISR and IMPAC tax returns on an individual entity basis and the related tax results are combined in the accompanying consolidated financial statements.

On December 7, 2009 a tax reform bill was approved and published for 2010 fiscal year, which reforms, amends and annul certain tax dispositions and is applicable effective January 1, 2010.

This tax reform bill enacts an ISR rate increase that will be effective as follows:

- a) for years 2010 to 2012, 30%;
- b) for year 2013, 29%; and
- c) for year 2014 and future years, 28%

In addition, certain changes to the consolidation regime will be effective; however, the Company is not subject to such regime.

IMPAC was calculated by applying 1.25% on the net average of the majority of restated assets less certain liabilities. The IMPAC was payable only to the extent that it exceeded ISR payable for the same period. Any required payment of IMPAC was creditable against the excess of ISR over IMPAC of the following ten years.

On October 1, 2007, the tax law IETU was approved. This tax is mandatory from January 1, 2008 and replaced the IMPAC tax laws.

The IETU of the period is calculated applying the rate of 17.5% (16.5% for 2008 and 17% for 2009) based on income determined by cash flows less authorized credits.

The credits for the IETU are mainly composed of unamortized negative IETU base, salaries and social security contributions, and deductions from assets such as inventories and fixed assets, during the initial transition period.

The payment of IETU is required only to the extent that it exceeds the ISR for the same period. The ISR paid during the period will reduce the total IETU payable for the same period.

When the deductions exceed the accumulated income (negative IETU), no IETU is levied. The amount of the negative IETU multiplied by the applicable rate, results in an IETU credit, which can be offset against the ISR generated in the same period or against the IETU payable, if any, within the next ten years.

Based on projected tax calculations in the future it is estimated that the Company will be subject to the payment of the ISR only.

a) As of December 31, 2009, 2008 and 2007 the ISR consist of the following:

	<u>2009</u>	2008	<u>2007</u>
ISR:			
Current	Ps. 279,974	Ps. 141,569	Ps. 132,873
Deferred	903,018	570,606	818,407
	Ps. 1,182,992	Ps. 712,175	Ps. 951,280

To determine deferred ISR as of December 31, 2009 and 2008, the Company applied the different tax rates that will be in effect beginning in 2010, to temporary differences according to their estimated dates of reversal.

b) The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before the ISR is:

	<u>2009</u>	2008	<u>2007</u>
	%	%	%
Statutory rate	28	28	28
Add (deduct) effect of permanent differences mainly:			
Nondeductible expenses	3	1	1
Difference between book and tax inflation effects	5	2	2
Recovered added-value tax	-	-	(2)
Effect of change in statutory rate on deferred ISR	3	-	-
Effective tax rate	39	31	29

The effect of change in the statutory rate on deferred ISR represented an additional charge in the consolidated statement of income for 2009 of Ps. 78,624.

c) At December 31, 2009 and 2008 the main items comprising the asset (liability) balance of deferred ISR are:

	<u>2009</u>	<u>2008</u>
<u>Deferred ISR:</u>		
Effect of tax loss carryforwards	Ps. 617,150	Ps. 994,555
Other creditors	423,148	473,756
Allowance for doubtful accounts	31,485	13,491
Labor obligations	23,565	23,842
Asset tax recoverable	10,873	10,802
PTU liability incurred	5,087	19,141
Unbilled revenues on developments in progress	(3,654,944)	(2,959,612)
Construction-in-process, inventories and taxable inventory (1)	(1,204,074)	(1,713,702)
Property and equipment	(68,429)	(166,542)
Other assets	(66,668)	(86,696)
Prepaid expenses	(2,808)	(3,063)
Derivative financial instruments	(1,312)	(18,473)
Deferred ISR liability	(3,886,927)	(3,412,501)
Losses valuation reserve (see paragraph f below)	(421,843)	-
Total deferred liability, net	<u>Ps. (4,308,770)</u>	<u>Ps. (3,412,501)</u>
Asset	Ps. 643,640	Ps. 328,598
Liability	(4,952,410)	(3,741,099)
	<u>Ps. (4,308,770)</u>	<u>Ps. (3,412,501)</u>

(1) In conformity with the Mexican Income Tax Law (MITLA) in force through December 31, 2004, the cost of sales was considered as a non-deductible expense and inventory purchases and production costs were considered as deductible items. This tax treatment in the MITLA gave rise to a temporary difference because of the difference in the book value of inventories and its corresponding tax value. Effective January 1, 2005, the MITLA considers cost of sales as a deductible item instead of inventory purchases and production costs. The MITLA established transition rules to be followed to include the December 31, 2004 inventory balance into taxable revenue. However, as result of the interpretation of the transition rules established by the MITLA, the Company did not include its inventory balance at December 31, 2004. Consequently, the Company recorded a taxable inventory as a deferred tax liability of Ps. 156,555 and Ps. 125,245 as of December 31, 2009 and 2008, respectively. This taxable inventory relates to the inventory item and tax law change described above as it is the source of income on which the Company did not pay taxes.

d) As of December 31, 2009 the tax loss carryforward expiring in the following ten years amounted to Ps. 2,071,753.

i. The asset tax, which is a minimum income tax, was payable based on 1.25% of the average value of most assets net of certain liabilities. The balances as of December 31, 2009 and 2008 of the asset tax were Ps. 10,873 and Ps. 10,802, respectively.

- ii. The loss carryforwards and recoverable IMPAC for which the deferred ISR asset and prepaid ISR, respectively, have been recognized can be recovered subject to certain conditions. Tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and prepaid ISR, respectively, have been recognized can be recovered, subject to certain conditions. The amounts as of December 31, 2009 and expiration dates are:

<u>Year of Expiration</u>	<u>Tax Loss Carry-forwards</u>	<u>Recoverable IMPAC</u>
2012	Ps. -	Ps. 364
2013	-	1,175
2014	-	2,186
2015	-	1,555
2016	78,857	1,468
2017	55,419	4,125
2018	909,997	-
2019	1,027,480	-
	<u>Ps. 2,071,753</u>	<u>Ps. 10,873</u>

e) The Federal tax authority has the right to perform reviews of the taxes paid by Mexican companies for a period of five years; therefore tax years beginning with 2004 are subject to possible review.

f) At December 31, 2009 and 2008, there are Ps. 670,624 and Ps. 102,969 of unrecognized tax benefits that if recognized would affect the annual effective rate. Total amount of the uncertain tax position for the year ended December 31, 2008 was classified as a provision liability. During 2009 the Company increased such provision in the amount of Ps.145,812 (resulting in a total provision of Ps. 248,781 as of December 31, 2009) and recognized a reduction of the corresponding deferred tax asset in the amount of Ps.421,843, both based on tax positions related to 2009.

Tax positions taken in 2009 and 2008 relate to the interpretation given by the Company to certain articles of the MITLA regarding the inclusion of certain debts in the calculation of the inflation adjustment and the deduction of land by real estate developers.

24. Subsequent events

a) On March 22, 2010, the Company, through its subsidiary Homex India Private Limited executed a Memorandum of Understanding with Puravankara Projects Limited, an Indian private limited company, in which they have established the rules in principle for the formation of a non – exclusive Joint Venture company to undertake projects in the affordable entry-level housing segment in India. The first project of the Company consists of 1,323 units and is expected to be in the metro area of Chennai, in South India.

b) On January 15, 2010, the Company deposited the remaining US\$4.5 million into an escrow account (see Note 25).

25. Contingencies and commitments

Construction guarantees

The Company provides a two-year warranty against construction defects to all of its customers which could be due to the Company's own activities, to defects in the construction materials provided by third parties (electrical installations, plumbing, gas, waterproofing, etc.) or to other circumstances not within the control of the Company.

The Company is insured against any defect, hidden or visible, that could occur during the construction, and after the construction for a certain period of time. In addition, the contractors provide a surety against any hidden or visible defects which is refunded on the approval of customers. The contractors also provide a security fund to cover any probable claims from customers during the warranty period, which is returned to them once such period ends.

Insurance coverage expensed for the years ended December 31, 2009, 2008 and 2007 amounted to Ps. 3,226, Ps. 2,904 and 4,371, respectively.

Contingencies

In July 2007, the Company entered into a Quota holders' Agreement with Empreendimentos Imobiliarios Limitada ("E.O.M"), pursuant to which the Company agreed to contribute 67% and E.O.M. agreed to contribute 33% of the projected 4.0 million Brazilian Reals capital stock of Homex Brasil Incorporacoes and Construcoes Imobiliarios Limitada. Following disagreements with E.O.M., the Company exercised its right to withdraw from the Quota holders' Agreement.

In November 2008, the Company reached an agreement ("Brazilian settlement") to end the Quota holders' Agreement entered into with E.O.M in July 2007, and terminate all litigation that had been taking place in the previous months. The settlement of the dispute included the purchase of the 33 % interest of members of the Khafif family in Homex Brasil, through E.O.M., for 8,352,941 Brazilian Reals, equivalent to approximate Ps. 48,536, of which 5.2 million (Ps. 25,030) has been paid as of December 31, 2009 (Ps. 11,730 was paid as of December 31, 2008). The remaining balance will be paid in two equal payments in the months of April and October of 2010. The Company has treated the step acquisition of this non-controlling interest as a transaction between entities under common control, as is appropriate under MFRS. Because E.O.M. had negligible identifiable tangible or intangible assets as of the date of the transaction, the Company has recognized the entire amount of this transaction as a settlement expense (other expense) in the statement of income for 2008 (See Note 21).

The Company now operates in Brazil through its 100% subsidiary.

Commitment

On December 22, 2009 the Company entered into an Equity Interest Purchase Agreement of three companies (all together Loreto Companies). Depending on certain conditions described in the paragraph below, the Company will acquire through the Loreto Companies different assets (hotel, golf course and land) that combined represent approximately 950,000 square meters in the touristic project known as Loreto Bay in Loreto, Baja California Sur. The developable portion of such assets is in the range of 325,000 square meters.

The purchase price agreed for the above mentioned transaction is US\$ 22.5 million to be paid to the Sellers upon the Company's satisfaction of diverse legal requirements, of which the most relevant is to evidence that the title of the assets transferred to the entities that will own them, is free and clear from any encumbrance.

In accordance to the terms of the agreement, the Company was to deposit US\$ 5 million into an escrow account. At the date of the financial statements, the Company has deposited US\$ 500,000; the rest was deposited on January 15, 2010 as explained in Note 24 above.

Through its tourism division the Company intends to develop (in the above mentioned developable area) 1,100 units.

26. New accounting principles (2010 and 2011)

In December 2008 and 2009, the following new accounting standards were issued under MFRS. Two of these standards were adopted by the Company on January 1, 2010 and the rest will be adopted on January 1, 2011. At the date of the financial statements, the Company is evaluating the effect of the observance that these new accounting standards will have on the Company's consolidated results of operations and financial position; as well as disclosures to the consolidated financial statements.

Effective in 2010

IMFRS 14, Construction, Sales and Services Agreements related to Real Estate

In December 2008 IMFRS 14 was issued by the CINIF to complement Bulletin's D-7 regulation, *Construction Agreements and Manufacturing of Certain Capital Assets*. This Interpretation is applicable to the recognition of revenues, costs and expenses for all entities that undertake the construction of capital assets directly or through sub contractors.

Due to the application of this Interpretation, effective January 1, 2010, the Company will stop recognizing its revenues, costs and expenses based on the percentage-of-completion method. At that date, the Company will begin to recognize them based on methods mentioned in this Interpretation. Revenue and cost recognition will then more closely approximate what is often referred to as a "completed contract method" in which revenues, costs and expenses should be recognized, when all of the following conditions are fulfilled:

- a) the entity has transferred the control to the homebuyer, in other words, the significant risks and benefits due to the property or the assets ownership;
- b) the entity does not keep for itself any continue participation on the actual management of the sold assets, in the usual grade associated with the property, nor does retain the effective control of the sold assets;
- c) the revenues amount can be estimated reliably;
- d) it is probable that the entity receives the economic benefits associated with the transaction; and
- e) the costs and expenses incurred or to be incurred related to the transaction can be estimated reliably.

This Interpretation will be adopted as of January 1, 2010, with retrospective application to prior accounting periods presented with its 2010 consolidated financial statements. We estimate that the application of IMFRS 14 to the consolidated financial statements would have had the following effects with respect to the year ended December 31, 2009:

- sales would have decreased 11.1% from Ps. 19,425.2 million to Ps. 17,277.7million;
- operating income would have decreased 17.4% from Ps. 3,170.0 million to Ps. 2,618.3 million;
- net income would have decreased 20.9% from Ps. 1,829.9 million to Ps. 1,466.9 million; and
- total stockholders' equity would have decreased 15.8% from Ps. 12,998.0 million to Ps. 10,935.7 million.

In addition, the application of IMFRS 14 to the consolidated financial statements would have had the following effects as of December 31, 2009: (i) a decrease in accounts receivable for the developments in progress, (ii) an increase in inventories consisting of housing under construction, (iii) a decrease in deferred income taxes for net income attributable to housing not yet titled and (iv) a decrease in stockholders' equity as indicated above.

MFRS C-1, Cash and cash equivalents

This MFRS replaces MFRS C-1, *Cash* and describes general rules for the valuation, presentation and disclosure of cash and cash equivalents items that are included in a Company's balance sheet.

The main changes of this MFRS are as follows: (a) set a new name for this MFRS, from Cash to Cash and Cash Equivalents; (b) addresses the restricted cash presentation in the financial statements; and, (c) set and defines new terms like: temporary investments, acquisition costs, cash equivalents, restricted cash, net realizable value, nominal value, and fair value.

Effective in 2011

MFRS B-5, Reporting Financial Information by Segment

This MFRS replaces MFRS B-5, *Reporting Financial Information by Segment* and establishes the criteria to identify the entity's segments to disclose as well as the disclosures about those segments. In addition, establishes disclosure requirements of certain of the Entity's information.

The main changes of this MFRS are as follows: (a) MFRS B-5 includes a managerial approach, while previous MFRS B-5, although it referred to managerial approach, required that the information to disclose were referred to identified segments based on the products or services, geographical areas and customers homogenous groups, also requiring that that information would be segregated in primary and secondary information; (b) new MFRS does not require that business areas are subject to different risks amongst them, in order to qualify as operative segments, while previous MFRS B-5 did; (c) in accordance to new MFRS B-5, business areas in development stage could be catalogued as operative segment, while previous MFRS B-5 required operative segments to generate revenues; (d) MFRS B-5 requires to disclose by segments income interest and interest expense, as well as other comprehensive financial cost items, while previous MFRS B-5 did not require this information; and (e) MFRS B-5 requires to disclose the amounts of liabilities that are included in the usual information of an operative segment that the Company normally uses to make decisions, while previous MFRS B-5 did not require this and let management the option to do so or not.

International Financial Reporting Standards (IFRS)

On January 27, 2009 the Mexican Securities Commission (Comisión Nacional Bancaria y de Valores or CNBV) established through the Federation Official Gazette the requirements for the listed companies to prepare and reveal their financial information under IFRS beginning the year 2012. Likewise it was specified that early adoption for the years 2008, 2009, 2010 and 2011 is allowed.