

OFFERING CIRCULAR



US\$300,000,000

Grupo Papelero Scribe, S.A. de C.V.

8.875% Senior Guaranteed Notes due 2020

We are offering US\$300,000,000 aggregate principal amount of our 8.875% Senior Guaranteed Notes due 2020 (the “notes”). We will pay interest on the notes on each April 7 and October 7. The first interest payment will be made on October 7, 2010. The notes will mature on April 7, 2020. At our option, we may redeem the notes on or after April 7, 2015 at the redemption prices set forth in this offering circular. Prior to April 7, 2015, we may redeem, in whole or in part, the notes by paying the principal amount of the notes plus the applicable “make-whole” premium and accrued interest. Prior to April 7, 2013, we may redeem up to 35% of the notes with the proceeds of certain equity offerings. See “Description of Notes—Optional Redemption.” In addition, in the event of certain changes in the Mexican withholding tax treatment relating to payments on the notes, we may redeem all (but not less than all) of the notes at 100% of their principal amount, plus accrued and unpaid interest. There is no sinking fund for the notes. If we sell certain assets or experience specific kinds of changes in control, we must offer to purchase the notes.

The notes will be our unsecured general obligations and will be fully and unconditionally guaranteed by all of our existing and future subsidiaries, other than unrestricted subsidiaries. The notes will rank equally with all of our and our subsidiary guarantors’ existing and future unsecured and unsubordinated indebtedness. The notes will effectively rank junior to all of our and our subsidiary guarantors’ secured indebtedness to the extent of the value of the assets securing such indebtedness.

Application has been made to admit the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market.

This offering memorandum constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on Prospectuses for Securities.

Investing in the notes involves risks. See “Risk Factors” on page 13.

Price: 100.000%

plus accrued interest, if any, from April 7, 2010.

Delivery of the notes in book-entry form was made on or about April 7, 2010.

The notes have not been registered and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to non-U.S. persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on the transfer of the notes, see “Notice to Investors.”

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (THE *COMISIÓN NACIONAL BANCARIA Y DE VALORES*, OR “CNBV”), AND MAY NOT BE OFFERED OR SOLD PUBLICLY, OR OTHERWISE BE THE SUBJECT OF BROKERAGE ACTIVITIES, IN MEXICO, EXCEPT PURSUANT TO A PRIVATE PLACEMENT EXEMPTION SET FORTH UNDER ARTICLE 8 OF THE *LEY DEL MERCADO DE VALORES* (THE “MEXICAN SECURITIES MARKET LAW”) TO INSTITUTIONAL AND QUALIFIED INVESTORS. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, UPON THE ISSUANCE OF THE NOTES, WE WILL NOTIFY THE CNBV OF THE ISSUANCE OF THE NOTES, INCLUDING THE PRINCIPAL CHARACTERISTICS OF THE NOTES AND THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE, DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR OF OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS THE EXCLUSIVE RESPONSIBILITY OF SCRIBE AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV. IN MAKING AN INVESTMENT DECISION, ALL INVESTORS, INCLUDING ANY MEXICAN INVESTORS WHO MAY ACQUIRE NOTES FROM TIME TO TIME, MUST RELY ON THEIR OWN REVIEW AND EXAMINATION OF SCRIBE.

Sole Book-Running Manager

Credit Suisse

Co-Manager

Morgan Stanley

The date of this offering circular is June 8, 2010

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You should rely on only the information contained in this offering circular or to which we have referred you. We have not, and the initial purchasers have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the initial purchasers are not, making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer or sale is not permitted. This offering circular does not constitute an offer to sell, or a solicitation of an offer to buy, any notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. You should assume that the information contained in this offering circular or to which we have referred you is accurate only as of the date on the front cover of this offering circular. Our business, financial condition, results of operations and prospects may have changed since that date.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. By purchasing the notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Notice to Investors” in this offering circular. We are not, and the initial purchasers are not, making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the CNBV nor the United States Securities and Exchange Commission (the “SEC”) nor any U.S. state securities commission nor any other regulatory authority has approved or disapproved of these securities or determined if this offering circular is truthful or complete. Any representation to the contrary is a criminal offense.

We have submitted this offering circular solely to a limited number of qualified institutional buyers in the United States and to investors outside Mexico or the United States so they can consider a purchase of the notes. We have not authorized the use of this offering circular for any other purpose. By accepting delivery of this offering circular, you agree to these restrictions. See “Notice to Investors.”

This offering circular is based on information provided by us and other sources that we believe to be reliable. We and the initial purchasers cannot assure you that this information is accurate or complete. This offering circular summarizes certain documents and other information and we refer you to such documents and other information for a more complete understanding of what we discuss in this offering circular. In making an investment decision, you must rely on your own examination of Grupo Papelero Scribe, S.A. de C.V. and its subsidiaries (“Scribe”) and the terms of the offering and the notes, including the merits and risks involved.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering circular. Nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. The initial purchasers make no representation as to any of the information contained herein (financial, legal or otherwise) and assume no responsibility for the accuracy or completeness of any such information.

Neither we, nor the initial purchasers, nor any of our or their respective representatives is making any representation to any purchaser regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, financial, business and tax advice regarding any investment in the notes.

We accept responsibility for the information contained in this offering circular. To the best of our knowledge and belief (and we have taken all reasonable care to ensure that), the information contained in this offering circular is in accordance with the facts and does not omit any material information. You should assume that the information contained in this offering circular is accurate only as of the date on the front cover of this offering circular.

We reserve the right to withdraw this offering of the notes at any time and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchasers and certain related entities may acquire for their own account a portion of the notes.

You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor any of the initial purchasers will have any responsibility therefor.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES OR RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This offering circular is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as “relevant persons”). This offering circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering circular relates is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

This offering circular has been prepared on the basis that all offers of the notes will be made pursuant to an exemption under Directive 2003/71/EC (the “Prospectus Directive”), as implemented in member states of the European Economic Area (“EEA”), from the requirement to produce a prospectus for offers of the notes. Accordingly, any person making or intending to make any offer within the EEA of the notes which are the subject of the placement contemplated in this offering circular should only do so in circumstances in which no obligation arises for Scribe or the initial purchasers to produce a prospectus for such offer. None of Scribe, the Trustee (as defined herein) or the initial purchasers has authorized, nor do any of them authorize, the making of any offer of notes through any financial intermediary, other than offers made by the initial purchasers which constitute the final placement of the notes contemplated in this offering circular.

Each person in a Member State of the EEA who receives any communication in respect of, or who acquires any notes under, the offer contemplated in this offering circular will be deemed to have represented, warranted and agreed to and with us, and the initial purchasers that:

- (a) it is a qualified investor within the meaning of the law in that Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) in the case of any notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the initial purchasers has been given to the offer or resale; or (ii) where notes have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an “offer” in relation to any notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Member State.

IN CONNECTION WITH THE ISSUE OF THE NOTES, CREDIT SUISSE SECURITIES (USA) LLC, AS STABILIZATION MANAGER, OR THE PERSONS ACTING ON THEIR BEHALF, MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, WE CANNOT ASSURE YOU THAT THE STABILIZATION MANAGERS OR THE PERSONS ACTING ON THEIR BEHALF WILL UNDERTAKE ANY STABILIZATION. ANY STABILIZATION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resales of notes, we will be required under the Indenture under which the notes are issued (the “Indenture”), upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “Notice to Investors”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

The Indenture further requires that we furnish to the Trustee (as defined herein) all notices of meetings of the holders of notes and other reports and communications that are generally made available to holders of the notes. At our request, the Trustee will be required under the Indenture to mail these notices, reports and communications received by it from us to all record holders of the notes promptly upon receipt. See “Description of Notes.”

We will make available to the holders of the notes, at the corporate trust office of the Trustee at no cost, copies of the Indenture as well as this offering circular, including a review of our operations, and annual audited consolidated financial statements prepared in conformity with Mexican Financial Reporting Standards (“MFRS”). We will also make available at the office of the Trustee our unaudited quarterly condensed consolidated financial statements in English prepared in accordance with MFRS. Information will also be available at the office of the Luxembourg Listing Agent (as defined herein).

Application has been made to admit the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market. This offering circular forms, in all material respects, the listing memorandum for admission to the Luxembourg Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Luxembourg Stock Exchange in connection with the notes, and to furnish to them all such information as the rules of the Luxembourg Stock Exchange may require in connection with the listing of the notes.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a *sociedad anónima de capital variable* (a variable capital corporation) organized under the laws of Mexico. All of our directors, executive officers and controlling persons reside outside of the United States, a significant portion of the assets of our directors, executive officers and controlling persons, and substantially all of our assets are located outside of the United States, and certain of the experts named in this offering circular also reside outside of the United States. As a result, it may not be possible for you to effect service of process within the United States upon these persons or to enforce against any of them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. We have been advised by our Mexican counsel, Santamarina y Steta, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws. See “Risk Factors—Risk Factors Related to the Notes—It May be Difficult to Enforce Civil Liabilities Against Us or Our Directors, Executive Officers and Controlling Persons.”

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Words such as “believe,” “anticipate,” “plan,” “expect,” “intend,” “target,” “estimate,” “project,” “predict,” “forecast,” “guideline,” “should” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. Examples of these forward-looking statements include:

- projections or estimates of revenues, net income (loss), capital expenditures, dividends, capital structure or other financial items or ratios;
- statements of our plans, objectives or goals, including those relating to potential acquisitions, anticipated trends, competition, regulation, government economic policies and foreign currency exchange rates;
- statements about our future economic performance or that of the general economic, political, social and business conditions in Mexico or elsewhere where we operate or plan to operate; and
- statements of assumptions underlying these statements.

You should not place undue reliance on forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. All forward-looking statements and risk factors included in this offering circular are made as of the date on the front cover of this offering circular, based on information available to us as of such date, and we assume no obligation to update any forward-looking statement or risk factor.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Throughout this offering circular, unless the context otherwise requires, the terms “we,” “us,” “our,” “the Company” and “Scribe” refer to Grupo Papelero Scribe, S.A. de C.V. and its subsidiaries.

Financial Information

This offering circular includes our audited consolidated financial statements as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007, which we refer to as the “Financial Statements.” Our Financial Statements and other financial information included in the offering circular, unless otherwise specified, are stated in Mexican pesos.

We prepare our Financial Statements in pesos and in accordance with Mexican Financial Reporting Standards (referred to as “MFRS”, and individually referred to as *Normas de Información Financiera* or “NIFs” and “Bulletins”), as issued by the Mexican Board for Research and Development of Financial Reporting Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.*), which differ in certain significant respects from accounting principles generally accepted in the United States, referred to as “U.S. GAAP”.

See “Differences between MFRS and U.S. GAAP.” We are not providing any reconciliation to U.S. GAAP of our Financial Statements or other financial information in this offering circular. We cannot assure you that a reconciliation would not identify material quantitative differences between our Financial Statements and other financial information as prepared on the basis of MFRS if such information were to be prepared on the basis of U.S. GAAP.

Through December 31, 2007, MFRS required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Mexican pesos as of the latest balance sheet date presented. Beginning January 1, 2008, MFRS modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” where the cumulative inflation of the three preceding years is 26.0% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” where the cumulative inflation of the three preceding years is less than 26.0%, in which case no inflationary effects should be recognized in the financial statements.

Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2009 and 2008, was 15.0% and 11.6%, respectively, the economic environment may be considered non-inflationary for such periods. Inflation rates for the years ended December 31, 2009 and 2008 were 3.6% and 6.5%, respectively.

Accordingly, beginning on January 1, 2008, the Company discontinued recognition of the effects of inflation in its financial statements. Therefore, the financial statements and notes as of and for the years ended December 31, 2009 and 2008 included balances and transactions denominated in Mexican pesos of different purchasing power. However, assets, liabilities and stockholders’ equity include inflationary effects recognized through December 31, 2007.

Currency Information

Unless otherwise specified, references to “US\$,” “U.S. dollars” and “dollars” are to the lawful currency of the United States. References to “Ps.” and “pesos” are to the lawful currency of Mexico.

This offering circular contains translations of various peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. You should understand these translations are not representations that the peso amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering circular at the exchange rate of Ps.13.07 to US\$1.00, which was the buying rate published by Banco de México, expressed in pesos per U.S. dollar, on December 31, 2009. On March 12, 2010, the noon buying rate for pesos published by the Federal Reserve Bank of New York was Ps.12.5457 to US\$1.00. See “Exchange Rate Information.”

Industry and Market Data

Market data and other statistical information used throughout this offering circular are based on independent industry publications, government publications and reports by market research firms or other published independent sources. Some data are also based on our own internal estimates, which are derived from our review of internal surveys, as well as independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness.

In addition, in many cases, we have based certain statements contained in this offering circular regarding our industry and our position in the industry on certain assumptions concerning our customers and competitors. These assumptions are based on our experience in the industry, conversations with our principal vendors and our own investigation of market conditions. We cannot assure you as to the accuracy of any such assumptions, and such assumptions may not be indicative of our position in our industry.

Rounding

Certain figures included in this offering circular have been rounded for ease of presentation. Percentage figures included in this offering circular have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this offering circular may vary from those obtained by performing the same calculations using the figures in our Financial Statements. Certain numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them due to rounding.

SUMMARY

This summary highlights selected information from this offering circular and does not contain all of the information that may be important to you. You should carefully read this entire offering circular, including the information under the heading "Risk Factors" and in the Financial Statements and accompanying notes appearing elsewhere in this offering circular.

Throughout this offering circular, unless the context otherwise requires, the terms "we," "us," "our," "the Company" and "Scribe" refer to Grupo Papelero Scribe, S.A. de C.V. and its subsidiaries.

Our Company

We are the largest producer and marketer of notebooks and printing and writing paper in Mexico based on sales volume as of December 31, 2009, according to the *Cámara Nacional de las Industrias de la Celulosa y Papel*, or the Mexican National Chamber for the Pulp and Paper Industry ("CNICP"), ACNielsen Corporation ("Nielsen") and our internal estimates. Our notebook products are marketed under several brand names, including "Scribe," which has been widely-recognized in Mexico since it was launched in 1962. Our paper products include some of the most recognized and preferred paper brand names in Mexico, including, among others, "Duplicador," "Fotobond," "Leeds Photocopy," "Scribe Ecológico" and "Kromos Gráfico." We believe we have leading market share in Mexico.

Prior to our formation in 2006, our businesses were conducted as part of Kimberly-Clark de México, S.A.B. de C.V. ("KCM"), which has long been recognized as a leading manufacturer of world-class premium writing, text, cover and specialty papers and notebooks. We have benefited from the know-how of KCM and its strong brand-name recognition and we expect to continue benefiting from it going forward.

We currently have two lines of business: Notebooks and Paper. Our Paper line of business manufactures and markets fine printing and writing paper, including coated and uncoated sheets and rolls of paper and uncoated cut-size papers. Our Paper line operates in all Mexican paper consumption segments, including copy paper, graphic arts paper, publishing paper, commercial printing paper, business forms, converters and governmental use paper. We believe that our operations across these segments provide us with diverse sources of revenues. Our Notebooks line of business manufactures and markets notebooks and notepads in various formats and sizes, with or without accessories, and with various forms of binding.

The Company serves two principal market segments, the consumer paper market segment (the "Consumer market segment") and the industrial paper market segment (the "Industrial market segment"). We serve the Consumer market segment through the sale of notebooks, cut-size papers and tissue, targeting individual consumers through dedicated distribution channels designed to reach a broad array of retail outlets. We believe that the Mexican Consumer market segment will continue to present substantial growth opportunities over the coming years. We serve the Industrial market segment through the sale of paper rolls, flat sheets and specialty paper, targeting our industrial clients through a strategy designed to cultivate and retain long-term business relationships and provide stability to our earnings.

Our production footprint consists of five mills: Bajío, Morelia, Orizaba, Naucalpan and San Rafael. Three of our mills, Bajío, Morelia and Orizaba, are adjacent to facilities of KCM and share certain services (such as water, steam and electricity) and other assets (such as certain buildings, access roads and railroad access) with KCM. See "Related Party Transactions." We also maintain warehouse facilities at each of our five mills to store and to deliver our products directly to our customers. We own Agrícola Oriental, a distribution facility in Mexico City, which we use primarily to store standard paper products. In addition, we lease a distribution facility in Mexico City, primarily to store notebooks. We own substantially all of the equipment necessary for the production and manufacturing of printing and writing paper, notebooks and pulp. We also produce wood pulp out of wood chips obtained from sustainable forestry operations and industrial waste wood.

From the beginning of 2007 through year-end 2009, our production grew at a compound annual growth rate of 0.9% for our Paper line of business and 6.1% for our Notebooks line of business, as compared to a 5.3% decrease in Mexico's gross domestic product ("GDP") over the same period. During the same period, our revenues grew at a

compound annual growth rate of 14.1% for Paper and 10.1% for Notebooks, and we had average annual sales of Ps.3,918.1 million (US\$299.8 million) and Ps.1,587.5 million (US\$121.5 million), and average annual adjusted EBITDA of Ps.536.9 million (US\$41.1 million) and Ps.273.4 million (US\$20.9 million), respectively. During this period, average annual adjusted EBITDA margins were 13.7% for Paper and 17.2% for Notebooks, respectively.

For the year ended December 31, 2009, we generated adjusted EBITDA of Ps.1,064.2 million (US\$81.4 million). During the twelve-month period ended December 31, 2009, our Paper and Notebooks lines of business generated sales of Ps.4,159.1 million (US\$318.2 million) and Ps.1,684.1 million (US\$128.9 million), contributing 71% and 29% of total sales, respectively. During this period, our Paper and Notebooks lines of business had an adjusted EBITDA of Ps.764.8 million (US\$58.5 million) and Ps.299.4 million (US\$22.9 million), contributing 72% and 28% of our adjusted EBITDA, respectively.

Our Competitive Strengths

We believe that the following competitive strengths have contributed to our success:

- *Leading market positions in Mexico.* We are the market leader in both of our lines of business based on sales volume, according to CNICP. Our internal estimates of market share in the Paper and Notebooks lines of business were 30% and 80%, respectively, as of December 31, 2009. Our internal estimate of market share in cut-size paper was 38% for the same date. “Scribe” is one of the most recognized brands in the Mexican market. Our established leading market positions provide us with a strong competitive advantage, which we believe is supported by our economies of scale and scope of our operations. We believe that there is still significant growth potential in our Notebooks line of business, particularly in the mid-tier and high-end segments.
- *Top brand portfolio.* We believe that our product portfolio includes the top printing and writing paper and notebook brands and licenses in Mexico. We own more than 290 brands, including uncoated paper brands, coated paper brands, cut-size paper brands and the notebook brand “Scribe,” which we use to market our products. We employ a multi-brand strategy and position our brands within each price-point category. We target consumers of our paper products with tailor-made market strategies that focus on the needs and uses of a particular group of consumers. We employ an umbrella strategy of offering diverse products under one name to promote our Notebooks brands and related products. We also seek to continually enhance our products through market research and new product development in order to meet evolving customer preferences. We believe that the high quality of our products, the strength and recognition of our brands, sub-brands and licenses allow us to set and maintain premium prices.
- *Differentiated product offerings supported by value-added services.* We believe we have a reputation as a leading quality producer of premium fine and customized papers. We ensure our product quality by utilizing computerized statistical process controls and highly trained teams of operators. We believe that we are the supplier of choice for many of Mexico’s consumers of fine and specialty paper. The manufacturing of customized paper products involves strong client relationship strategies, as well as a clear understanding of each client’s particular needs and ongoing service requirements. This value-added service requires frequent visits to clients’ facilities in order to render technical services to assist publishers to fine tune specific product and process requirements. We believe we are the only paper producer in Mexico with the capabilities and resources to develop unique paper and printing product solutions to meet the specific needs of each of our clients. We actively seek out growth opportunities by means of strategic alliances with clients that may enhance our competitive position, leverage our capabilities and produce high-quality products. We have had success aligning wholesalers with our business strategy.
- *Strong sales force and distribution network in Mexico.* We believe we operate one of the most successful and complete multi-channel distribution platforms for printing and writing and notebook products in Mexico. We believe our extensive distribution channels, spanning across all of Mexico, allow us to distribute our products reliably and with a high level of customer service. A network of five warehouses located at the production sites plus two off-site distribution facilities supports our distribution capabilities. Our products are distributed through a large number of independent

wholesalers, direct customers and distributors, specialty retailers and retail chains and outlets. We believe that the distribution process for our Paper and our Notebooks products allows us to reach approximately 16,000 and 45,000 points of sale, respectively. We also have a strong sales force, numbering over 40 employees, divided into four specialized and distinct teams that each target specific categories and distribution channels. Our experienced sales teams are highly knowledgeable about the market for our products and our competitors.

- *Strategically located and efficient operations with partial vertical integration.* We have five mills strategically located throughout central Mexico, which is the most densely populated and wealthiest region in the country with approximately 34% of its population and 35% of its GDP as of 2007, according to the *Instituto Nacional de Estadística, Geografía e Informática*, or the Mexican Institute of Statistics, Geography and Computer Science (“INEGI”), and the *Consejo Nacional de Población*, or the Mexican Population Council (“CONAPO”). Central Mexico is also the location of our most important clients and of our main sources of domestic raw materials. Moreover, we strive to be an efficient printing and writing paper manufacturer based on international standards. As of 2009, we had an 82.7% Metso index, a ratio which measures the efficiency of a paper mill by analyzing down time and total paper waste. Our Metso index ratio compares favorably with the global industry average of 84.1% according to Metso Corporation, which we believe indicates that we are a low-cost producer and are competitive on a worldwide basis. We believe we are the only Mexican paper and notebook company with the capacity to self-supply 100% of the paper for our Notebooks business and self-supply 30% of the pulp raw material required for our combined Paper and Notebooks businesses. Such partial vertical integration results in lower earnings volatility and higher margins. In addition, the recent implementation of our SAP information system has streamlined our efficiency. See “Business–Information Technology.”
- *Strong and experienced management and operating team.* We believe we have a highly capable and experienced management team with broad industry expertise. Our management team has an average of 26 years of experience in the paper industry. On the operations side, we have a knowledgeable and highly qualified group of operating and technical personnel in each of our facilities. We believe that such an experienced and qualified management team provides us with the capability to sustain our market leadership and manufacture and deliver quality fine and customized products.
- *We practice sustainable forest management and have a strong environmental profile.* We believe in and practice sustainable forest management according to the principles of sustainable development. All of the wood used in our manufacturing processes is certified as sustainably harvested and legally produced prior to entering our facilities by the *Procuraduría Federal de Protección al Ambiente*, or Federal Environmental Protection Bureau. In addition, the Sustainable Forestry Initiative (“SFI”), the world’s largest single forest certification standard, certified that all five of our mills are in compliance with chain of custody standards. Three of our mills are currently certified as “Clean Industries” by the Federal Environmental Protection Bureau and we expect that our remaining two mills will be certified as “Clean Industries” in 2010.

Our Business Strategy

Our goal is to build on our competitive strengths and to continue leading as the most profitable domestic and export-oriented paper products and notebooks manufacturing company in Mexico. To achieve this goal, we will seek to increase our market and brand leadership in key product categories as well as expand our business to new markets, as described below. We also intend to focus our strategy on forming new strategic alliances with clients and manufacturing the highest margin products, including comprehensive paper services and solutions. We believe we have the market access and channels to sell new high margin imported products, which are currently imported into Mexico by our customers and competitors. We also intend to continue our capital investments to sustain our market leadership and cost advantage.

To this end, our management has identified the following key strategic objectives:

- *Increase market share and brand leadership in key product categories.* Our goal is to maintain our position as the brand leader in sales volume and product quality in high margin products, including

cut-size paper and high-end notebooks. In addition, we believe the substantial brand recognition of “Scribe,” our umbrella Notebooks brand, provides an opportunity to expand into other school and office-related products, such as pens, pencils and bags, by building upon almost 50 years of strong positioning of the “Scribe” brand name in the Mexican market. We plan to seek ways to leverage our “Scribe” brand into other complementary products.

- *Focus on the most profitable product mix and customer segments.* We continually strive to optimize the sales mix of our products with the goal of maximizing the sale of high profit margin products such as cut-size paper and high-end notebooks subject to market demand. We also seek to target the consumer market since we believe that the Mexican Consumer market segment will continue to present substantial growth opportunities and resilience over the coming years. The percentage of our total sales represented by the Consumer market segment encompassing notebooks, cut-size paper and tissue has continued to grow, reaching 61% of our total sales in the year ended December 31, 2009.
- *Leverage distribution coverage in Mexico through a multi-channel strategy.* We intend to utilize our vast nationwide distribution network to sell imported products that we do not currently manufacture, or products in which we are operating at full capacity, to increase overall sales and margins. We also plan to adopt new co-branding techniques with the goal of exploring and establishing new distribution channels.
- *Remain the lowest-cost producer of printing and writing paper and notebooks in Mexico.* We believe we are the lowest-cost producer of printing and writing paper and notebooks in Mexico. Recently, we have further reduced costs by expanding our existing wood pulp production facilities at our Morelia mill. We believe that our position as a partially vertically integrated pulp supplier provides us with competitive advantages over other paper manufacturers because we are able to reduce our exposure to pulp price cycles, ensure supply of a key raw material and provide ourselves with an alternative energy source in the form of steam. In addition, we seek to leverage our economies of scale and the scope of our operations to maintain and enhance our efficiency.
- *Focus on comprehensive export strategy based on capacity utilization and value-added products.* We seek to expand into new markets and export value-added products. We export into all countries in Central America, selected countries in the Andean region and the United States. The counter-seasonal back-to-school season in Central America and the Andean region occurs January through March as opposed to May through August in Mexico. By expanding into Central America and the Andean region, we plan to exploit our Notebooks production capacity effectively and service those markets with our existing infrastructure. We believe this strategy will reduce our seasonal risk, generate additional revenue and maximize our installed production capacity. In addition, we seek to focus our export strategy on high profit margin and value-added products. We intend to concentrate our exports in low-volume, high-price premium items such as high-end notebooks, cut-size paper and specialty paper products. We believe these products offer higher margins without adding considerable strain to our installed capacity during high season. By capitalizing on our geographic proximity to the United States and our design and creative capabilities, we have identified several markets where we believe we can compete, and we plan on securing commercial alliances in Canada, the United States and several Latin American countries to export our products.

We continually evaluate, develop and refine strategies to improve in all areas of our operations in order to capitalize on our competitive advantages concerning market share, brands, distribution and vertical integration. Execution of these strategies is intended to capitalize on our strengths, including our market leadership, strong brands, unique distribution and sales network and vertical integration.

Recent Developments

The Company is in negotiations to enter into a 5-year secured revolving credit facility (the “New Revolving Credit Facility”) concurrently with or soon after the issuance of the notes, which will provide for borrowings of up to approximately US\$50.0 million, subject to customary terms and conditions. The Company plans to use the New Revolving Credit Facility to replace its existing Revolving Credit Facility under the Syndicated Loan Facility (each as defined below under “Liquidity and Capital Resources—Indebtedness”). The closing of the New Revolving

Credit Facility will be subject to customary closing conditions. The offering of the notes is not conditioned upon our entering into the New Revolving Credit Facility. There can be no assurance that any replacement credit facility, including the New Revolving Credit Facility, will be available to the Company on acceptable terms, or at all.

The Company is in preliminary negotiations to expand its current business through acquisition of other complementary businesses in Central America and the Andean region, although at this time the Company does not have any binding agreements or understandings with any potential target acquisitions.

Corporate Information

Grupo Papelero Scribe, S.A. de C.V. is a *sociedad anónima de capital variable* (variable capital corporation) with its corporate domicile in Mexico City, Mexico and organized under Mexican Law. Our principal executive offices are located at José Luis Lagrange 103, Piso 12, Colonia Los Morales Polanco, Delegación Miguel Hidalgo C.P. 11510, México, D.F. Our telephone number is (52) (55) 5282-7400. Our website address is www.scribe.com.mx. The information on our website is not part of this offering circular.

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the notes, see “Description of Notes” in this offering circular.

Issuer	Grupo Papelero Scribe, S.A. de C.V.
Notes Offered	US\$300,000,000 aggregate principal amount of 8.875% Senior Guaranteed Notes due 2020.
Maturity	April 7, 2020.
Interest Payment Dates	April 7 and October 7 of each year, beginning on October 7, 2010.
Guarantors	GPS Trading, S.A. de C.V. and Silvicultora Saraya, S.A. de C.V.
Guarantees	The payment of principal, interest and premium on the notes will be fully and unconditionally guaranteed on a senior unsecured basis by all of our existing and future subsidiaries, other than unrestricted subsidiaries. See “Description of Notes—Note Guarantees.”
Ranking	<p>The notes and guarantees will rank</p> <ul style="list-style-type: none">• equally with all of our and the subsidiary guarantors’ existing and future senior indebtedness; and• senior to all of our and the subsidiary guarantors’ existing and future subordinated indebtedness. <p>The notes and the guarantees will effectively rank junior to all of our and the subsidiary guarantors existing and future secured indebtedness with respect and up to the value of the assets securing such indebtedness. Furthermore, the notes and the guarantees will rank junior to all obligations preferred by statute (such as tax and labor obligations).</p> <p>As of December 31, 2009, assuming the issuance of US\$300 million principal amount of notes and estimated net proceeds of approximately US\$294.9 million on a pro forma basis after giving effect to this offering and the related transactions as described under “Use of Proceeds,”</p> <ul style="list-style-type: none">• Scribe and the subsidiary guarantors had Ps.3,921 million (US\$300 million) of senior indebtedness, none of which is secured indebtedness.
Optional Redemption	<p>Prior to April 7, 2013, Scribe is entitled to redeem up to 35% of the original principal amount of the notes, including the original principal amount of any additional notes we may issue in the future under the Indenture, from the proceeds of certain equity offerings, so long as</p> <ul style="list-style-type: none">• we pay to the holders of such notes a redemption price of 108.875% of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption; and• at least 65% of the original aggregate principal amount of the notes and any additional notes issued under the Indenture

remains outstanding after each such redemption.

Prior to April 7, 2015, we are entitled to redeem the notes as a whole at a redemption price equal to the principal amount of the notes plus the Make-Whole Amount and accrued and unpaid interest to the date of redemption. The term “Make-Whole Amount” is defined under “Description of Notes—Optional Redemption.”

On or after April 7, 2015, we are entitled to redeem some or all of the notes at the fixed redemption prices listed under “Description of Notes—Optional Redemption,” plus accrued and unpaid interest to the date of redemption.

Certain Covenants

The Indenture governing the notes limits what we and our restricted subsidiaries may do. The Indenture limits our and our restricted subsidiaries’ ability to, among other things:

- incur additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness;
- make investments;
- create liens;
- create any consensual limitation on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us;
- engage in transactions with affiliates;
- sell assets, including capital stock of our subsidiaries; and
- consolidate, merge or transfer assets.

If the notes obtain investment grade ratings from Standard & Poor’s Rating Group and Moody’s Investors Services, Inc. and no default has occurred and is continuing, the foregoing covenants will be suspended with the exception of covenants that contain limitations on liens and on, among other things, certain consolidations, mergers and transfer of assets for so long as each of the foregoing rating agencies maintains its investment grade rating.

These covenants are subject to a number of important qualifications and exceptions. See “Description of Notes—Certain Covenants.”

Change of Control

If we experience a Change of Control, subject to certain conditions, we must give holders of the notes the opportunity to sell to us their notes at 101% of the principal amount, plus accrued and unpaid interest. The term “Change of Control” is defined under “Description of Notes—Certain Definitions.”

Additional Amounts	All payments by us or the subsidiary guarantors in respect of the notes, whether of principal or interest, will be made without withholding or deduction for or on account of any Mexican taxes, unless required by law, in which case, subject to specified exceptions, we and the subsidiary guarantors will pay such additional amounts as may be required so that the net amount received by the holders of the notes in respect of principal, interest or other payments on the notes, after any such withholding or deduction, will not be less than the amount that would have been received in the absence of any such withholding or deduction. See “Description of Notes—Additional Amounts.”
Redemption for Changes in Mexican Withholding Taxes	In the event that, as a result of certain changes in Mexican tax laws applicable to payments under the notes, we become obligated to pay additional amounts in respect of interest (or amounts deemed interest) payable under the notes, in excess of those attributable to a Mexican withholding tax rate of 4.9%, the notes will be redeemable, in whole but not in part, at our option, at any time upon notice, at 100% of their principal amount plus accrued and unpaid interest. See “Description of Notes—Additional Amounts.”
Book Entry; Form and Denominations	The notes will be issued in the form of one or more global notes without coupons, registered in the name of a nominee of The Depository Trust Company (“DTC”), as depository, for the accounts of its participants including Clearstream Banking, <i>société anonyme</i> (“Clearstream”) and Euroclear Bank S.A./N.V. (“Euroclear”). The notes will be issued in minimum denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof. See “Description of Notes—Book-Entry; Delivery and Form.”
Listing	Application has been made to admit the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market.
Transfer Restrictions	We have not registered the notes under the Securities Act. The notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Notice to Investors.”
Use of Proceeds	<p>As required under the Mexican Securities Market Law, we will notify the <i>Comisión Nacional Bancaria y de Valores</i> (“CNBV”) of the offering of the notes outside Mexico.</p> <p>The notes will not be registered with the Mexican National Registry of Securities (<i>Registro Nacional de Valores</i>) and may not be offered or sold publicly in Mexico, except pursuant to the private placement exemption set forth under Article 8 of the Mexican Securities Market Law, the notes may be offered to institutional and qualified investors.</p> <p>We expect to use the estimated net proceeds from the offering to repay US\$262.6 million (Ps.3,432.2 million) of existing indebtedness under the Term Loan Facility of our Syndicated Loan Facility (as defined below) and the remainder to repay our existing obligations to KCM (as may be permitted) pursuant to the terms of the Syndicated Loan Facility and any amendment thereto or pursuant to any replacement revolving credit facility. Any further remaining net proceeds from the offering will be used for working capital and general corporate purposes. See “Use of Proceeds.”</p>

Risk Factors	Investing in the notes involves certain risks. See “Risk Factors.”
Governing Law	State of New York.
Trustee, Registrar, Paying Agent and Transfer Agent	Deutsche Bank Trust Company Americas.
Luxembourg Listing Agent, Paying Agent and Transfer Agent	Deutsche Bank Luxembourg S.A.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables present our summary consolidated financial information as of and for the periods indicated. Information as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 is derived from and should be read together with our Financial Statements included elsewhere in this offering circular. Our Financial Statements and other financial information included in this offering circular, unless otherwise specified, are stated in pesos.

Our Financial Statements are prepared in accordance with MFRS, which differs in certain significant respects from U.S. GAAP. We are not providing any reconciliation to U.S. GAAP of our Financial Statements or other financial information in this offering circular. We cannot assure you that a reconciliation would not identify material quantitative differences between our Financial Statements and other financial information as prepared on the basis of MFRS if such information were to be prepared on the basis of U.S. GAAP. See “Differences between MFRS and U.S. GAAP.”

Through December 31, 2007, MFRS required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Mexican pesos as of the latest balance sheet date presented. Beginning January 1, 2008, MFRS modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” where the cumulative inflation of the three preceding years is 26.0% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” in which the cumulative inflation of the three preceding years is less than 26.0%, in which case no inflationary effects should be recognized in the financial statements.

Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2009 and 2008, was 15.0% and 11.6%, respectively, the economic environment may be considered non-inflationary for such periods. Inflation rates for the years ended December 31, 2009 and 2008 were 3.6% and 6.5%, respectively.

Except for ratios, percentages and operating data, all amounts are presented in thousands of pesos or U.S. dollars. The U.S. dollar amounts provided below are conversions from the peso amounts, solely for the convenience of the reader. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering circular at the exchange rate of Ps.13.07 to US\$1.00, which was the buying rate published by Banco de México, expressed in pesos per U.S. dollar on December 31, 2009. On March 12, 2010, the noon buying rate for pesos published by the Federal Reserve Bank of New York was Ps.12.5457 to US\$1.00. See “Exchange Rate Information” for information regarding the rates of exchange between the peso and the U.S. dollar for the periods specified therein. These conversions should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

For additional information regarding financial information presented in this offering circular, see “Presentation of Financial and Other Information.”

	Year Ended December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
	(in thousands)			
Statement of operations data				
Net sales	447,064	5,843,128	5,498,129	5,175,354
Cost of sales	326,333	4,257,236	4,520,228	3,984,382
Depreciation and amortization.....	18,879	246,752	244,790	227,156
Gross profit	101,852	1,339,140	733,111	963,816
Operating expenses	39,311	521,732	415,820	386,604
Income from operations.....	62,541	817,408	317,291	577,212
Other (expenses) income, net	(8,011)	(104,699)	39,974	(45,007)
Net comprehensive financing cost:				
Interest expense, net	(15,866)	(207,370)	(257,193)	(299,566)
Exchange gains (losses)	9,843	128,655	(720,552)	1,622
Monetary position gain.....	—	—	—	85,026
Effects of valuation of derivative financial instruments	8,604	112,450	(115,284)	(31,712)
Income (loss) before income taxes	57,111	746,444	(735,764)	287,575
Income tax expense (benefit).....	11,191	146,267	(168,610)	102,950
Consolidated net income (loss).....	45,920	600,177	(567,154)	184,625

	As of December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
	(in thousands)			
Balance sheet data				
Cash and cash equivalents	28,610	373,928	647,831	733,407
Accounts receivable, net.....	104,075	1,360,255	1,220,726	1,102,692
Due from and to related parties, net	—	—	—	4,063
Due from the Holding Company	17,630	230,426	—	—
Inventories, net	57,969	757,657	771,872	779,245
Derivative financial instruments	518	6,774	19,888	—
Property, machinery and equipment, net.....	216,098	2,824,402	2,959,007	3,108,509
Deferred income taxes	5,769	75,399	121,849	—
Deferred statutory employee profit sharing.....	—	—	8,198	—
Other assets, net.....	17,259	225,577	174,698	203,575
Total assets	447,928	5,854,418	5,924,069	5,931,491
Total debt	262,617	3,432,399	4,070,684	3,340,459
Other liabilities.....	75,519	987,036	1,018,579	981,812
Total liabilities	338,136	4,419,435	5,089,263	4,322,271
Stockholders' equity	109,792	1,434,983	834,806	1,609,220

	Year Ended December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
	(in thousands, except percentages and ratios)			
Other financial data				
Capital expenditures, net.....	8,260	107,963	68,865	108,633
Adjusted EBITDA ⁽¹⁾	81,420	1,064,160	562,081	804,368

	Year Ended December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
Financial ratios				
Gross margin	22.9%	22.9%	13.3%	18.6%
Adjusted EBITDA margin	18.2%	18.2%	10.2%	15.5%
Operating margin	14.0%	14.0%	5.8%	11.2%
Current ratio	2.5	2.5	2.0	2.8

	Year Ended December 31,		
	2009	2008	2007
	(Ps.)	(Ps.)	(Ps.)
(in millions, except percentages)			

Scribe summary operating information

Total revenue from sales			
Paper	4,159.0	3,949.1	3,646.0
Notebooks	1,684.1	1,549.0	1,529.4
Total	5,843.1	5,498.1	5,175.4
Percentage of total sales			
Paper	71%	72%	70%
Notebooks	29%	28%	30%
Total	100%	100%	100%

	Year Ended December 31,	
	2009	2008
	(Ps.)	(Ps.)
(in millions, except percentages)		

Scribe consumer and industrial market segment operating information

Total revenue from sales		
Consumer	3,535.8	3,189.3
Industrial	2,307.3	2,308.8
Total	5,843.1	5,498.1
Percentage of total sales		
Consumer	61%	58%
Industrial	39%	42%
Total	100%	100%

⁽¹⁾ EBITDA and adjusted EBITDA are not financial measures computed under MFRS or U.S. GAAP. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—EBITDA and Adjusted EBITDA Reconciliation.”

RISK FACTORS

Investing in the notes involves risk. You should consider carefully the following factors, as well as all other information in this offering circular, before investing in the notes. The risk factors below describe certain risks relating to our business and an investment in the notes. We believe these risks as they relate to our business are substantially similar to the risks relating to our Company.

Risk Factors Related to the Paper Industry and Our Business

Significant increases in the price of pulp could adversely affect our financial results

Increases in the cost of pulp could have an adverse impact on our financial results. Pulp is the primary raw material we use in our manufacturing processes. The cost of our supply of pulp is directly affected by trends in international and domestic prices, which stem from market fluctuations caused by factors beyond our control. A considerable percentage of the pulp used in our manufacturing processes is acquired from third parties and imported principally from Canada, the United States, Chile and Brazil. Recently, Chile, which is estimated to produce approximately 8% of the world's pulp, suffered an 8.8 magnitude earthquake and resulting tidal wave, which negatively impacted the production of pulp. The price of pulp has also increased over the last several months and it is estimated that the paper products industry is using in excess of 80 to 85% of its capacity.

There is no recognized futures market for pulp that would help manage the risk inherent in price fluctuations. In order to maintain our supply of pulp, we have implemented policies for the purchase and sale of pulp and the raw materials necessary to produce it, including systematic monitoring of the price and supply of such raw materials.

We cannot guarantee that we will be able to recoup any future increases in the cost of pulp through increases in sales prices for our products, which would adversely affect our operating income. We cannot assure you that raw material prices will not increase in the future. Increases in the price of pulp due to global demand for pulp products, global production capacity and strategies adopted by the leading global producers, and availability of pulp substitutes would increase our cost of sales and adversely affect our business results. Our operations may be adversely affected by increases in the price of pulp.

Significant increases in prices for or lack of availability of raw materials, energy, water, steam, transportation and other necessary supplies and services could adversely affect our financial results

Increases in the cost or lack of availability of other raw materials, including fiber from wood scrap, wood chips and fiber from sustainable forestry operations, pulp, chemical products, energy, water and steam, transportation and other necessary supplies and services, supplier constraints, or any inability to maintain favorable supplier arrangements and relations could have an adverse effect on our financial results. Prices of these materials and services are subject to significant fluctuations and they may increase in the future. If the prices of these raw materials and services increase, including as a result of shortages, duties, restrictions or fluctuations in exchange rates or otherwise, our cost of sales would increase and our margins would be reduced to the extent we are unable to pass on these increased costs to our customers, which may be impractical in a recessionary environment.

Our manufacturing operations utilize natural gas, fuel oil and electricity, which are provided by both private companies, such as Enertek, S.A. de C.V. and Iberdrola Energía, S.A. de C.V., and public agencies such as *Petróleos Mexicanos* and its subsidiary entities ("PEMEX") and the *Comisión Federal de Electricidad* ("CFE"), the Mexican state-owned electric generation and distribution company. Since these public agencies are the sole source of the energy necessary for our manufacturing operations, any impact or reduction of those public agencies' supply capacity would have a negative impact on our production.

The price of oil and products derived from oil rose significantly during 2008 and, after declining in the second half of 2008, again increased in 2009. The price and supply of oil and other sources of energy is unpredictable and fluctuates based on events beyond our control, including, among others, geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regional production patterns. We do not generate a sufficient amount of electricity to sustain our current production levels and we do not currently have the ability to cover a shortage of electricity from

third-party sources. There can be no assurance that we will be fully protected against substantial changes in the price or availability of energy sources. As a result of rises in energy prices, our cost of sales could increase and adversely affect our business results.

Lack of availability of a suitable replacement for sugar cane bagasse could adversely affect our financial results

The lack of availability of sugar cane bagasse could have an adverse effect on our financial results. Bagasse is a by-product of the sugar production process and is used in our paper manufacturing process. Bagasse is also burned by sugar mills to produce steam and electricity for their own internal consumption. As a result of increased demand and limited supply of sugar cane bagasse stemming from the alternate use of bagasse as a fuel, the price of sugar cane bagasse is subject to fluctuations in the energy market. As a result of these price fluctuations, we decided to temporarily cease production of pulp from bagasse at our Orizaba mill in July of 2009. If we are unable to resume production at this mill or to find a suitable cost-effective fiber to serve as a replacement for bagasse, our financial results could be adversely affected. See “Business—Raw Materials.”

Increased competition for sales of our products could have an adverse effect on our financial results

We compete for customers in intensely competitive markets against well-known, branded products and private label products in Mexico and abroad. We also face continued threats from domestic competitors such as Copamex, S.A. de C.V. (“Copamex”) and Grupo Pipsamex, S.A. de C.V. (“Pipsamex”), as well as from small local producers and from imports from foreign competitors in Scandinavia, Europe, the United States, Chile and Brazil that could potentially reduce our market share in Mexico. Recently, we have observed a trend towards consolidation among our competitors in the global paper industry and we anticipate the trend to continue. As a result of this trend, our competitors have improved the productivity, cost and quality of their operations by selectively closing mills that underperform. Actions by our competitors, including price decreases, technological innovation, increases in quality and service levels, and successful brand development may have a material adverse effect on our company by driving down our prices and decreasing our revenues. There can be no guarantee that we will be able to compete successfully.

Some of our major competitors have greater financial resources and can offer a wider variety of products and services at competitive prices. It may be necessary for us to lower prices on our products and increase our capital investment and spending on advertising and promotions, each of which could adversely affect our financial results. In addition, we incur substantial development and marketing costs in introducing new and improved products and technologies. There is no guarantee that we will be successful in developing new and improved products and technologies necessary to compete successfully in the industry or that we will be successful in advertising, marketing and selling our products.

We are vulnerable to cyclical and fluctuations in pricing

Our business is affected by trends in international prices and demand for pulp and paper. Pricing is affected not only by demand for pulp and paper, which correlates with real economic growth, but also by current inventory levels of customers. Any decrease in demand or increase in supply could adversely affect the prices of our products and our net sales revenue. In addition, the price of pulp has increased over the last several months and it is estimated that the paper product industry is using in excess of 80 to 85% of its capacity.

We experience significant seasonality in our results of operations

Demand for goods in the Notebooks line of business is typically strongest during May through August due to the increase in orders placed in preparation for the back-to-school season. We generally ship a majority of our products to customers in these end-use markets in the period from March to July. Disruptions to our sales distribution network for notebooks or a failure, on our part, to accurately forecast demand for specific notebook products could result in reduced sales of our notebook products, which could have an adverse effect on our results of operations for that year.

Significant decreases in global demand for paper could create a surplus in the markets where we operate and adversely affect our financial results

The ongoing global financial crisis has generally affected demand for paper products in international markets including the United States, Europe and Asia. Actions by our competitors could lead to an increase in the paper supply in Mexico and a corresponding decline in demand for our products. Any decline in demand for our products in Mexico may adversely affect our business, financial condition and results of operations for the foreseeable future.

Significant increases in global supply for paper could create a surplus in the markets where we operate and adversely affect our financial results

We anticipate that we may experience increasingly intense competition from international producers of paper from the United States as a result of market saturation in the United States and a corresponding surplus of paper products available for export. There are no assurances that we will be able to avoid lower pricing as a result of competitive pressure. Lower pricing, changes made in response to competition and changes in consumer preferences may have an adverse effect on our financial performance.

Lack of water availability could adversely affect us

Water is an essential raw material in the paper production process. Some of our mills satisfy their water requirements through water wells pursuant to concessions granted by the *Comisión Nacional de Agua*, or the National Water Commission. The Mexican government has the power to limit our water consumption and the volume of water that we may use according to our concessions, and it also has the power to revoke such concessions, in the event of our breach of the concessions' terms. In recent years, the Mexican government has promoted policies that would limit the volume of water available to concession holders and has partially revoked concessions for partial consumption of water. The Mexican government may continue to pursue aggressive water conservation policies in the future due to the scarcity of water in Mexico.

Although we believe that we are currently in compliance with our obligations under the concessions, we cannot guarantee that our concessions will not be revoked. We also cannot be certain that the terms of any renewal of these concessions will be favorable, or that the volume of water that is currently available for use in manufacturing our products will be sufficient to satisfy our production requirements in the future. If our concessions are revoked, or the water that we may consume under our concessions is not sufficient to satisfy our production requirements, it may have an adverse effect on our cash flow, financial condition and operations. In addition, KCM's inability to obtain water could adversely affect us. See "Related Party Transactions."

We maintain significant contractual relationships with KCM

In connection with the Divestment, as defined herein, we are required to make certain payments to KCM using our available excess cash flow. There is no guarantee that we will be able to satisfy these obligations. This could have an adverse impact on our operating and financial results. See "Related Party Transactions."

In addition, KCM provides us with a broad array of services pursuant to contracts entered into in connection with the Divestment. The Bajío, Morelia and Orizaba mills are adjacent to KCM's facilities and share certain services, including water, steam, gas and electricity with KCM subject to limitations imposed by certain service and supply agreements. We also entered into agreements with KCM pursuant to which KCM supplies us with certain easements and rights of way as are necessary for the operation of the aforementioned facilities. In addition, KCM acquires tissue paper from us by virtue of supply agreements. If these agreements are terminated, amended on terms unfavorable to the Company, or if, after the expiration of these agreements, we are unable to perform these services or replace them in a timely manner or on terms and conditions as favorable as those we expect to receive from KCM, our results of operations and financial position could be adversely affected. For a description of these ongoing contractual relationships with KCM, see "Related Party Transactions."

The costs of complying with environmental and other regulations may increase and adversely affect our financial condition, liquidity or results of operations

We are subject to various Mexican federal, state and municipal environmental laws and regulations that govern the discharges into the environment, as well as the handling and disposal of hazardous substances and wastes. Environmental laws impose liability and clean-up responsibility for releases of hazardous substances into the environment. We are subject to regulation by, among other agencies, the *Secretaría de Medio Ambiente y Recursos Naturales*, or the Mexican Environmental and National Resources Ministry, the *Secretaría del Trabajo y Previsión Social*, or the Mexican Labor and Social Security Ministry, the *Procuraduría Federal de Protección al Ambiente*, the Federal Environmental Protection Bureau and the National Water Commission. These agencies may initiate administrative proceedings for violations of environmental and safety ordinances and impose economic penalties on violators. The Mexican government has recently imposed strict environmental and safety regulations.

We will continue to incur substantial capital and operating expenses in order to comply with current environmental and other laws and regulations. Any changes in these laws or their interpretation by government agencies or the courts may significantly increase our capital expenditures and operating expenses and decrease the amount of funds available for investment in other areas of operation. In addition, we may be required to eliminate or mitigate any adverse effects on the environment caused by the release of hazardous materials, whether or not we had knowledge of, or were responsible for, such release. We may also incur liability for personal injury and property damages as a result of discharges into the environment. Changes to environmental and other laws and regulations, or stricter interpretation or enforcement of existing laws or regulations, could cause delays in manufacturing and result in increased costs. The Mexican government has recently implemented stricter measures in the areas of safety and environmental protection and has enacted more onerous regulations in those areas.

Failure to implement successful new technologies could have an adverse effect on our financial results

Technology in the paper industry changes rapidly and the technology we currently employ could become obsolete or noncompetitive. In addition, our ability to offer new products depends on the development of profitable technology and access to financial and technological resources. There is no guarantee that we will be able to anticipate future technological developments and implement successful new technologies. This could have an adverse impact on our operating and financial results.

If we pursue the acquisition of complementary businesses, we may be unable to complete these acquisitions or successfully integrate them in a cost effective and non-disruptive manner

We may pursue the acquisition of complementary businesses. We have no current commitments with respect to any acquisition or investment. We do not know if we will be able to successfully complete any acquisitions, or whether we will be able to successfully integrate any acquired business into our business or retain any key personnel, suppliers or distributors. Our ability to successfully grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. These efforts could be expensive and time consuming, disrupt our ongoing business and distract management. If we are unable to integrate any acquired businesses effectively, our business, financial condition and results of operations will be materially adversely affected. For example, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize significant amounts of expenses, including non-cash acquisition costs, and acquired assets.

We may be unable to successfully expand our operations into new markets

If the opportunity arises, we may expand our operations into new markets. Each of the risks applicable to our ability to successfully operate in our current markets is also applicable to our ability to successfully operate in new markets. In addition to these risks, we may not possess the same level of familiarity with the dynamics and market conditions of any new markets that we may enter, which could adversely affect our ability to expand into or operate in those markets. We may be unable to create similar demand for our products and business, which could adversely affect our profitability. If we are unsuccessful in expanding our operations into new markets, it could adversely affect our business, financial condition and results of operations.

Failure to maintain our relationships with labor unions may have an adverse effect on our financial results

The majority of our production workforce is represented by labor unions. While Scribe has enjoyed satisfactory relationships with all of the labor organizations that represent its employees and we believe our relationships with labor organizations will continue to be satisfactory, we cannot guarantee that labor-related disputes will not arise. In particular, any disruptions in production at the Bajío facility located in San Juan del Río, Querétaro where our Notebooks operations are concentrated could have a material adverse effect on our results of operations and financial condition. Labor disputes that result in disruptions in production could also cause increases in production costs, which could damage our relationships with our customers and adversely affect our business and financial results.

Loss of services of our key management personnel could result in temporary disruptions to our business operations

Our management and operations are dependent in large part upon the talent, abilities and experience of a small group of key managers and executive directors. It would be difficult to replace any of our key management personnel due to their extensive experience in the local industry and their technical knowledge of its operations. The loss of any of these people and the corresponding difficulty in finding a suitable replacement could result in temporary disruptions to our business operations and have an adverse impact on our activities, financial position and results of operations. We do not maintain director's and officer's insurance on any of our key management personnel.

If we have a catastrophic loss or unforeseen or recurring operational problems at any of our facilities, we could suffer significant lost production and/or cost increases

Our manufacturing facilities and distribution warehouses may suffer catastrophic loss due to fire, flood, terrorism, or other natural or man-made events. If any of these facilities were to experience natural disasters, power outages, and other catastrophic losses, it could disrupt our operations, delay production, delay or reduce shipments, reduce revenue, and result in significant expenses to repair or replace the facility. These expenses and losses may not be adequately covered by the property or business interruption insurance we maintain. Even if covered by insurance, our inability to deliver our products to customers, even on a short-term basis, may cause us to lose market share on a more permanent basis.

An inability to protect our intellectual property rights could reduce the value of our products, services and brands, which may adversely affect our business, results of operations and financial condition

We consider our trademarks, brands, licenses and other intellectual property rights to be a valuable aspect of our business. Our market share depends largely on the image and reputation associated with our trademarks and brand names. We believe that protecting our trademarks and intellectual property rights is essential to our business. Although most of our trademarks and intellectual property rights are currently registered in Mexico and in the countries where we sell our products, any third-party violation of our intellectual and industrial property rights could cause a decline in the value of our brands. If we lose exclusive rights to our brands or licenses, their value falls, or our competitors introduce brands in the market that could cause confusion with our brands, the value that customers associate with our brands could be affected, which in turn could have a substantial adverse impact on our sales and results of operations.

Adverse economic conditions in Mexico or in other emerging markets could adversely affect us

We currently maintain operations in Mexico and to a lesser extent in other emerging markets. We expect that in the future we will have additional operations in the countries where we currently operate or in other countries with similar political and economic conditions. These emerging markets have a history of economic instability. Our operations may be adversely affected by trade barriers, currency fluctuations and exchange controls, high levels of inflation and increases in duties, taxes and governmental royalties, as well as changes in local laws and policies of the countries in which we conduct business. The governments of countries in which we operate, or may operate in the future, could take actions that materially adversely affect us. Accordingly, our results of operations and financial condition depend upon the overall level of economic activity and political stability in these emerging markets.

Should economic conditions deteriorate in these countries or in emerging markets generally, our results of operations and financial condition may be adversely affected.

In addition, we cannot provide any assurance that international markets will provide similar demand for our products as Mexico, that we will have similar success selling the products that we may develop in international markets, or that the necessary financing from private and public sources will enable the public in these international markets to purchase the supply of paper products and notebooks that we may develop in these markets. As a result of our expansion into international markets, our profitability could be reduced and our financial performance could be negatively affected.

Failure to successfully bid for contracts in government auctions could have an adverse effect on our financial results

We sell a substantial quantity of paper and notebooks to the government through contracts awarded pursuant to a public bidding process. There is no guarantee that we will continue to submit satisfactory technical and economic proposals or bid successfully for such contracts pursuant to government auctions. These government auctions allow for public comment and our competitors may be successful in persuading the government to revoke contracts awarded to us even if we initially submit a successful bid. In addition, there is no guarantee that we will be able to perform pursuant to these agreements or that our contracts will not be revoked.

Risk Factors Related to Mexico

Adverse economic conditions in Mexico may result in a decrease in our sales and revenues

We are a Mexican company with substantially all of our assets located in Mexico and substantially all of our revenues derived from operations in Mexico. As such, our business may be significantly affected by the general conditions of the Mexican economy.

Mexico experienced a period of slow growth from 2001 through 2003, primarily as a result of the downturn in the U.S. economy. In 2005, GDP grew by 3% and inflation decreased to 3.3%; in 2006, GDP grew by 4.5% and inflation increased to 4.1%; in 2007, GDP grew by 5.6% and inflation decreased to 3.7%; in 2008, GDP grew by 1.3% and inflation increased to 6.5%, and in 2009, GDP fell by 6.9% and inflation increased to 3.6%.

Mexico also has, and is expected to continue to have, high real and nominal interest rates. The interest rates on the *Certificados de la Tesorería de la Federación*, or the 28-day Mexican government treasury securities, averaged approximately 7.00%, 7.44%, 7.97% and 4.51% for 2006, 2007, 2008 and 2009, respectively. Accordingly, if we incur peso-denominated debt in the future, it could be at high interest rates.

As a consequence of the global recession and economic slowdown during 2008, the Mexican economy entered into a recession. In Mexico, GDP during the first six months of 2009 decreased 10.3% compared to the first six months of 2008. Consumer confidence decreased to an eight-year low of 81.9, with a corresponding impact on consumption. As of December 31, 2009, twelve-month accumulated inflation had decreased to 3.9% compared to 5.5% during the same period in 2008. The current recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. These factors could result in a decrease in our sales and revenues.

Fluctuations of the peso relative to the U.S. dollar could result in an increase in our cost of financing and limit our ability to make timely payments on foreign currency-denominated debt

Because substantially all of our revenues are and will continue to be denominated in pesos, if the value of the peso decreases against the U.S. dollar, our cost of financing will increase. Severe depreciation of the peso may also result in disruption of the international foreign exchange markets. This may limit our ability to transfer or convert pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our securities, including the notes, and any U.S. dollar-denominated debt that we may incur in the future. From January 1, 2008 through December 31, 2008 the Peso depreciated by approximately 26.65%. While the Mexican government has not restricted the right or ability of Mexican or foreign individuals to convert pesos

into U.S. dollars or to transfer other currencies out of Mexico since 1982, the Mexican government could institute restrictive exchange rate policies in the future.

Political events in Mexico may result in disruptions to our business operations and decreases in our sales and revenues

The Mexican government exercises significant influence over many aspects of the Mexican economy. As a result, the actions of the Mexican government concerning the economy and regulating certain industries could have a significant effect on Mexican private segment entities, including Scribe, and on market conditions, prices of and returns on Mexican securities.

President Calderón and/or his successor may implement significant changes in laws, public policy and/or regulations that could affect Mexico's political and economic situation, which could adversely affect our business. Social and political instability in Mexico or other adverse social or political developments in or affecting Mexico could affect us and our ability to obtain financing. It is also possible that political uncertainty may adversely affect Mexican financial markets.

We cannot provide any assurance that future political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or results of operations.

Developments in other countries may result in decreases in the price of our securities

The market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, prices of both Mexican debt securities and Mexican equity securities dropped substantially as a result of developments in Russia, Asia and Brazil.

In addition, the direct correlation between economic conditions in Mexico and the United States has sharpened in recent years as a result of the North American Free Trade Agreement (NAFTA) and increased economic activity between the two countries. As a result of the slowing economy in the United States and the uncertainty it could have on the general economic conditions in Mexico and the United States, our financial condition and results of operations could be adversely affected. In addition, due to recent developments in the international credit markets, capital availability and cost could be significantly affected and could restrict our ability to obtain financing or refinance our existing indebtedness on favorable terms, if at all.

We are subject to different corporate disclosure and accounting standards than U.S. companies

A principal objective of the securities laws of the United States, Mexico and other countries is to promote full and fair disclosure of all material corporate information. However, there may be less or different publicly available information about foreign issuers of securities than is regularly published by or about U.S. issuers of listed securities.

We face risks related to health epidemics and other outbreaks

Our business could be adversely affected by the effects of H1N1 flu or another epidemic or outbreak. In April 2009, an outbreak of H1N1 flu occurred in Mexico and the United States and there have been recent cases in China and elsewhere in Asia. Any prolonged occurrence or recurrence of H1N1 flu or other adverse public health developments in Mexico may have a material adverse effect on our business operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities, which could disrupt our operations, and a general slowdown in the Mexican economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of H1N1 flu or any other epidemic.

Risk Factors Related to the Notes

Our substantial level of debt could impair our financial condition

We currently have, and after this offering will have, a substantial amount of debt. As of December 31, 2009, assuming the issuance of US\$300 million principal amount of notes and estimated net proceeds of approximately US\$294.9 million on a pro forma basis after giving effect to this offering and the related transactions as described under “Use of Proceeds,” we would have had Ps.3,921 million (US\$300 million) of outstanding debt. Our substantial level of debt could have important consequences to you, including:

- requiring a substantial portion of our cash flows from operations to be used for the payment of interest on our debt, therefore reducing the funds available to us for operations or other capital needs;
- limiting our flexibility in planning for, or reacting to changes in our business and the industries in which we operate because our available cash flow after paying principal and interest on our debt may not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flow, we will be required to devote a greater percentage of our cash flow to paying principal and interest on our debt;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on favorable terms;
- restricting our ability to take advantage of opportunities that would permit us to acquire other businesses;
- placing us at a competitive disadvantage to other relatively less leveraged competitors that have more cash flow available to fund working capital, capital expenditures and general corporate requirements; and
- any borrowings we make at variable interest rates, including our Revolving Credit Facility, leave us vulnerable to increases in interest rates generally.

The indenture and the terms of our other indebtedness impose significant operating and financial restrictions, which may prevent us from capitalizing on business opportunities

The Indenture and the other instruments governing our consolidated indebtedness impose significant operating and financial restrictions on us and our restricted subsidiaries. These restrictions will limit our ability, among other things, to:

- incur additional indebtedness;
- make investments;
- sell assets;
- create liens;
- enter into agreements restricting our subsidiaries’ ability to pay dividends;
- enter into transactions with affiliates; and
- consolidate, merge or sell substantially all of our assets.

These restrictions could limit our ability to seize attractive growth opportunities for our businesses that are currently unforeseeable, particularly if we are unable to incur financing or make investments to take advantage of these opportunities.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture

If we undergo a Change of Control (as defined in the Indenture), we may need to refinance large amounts of our debt, including the notes. Under the Indenture, if a Change of Control occurs, we must offer to buy back the notes for a price equal to 101% of the principal amount of the notes, plus any accrued and unpaid interest. For more information on the Change of Control covenant, see “Description of Notes—Change of Control.” We may not have sufficient funds available to us to make any required repurchases of the notes upon a Change of Control. If we fail to repurchase the notes in those circumstances, we will be in default under the Indenture, which may, in turn, trigger cross default provisions in our other debt instruments.

The notes are subject to transfer restrictions

The notes have not been registered under the Securities Act or any state securities laws. The notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See “Notice to Investors” for a full explanation of such restrictions.

An active trading market for the notes may not develop

Currently there is no market for the notes. Application has been made to admit the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market. A trading market for the notes may not develop, or if a market for the notes were to develop, the notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The initial purchasers are not under any obligation to make a market with respect to the notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes. If an active market for the notes does not develop or is interrupted, the market price and liquidity of the notes may be adversely affected.

If we or the subsidiary guarantors were to be declared bankrupt, holders of notes may find it difficult to collect payment on the notes

Under Mexico’s *Ley de Concursos Mercantiles*, or Business Reorganizations Act, if we or the subsidiary guarantors are declared bankrupt (*en quiebra*) or become subject to *concurso mercantil*, our obligations and the obligations of the subsidiary guarantors under the notes, respectively, (i) would be converted to pesos at the exchange rate prevailing at the time of the declaration of *concurso mercantil* or *quiebra* and then from pesos into UDIs (*unidades de inversión*), which is a Mexican inflation unit adjusted by inflation, and would not be adjusted to take into account any devaluation of the peso relative to the U.S. dollar occurring after such conversion, (ii) would cease to accrue interest from the date the *concurso mercantil* is declared, (iii) would be subject to the outcome of, and priorities recognized in, the relevant proceedings (including tax, social security and labor claims) and (iv) would be satisfied at the time claims of all our creditors are satisfied.

In addition, under Mexican law, it is possible that in the event we or the subsidiary guarantors are declared bankrupt (*en quiebra*) or become subject to *concurso mercantil*, any amount by which the stated principal amount of the notes exceeds their accreted value may be regarded as not matured and, therefore, claims of holders of the notes may only be allowed to the extent of the accreted value of the notes. There is no legal precedent in connection with bankruptcy (*en quiebra*) or *concurso mercantil* in Mexico on this point and, accordingly, uncertainty exists as to how a Mexican court would measure the value of claims of holders of the notes.

Payments of judgments against us on the notes would be in pesos

In the event that proceedings are brought against us or the subsidiary guarantors in Mexico, either to enforce a judgment or as a result of an original action brought in Mexico, we and the subsidiary guarantors would not be required to discharge those obligations in a currency other than Mexican currency. Under the Monetary Law of the United Mexican States (*Ley Monetaria de los Estados Unidos Mexicanos*), an obligation, whether resulting from a judgment or by agreement, denominated in a currency other than Mexican currency, which is payable in Mexico, may be satisfied in Mexican currency at the rate of exchange in effect at the time and place of payment or judgment. Such rate is currently determined by Banco de México and published every banking day in the *Diario Oficial de la Federación*, or Federal Official Gazette. As a result, you may suffer a United States dollar shortfall if you obtain a judgment or a distribution in bankruptcy in Mexico. You should be aware that no separate action exists or is enforceable in Mexico for compensation for any shortfall.

The notes and the guarantees will be effectively subordinated to our secured debt and to certain claims preferred by statute

Our obligations under the notes, and the obligations of the guarantors under the guarantees, are unsecured. As a result, the notes will be effectively subordinated to all of our and the guarantors' secured debt to the extent of the value of the collateral securing such debt. As of December 31, 2009, assuming the issuance of US\$300 million principal amount of notes and estimated net proceeds of approximately US\$294.9 million on a pro forma basis after giving effect to this offering and the related transactions as described under "Use of Proceeds," we and the guarantors would have had no secured debt outstanding. The Company plans to repay the amounts outstanding under the Term Loan Facility of the Syndicated Loan Facility with a portion of the net proceeds of this offering. See "Use of Proceeds." The Syndicated Loan Facility's revolving credit facility will be secured by substantially all of the Company's assets until such time as it is replaced by another credit facility. See "Business—Recent Developments." There can be no assurance that any replacement credit facility, including the New Revolving Credit Facility, will be available to the Company on acceptable terms, or at all. In the event that we or our subsidiaries are not able to repay amounts due under such secured debt obligations, creditors could proceed against the collateral securing such indebtedness. In that event, any proceeds upon a realization of the collateral would be applied first to amounts due under the secured debt obligations before any proceeds would be available to make payments on the notes. If there is a default, the value of this collateral may not be sufficient to repay both our secured creditors and the holders of the notes. Additionally, the claims of holders of the notes will rank effectively junior to certain obligations that are preferred by Mexican statute, such as claims relating to taxes and labor.

The guarantees may not be enforceable

The guarantees provide a basis for a direct claim against the subsidiary guarantors; however, it is possible that the guarantees may not be enforceable under Mexican law. While Mexican law does not prohibit the giving of guarantees and, as a result, does not prevent the guarantees of the notes from being valid, binding and enforceable against the subsidiary guarantors, in the event that a subsidiary guarantor becomes subject to a reorganization proceeding (*concurso mercantil*) or to bankruptcy (*quiebra*), the relevant guarantee may be deemed to have been a fraudulent transfer and declared void based upon the subsidiary guarantor being deemed not to have received fair consideration in exchange for such guarantee.

It may be difficult to enforce civil liabilities against us or our directors, executive officers and controlling persons

We are organized under the laws of Mexico. A majority of our directors, executive officers and controlling persons reside outside the U.S.; all or a significant portion of the assets of our directors, executive officers and controlling persons, and substantially all of our assets, are located outside the U.S., and certain of the experts named in this offering circular also reside outside the U.S. As a result, it may be difficult for you to effect service of process within the U.S. upon these persons or to enforce against them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the U.S. We have been advised by our Mexican counsel, Santamarina y Steta, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws.

USE OF PROCEEDS

Assuming the issuance of US\$300 million principal amount of notes in this offering, we estimate that we will receive net proceeds of approximately US\$294.9 million (Ps.3,854.34 million) after the initial purchasers' discounts and commissions and the payment of estimated offering expenses. We expect to use the estimated net proceeds from the offering to repay US\$262.6 million (Ps.3,432.2 million) of existing indebtedness under the Term Loan Facility of our Syndicated Loan Facility (as defined below) and the remainder we intend to use to repay our existing obligations to KCM (as may be permitted) pursuant to the terms of the Syndicated Loan Facility and any amendment thereto or pursuant to any replacement revolving credit facility. Any further remaining net proceeds from the offering will be used for working capital and general corporate purposes.

For a description of our outstanding indebtedness, see "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness."

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the period-end, average, high and low exchange rate between the peso and U.S. dollar. The average annual rates presented in the following table were calculated by using the average of the exchange rates on the last day of each month during the relevant period. The data provided in this table is based on buying rates published by the Federal Reserve Bank of New York. All amounts are stated in pesos, and we have not restated the rates in constant currency units. We make no representation that the Mexican peso amounts referred to in this offering circular could have been or could be converted into U.S. dollars at any particular rate or at all. See “Risk Factors—Risks Factors Related to Mexico—Fluctuations of the Peso Relative to the U.S. Dollar Could Result in an Increase in our Cost of Financing and Limit our Ability to Make Timely Payments on Foreign Currency-Denominated Debt.”

	Fed Noon Buying Rate ⁽¹⁾			
	Period End	Average	High	Low
Year Ended December 31,				
2003	11.2420	10.7950	11.4063	10.1130
2004	11.1540	11.2897	11.6350	10.8050
2005	10.6275	10.8938	11.4110	10.4135
2006	10.7995	10.9056	11.4600	10.4315
2007	10.9169	10.9277	11.2692	10.6670
2008	13.8320	11.1415	13.9350	9.9166
2009	13.0576	13.3423	15.4060	12.6318
September	13.4805	13.4060	13.5780	13.1810
October	13.1555	13.2275	13.6700	12.8990
November	12.9160	13.1115	13.3754	12.8585
December	13.0576	12.8622	13.0775	12.6318
	Fed Noon Buying Rate ⁽¹⁾			
	Period End	Average	High	Low
2010				
January	13.0285	12.8095	13.0285	12.6500
February	12.7575	12.9396	13.1940	12.7575
March	12.3005	12.5673	12.7411	12.3005
April	12.2281	12.2396	12.4135	12.1556
May 1 through May 21, 2010	12.9701	12.6486	13.1207	12.2656

⁽¹⁾ Source: Federal Reserve Bank of New York.

CAPITALIZATION

The following table sets forth certain financial information under MFRS as of December 31, 2009, including our short-term and long-term indebtedness and capitalization. The table also sets forth such information as adjusted to reflect the note offering, assuming the issuance of US\$300 million principal amount of notes and the application of an estimated US\$294.9 million (Ps.3,854.34 million) of net proceeds in the manner described under “Use of Proceeds.” The actual amount of notes issued may be more or less.

	As of December 31, 2009	
	Actual	As Adjusted for this Offering ⁽¹⁾⁽²⁾
	(in thousands of Ps.)	
Current portion of long-term debt	220,137	—
Long-term debt.....	3,212,262	3,921,000
Total debt	3,432,399	3,921,000
Total stockholders’ equity	1,434,983	1,434,983
Total capitalization.....	4,867,382	5,355,983

⁽¹⁾ As adjusted financial information is unaudited.

⁽²⁾ Includes approximately US\$300 million principal amount of notes issued in this offering and the application of US\$262.6 million (Ps.3,432.2 million) to repay indebtedness under the Term Loan Facility of our Syndicated Loan Facility.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our selected consolidated financial information as of and for the periods indicated. Information as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 is derived from and should be read together with our Financial Statements included elsewhere in this offering circular. Our Financial Statements and other financial information included in this offering circular, unless otherwise specified, are stated in pesos.

Our Financial Statements are prepared in accordance with MFRS, which differs in certain significant respects from U.S. GAAP. We are not providing any reconciliation to U.S. GAAP of our Financial Statements or other financial information in this offering circular. We cannot assure you that a reconciliation would not identify material quantitative differences between our Financial Statements and other financial information as prepared on the basis of MFRS if such information were to be prepared on the basis of U.S. GAAP. See “Differences between MFRS and U.S. GAAP.”

Through December 31, 2007, MFRS required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Mexican pesos as of the latest balance sheet date presented. Beginning January 1, 2008, MFRS modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” where the cumulative inflation of the three preceding years is 26.0% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” where the cumulative inflation of the three preceding years is less than 26.0%, in which case no inflationary effects should be recognized in the financial statements.

Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2009 and 2008, was 15.0% and 11.6%, respectively, the economic environment may be considered non-inflationary for such periods. Inflation rates for the years ended December 31, 2009 and 2008 were 3.6% and 6.5%, respectively.

Except for ratios, percentages and operating data, all amounts are presented in thousands of pesos or U.S. dollars. The U.S. dollar amounts provided below are conversions from the peso amounts, solely for the convenience of the reader. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering circular at the exchange rate of Ps.13.07 to US\$1.00, which was the buying rate published by Banco de México, expressed in pesos per U.S. dollar on December 31, 2009. On March 12, 2010, the noon buying rate for pesos published by the Federal Reserve Bank of New York was Ps.12.5457 to US\$1.00. See “Exchange Rate Information” for information regarding the rates of exchange between the peso and the U.S. dollar for the periods specified therein. These conversions should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

For additional information regarding financial information presented in this offering circular, see “Presentation of Financial and Other Information.”

	Year Ended December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
	(in thousands)			
Statement of operations data				
Net sales	447,064	5,843,128	5,498,129	5,175,354
Cost of sales	326,333	4,257,236	4,520,228	3,984,382
Depreciation and amortization.....	18,879	246,752	244,790	227,156
Gross profit	101,852	1,339,140	733,111	963,816
Operating expenses	39,311	521,732	415,820	386,604
Income from operations.....	62,541	817,408	317,291	577,212
Other (expenses) income, net	(8,011)	(104,699)	39,974	(45,007)
Net comprehensive financing cost:				
Interest expense, net	(15,866)	(207,370)	(257,193)	(299,566)
Exchange gains (losses)	9,843	128,655	(720,552)	1,622
Monetary position gain.....	—	—	—	85,026
Effects of valuation of derivative financial instruments	8,604	112,450	(115,284)	(31,712)
Income (loss) before income taxes	57,111	746,444	(735,764)	287,575
Income tax expense (benefit).....	11,191	146,267	(168,610)	102,950
Consolidated net income (loss).....	45,920	600,177	(567,154)	184,625

	As of December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
	(in thousands)			
Balance sheet data				
Cash and cash equivalents	28,610	373,928	647,831	733,407
Accounts receivable, net.....	104,075	1,360,255	1,220,726	1,102,692
Due from and to related parties, net	—	—	—	4,063
Due from the Holding Company	17,630	230,426	—	—
Inventories, net	57,969	757,657	771,872	779,245
Derivative financial instruments	518	6,774	19,888	—
Property, machinery and equipment, net.....	216,098	2,824,402	2,959,007	3,108,509
Deferred income taxes	5,769	75,399	121,849	—
Deferred statutory employee profit sharing.....	—	—	8,198	—
Other assets, net.....	17,259	225,577	174,698	203,575
Total assets	447,928	5,854,418	5,924,069	5,931,491
Total debt	262,617	3,432,399	4,070,684	3,340,459
Other liabilities.....	75,519	987,036	1,018,579	981,812
Total liabilities	338,136	4,419,435	5,089,263	4,322,271
Stockholders' equity	109,792	1,434,983	834,806	1,609,220

	Year Ended December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
	(in thousands, except percentages and ratios)			
Other financial data				
Capital expenditures, net.....	8,260	107,963	68,865	108,633
Adjusted EBITDA ⁽¹⁾	81,420	1,064,160	562,081	804,368

	Year Ended December 31,			
	2009	2009	2008	2007
	(US\$)	(Ps.)	(Ps.)	(Ps.)
Financial ratios				
Gross margin	22.9%	22.9%	13.3%	18.6%
Adjusted EBITDA margin.....	18.2%	18.2%	10.2%	15.5%
Operating margin	14.0%	14.0%	5.8%	11.2%
Current ratio	2.5	2.5	2.0	2.8

	Year Ended December 31,		
	2009	2008	2007
	(Ps.)	(Ps.)	(Ps.)
	(in millions, except percentages)		

Scribe summary operating information

Total revenue from sales			
Paper	4,159.0	3,949.1	3,646.0
Notebooks.....	1,684.1	1,549.0	1,529.4
Total.....	5,843.1	5,498.1	5,175.4
Percentage of total sales			
Paper	71%	72%	70%
Notebooks.....	29%	28%	30%
Total.....	100%	100%	100%

	Year Ended December 31,	
	2009	2008
	(Ps.)	(Ps.)
	(in millions, except percentages)	

Scribe Consumer and Industrial market segment operating information

Total revenue from sales		
Consumer.....	3,535.8	3,189.3
Industrial.....	2,307.3	2,308.8
Total.....	5,843.1	5,498.1
Percentage of total sales		
Consumer.....	61%	58%
Industrial.....	39%	42%
Total.....	100%	100%

⁽¹⁾ EBITDA and adjusted EBITDA are not financial measures computed under MFRS or U.S. GAAP. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—EBITDA and Adjusted EBITDA Reconciliation.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Financial Statements and their accompanying notes included elsewhere herein. Our Financial Statements and other financial information included in this offering circular, unless otherwise specified, are stated in nominal pesos as of and for the years ended December 31, 2009 and 2008, and in constant pesos as of and for the year ended December 31, 2007. We are not providing any reconciliation to U.S. GAAP of our Financial Statements or other financial information in this offering circular. We cannot assure you that a reconciliation would not identify material quantitative differences between our Financial Statements and other financial information as prepared on the basis of MFRS if such information were to be prepared on the basis of U.S. GAAP. See "Differences between MFRS and U.S. GAAP."

This offering circular contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this offering circular, particularly in "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors."

Introduction

Scribe is the largest producer and marketer of notebooks and printing and writing paper in Mexico based on sales volume as of December 31, 2009, according to the CNICP, Nielsen and our internal estimates. Papeles Industriales de Michoacán, S.A. de C.V. ("PIMSA"), Scribe's corporate predecessor, was incorporated on December 29, 2003 as a wholly-owned subsidiary of KCM and later changed its corporate name to Grupo Papelero Scribe, S.A. de C.V. on January 4, 2007. KCM has been engaged in manufacturing paper products since 1953, initially, under the name of La Aurora, S.A. Kimberly-Clark Corporation ("KCC"), a Delaware company, acquired La Aurora, S.A. in 1955 and, in 1959, changed the name to Kimberly-Clark de México, S.A.B. de C.V. KCM had two primary divisions, the industrial products division and the consumer products division. KCM consumer products included bathroom and facial tissue, paper towels, napkins, diapers, adult incontinence products, feminine-care products, professional wipes and healthcare products. KCM industrial products included pulp, printing and writing paper and notebooks. See "Business—History and Development of our Company and Our Relationship with KCM."

In 2006, KCM decided to divest itself of its holdings related to its pulp, printing and writing paper and notebooks operations (the "Divestment"). In connection with the Divestment, Impulso de Desarrollos Estratégicos, S.A. de C.V. ("Impulso"), a privately held Mexican Company, and Eton Park Capital Management, LP ("Eton Park") acquired through a Mexican trust (the "Trust") a 60% equity interest in Corporación Scribe, S.A.P.I. de C.V. ("Corporación Scribe"), our parent company. In connection with this acquisition, KCM transferred to us substantially all of the assets and labor liabilities of its industrial products division in a transaction valued at US\$433,750,000. After giving effect to the Divestment, KCM retained a 40% indirect ownership interest in us through Corporación Scribe and we became a wholly-owned subsidiary of Corporación Scribe. Corporación Scribe has subsequently redeemed KCM shares annually in connection with an agreement we entered into with KCM in 2006 (the "Divestment Agreement"). As of the date of this offering circular, KCM's ownership interest is presently at 25%. Pursuant to the Divestment, we now own the assets and liabilities associated with the pulp, printing and writing paper and notebooks operations of KCM.

Overview of Business

We currently have two lines of business: Notebooks and Paper. Our Paper line of business manufactures and markets fine printing and writing paper, including coated and uncoated sheets and rolls of paper, and uncoated cut-size papers. Our Paper line operates in all Mexican paper consumption segments, including copy paper, graphic arts paper, publishing paper, commercial printing paper, business forms, converters and governmental use paper. We believe that our operations across these segments provide us with diverse sources of revenues. Our Notebooks line of business manufactures and markets notebooks and notepads in various formats and sizes, with or without accessories, and with various forms of binding.

Our production footprint consists of five mills: Bajío, Morelia, Orizaba, Naucalpan, and San Rafael. Three of our mills, Bajío, Morelia and Orizaba, are adjacent to facilities of KCM and share certain services (such as water, steam and electricity) and other assets (such as certain buildings, access roads and railroad access) with KCM. See “Related Party Transactions.” We also maintain warehouse facilities at each of our five mills to store and to deliver our products directly to our customers. We own Agrícola Oriental, a distribution facility in Mexico City, which we use primarily to store standard paper products. In addition, we lease a distribution facility in Mexico City, primarily to store notebooks. We own substantially all of the equipment necessary for the production and manufacturing of printing and writing paper, notebooks and pulp. We also produce wood pulp out of wood chips obtained from sustainable forestry operations and industrial waste wood.

From the beginning of 2007 through year-end 2009, our production grew at a compound annual growth rate of 0.9% for our Paper line of business and 6.1% for our Notebooks line of business, as compared to a 5.3% decrease in Mexico’s GDP over the same period. During the same period, our revenues grew at a compound annual growth rate of 14.1% for Paper and 10.1% for Notebooks, and we had average annual sales of Ps.3,918.1 million (US\$299.8 million) and Ps.1,587.5 million (US\$121.5 million), and average annual adjusted EBITDA of Ps.536.9 million (US\$41.1 million) and Ps.273.4 million (US\$20.9 million), respectively. During this period, average annual adjusted EBITDA margins were 13.7% for Paper and 17.2% for Notebooks, respectively.

For the year ended December 31, 2009, we generated adjusted EBITDA of Ps.1,064.2 million (US\$81.4 million). During the twelve-month period ended December 31, 2009, our Paper and Notebooks lines of business generated sales of Ps.4,159.0 million (US\$318.2 million) and Ps.1,684.1 million (US\$128.9 million), contributing 71% and 29% of total sales, respectively. During this period, our Paper and Notebooks lines of business had an adjusted EBITDA of Ps.764.8 million (US\$58.5 million) and Ps.299.4 million (US\$22.9 million), contributing 72% and 28% of our adjusted EBITDA, respectively.

As described above, our Paper line of business represents the largest contribution to our sales volume. Within this segment, our xerographic target market, which is composed of photocopy centers, graphic arts firms and general consumers of cut-size papers, is our largest and most profitable. Moreover, we expect our Notebooks line of business will grow strongly in the next few years in line with GDP growth, driven by school enrollment rates, the expected growth in Mexico’s school-age population and an increase in disposable income. Within this segment, our low-tier target market is our largest market by sales volume.

Our ability to compete is partly influenced by the relative value of our currency compared to the currency of our foreign competitors who import their products into Mexico. In 2009, imports, in aggregate, held 44% of market share in the Paper line of business. Imports, in aggregate, held approximately 9% of market share in the Notebooks line of business in 2009, according to the CNICP.

Scribe has not made any material investments in related businesses or otherwise over the past three financial years or made any firm commitments to make such investments in the future. However, the Company, as an Investment Policy, evaluates investments in related businesses from time to time.

Seasonality

The markets for some of our products, in particular notebooks, are subject to seasonality. Consumer demand for our notebooks tends to be higher during the second and third quarters of each calendar year in comparison to the rest of the year, primarily as students prepare for the back-to-school season. During 2009, our notebook sales from May through August represented 64% of the total yearly notebook sales compared to 58% in the same period of 2008. In line with the seasonality of the sales, our working capital needs increase in line with the manufacturing period for the back-to-school season (January through August) as we employ additional material, labor and sub-contractors to produce our products and begin shipments to our customers. We also set our notebook prices once annually in conjunction with the launch of the back-to-school season. The following table provides a summary of our activities to highlight the seasonal nature of our Notebooks business:

Period	January-March	April-August	September-December
Market Research	Medium	None	Heavy
Product development	Heavy	None	Heavy
Manufacturing	Moderate	Heavy	Moderate

<u>Period</u>	<u>January-March</u>	<u>April-August</u>	<u>September-December</u>
Invoicing	Low to Moderate	Heavy	Low
Shipment	Low	Heavy	Moderate
Collections	Low	Medium	Heavy

Cost and Operating Expenses

Our most significant cost of sales include:

- Raw materials primarily related to the acquisition of fiber, wood chips, wood pulp and other materials;
- Chemicals and finishing supplies;
- Utilities;
- Labor;
- Maintenance; and
- Depreciation.

Costs for commodities, including raw materials, chemicals and energy, are the most variable component of our cost of sales because their prices can fluctuate substantially, sometimes within a relatively short period of time. In particular, the prices for pulp are currently high by historical standards, caused by recent shutdowns in production facilities, primarily in North America, as a consequence of high energy prices and the appreciation of the Canadian dollar. However, we currently self-supply 30% of the pulp raw material required for our combined Paper and Notebooks businesses, which allows us to partially mitigate the financial impact caused by international price increases.

The main components of our operating expenses are:

- Distribution;
- Promotion and advertising primarily related to our Notebooks business;
- Selling and marketing; and
- General and administrative expenses.

Taxes

In Mexico, we are subject to federal income taxes. Our income tax expense consists of both current tax amounts due and deferred taxes, computed based on the requirements of MFRS as further explained in this offering circular.

Income Taxes

<u>Income Tax Expense (Benefit)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
(in millions of Pesos)	146.3	(168.6)	102.9
(in millions of US\$)	11.2	(12.9)	7.9
Statutory tax rate	28%	28%	28%

Critical Accounting Policies and Practices

The preparation of financial statements in conformity with MFRS requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of our Financial Statements and revenues and expenses during the periods reported. Actual results could differ from these estimates,

and changes in these estimates are recorded when known. The critical accounting policies used in the preparation of our Financial Statements are those that are important both to the presentation of financial condition and results of operations and require significant judgments with regard to estimates used. These critical judgments relate to useful lives for depreciation and amortization and future cash flows associated with impairment testing of long-lived assets.

For a further description of our significant accounting estimates, see Note 3 to our Financial Statements.

Property, Machinery and Equipment

Property, machinery and equipment are initially recorded at acquisition cost. Balances arising from acquisitions made through December 31, 2007 were restated for the effects of inflation using the *Índice Nacional de Precios al Consumidor* or the Mexican National Consumer Price Index (“INPC”).

Estimating the useful lives of property, machinery and equipment requires the exercise of management judgment, and actual lives may differ from these estimates. Changes to these initial useful life estimates are made when appropriate. Depreciation of property, machinery and equipment is calculated using the straight-line method, based on the remaining useful lives of the related assets, as follows:

	Average Remaining Useful Life (Years)		
	2009	2008	2007
Buildings.....	16	17	18
Industrial machinery and equipment....	9	10	11
Vehicles and other equipment	3	4	5

Impairment of Long-Lived Assets in Use

Property, machinery and equipment are tested for impairment in accordance with MFRS whenever events or changes in circumstances indicate that the carrying amounts of such long-lived assets may not be recoverable from future net pre-tax cash flows. Impairment testing requires significant management judgment including estimating the future success of product lines, future sales volumes, growth rates for selling prices and costs, alternative uses for the assets and estimated proceeds from disposal of the assets. Impairment testing is conducted at the lowest level where cash flows can be measured and are independent of cash flows of other assets. An asset impairment would be indicated if the carrying value of the asset is not deemed to be recoverable, considering the greater of the present value of future net cash flows or the net sales price of disposal. An impairment loss would be measured based on the difference between the fair value of the asset and its carrying amount. We determine fair value based on an expected present value technique in which multiple cash flow scenarios that reflect a range of possible outcomes and a risk free rate of interest are used to estimate fair value.

The estimates and assumptions used in the impairment analysis are consistent with the business plans and estimates we use to manage our business operations. The use of different assumptions would increase or decrease the estimated fair value of the asset and would increase or decrease the impairment charge. Actual outcomes may differ from the estimates.

Derivative Financial Instruments

We enter into exchange rate and interest rate swaps to reduce exposure to the risks of exchange rate and interest rate fluctuations, thus converting our debt amortization and interest payment profile from U.S. dollars to Mexican pesos and modifying the variable interest profile of such debt.

We document all hedging relationships, describing objectives and risk management strategies for derivative transactions and their recognition in accounting. We recognize all assets or liabilities that arise from transactions with derivative financial instruments at fair value in the balance sheet, regardless of the purpose for which they are held. Fair value is determined based on recognized market prices and, when they are not listed in a market, based on recognized valuation techniques accepted in the financial community.

Income Taxes

Income tax expense, calculated as the higher of the regular income tax (“ISR”) or the Business Flat Tax (“IETU”), is recorded in the results of the year they are incurred. Deferred income taxes are recognized based on financial projections, considering whether we expect to incur ISR or IETU, and applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities. We also include any future benefits from tax loss carryforwards and certain tax credits within deferred income taxes. We evaluate the recoverability of deferred income tax assets based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing taxable temporary differences. A valuation allowance is recognized when, based on this analysis, it is highly probable that the deferred income tax asset will not be realized.

EBITDA and Adjusted EBITDA Reconciliation

EBITDA and adjusted EBITDA are not financial measures computed under MFRS or U.S. GAAP. EBITDA is generally defined as net income (loss) excluding depreciation and amortization expense, interest expense and income tax expense. Adjusted EBITDA means EBITDA as defined herein adjusted for additional items, including (i) other components of the MFRS caption “net comprehensive financing costs” other than interest (interest expense (income), foreign exchange gain or loss and monetary position gain or loss), and (ii) other items such as other income (expenses). We believe that EBITDA and adjusted EBITDA can be useful to facilitate comparisons of operating performance between periods, but they have the following material limitations: (i) they do not include interest expense, which, because we have borrowed money to finance some of our operations, is a necessary and ongoing part of our costs and assisted us in generating revenue; (ii) they do not include taxes, which are a necessary and ongoing part of our operations; (iii) they do not include depreciation, which, because we must utilize property and equipment in order to generate revenues in our operations, is a necessary and ongoing part of our costs; and (iv) they may not be necessarily comparable to EBITDA and adjusted EBITDA as calculated by other companies in our industry that do not use the same methodology.

We provide a reconciliation of net income to EBITDA and, subsequently, EBITDA to adjusted EBITDA in the table below.

	Years Ended December 31,		
	2009	2008	2007
		(in millions of Ps.)	
Consolidated net income (loss).....	600.2	(567.2)	184.6
Depreciation and amortization.....	246.8	244.8	227.2
Interest expense	226.8	287.0	325.4
Income tax expense (benefit).....	146.3	(168.6)	102.9
EBITDA	1,220.1	(204.0)	840.1
Other income (expense).....	38.9	(18.6)	(3.5)
Interest income	(19.4)	(29.9)	(25.8)
Exchange gain (loss).....	(128.7)	720.5	(1.6)
Effects of valuation of derivative financial instruments .	(112.5)	115.3	31.7
Monetary position gain.....	—	—	(85.0)
Employee statutory profit sharing	65.8	(21.2)	48.5
Adjusted EBITDA	1,064.2	562.1	804.4

Scribe Results of Operations

The table below sets forth certain statements of operations data, as well as our adjusted EBITDA and adjusted EBITDA margins, for the years ended December 31, 2009, 2008 and 2007.

	Year Ended December 31,			Percentage Change,	
	2009	2008	2007	2009 v. 2008	2008 v. 2007
	(in millions of Ps., except percentages)				
Net sales.....	5,843.1	5,498.1	5,175.4	6.3%	6.2%
Cost of sales.....	4,257.2	4,520.2	3,984.4	(5.8%)	13.4%
Depreciation and amortization....	246.8	244.8	227.2	0.8%	7.7%

	Year Ended December 31,			Percentage Change,	
	2009	2008	2007	2009 v. 2008	2008 v. 2007
	(in millions of Ps., except percentages)				
Gross profit.....	1,339.1	733.1	963.8	82.7%	(23.9%)
Operating expenses.....	521.7	415.8	386.6	25.5%	7.6%
Income from operations	817.4	317.3	577.2	157.6%	(45.0%)
Other (expenses) income, net.....	(104.7)	39.9	(45.0)	(362.4%)	188.7%
Comprehensive financing income (cost) ..	33.8	(1,093.0)	(244.6)	103.1%	(346.9%)
Income tax (benefit) expense	146.3	(168.6)	103.0	186.8%	(263.7%)
Consolidated net income (loss).....	600.2	(567.2)	184.6	205.8%	(407.3%)
Adjusted EBITDA	1,064.2	562.1	804.4	89.3%	(30.1%)
Adjusted EBITDA margin	18.2%	10.2%	15.5%	78.4%	(34.2%)

Scribe Summary Operating Information

Total revenue from sales for the years ended December 31, 2009, 2008 and 2007 by business segment are summarized below.

	Year Ended December 31,		
	2009	2008	2007
	(in millions of Ps., except percentages)		
Total revenue from sales			
Paper	4,159.0	3,949.1	3,646.0
Notebooks.....	1,684.1	1,549.0	1,529.4
Total.....	5,843.1	5,498.1	5,175.4
Percentage of total sales			
Paper	71%	72%	70%
Notebooks.....	29%	28%	30%
Total.....	100%	100%	100%

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Net Sales

Net sales for the year ended December 31, 2009 increased by Ps.345.0 million, or 6.3%, to Ps.5,843.1 million from Ps.5,498.1 million for the year ended December 31, 2008. The increase in net sales resulted from the following: (i) growth in sales of our cut-size paper and premium notebooks and (ii) better average prices for paper sales to publishers and sales of mid-tier notebooks. In addition, the increase in net sales resulted partially from consumers purchasing domestic paper products rather than imported paper products during 2009 due to increased prices for imported paper products related to the lagging effect of the depreciation of the Mexican peso against the U.S. dollar in the fourth quarter of 2008 and the depreciation of the Mexican peso against the U.S. dollar in the initial months of 2009. The following table shows the average sales prices for each of our Paper and Notebooks products, pulp and tissue for the years 2008 and 2009.

Average Sales Price (in Ps.)	Year Ended December 31,		% Change
	2009	2008	
Paper (per kilogram).....	13.10	12.17	7.6%
Notebooks (per standard unit)	179.81	158.26	13.6%
Pulp (per kilogram).....	7.21	7.79	(7.5%)
Tissue (per kilogram).....	19.38	18.89	2.6%

Paper Business

Net sales for the year ended December 31, 2009 in the Paper line of business increased by Ps.209.9 million, or 5.3%, to Ps.4,159.0 million from Ps.3,949.1 million for the year ended December 31, 2008. The increase was a result of higher average net selling prices of paper per kilogram, which increased by Ps.0.93, or 7.6%, to Ps.13.10 per kilogram for the year ended December 31, 2009 from Ps.12.17 per kilogram for the year ended December 31, 2008, and an improved product mix including more cut-size papers and paper rolls.

Sales volume decreased 7,803 tons to 312,923 tons for the year ended December 31, 2009, or 2.0%, compared to 320,726 tons for the year ended December 31, 2008. The decrease in sales volume was the result of lower export sales. Mexican domestic volume remained substantially unchanged, decreasing 2,933 tons to 308,458 tons for the year ended December 31, 2009 compared to 311,391 tons for the year ended December 31, 2008 as a result of the decrease in sales volume of bagasse pulp to KCM as Scribe's consumption increased. Export volume decreased 4,869 tons to 4,465 tons for the year ended December 31, 2009, or 52.2%, compared to 9,335 tons for the year ended December 31, 2008 as a result of lower export sales to the United States stemming from decreased demand for our products as a result of a general economic contraction and a decrease in consumer spending in the United States. Mexican domestic volume increased as a result of consumer substitutions of domestic products for imported products. These substitutions stemmed from higher prices for imported paper products, which reflected the lagging effect of the depreciation of the Mexican peso against the U.S. dollar in the fourth quarter of 2008 and the depreciation of the Mexican peso against the U.S. dollar in the initial months of 2009. We were able to benefit from these consumer substitutions and were able to take advantage of our partial vertical integration by partially avoiding price increases that adversely impacted our competitors.

Net sales of writing and printing paper as a percentage of total net sales increased to 66.3% for the year ended December 31, 2009 from 65.5% for the year ended December 31, 2008. The increase was primarily a result of consumers purchasing domestically-produced paper products rather than imported paper products due to the lagging effect of the depreciation of the Mexican peso against the U.S. dollar in the fourth quarter of 2008 and the depreciation of the Mexican peso against the U.S. dollar in the initial months of 2009 as well as the corresponding increase in prices for imported paper products. However, net sales in our Paper line of business as a percentage of total net sales decreased to 71% for the year ended December 31, 2009 from 72% for the year ended December 31, 2008, primarily as a result of proportionally greater increases in net sales in our Notebooks business as compared to our Paper business.

Net sales of tissue paper and pulp to KCM for the year ended December 31, 2009 in the Paper line of business decreased by Ps.63.0 million, or 18.1%, to Ps.285.4 million from Ps.348.3 million for the year ended December 31, 2008. Net sales to KCM as a percentage of total net sales decreased to 4.9% in 2009 from 6.3% in 2008. The decrease in net sales to KCM resulted from our decision to temporarily discontinue production and sales of sugar cane bagasse pulp produced by our Orizaba facility because the price of bagasse (the raw material used to manufacture such pulp) increased. Bagasse prices are directly related to oil prices and a rise in both commodities resulted in bagasse pulp production becoming unprofitable. Prior to making this decision, we sold sugar cane bagasse pulp produced at our Orizaba facility exclusively to KCM for use in their paper manufacturing processes. See "Business—Raw Materials."

Notebooks Business

Net sales for the year ended December 31, 2009 in the Notebooks line of business increased by Ps.135.1 million, or 8.7%, to Ps.1,684.1 million from Ps.1,549.0 million for the year ended December 31, 2008. The increase was primarily a result of higher average net selling prices, which increased 13.6%, to Ps.179.8 per standard unit for the year ended December 31, 2009 from Ps.158.3 per standard unit for the year ended December 31, 2008. One standard unit equals approximately 29 notebooks. In addition, net sales increased partially as a result of an increased percentage of high-end, value-added products among our Notebooks sales as consumers looked to substitute domestic paper products for imported paper products during 2009 due to increased prices for imported paper products related to the lagging effect of the depreciation of the Mexican peso against the U.S. dollar in the fourth quarter of 2008 and the depreciation of the Mexican peso against the U.S. dollar in the initial months of 2009.

Notebooks sales volume in the year ended December 31, 2009 decreased by 4.3% to 9.4 million standard units compared to 9.8 million standard units sold in the same period of 2008. The decrease in sales volume was the result of the deferral of export sales originally scheduled for shipment during the fourth quarter of 2009, which were not shipped until the first quarter of 2010. The deferral was related to product specifications that were not delivered

by our customers in time to be manufactured and to allow for timely shipment in the fourth quarter of 2009. Mexican domestic volume increased in the year ended December 31, 2009 by 0.2 million standard units, or 2.8%, to 7.3 million standard units compared to 7.1 million standard units in the same period in 2008. Export volume decreased in the year ended December 31, 2009 by 0.7 million standard units, or 23.5%, to 2.0 million standard units compared to 2.7 million standard units in the same period in 2008.

Net sales of Notebooks as a percentage of total net sales increased to 29% for the year ended December 31, 2009 from 28% for the year ended December 31, 2008. The increase was primarily a result of the higher average sales prices of the notebook products sold relative to 2008, partially offset by the decrease in sales volume during the same period.

Cost of Sales

Cost of sales for the year ended December 31, 2009 decreased by Ps.263.0 million, or 5.8%, to Ps.4,257.2 million from Ps.4,520.2 million for the year ended December 31, 2008. As a percentage of total net sales, cost of sales decreased from 82.2% for the year ended December 31, 2008 to 72.9% for the year ended December 31, 2009. This decrease was primarily a result of a decrease in the cost of pulp fiber in the first half of 2009 and decreases in utilities expenses including natural gas, fuel oil and electricity, as described below.

Pulp fiber costs as a percentage of production cost represented approximately 59% of production cost for the year ended December 31, 2009 as compared to 58% for the same period in 2008. The cost of pulp fiber decreased approximately 26.3% for the year ended December 31, 2009 as compared to the average prices in the previous year. This decrease was attributable to the decrease in global commodity prices, including pulp prices, which fell sharply from mid-2008 to mid-2009 as did energy, oil and gas prices. In addition, utilities expenses represented approximately 18% of production cost for the year ended December 31, 2009, down from 21% for the same period in 2008. During this period, natural gas prices decreased 42.0%, fuel oil decreased 8.6% and electric power decreased 20.7%. Like pulp prices, the global price of energy, gas and oil fell between mid-2008 and mid-2009.

For the year ended December 31, 2009, the unit cost of paper decreased by 7.5% to Ps.9.59 per kilogram from Ps.10.37 per kilogram for the year ended December 31, 2008. The decrease was primarily a result of the decreased costs for pulp fiber and utilities, as described above.

During the same period, the unit cost of notebooks increased by 9.7% to Ps.129.86 per standard unit from Ps.118.41 per standard unit. This increase was primarily a result of an increase in the transfer price of paper, which is the primary input used in manufacturing notebooks. The Company applies market prices of paper for purposes of determining the unit cost of notebooks.

Gross Profit and Gross Margin

Gross profit for the year ended December 31, 2009 increased by Ps.606.0 million, or 82.7%, to Ps.1,339.1 million from Ps.733.1 million for the year ended December 31, 2008, primarily as a result of the increase in our net sales and the decrease in our cost of sales discussed above. Gross margin increased to 22.9% in 2009 compared to 13.3% in 2008.

Operating Expenses

Operating expenses for the year ended December 31, 2009, including distribution, selling, administrative expenses and marketing expenses, increased by Ps.105.9 million, or 25.5%, to Ps.521.7 million from Ps.415.8 million for the year ended December 31, 2008. Operating expenses as a percentage of total net sales increased to 8.9% for the year ended December 31, 2009 as compared to 7.6% for the year ended December 31, 2008. The increase was due to an increase in freight expenses, amounting to Ps.23.4 million. In addition, our administrative expenses increased by Ps.35.8 million as a result of an increase in the number of information technology employees employed by Scribe and expenses related to the implementation of our SAP information system. Operating expenses also increased as a result of an increase of Ps.34.2 million in selling expenses stemming from increased licensing costs, the addition of marketing personnel and an increase of Ps.12.3 million in promotion and advertising expenses related to an advertising campaign focused on retail outlets for our value-added products

During the same period, our operating expenses as they relate to selling increased from Ps.1,296.50 per ton to Ps.1,667.28 per ton in our Paper line of business, and increased from Ps.42.48 per standard unit to Ps.55.71 per standard unit in our Notebooks line of business.

	Year Ended December 31,		% Change
	2009	2008	
	(in thousands of Ps.)		
Distribution	195,967	172,497	13.6%
Selling	104,684	70,414	48.7%
Administrative expenses.....	157,311	121,462	29.5%
Marketing expenses	63,770	51,447	24.0%
Operating expenses, total.....	<u>521,732</u>	<u>415,820</u>	25.5%
Operating expenses as a percent of net sales	8.9%	7.6%	

Income from Operations

Income from operations for the year ended December 31, 2009 increased by Ps.500.1 million, or 157.6%, to Ps.817.4 million from Ps.317.3 million for the year ended December 31, 2008. Operating margin for the year ended December 31, 2009 was 14.0% compared to 5.8% for the year ended December 31, 2008. The increases in income from operations and operating margin were the result of the increase in net sales and the decrease in cost of sales discussed above.

Adjusted EBITDA

Adjusted EBITDA for the year ended December 31, 2009 increased by Ps.502.1 million, or 89.3%, to Ps.1,064.2 million from Ps.562.1 million for the year ended December 31, 2008. During the same period, adjusted EBITDA as a percentage of net sales increased to 18.2% compared to 10.2% for the previous year. The increases in adjusted EBITDA and adjusted EBITDA as a percentage of net sales were the result of the increase in net sales and the decrease in cost of sales discussed above.

Comprehensive Financing Income (Cost)

For the year ended December 31, 2009, comprehensive financing income (cost) decreased by Ps.1,126.8 million, to net income of Ps.33.8 million, from a net loss of Ps.1,093.0 million for the year ended December 31, 2008. This decrease was attributable to (i) a lower interest rate on our floating rate debt due to a decline in LIBOR and TIE (each as defined below under "Liquidity and Capital Resources—Syndicated Loan Facility") during the period, (ii) a foreign exchange fluctuation gain of Ps.128.6 million in 2009 as a result of the appreciation of the Mexican peso against the U.S. dollar in the later months of 2009 compared to a loss of Ps.720.5 million in 2008 as a result of the lagging effect of the depreciation of the Mexican peso against the U.S. dollar in the fourth quarter of 2008 and the depreciation of the Mexican peso against the U.S. dollar in the initial months of 2009 and (iii) valuation changes in our derivative financial instruments during 2009 stemming from fluctuations in LIBOR and TIE, as defined below.

Income Tax (Benefit) Expense

For the year ended December 31, 2009, income tax (benefit) expense increased by Ps.314.9 million to an income tax expense of Ps.146.3 million, from an income tax benefit of Ps.168.6 million for the year ended December 31, 2008. This increase was a result of the increase in our net income before taxes as compared to a tax loss in 2008.

Consolidated Net Income (Loss)

For the year ended December 31, 2009, consolidated net income (loss) increased by Ps.1,167.4 million to net income of Ps.600.2 million, from a net loss of Ps.567.2 million for the year ended December 31, 2008. Net income margin for the year ended December 31, 2009 was 10.3%. The increases in consolidated net income (loss) and net income margin were the result of the increases in our net sales, reductions in our costs of pulp and energy, decreases in our cost of sales and a foreign exchange gain as discussed above.

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Net Sales

Net sales for the year ended December 31, 2008 increased by Ps.322.7 million, or 6.2%, to Ps.5,498.1 million from Ps.5,175.4 million for the year ended December 31, 2007. The increase in net sales resulted primarily from higher average sales prices in both our Paper and Notebooks lines of business and higher sales volume in our Paper line of business. The following table shows the average sales price of each of our Paper and Notebooks products, pulp and tissue for the years 2008 and 2007.

Average Sales Price (in Ps.)	Year Ended December 31,		% Change
	2008	2007	
Paper (per kilogram).....	12.17	11.48	6.0%
Notebooks (per standard unit)	158.26	145.74	8.6%
Pulp (per kilogram).....	7.79	7.22	7.9%
Tissue (per kilogram).....	18.89	16.96	11.4%

Paper Business

Net sales for the year ended December 31, 2008 in the Paper line of business increased by Ps.303.2 million, or 8.3%, to Ps.3,949.1 million from Ps.3,646.0 million for the year ended December 31, 2007. The increase was a result of increased sales volume and higher average prices in our Paper line of business.

Sales volume increased to 320,726 tons for the year ended December 31, 2008, or 1.2%, compared to 316,816 tons for the year ended December 31, 2007. The increase was a result of increases in sales of high-end, value-added products to our existing clients as we achieved greater market share in comparison to our competitors.

Net sales of writing and printing paper as a percentage of total net sales increased to 65.5% for the year ended December 31, 2008 from 63.0% for the year ended December 31, 2007. The increase was primarily a result of increased sales volume of writing and printing paper relative to our other products and higher average prices of writing and printing paper.

Net sales in our Paper line of business as a percentage of total net sales increased to 72% for the year ended December 31, 2008 from 70% for the year ended December 31, 2007. The increase was primarily a result of increases in the sales of paper products and a decrease in the sales of notebooks driven primarily by a decrease in export notebook sales.

Net sales to KCM for the year ended December 31, 2008 in the Paper line of business decreased by Ps.38.9 million, or 10.0%, to Ps.348.3 million from Ps.387.2 million for the year ended December 31, 2007. Net sales to KCM as a percentage of total net sales decreased to 6.3% from 7.5% for the same period. The decrease in net sales to KCM was a result of decreased sales of sugar cane bagasse pulp to KCM due to an incremental increase in our need for this pulp.

Notebooks Business

Net sales for the year ended December 31, 2008 in the Notebooks line of business increased by Ps.19.6 million, or 1.3%, to Ps.1,549.0 million from Ps.1,529.4 million for the year ended December 31, 2007. The increase was due to an increase in the average sales price of products in our Notebooks line of business. Our prices are set once annually in conjunction with the launch of the back-to-school season and our Notebooks prices were raised in 2008 in anticipation of cost inflation for pulp and energy.

Notebooks sales volume in the year ended December 31, 2008 decreased by 6.7% to 9.8 million standard units compared to 10.5 million standard units sold in the same period of 2007. The decrease in sales volume was the result of a lower percentage of export sales during the year ended December 31, 2008, partially offset by an increase in the average sales price of products in our Notebooks line of business and a better price mix of our products in the domestic market resulting in an increase in domestic sales volume. Demand in the U.S. market did not grow in late

2008 as a result of the global economic crisis and, as a result, our customers in this market embraced a conservative strategy when placing orders. For the year ended December 31, 2008, domestic Mexican Notebooks sales volume increased by 8.1%.

Net sales in our Notebooks line of business as a percentage of total net sales decreased to 28% for the year ended December 31, 2008 from 30% for the year ended December 31, 2007. The decrease was a result of lower export sales and increased paper sales.

Cost of Sales

Cost of sales for the year ended December 31, 2008 increased by Ps.535.9 million, or 13.4%, to Ps.4,520.2 million from Ps.3,984.3 million for the year ended December 31, 2007. As a percentage of sales, cost of sales increased to 82.2% for the year ended December 31, 2008 from 77.0% for the year ended December 31, 2007. This increase in the cost of sales was primarily a result of an increase in the cost of pulp fiber and an increase in utilities expenses, as described below.

Pulp fiber costs represented approximately 58% of production cost for the year ended December 31, 2008, down from 60% in the same period in 2007. However, the average price of pulp increased approximately 5.8% for the year ended December 31, 2008 as compared to the same period in 2007. In addition, utilities expenses represented approximately 21% of cost of sales for the year ended December 31, 2008, up from 18% for the same period in 2007. During this period, natural gas prices increased 36.2%, fuel oil 44.0%, electric power 28.4%, and water prices 3.1%. Increases in the prices of these utilities during 2008 were a result of a combination of high oil prices during the summer months and depreciation of the Mexican peso against the U.S. dollar during the fall.

For the year ended December 31, 2008, the unit cost of paper increased by 12.8% to Ps.10.37 per kilogram from Ps.9.19 per kilogram for the year ended December 31, 2007. The increase was primarily a result of increased costs of pulp fiber and utilities, as described above.

During the same period, the unit cost of notebooks increased by 17.8% to Ps.118.41 per standard unit from Ps.100.5 per standard unit. This increase was primarily a result of increased costs of pulp fiber and utilities, as described above.

Gross Profit and Gross Margin

Gross profit for the year ended December 31, 2008 decreased by Ps.230.7 million, or 23.9%, to Ps.733.1 million from Ps.963.8 million for the year ended December 31, 2007, primarily as a result of a proportionally larger increase in our cost of sales when compared to the increases in average sales prices of our products discussed above. Gross margin decreased to 13.3% in 2008 compared to 18.6% in 2007.

Operating Expenses

Operating expenses for the year ended December 31, 2008, including distribution, selling, administrative expenses and marketing expenses, increased by Ps.29.2 million, or 7.6%, to Ps.415.8 million from Ps.386.6 million for the year ended December 31, 2007. Operating expenses as a percentage of total net sales increased to 7.6% for the year ended December 31, 2008 from 7.5% for the year ended December 31, 2007. The increase was due to increased expenses related to obtaining licenses in connection with sales of our high-end notebooks, increased wages and salaries and expenses related to the implementation of our SAP information system.

During the same period, our operating expenses as they relate to sales increased from Ps.1,220.28 per ton to Ps.1,296.50 per ton in our Paper line of business, and increased from Ps.36.84 per standard unit to Ps.42.48 per standard unit in our Notebooks line of business.

	Year Ended December 31,		% Change
	2008	2007	
	(in thousands of Ps.)		
Distribution	172,497	173,031	0.03%
Selling	70,414	66,552	5.8%
Administrative expenses.....	121,462	100,061	21.4%
Marketing expenses	51,447	46,960	9.6%
Operating expenses, total.....	415,820	386,604	7.6%
Operating expenses as a percent of net sales	7.6%	7.5%	

Income from Operations

Income from operations for the year ended December 31, 2008 decreased by Ps.259.9 million, or 45.0%, to Ps.317.3 million from Ps.577.2 million for the year ended December 31, 2007. Operating margin for the year ended December 31, 2008 was 5.8% compared to 11.2% for the year ended December 31, 2007. The decreases in income from operations and operating margin were the result of higher costs of pulp fiber and utilities and the inability of the Company to raise prices proportionally due to the availability of cheaper imports related to the relative strength of the Mexican peso against the U.S. dollar throughout the first three quarters of 2008.

Adjusted EBITDA

Adjusted EBITDA for the year ended December 31, 2008 decreased by Ps.242.3 million, or 30.1%, to Ps.562.1 million from Ps.804.4 million for the year ended December 31, 2007. During the same period, adjusted EBITDA as a percentage of net sales decreased to 10.2% compared to 15.5% for the previous year. The decreases in adjusted EBITDA and adjusted EBITDA as a percentage of net sales were the result of the decreases in gross profit and gross margin discussed above.

Comprehensive Financing Income (Cost)

For the year ended December 31, 2008, comprehensive financing income (cost) increased by Ps.848.4 million to Ps.1,093.0 million, from Ps.244.6 million for the year ended December 31, 2007. This increase was attributable to a foreign exchange fluctuation loss of Ps.720.5 million in 2008 compared to a gain of Ps.1.6 million in 2007. This loss was a result of the depreciation of the Mexican peso against the U.S. dollar in the fourth quarter of 2008 resulting in a foreign exchange loss given our net debt position. Due to changes in MFRS effective as of January 1, 2008, no monetary position gain was reported during 2008 as compared to a gain of Ps.85.0 million reported during 2007.

Income Tax Benefit (Expense)

For the year ended December 31, 2008, income tax benefit (expense) decreased by Ps.271.6 million, or 263.7%, to an income tax benefit of Ps.\$168.6 million, from an income tax expense of Ps.103.0 million for the year ended December 31, 2007. This decrease was primarily a result of the depreciation of the Mexican peso against the U.S. dollar, which resulted in a significant foreign exchange loss for the year given our net debt position, causing a tax loss for 2008 as compared to taxable income for 2007.

Consolidated Net Income (Loss)

For the year ended December 31, 2008, consolidated net income (loss) decreased by Ps.751.8 million to a loss of Ps.567.2 million, from net income of Ps.184.6 million for the year ended December 31, 2007. Net income margin for the year ended December 31, 2008 was (10.3)% compared to 3.6% for the year ended December 31, 2007. The decreases in consolidated net income (loss) and net income margin were the result of the depreciation of the Mexican peso against the U.S. dollar and the corresponding effect on the mark-to-market value of our foreign exchange derivative financial instruments and our U.S. dollar denominated debt.

Liquidity and Capital Resources

General

We spend a significant proportion of our own capital and financial resources on operating costs, expenses and the capital investment requirements of our business. Due to the seasonal nature of the Notebooks business, we require greater working capital from May through August of each year. In order to satisfy our liquidity and capital requirements, we principally rely on our own capital, including cash generated from operations, and a Syndicated Loan Facility, which is described below.

We believe that our working capital will be sufficient during the next 12 months to meet our liquidity requirements.

Cash Flows

	Year Ended December 31,	
	2009	2008
	(In thousands of Ps.)	
Net cash provided by operating activities.....	799,004	537,145
Net cash used in investing activities.....	(410,651)	(88,951)
Net cash used in financing activities.....	(662,256)	(533,770)

For the year ended December 31, 2009, net cash provided by operating activities increased by Ps.261.9 million to Ps.799.0 million in 2009 as compared to Ps.537.1 million in 2008, primarily as a result of an increase in net income of Ps.746.4 million and an increase in accrued expenses and taxes, other than income taxes corresponding to the value-added taxes associated with receivables, of Ps.110.5 million, partially offset by an increase in accounts receivable of Ps.139.5 million and a decrease of Ps.142.8 million in accounts payable. The increase in accounts receivable reflects increases in our average sales prices and the volume of goods sold. The decrease in accounts payable was due to the acceleration of payments to suppliers in connection with the reduction in tax payments arising from changes in the *Impuesto Empresarial a Tasa Unica*, the Mexican Flat Tax.

For the year ended December 31, 2009, net cash used in investing activities increased by Ps.321.7 million to Ps.410.6 million as compared to Ps.88.9 million in 2008, primarily as a result of Ps.230.4 million paid in connection with the second of four annual redemptions of KCM shares by Corporación Scribe as contemplated by the Divestment Agreement. See "Related Party Transactions." In addition, Ps.107.9 million were also used for capital investments, including the acquisition of a Bielomatik binding machine and a hole detection system to improve our notebook production capabilities at our Bajío mill.

For the year ended December 31, 2009, net cash used in financing activities increased by Ps.128.5 million to Ps.662.3 million as compared to Ps.533.8 million in 2008, primarily as a result of having repaid the drawdown of our Revolving Credit Facility (as described below) in the amount of Ps.427.4 million and interest payments of Ps.234.8 million.

Indebtedness

Our total indebtedness decreased to Ps.3,432.4 million as of December 31, 2009 from Ps.4,070.7 million as of December 31, 2008, mainly as a result of our prepayment of Ps.427.4 million pursuant to the Revolving Credit Facility (as described below) and the effects of the appreciation of the Mexican peso relative to the U.S. dollar on our U.S. dollar-denominated debt.

As of December 31, 2009, the current portion of our long-term debt was Ps.220.1 million, composed of our Term Loan Facility, as described below. Our long-term debt was Ps.3,212.3 million as of the same date. As of December 31, 2009, Scribe's U.S. dollar-denominated debt was limited to the Company's Syndicated Loan Facility.

Syndicated Loan Facility

On October 26, 2006, we obtained a US\$320 million, five and seven-year syndicated senior secured credit facility, which we refer to as the Syndicated Loan Facility, from a syndicate of banks. The Syndicated Loan Facility consists of a term loan facility with a U.S. dollar tranche of US\$220 million and a peso tranche of Ps.1,078.75 million (the “Term Loan Facility”) and a revolving credit facility with a dollar tranche of US\$35 million (the “Revolving Credit Facility”). Loans pursuant to the Revolving Credit Facility are disbursed in pesos at the prevailing exchange rate on the date of each loan. The Term Loan Facility has a five and a seven-year term and the Revolving Credit Facility has a five-year term. However, on April 30, 2008, we made a prepayment of the Term Loan Facility in the amount of Ps.305.2 million.

The interest rate for the peso tranche of the Term Loan Facility is the *Tasa de Interés Interbancaria de Equilibrio*, or 28-day Mexican Interbank Rate (“TIIE”) plus either 225 basis points or 325 basis points depending on the term of the loan. The interest rate for the dollar tranche is the London Interbank Offer Rate (“LIBOR”) plus either 225 points or 325 basis points depending on the term of the loan. As of December 31, 2009, there was US\$202.9 million and Ps.780.2 million outstanding under the U.S. dollar tranche and the peso tranche of the Syndicated Loan Facility, respectively, with US\$35.0 million or Ps.457.5 million of revolving credit available.

The Syndicated Loan Facility contains covenants that require us to maintain: (1) a ratio of consolidated financial covenant debt to EBITDA; (2) a ratio of EBITDA to consolidated interest expense; and (3) a fixed charge coverage ratio. The facility also limits our and any of our subsidiaries’ ability, among other things, to: incur indebtedness; create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; engage in transactions with affiliates; and guarantee additional indebtedness. In addition, it is an event of default under the facility if a change of control occurs with respect to Scribe.

During the year ended December 31, 2009, the Company made approximately Ps.234.8 million of interest payments in connection with the Syndicated Loan Facility.

The Company plans to repay the amounts outstanding under the Term Loan Facility with a portion of the net proceeds of this offering. See “Use of Proceeds.” The Revolving Credit Facility (not including amounts available to be drawn under the Revolving Credit Facility in a current maximum amount of US\$35.0 million) will be secured by substantially all of the Company’s assets until such time as it is replaced by another credit facility. See “Recent Developments.” There can be no assurance that any replacement credit facility, including the New Revolving Credit Facility, will be available to the Company on acceptable terms, or at all.

Effect of Inflation

While inflationary increases in certain input costs, such as energy, pulp and chemicals, have an impact on our operating results, changes in general inflation have had minimal impact on our operating results in the last three years. Sales prices and volumes are more strongly influenced by supply and demand factors and by exchange rate fluctuations than by inflationary factors. We cannot assure you, however, that we will not be affected by general inflation in the future.

Off-Balance Sheet Financing Arrangements

We do not currently have transactions involving off-balance sheet arrangements.

Contractual Obligations

The following table reflects our contractual obligations and commercial commitments as of December 31, 2009. Commercial commitments include our outstanding debt, operating leases and other potential cash outflows as follows:

	Payments due by period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years
Long-term debt ⁽¹⁾	3,917.0	387.6	3,529.4	—
Operating leases	125.8	27.0	76.1	22.7
Total.....	<u>4,042.8</u>	<u>414.6</u>	<u>3,605.5</u>	<u>22.7</u>

⁽¹⁾ Includes principal plus interest estimated at 1% plus corresponding spreads for the U.S. dollar tranches of debt outstanding and 5% plus corresponding spreads for the peso tranches.

Market Risk Disclosure

We are exposed to market risks arising from changes in commodity prices, interest rate risk and foreign currency exchange rates. Presented below is a description of our most significant risks.

We currently satisfy approximately 30% of our pulp requirements from our internal pulp production operations at our Morelia mill and we have the capacity to produce up to 70% of our pulp requirements. We believe that we are the only paper products company in Mexico with the capacity to self-supply 30% of the pulp raw material required for our Paper and Notebooks businesses and 100% of the paper for our Notebooks business. Our position as one of the leading pulp producers in Mexico allows us to partially mitigate the financial impact caused by international price increases. We must continuously and effectively manage our exposure to pulp price fluctuations as well as our pulp production capacity. We also purchase raw materials and energy necessary to produce our products on the open market, and, as a result, the price and other terms of those purchases are subject to change based on factors such as worldwide supply and demand. We do not employ and have not employed any hedging arrangements to reduce our exposure to pulp price fluctuations, although we retain some flexibility with respect to the raw materials necessary to produce pulp from our internal pulp productions operations. We also do not have significant influence over our other raw materials or energy costs and generally do not possess enough pricing power to pass these cost increases along to purchasers of our products. Accordingly, our results of operations, cash flows and financial position are sensitive to the fluctuation of the Mexican peso relative to the U.S. dollar, the price of pulp, our ability to produce pulp at a competitive cost, and the prices of other raw materials and energy.

Our results of operations and cash flows are also affected by changes in the Mexican peso exchange rate relative to the U.S. dollar. Exchange rate fluctuations can have a material impact on our financial results if the value of the Mexican peso increases relative to the U.S. dollar when products from U.S. paper producers flood the Mexican market driving our sales volume and prices down and also if the value of the Mexican peso depreciates relative to the U.S. dollar as the price of our raw materials and our debt denominated in U.S. dollars increase.

Interest Rate Risk

In connection with our business activities, we have issued and hold financial instruments that currently expose us to market risks related to changes in interest rates. Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2009, we had outstanding indebtedness of Ps.3,432.4 million, the majority of which bore interest at variable interest rates. The interest rate on our variable rate debt is determined by reference to LIBOR and TIIE. LIBOR and TIIE increases would, consequently, increase our interest payments.

The following table sets forth principal cash flows by scheduled maturity, average interest rates, and estimated fair market value of our debt obligations as of December 31, 2009. Fair value is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

	Expected Maturity Dates as of December 31, 2009					Fair Value Dec. 31, 2009
	2010	2011	2012	2013	Total	
	(in millions of dollars)					
Long-term debt						
Variable rate (US\$)	6.3	17.1	56.7	122.9	202.9	202.9
Variable rate (Ps.)	10.5	31.5	5.6	12.1	59.7	59.7
Total.....	16.8	48.6	62.3	135.0	262.6	262.6

A hypothetical, instantaneous, and unfavorable change of 100 basis points in the average interest rate applicable to floating-rate liabilities held at December 31, 2009 would have increased our interest expense in 2010 by approximately Ps.34.3 million (US\$2.6 million) over a twelve-month period.

Exchange Rate Risk

Because substantially all of our revenues are and will continue to be denominated in pesos, if the value of the peso decreases against the U.S. dollar, our cost of financing in respect of our U.S. dollar denominated debt will increase in peso terms. Severe depreciation of the peso may also result in disruption of the international foreign exchange markets. This may limit our ability to transfer or convert pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our securities, including the notes, and any U.S. dollar-denominated debt that we may incur in the future. As of December 31, 2009, we had approximately US\$15.9 million in foreign currency-denominated assets and approximately US\$220.9 million in foreign currency denominated liabilities.

During 2007, the Company decided to enter into hedging transactions for a three-year period ending in April of 2010, including foreign exchange derivative instruments, designed to mitigate the risk associated with foreign currency exchange rates and interest rates. Accordingly, the Company entered into four swap agreements that effectively minimize the exchange rate risk associated with both interest and principal payments in respect of the Syndicated Loan Facility. Pursuant to these swaps, the Company will make interest and principal payments at an average rate of Ps.10.78 per US\$1.00.

The table below presents the notional amounts, the contracted exchange rate and the mark-to-market value, as of December 31, 2009, for the Company's foreign exchange derivative instruments:

Trade Date	Termination Date	Notional US\$ (in thousands)	Exchange Rate	Rate Received	Rate Paid	Derivative at fair value (asset) liability	
						2009	2008
Mar 29, 2007	April 30, 2010	\$61,740	10.7445	6-month LIBOR + 325 basis points	91-day TIIE + 109.9 basis points	Ps. 4,078	Ps. 16,870
Mar 29, 2007	April 30, 2010	\$61,740	10.7350	6-month LIBOR + 325 basis points	91-day TIIE + 108 basis points	3,994	16,608
Oct 31, 2007	April 30, 2010	\$61,740	10.8680	6-month LIBOR + 325 basis points	91-day TIIE + 25 basis points	1,536	(19,888)
May 30, 2007	April 30, 2010	\$22,940 in 2009 \$27,590 in 2008	10.7750	6-month LIBOR + 225 basis points	91-day TIIE + 60 basis points	(6,774)	3,303
						Ps. 2,834	Ps. 16,893

During 2008, the Company decided to enter into hedging transactions, including foreign exchange derivative instruments, designed to mitigate the risks associated with our export sales denominated in dollars. Accordingly, we entered into forward contracts whereby we were obligated to sell dollars in the future at certain

exchange rates. As of December 31, 2008, these instruments had a fair value of Ps.29.6 million with a notional amount of US\$10.6 million. These instruments were settled in April 2009.

The exchange rates in effect at December 31, 2009, 2008 and 2007 were Ps.13.0576, Ps.13.8320 and Ps.10.9169, respectively, per U.S. dollar. On March 12, 2010, the noon buying rate for pesos published by the Federal Reserve Bank of New York was Ps.12.5457 to US\$1.00. See “Exchange Rate Information.”

THE MEXICAN PAPER PRODUCTS INDUSTRY

International Paper Industry

Worldwide, consumption of all types of paper is approximately 380 million tons per year, with an annual average growth rate of 2.0%, or 7.6 million tons per year, according to the Food and Agriculture Organization of the United Nations (“FAO”).

Historically, world paper consumption has increased in proportion to GDP according to the FAO. In 2009, world consumption of all types of paper was 56 kilograms per capita, while GDP was approximately US\$6,700 per capita according to the FAO. Over the last decade, per capita paper consumption increased at approximately one third of the increase in world GDP per capita according to the FAO.

Mexican Paper Industry

Mexico’s paper industry continued to grow in recent years, characterized by advances in technology, business, modernization and diversification of production methods employed. In addition, Mexico’s economy has continued to grow, characterized by increases in the school-aged population and the general level of education of the population.

Between 2004 and 2008, the volume of paper consumption in Mexico grew at approximately 3.1% according to the CNICP. Notwithstanding such historic growth, general paper consumption in Mexico is still relatively low, as indicated by its per capita annual consumption of 64 kilograms versus an average of 297 kilograms in the United States and 236 kilograms in Canada according to information published by the World Resources Institute in 2007. Although per capita annual consumption patterns for printing and writing paper products in Mexico and the U.S. are not directly comparable, as both markets are significantly different in a variety of ways, we believe that in Mexico paper consumption will grow at a rapid pace as the Mexican economy expands, disposable income rises and the levels of information technology and education improve among the general population. Accordingly, we estimate that the market for printing and writing paper products in Mexico will grow in line with the growth rate of Mexican GDP.

In addition to the foregoing, we believe that certain demographic trends in Mexico point towards increased demand for products in both our Paper and Notebooks lines of business over the long-term. We believe that the following demographic trends will contribute towards an increase in our target markets:

- Increased life expectancy
- Increased percentage of the population for which paper consumption is highest
- Increased economically active population
- Increased purchasing power resulting in increased participation in the educational system

We anticipate that as the Mexican economy continues to grow over the next 10 to 15 years, life expectancy increases and the Mexican middle class expands, there will be a corresponding increase in demand for paper in both of our lines of business. Our target market will increase from 94 million to approximately 107 million over the next 20 years, or 13.4%, according to the *Consejo Nacional de Población*, or the Mexican Population Council. In addition, we expect to see technology become more accessible to most Mexicans as the number of personal computers continues to increase from its present level of an estimated 18.2 million according to the *Asociación Mexicana de Internet*, or AMIPCI. Further, the number of businesses operating in Mexico has increased from approximately 623,000 in 2004 to approximately 719,000 in 2009, corresponding to an annual compound growth of 2.9%, while the compound annual variation of the GDP at constant prices in the same period was 3.25%, according to the *Sistema de Información Empresarial Mexicano*, or the Center for Mexican Business Information.

In addition, we believe that increased participation in Mexico’s educational system will result in increased demand for our paper products. The number of schools in Mexico has experienced a compound annual growth of

2.3% from 1990 through 2008, from nearly 160,000 to 250,000 schools, universities and educational institutions, according to the federal *Secretaría de Educación Pública*, or the Public Education Ministry. Accordingly, the number of students enrolled increased from about 29.6 million in 2000 to 34.3 million students in 2009, representing a compound annual growth of 1.7%, according to INEGI. The Mexican federal government and regional state governments have also adopted policies to increase the production of textbooks and other printed materials, which have experienced an annual compound growth of 24%, from 170.9 million in 2001 to 771.8 million in 2008, according to the Public Education Ministry.

Accordingly, sales of printing and writing paper are expected to continue growing at 1%, according to the CNICP. Cut-size paper consumption is expected to continue to grow, driven by expectations of higher penetration rates for personal computers according to the AMIPCI. The AMIPCI also estimates that the percentage of the Mexican population using the internet has grown at a compound annual growth rate of 17.0% between 2005 and 2008. With expectations of rising personal income, the Mexican demand for higher-value grade papers, such as business and coated publication papers, is also likely to increase. We also expect growth in digital, graphic arts, packaging and xerographic paper products.

Based on production capacity, Mexico's paper industry is one of the largest in Latin America according to the FAO. The total size of Mexico's paper industry in 2009, based on "apparent demand," was 6.3 million metric tons according to the CNICP. Apparent demand consists of domestic production, as reported by manufacturers, plus imports, minus exports. Apparent demand is a concept similar to consumption, but does not reflect increases and reductions in inventories by customers. Apparent demand may not match consumption in any given year; however, over a period of years, the two measures should tend to approximate one another. During 2008, Mexico's GDP grew at 2.8% according to the CNICP. Overall, Mexico consumed 6.17 million tons of paper in 2008, of which 2.4 million tons are imported according to the CNICP.

In 2009, Mexico produced 4.6 million tons of paper domestically according to the CNICP. Of this total, printing and writing paper accounted for 14.8%. During 2009, 58% of printing and writing paper was produced domestically, 44% was imported and 2% was exported according to the CNICP. Consumption of printing and writing paper in Mexico is growing at a rate of 1% per year according to the CNICP.

BUSINESS

Our Company

We are the largest producer and marketer of notebooks and printing and writing paper in Mexico based on sales volume as of December 31, 2009, according to the CNICP, Nielsen and our internal estimates. Our notebook products are marketed under several brand names, including “Scribe,” which has been widely-recognized in Mexico since it was launched in 1962. Our paper products include some of the most recognized and preferred paper brand names in Mexico, including, among others, “Duplicador,” “Fotobond,” “Leeds Photocopy,” “Scribe Ecológico” and “Kromos Gráfico.” We believe we have leading market share in Mexico.

Prior to our formation in 2006, our businesses were conducted as part of KCM, which has long been recognized as a leading manufacturer of world-class premium writing, text, cover and specialty papers and notebooks. We have benefited from the know-how of KCM and its strong brand-name recognition and we expect to continue benefiting from it going forward.

We currently have two lines of business: Notebooks and Paper. Our Paper line of business manufactures and markets fine printing and writing paper, including coated and uncoated sheets and rolls of paper and uncoated cut-size papers. Our Paper line operates in all Mexican paper consumption segments, including copy paper, graphic arts paper, publishing paper, commercial printing paper, business forms, converters and governmental use paper. We believe that our operations across these segments provide us with diverse sources of revenues. Our Notebooks line of business manufactures and markets notebooks and notepads in various formats and sizes, with or without accessories, and with various forms of binding.

The Company serves two principal market segments, the Consumer market segment and the Industrial market segment. We serve the Consumer market segment through the sale of notebooks, cut-size papers and tissue, targeting individual consumers through dedicated distribution channels designed to reach a broad array of retail outlets. We believe that the Mexican Consumer market segment will continue to present substantial growth opportunities over the coming years. We serve the Industrial market segment through the sale of paper rolls, flat sheets and specialty paper, targeting our industrial clients through a strategy designed to cultivate and retain long-term business relationships and provide stability to our earnings.

Our production footprint consists of five mills: Bajío, Morelia, Orizaba, Naucalpan and San Rafael. Three of our mills, Bajío, Morelia and Orizaba, are adjacent to facilities of KCM and share certain services (such as water, steam and electricity) and other assets (such as certain buildings, access roads and railroad access) with KCM. See “Related Party Transactions.” We also maintain warehouse facilities at each of our five mills to store and to deliver our products directly to our customers. We own Agrícola Oriental, a distribution facility in Mexico City, which we use primarily to store standard paper products. In addition, we lease a distribution facility in Mexico City, primarily to store notebooks. We own substantially all of the equipment necessary for the production and manufacturing of printing and writing paper, notebooks and pulp. We also produce wood pulp out of wood chips obtained from sustainable forestry operations and industrial waste wood.

From the beginning of 2007 through year-end 2009, our production grew at a compound annual growth rate of 0.9% for our Paper line of business and 6.1% for our Notebooks line of business, as compared to a 5.3% decrease in Mexico’s gross domestic product (“GDP”) over the same period. During the same period, our revenues grew at a compound annual growth rate of 14.1% for Paper and 10.1% for Notebooks, and we had average annual sales of Ps.3,918.1 million (US\$299.8 million) and Ps.1,587.5 million (US\$121.5 million), and average annual adjusted EBITDA of Ps.536.9 million (US\$41.1 million) and Ps.273.4 million (US\$20.9 million), respectively. During this period, average annual adjusted EBITDA margins were 13.7% for Paper and 17.2% for Notebooks, respectively.

For the year ended December 31, 2009, we generated adjusted EBITDA of Ps.1,064.2 million (US\$81.4 million). During the twelve-month period ended December 31, 2009, our Paper and Notebooks lines of business generated sales of Ps.4,159.1 million (US\$318.2 million) and Ps.1,684.1 million (US\$128.9 million), contributing 71% and 29% of total sales, respectively. During this period, our Paper and Notebooks lines of business had an adjusted EBITDA of Ps.764.8 million (US\$58.5 million) and Ps.299.4 million (US\$22.9 million), contributing 72% and 28% of our adjusted EBITDA, respectively.

Our Competitive Strengths

We believe that the following competitive strengths have contributed to our success:

- *Leading market positions in Mexico.* We are the market leader in both of our lines of business based on sales volume, according to CNICP. Our internal estimates of market share in the Paper and Notebooks lines of business were 30% and 80%, respectively, as of December 31, 2009. Our internal estimate of market share in cut-size paper was 38% for the same date. “Scribe” is one of the most recognized brands in the Mexican market. Our established leading market positions provide us with a strong competitive advantage, which we believe is supported by our economies of scale and scope of our operations. We believe that there is still significant growth potential in our Notebooks line of business, particularly in the mid-tier and high-end segments.
- *Top brand portfolio.* We believe that our product portfolio includes the top printing and writing paper and notebook brands and licenses in Mexico. We own more than 290 brands, including uncoated paper brands, coated paper brands, cut-size paper brands and the notebook brand “Scribe,” which we use to market our products. We employ a multi-brand strategy and position our brands within each price-point category. We target consumers of our paper products with tailor-made market strategies that focus on the needs and uses of a particular group of consumers. We employ an umbrella strategy of offering diverse products under one name to promote our Notebooks brands and related products. We also seek to continually enhance our products through market research and new product development in order to meet evolving customer preferences. We believe that the high quality of our products, the strength and recognition of our brands, sub-brands and licenses allow us to set and maintain premium prices.
- *Differentiated product offerings supported by value-added services.* We believe we have a reputation as a leading quality producer of premium fine and customized papers. We ensure our product quality by utilizing computerized statistical process controls and highly trained teams of operators. We believe that we are the supplier of choice for many of Mexico’s consumers of fine and specialty paper. The manufacturing of customized paper products involves strong client relationship strategies, as well as a clear understanding of each client’s particular needs and ongoing service requirements. This value-added service requires frequent visits to clients’ facilities in order to render technical services to assist publishers to fine tune specific product and process requirements. We believe we are the only paper producer in Mexico with the capabilities and resources to develop unique paper and printing product solutions to meet the specific needs of each of our clients. We actively seek out growth opportunities by means of strategic alliances with clients that may enhance our competitive position, leverage our capabilities and produce high-quality products. We have had success aligning wholesalers with our business strategy.
- *Strong sales force and distribution network in Mexico.* We believe we operate one of the most successful and complete multi-channel distribution platforms for printing and writing and notebook products in Mexico. We believe our extensive distribution channels, spanning across all of Mexico, allow us to distribute our products reliably and with a high level of customer service. A network of five warehouses located at the production sites plus two off-site distribution facilities supports our distribution capabilities. Our products are distributed through a large number of independent wholesalers, direct customers and distributors, specialty retailers and retail chains and outlets. We believe that the distribution process for our Paper and our Notebooks products allows us to reach approximately 16,000 and 45,000 points of sale, respectively. We also have a strong sales force, numbering over 40 employees, divided into four specialized and distinct teams that each target specific categories and distribution channels. Our experienced sales teams are highly knowledgeable about the market for our products and our competitors.
- *Strategically located and efficient operations with partial vertical integration.* We have five mills strategically located throughout central Mexico, which is the most densely populated and wealthiest region in the country with approximately 34% of its population and 35% of its GDP as of 2007, according to INEGI and CONAPO. Central Mexico is also the location of our most important clients

and of our main sources of domestic raw materials. Moreover, we strive to be an efficient printing and writing paper manufacturer based on international standards. As of 2009, we had an 82.7% Metso index, a ratio which measures the efficiency of a paper mill by analyzing down time and total paper waste. Our Metso index ratio compares favorably with the global industry average of 84.1% according to Metso Corporation, which we believe indicates that we are a low-cost producer and are competitive on a worldwide basis. We believe we are the only Mexican paper and notebook company with the capacity to self-supply 100% of the paper for our Notebooks business and self-supply 30% of the pulp raw material required for our combined Paper and Notebooks businesses. Such partial vertical integration results in lower earnings volatility and higher margins. In addition, the recent implementation of our SAP information system has streamlined our efficiency. See “Business—Information Technology.”

- *Strong and experienced management and operating team.* We believe we have a highly capable and experienced management team with broad industry expertise. Our management team has an average of 26 years of experience in the paper industry. On the operations side, we have a knowledgeable and highly qualified group of operating and technical personnel in each of our facilities. We believe that such an experienced and qualified management team provides us with the capability to sustain our market leadership and manufacture and deliver quality fine and customized products.
- *We practice sustainable forest management and have a strong environmental profile.* We believe in and practice sustainable forest management according to the principles of sustainable development. All of the wood used in our manufacturing processes is certified as sustainably harvested and legally produced prior to entering our facilities by the Federal Environmental Protection Bureau. In addition, the SFI, the world’s largest single forest certification standard, certified that all five of our mills are in compliance with chain of custody standards. Three of our mills are currently certified as “Clean Industries” by the Federal Environmental Protection Bureau and we expect that our remaining two mills will be certified as “Clean Industries” in 2010.

Our Business Strategy

Our goal is to build on our competitive strengths and to continue leading as the most profitable domestic and export-oriented paper products and notebooks manufacturing company in Mexico. To achieve this goal, we will seek to increase our market and brand leadership in key product categories as well as expand our business to new markets, as described below. We also intend to focus our strategy on forming new strategic alliances with clients and manufacturing the highest margin products, including comprehensive paper services and solutions. We believe we have the market access and channels to sell new high margin imported products, which are currently imported into Mexico by our customers and competitors. We also intend to continue our capital investments to sustain our market leadership and cost advantage.

To this end, our management has identified the following key strategic objectives:

- *Increase market share and brand leadership in key product categories.* Our goal is to maintain our position as the brand leader in sales volume and product quality in high margin products, including cut-size paper and high-end notebooks. In addition, we believe the substantial brand recognition of “Scribe,” our umbrella Notebooks brand, provides an opportunity to expand into other school and office-related products, such as pens, pencils and bags, by building upon almost 50 years of strong positioning of the “Scribe” brand name in the Mexican market. We plan to seek ways to leverage our “Scribe” brand into other complementary products.
- *Focus on the most profitable product mix and customer segments.* We continually strive to optimize the sales mix of our products with the goal of maximizing the sale of high profit margin products such as cut-size paper and high-end notebooks subject to market demand. We also seek to target the consumer market since we believe that the Mexican Consumer market segment will continue to present substantial growth opportunities and resilience over the coming years. The percentage of our total sales represented by the Consumer market segment encompassing notebooks, cut-size paper and tissue has continued to grow, reaching 61% of our total sales in the year ended December 31, 2009.

- *Leverage distribution coverage in Mexico through a multi-channel strategy.* We intend to utilize our vast nationwide distribution network to sell imported products that we do not currently manufacture, or products in which we are operating at full capacity, to increase overall sales and margins. We also plan to adopt new co-branding techniques with the goal of exploring and establishing new distribution channels.
- *Remain the lowest-cost producer of printing and writing paper and notebooks in Mexico.* We believe we are the lowest-cost producer of printing and writing paper and notebooks in Mexico. Recently, we have further reduced costs by expanding our existing wood pulp production facilities at our Morelia mill. We believe that our position as a partially vertically integrated pulp supplier provides us with competitive advantages over other paper manufacturers because we are able to reduce our exposure to pulp price cycles, ensure supply of a key raw material and provide ourselves with an alternative energy source in the form of steam. In addition, we seek to leverage our economies of scale and the scope of our operations to maintain and enhance our efficiency.
- *Focus on comprehensive export strategy based on capacity utilization and value-added products.* We seek to expand into new markets and export value-added products. We export into all countries in Central America, selected countries in the Andean region and the United States. The counter-seasonal back-to-school season in Central America and the Andean region occurs January through March as opposed to May through August in Mexico. By expanding into Central America and the Andean region, we plan to exploit our Notebooks production capacity effectively and service those markets with our existing infrastructure. We believe this strategy will reduce our seasonal risk, generate additional revenue and maximize our installed production capacity. In addition, we seek to focus our export strategy on high profit margin and value-added products. We intend to concentrate our exports in low-volume, high-price premium items such as high-end notebooks, cut-size paper and specialty paper products. We believe these products offer higher margins without adding considerable strain to our installed capacity during high season. By capitalizing on our geographic proximity to the United States and our design and creative capabilities, we have identified several markets where we believe we can compete, and we plan on securing commercial alliances in Canada, the United States and several Latin American countries to export our products.

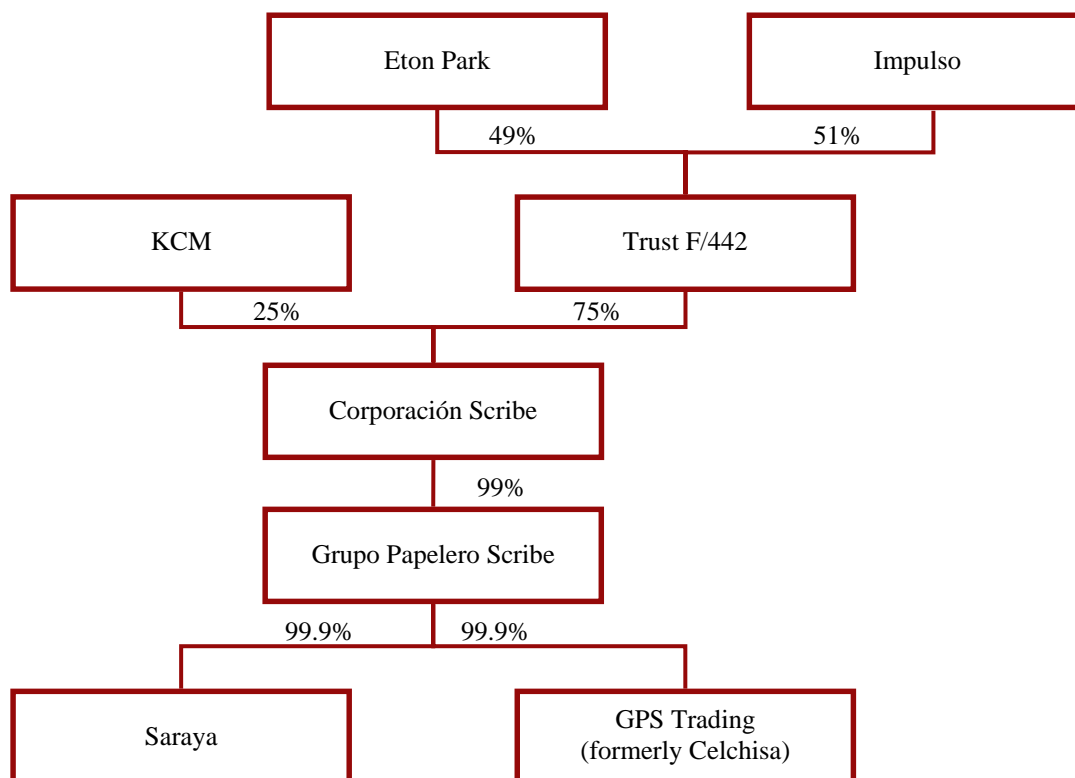
We continually evaluate, develop and refine strategies to improve in all areas of our operations in order to capitalize on our competitive advantages concerning market share, brands, distribution and vertical integration. Execution of these strategies is intended to capitalize on our strengths, including our market leadership, strong brands, unique distribution and sales network and vertical integration.

History and Development of our Company and Our Relationship with KCM

KCM had been engaged in manufacturing printing and writing paper products since 1953, initially, under the name of La Aurora, S.A. KCC acquired La Aurora, S.A. in 1955 and, in 1959, changed the name to Kimberly-Clark de México, S.A.B. de C.V. In 1963, KCM commenced manufacturing notebooks under the Scribe umbrella name in Naucalpan. In 1996, KCC completed a merger with Scott Paper Company that resulted in the merger of Compañía Industrial de San Cristobal, S.A. (“Crisoba”), a major Mexican paper manufacturing company and affiliate of Scott Paper Company, with and into KCM. In 1996, KCM acquired the production facilities at Morelia and San Rafael.

In 2006, KCM decided to divest itself of its holdings related to its pulp, printing and writing paper and notebooks operations. In connection with the Divestment, Impulso, a privately held Mexican Company, and Eton Park acquired through the Trust a 60% equity interest in Corporación Scribe, our parent company. In connection with this acquisition, KCM transferred to us substantially all of the assets and liabilities of its industrial products division in a transaction valued at US\$433,750,000. After giving effect to the Divestment, KCM retained a 40% indirect ownership interest in us through Corporación Scribe and we became a wholly-owned subsidiary of Corporación Scribe. Corporación Scribe has subsequently redeemed KCM shares annually in connection with the Divestment Agreement, as defined below. As of the date of this offering circular, KCM’s ownership interest is presently at 25%. Pursuant to the Divestment, we now own the assets and liabilities associated with the pulp, printing and writing paper and notebooks operations of KCM.

As a result of these transactions, our organizational structure as of March 22, 2010 is as set forth in the following chart.



Our Lines of Business

We are organized into two lines of businesses based on product groupings: Paper and Notebooks. During 2009, our Paper and Notebooks lines of business generated sales of Ps.4,159.1 million (US\$318.2 million) and Ps.1,684.1 million (US\$128.9 million), respectively and had adjusted EBITDA of Ps.764.8million (US\$58.5 million) and Ps.299.4 million (US\$22.9 million), respectively. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—EBITDA and Adjusted EBITDA Reconciliation.”

Paper

We have the leading market share for printing and writing papers in Mexico, with 30% in market share as of December 31, 2009. We believe that we have one of the most complete product portfolios in the Mexican paper market. In addition, we have a strong portfolio of brands, which we operate under a multi-branding strategy.

We manufacture and market sheets and rolls of paper as well as cut-size papers. Our sales volume of cut-size papers have grown at a 5.7% compound annual growth rate over the last three years, which has been higher than Mexican GDP growth.

Products in the Paper line of business are sold under a variety of brand names that range from value to premium brands. We target our brands toward customers in different segments creating a specific paper for a specific customer need pursuant to our marketing strategy known as “one paper for each need.” Uncoated paper brand names include “Duplicador,” “Fotobond,” “Kromos Gráfico Alta Opacidad,” “Editor Alta Opacidad,” “CopyPaper,” “Tree Free,” “Scribe Ecológico,” “Leeds Photocopy” and new “Scribe” premium cut-sized papers. Coated paper includes “Couché Mónaco,” a premium brand. Pursuant to our multi-brand strategy, trademarks are directed towards customers in different consumption segments such as: xerographic, publishers, commercial printing, converters, business forms and export. We believe that the quality of our products, the strength and recognition of our brands and sub-brands and our licenses allow us to set and maintain premium prices.

We tailor our products to the specific needs of each of the following target markets:

- *Xerographic.* This target market, our largest and most profitable, is composed of photocopy centers, graphic arts firms and general consumers of cut-size papers. This market also includes graphic arts businesses as well as government and corporate consumers.
- *Publishers.* This target market is composed of book and magazine publishers. The general focus of our customers in this line of business is on text books and general interest and commercial magazines with nationwide distribution. Approximately 85% of these publishers employ graphic art firms to produce their products. This target market includes the Mexican government's production of textbooks.
- *Commercial printing.* This target market is composed of printer shops that focus on pamphlets, calendars, packaging material, posters and other advertising material. 91% of our clients in this market are small and medium-size companies. The remaining 9% of this market consists of large-scale print shops with state-of-the-art facilities.
- *Export.* This target market is composed of international commercial partners and importers.
- *Converters.* This target market is composed of companies dedicated to the industrial transformation of paper into different sub-products including envelopes, folders, rolls for adding machines and bags, among others.
- *Business forms.* This target market is composed of companies that are engaged in the transformation and printing of paper to create pre-printed forms, such as bank checks and government and fiscal forms.

Our Paper business represents the largest contribution to our sales volume. During the twelve-month period ended December 31, 2009, more than 312,000 metric tons were marketed, generating Ps.4,159.1 million (US\$318.2 million) in sales, with 71% of the total sales, and Ps.764.8 million (US\$58.5 million) in adjusted EBITDA. During the twelve-month period ended December 31, 2008, 320,645 tons were marketed, generating Ps.3,949.1 million (US\$302.2 million) in sales, with 72% of the total sales and Ps.350.7 million (US\$26.8 million) in adjusted EBITDA. According to the Company's internal estimates, its market share for printing and writing papers in Mexico was 30%.

Notebooks

We have the leading market share for notebooks in Mexico, with 80% in volume, and we believe that our "Scribe" brand is the most widely-used notebook in Mexico. We manufacture a broad range of notebooks and notepads under various formats, and we offer our products under the "Scribe" umbrella brand name and a broad portfolio of sub-brands and licenses. Our product offerings include notebooks with or without accessories with various forms of binding.

Our Notebooks business had a compound annual growth rate of 5.1% in sales volume in the last three years. This line of business is expected to continue to grow strongly in the next few years in line with GDP growth, driven by school enrollment rates, the expected growth in Mexico's school-age population and an increase in disposable income.

We use a multi-brand strategy for our product line of notebooks and notepads. Under this strategy, we target our brands, sub-brands and licenses towards consumers in different market segments in order to reach the widest range of consumers possible and achieve the highest level of market share. We believe that the notoriety of our brands provides us with a tangible advantage over our competitors. We currently have exclusive license agreements in Mexico for the following trademarks: "Hadas de Disney," "Iron Man," "Spider Man," "The Simpsons," "Jonas Brothers," "Rosita Fresita," "Fulanitos," "Distroller" and "SpongeBob," among others. As a result of the Divestment, we acquired ownership of the trademark "Scribe," which is registered in the U.S., Mexico and certain Central and South American countries. See "Related Party Transactions."

During 2008 and 2009, we sold 9.4 million and 9.8 million units of notebooks. Our market share in the Notebooks segment was 80% in 2008 and 80% in 2009. We expect our market share to exceed these figures in 2010.

We tailor our product offerings to the specific needs of each of our different target markets:

- *Premium.* This target market is characterized by customers that are willing to pay top prices associated with superior value-added products and innovation.
- *High-end.* This target market is characterized by customers that base their purchasing decisions primarily on product quality.
- *Mid-tier.* This target market is characterized by customers that are more price sensitive but also seek specialized or differentiated products. In this market, we offer a wide variety of formats and prices for our products.
- *Low-tier.* We offer one of the best price-to-quality ratios in this primarily price-focused target market, which is our largest market by sales volume.
- *Exports.* We serve this target market by tailoring the volume of our offerings to reflect production constraints, but seek to maximize profitability and value-added products.
- *Private label.* Customers in this target market are primarily large retailers focused on timely delivery and price.
- *Government.* In this target market, we offer low-priced products customized to government requirements.

We believe that the quality of our products and brands and sub-brands and licenses allow us to set and maintain premium prices.

Principal Market Segments

The Company serves two principal market segments, the Consumer market segment and the Industrial market segment. We serve the Consumer market segment through the sale of notebooks, cut-size papers and tissue, targeting individual consumers through dedicated distribution channels designed to reach a broad array of retail outlets. We believe that the Mexican consumer products market will continue to present substantial growth opportunities over the coming years. We serve the Industrial market segment through the sale of paper rolls, flat sheets and specialty paper, targeting our industrial clients through a strategy designed to cultivate and retain long-term business relationships and provide stability to our earnings.

We offer a broad range of paper in the Consumer market segment under high-quality, recognizable brand names, which together account for 35% of this market, including: “Scribe”, “Scribe Ecológico”, “Duplicador”, “Leeds Photocopy” and “Fotobond”, among others. In addition, we serve the Industrial market segment through sales of the following brand names, which together account for 15% of this market: “Scribe Ecológico”, “Kromos Gráfico Alta Opacidad”, “Editor Alta Opacidad”, “CopyPaper”, “Tree Free”, and “Couché Mónaco”, among others.

Customers

Our main clients are wholesalers, retail stores, government entities, specialty and discount stores and supermarkets, among others. We also offer private-label products, primarily to retailers, and participate in government-funded education projects.

Our Paper line of business has approximately 380 customers. Our five most important customers represented approximately 34% of the Paper business’s volume. During 2009, no individual governmental agency or entity represented more than 10% of the Paper business’s total sales. We estimate that we have approximately

16,000 points of sale for our Paper line of business. As of December 31, 2009, customers for our Paper line of business consisted of approximately 280 wholesale, 90 retail and 13 specialty and discount stores.

Our Notebooks line of business has approximately 270 customers. Our five most important customers represented roughly half of the Notebooks business's net sales. Export sales represented approximately 19% of our total notebook sales. We estimate that we have approximately 45,000 points of sale for our Notebooks line of business. As of December 31, 2009, customers for our Notebooks line of business consisted of approximately 17 supermarket chains, 6 discount store chains, specialty stores, several wholesalers and governmental agencies. 87% of our notebooks are sold domestically in Mexico and 13% are exported. Of the notebooks we sell in Mexico, 70% are to wholesalers, 24% to supermarket chains and 6% to specialty stores.

Sales and Marketing

The domestic Mexican market is our core geographic focus and is served by over 40 salesmen and saleswomen. However, exports also are an integral part of our business strategy. They allow us to operate at high capacities in periods of low Mexican demand. We plan to continue investing to support this business initiative through commercial and manufacturing alliances that seek to expand our international presence by focusing on a value-added portfolio.

Our sales efforts are concentrated on our target markets. We are focused on growing in the high-end, value-added target market by developing marketing programs focused on improving our sales mix. We seek to keep prices aligned with the needs and characteristics of each of our target markets. We have a multi-channel distribution strategy through which we supply more than 45,000 points of sale for our Notebooks line of business and 16,000 points of sale for our Paper line of business throughout Mexico.

We recently launched a new marketing initiative targeting the youth market through an aggressive advertising campaign that focuses on internet advertising, including such social networking sites as Facebook and HiFive. We believe that this initiative will enable us to enhance our brand loyalty among the youth market for both our Paper and Notebooks businesses.

In order to keep up with our customers' needs, we are continually enhancing our product offerings through market research and product development activities. Research efforts are directed toward developing new and improved products. The results of our research have allowed us to develop technologically-innovative new products, such as laminated and metalized covers for our notebooks.

Seasonality

Notebooks are a seasonal business with sales peaking between May and August, during the back-to-school season. Annual sales processes begin with extensive market research at the end of the back-to-school season of the preceding year. This stage involves the assessment of licenses, trends, designs and colors; it extends up to the first quarter of the following year. Manufacturing begins in December, based on product guidelines determined through the market research process and sales estimates for the coming year's back-to-school season. During the entire sales process, we remain in touch with our clients, responding to their feedback, providing support at fairs and exhibitions, participating in the exhibition of stands at self-service stores, and preparing the point-of-sale and advertising campaign materials. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Seasonality."

Distribution and Supply of Our Products

Scribe maintains a distribution system that covers the entire territory of Mexico. We believe our established distribution system provides us with an important competitive advantage over companies that may wish to enter the Mexican paper-based product and notebook markets because it would be very expensive for most companies to create a new distribution system that is comparable in scope. We believe that we are the principal supplier of choice for paper-based products and notebooks to most of our customers.

We have a warehouse at each of our five mills, which stores the products that are produced at that mill. In addition, we maintain two finished product warehouses in Mexico City, where we gather finished products of each

product type from the five mill warehouses. Shipments are made to customers either from a mill warehouse or a finished product warehouse, depending on the volume and nature of the goods being shipped and the geographical location of the customer. We export into all countries in Central America, selected countries in the Andean region and the United States. See “—Property, Machinery and Equipment.”

All our shipments are made by numerous third-party trucking services. We maintain no contractual arrangements with any of them in order to maintain flexibility and optimize pricing.

An important part of our sales are to large retailers and large wholesalers. We believe that the majority of sales in Mexico are made in small neighborhood retail stores, which generally are serviced by the large wholesalers that are our customers. None of our customers account for more than 10% of our total sales revenues.

Our Competition

We have several major competitors in our two lines of business, some of which may be larger and manufacture a broader array of products than us. The principal competitive factors in our two lines of business include brand recognition and loyalty, product innovation, quality and performance, price, and marketing and distribution capabilities. We believe our reputation in these areas is very strong.

The competitiveness of the markets in which we sell our products varies. In our Paper line of business, we compete with domestic companies such as Copamex and Pipsamex, our biggest competitors, as well as other smaller local producers and foreign manufacturers who export their products into Mexico. Copamex is a Mexican paper company operating primarily in two distinct lines of business, which are packaging paper and printing and writing paper. Copamex is the largest producer of specialty papers and the second largest producer of bond paper in Mexico by volume. Pipsamex is part of Corporación Durango, S.A.B. de C.V. (“Durango”), the largest Mexican player in kraft, or packaging paper by sales volume. Pipsamex is a strong player in government auctions and imports products for sulfated cardboards in which we do not compete. According to CNICP, in 2009, Copamex and Pipsamex had a national production share in the paper line of business of 26% and 19%, respectively. In 2009, we enjoyed a leading market position with an aggregate production share of 53% in the Paper line of business. Although imports, with a market share of 44%, currently account for the largest share in volume of apparent consumption, none of the importing companies individually held market share above 6% in 2009.

In our Notebooks line of business, we are the market leader in Mexico, with 80% share of the market in volume sold during 2009, according to our internal estimates. The primary barriers to entry include obtaining or developing brands and licenses, production capacity, working capital financing, quality and market know-how. Our closest competitor, Bienes de Consumo Internacional, S.A. de C.V., commercially known as “Norma”, had a 5% market share in volume in 2009 and Talleres Estrella, S.A. de C.V. (“Estrella”), a Mexican company focused on the low-tier market and government contracts, had a 3% market share in volume in 2009. Estrella offers a broad array of mid-tier and low-end products and has an aggressive pricing strategy.

Our ability to compete is partly influenced by the relative value of our currency compared to the currency of our foreign competitors who import their products into Mexico. In 2009, imports, in aggregate, held 44% of market share in the Paper line of business. Imports, in aggregate, held approximately 9% of market share in the Notebooks line of business in 2009, according to the CNICP.

Manufacturing and Production

The manufacture of paper products begins with pulp, water and additives, which are screened through wires, pressed through rollers, dried with steam-heated rolls and wound onto large rolls. Certain high-quality grades of paper are coated with a chemical additive to give the paper a finished look. The rolled paper is then sold for industrial usage or cut into sheets or smaller rolls for consumer usage or converted into notebooks.

We operate several automatic machines that produce notebooks in different formats and different binding types, as well as educational articles such as sheets, notepads and filler paper.

We have an annual installed gross machine production capacity of approximately 443,280 tons of printing and writing paper, including our largest machine at the Bajfo mill, with a capacity of 147,334 tons of paper per year.

Our yearly capacity with regard to notebooks is 322.4 million notebooks, or 11.1 million standard units of notebooks. One standard unit equals approximately 29 notebooks.

We have a production capacity of approximately 97,200 tons of wood pulp per year. In addition, we have the capacity to produce 12,757 tons of tissue paper per year, the entire production of which is supplied to KCM. During 2009, our production level was at 94.5% of capacity for Paper, 73% for Notebooks and 94.4% for pulp production. Our installed production capacity for notebooks is significantly higher than utilized capacity due to the seasonal nature of the business. Our intention has been to have sufficient installed capacity to meet seasonal demand requirements in a relatively short period of time and consequently minimize working capital requirements in the form of average inventory levels. We believe that the increase in export sales, particularly to Central and South American countries with a different back-to-school season, will allow us to increase utilization during the Mexican off-season.

Machinery

Our most important machinery consists of 10 paper-producing machines. Three of these machines are located at our San Rafael mill, three at our Naucalpan mill, two at our Orizaba mill, one at our Bajío mill and one at our Morelia mill. The following table provides a summary of statistical information concerning these machines:

BRAND OR TYPE	Useful width (cm)	Grammage Limit (g/m³)	Speeds for limits (m/min)	Installed capacity (tons/year)
VOITH BR	470	50/105	690/1000	147,334
BLACK CLAWSON	440	56/105	480/600	78,499
BELOIT IT	312	50/220	120/450	38,229
BELOIT WI	380	45/120	360/610	56,499
ESSCHER WYSS	240	48/240	70/230	16,596
BELOIT	306	12.5/15.6	500/700	12,757
BERTRAMS	304	22/40	130/185	5,798
BLACK CLAWSON	304	50/120	290/450	35,119
KARHULA	305	30/105	220/320	23,327
BELOIT	315	75/245	100/220	41,929

Raw Materials

The principal raw materials used in manufacturing our products are pulp, water, energy, additives and packaging materials. Until July 2009, we used sugar cane bagasse as a raw material in the production of pulp. From the beginning of 2003 and through year-end 2009, raw materials as a percentage of cost of sales remained relatively constant at an average of 66%. The following is a more detailed description of the principal raw materials used in our manufacturing processes.

Pulp

Pulp is the main raw material used for the production of books, notebooks, magazines, newspapers, paper for printing and other products. Pulp is a vegetal fiber, 90% of which is extracted from trees and 10% of which is produced from plants such as bagasse, hemp, bamboo and cotton. The worldwide production of wood pulp has increased at an annual compound growth rate of 0.5% over the last 6 years according to the FAO.

There are a number of different processes that can be used to separate the wood fibers necessary to produce pulp. Chemical pulp is produced by combining wood chips and chemicals at high temperatures. Mechanical pulp is produced by mechanically grinding wood chips at high temperatures. Chemithermomechanical pulp is produced by a combination of the two processes. In addition, pulp can be produced from either softwood or hardwood from either the Northern or Southern hemispheres.

Pulp is produced by both vertically integrated paper producers and by companies that market pulp but either produce marginal amounts of paper or none at all. Supply and demand for pulp on the global market is comparable to supply and demand for commodities and is governed by similar macro-economic factors. The prices of wood pulp are quoted in U.S. dollars and information concerning the market prices of pulp is provided by Resource Information System Inc. Approximately 63% of the costs for the acquisition of raw materials are in U.S. dollars.

Pulp represents approximately 60% of our cost of production. We are a partially vertically integrated paper producer. We currently produce 30% of our pulp requirements with the potential installed capacity to produce up to 70% of our pulp requirements. We produce some of our requirements for wood pulp at our mill located in Morelia, Mexico from wood fibers acquired from third parties including wood obtained from scrap and wood harvested from sustainable commercial forestry operations. We believe that we are the only paper products company in Mexico with the capacity to self-supply 100% of the paper for our Notebooks business and 30% of the pulp raw material required for our Paper and Notebooks businesses. Our partial vertical integration provides us with a series of competitive advantages over other manufacturers that rely on third-party suppliers for sourcing of pulp requirements. We believe that integration helps us reduce our exposure to pulp price cycles, helps us ensure supply of a key raw material and provides us with an alternative energy source in the form of steam generated electricity. We purchase our remaining requirements on the market.

The primary source of pulp used by us is wood pulp. We rely mostly on direct purchases of wood pulp from international pulp manufacturers, although we use brokers to secure some of the wood pulp we purchase from international markets. Wood pulp is a commodity and, therefore, we are not dependent on any single supplier.

All of the wood pulp that we purchase is certified as sustainable by international agencies. To that end, we entered into an agreement with the Federal Environmental Protection Bureau pursuant to which all the wood used in our manufacturing processes is certified as sustainably harvested and legally produced prior to entering our facilities.

Until July 2009, we produced pulp at our Orizaba mill from sugar cane bagasse. Bagasse is a by-product of the sugar production process and was used in our paper manufacturing process. Bagasse is also burned by sugar mills to produce steam and electricity. As a result of increased demand and limited supply of sugar cane bagasse stemming from the alternate use of bagasse as a fuel, the price of sugar cane is subject to fluctuations in the prices of energy. As a result of these price fluctuations, we decided to temporarily cease production of pulp from bagasse at our Orizaba mill in July of 2009. The price fluctuations were related to an increase in energy prices and the closure of approximately half of Mexico's existing sugar mills since 2001. We are presently researching the viability of replacing bagasse with similar fibers such as pennisetum, a family of grasses including Merkeron, Taiwan grass and King grass, which would enable us to reopen production at our Orizaba mill on a cost-effective basis. We believe that pennisetum could provide a profitable alternative to sugar cane bagasse over the long-term.

Prices for purchased pulp vary according to market conditions. The prices for pulp are currently high by historical standards, caused by recent shutdowns in production facilities, primarily in North America, as a consequence of high energy prices and the appreciation of the Canadian dollar.

Other Raw Materials

Water. The pulp and paper production processes require the use of significant volumes of water. Water usage in Mexico is subject to concessions, usage fees and recycling standards from the National Water Commission. We believe that our water supplies are sufficient for all of our current and planned activities, and we continually seek ways to optimize consumption.

Energy. We generate electricity from our Morelia and Bajío mills and purchase the power requirements for our mills and other facilities from the CFE and from private companies. We satisfy our natural gas and heat oil requirements through purchases from PEMEX and its distributors.

Additives. We use chemicals, such as calcium carbonate, starch and resins in the production of paper. These chemicals are purchased from different Mexican and international suppliers.

Packaging Materials. We purchase packaging materials from third-party vendors.

Trademarks, Licenses and Technology

We have a strong portfolio of more than 250 brands registered with the *Instituto Mexicano de la Propiedad Industrial*, or the Mexican Institute of Intellectual Property. The brands that we consider most essential to our operations are listed below:

Trademark	Product Type	Target Market	Renewal Date
Aerocopy (and Design) Copy Paper			Mar-22-16 N/A
Corporación Scribe (and Design) Couche	N/A	N/A	Jun-19-17 Apr-15-15
Duplicador	Cut	Printing Home and Office	Jul-21-13
Fotobond	Cut	Printing Home and Office	Mar-06-12
Grupo Papelero Scribe	N/A	N/A	Jan-25-17
Imagina, Crea, Scribe	N/A	N/A	Apr-11-17
Kromos			Apr-08-14
Leeds	Cut	Printing Home and Office	Nov-08-13
Lustrolito			Apr-08-14
Paper Jet			Oct-23-15
Pasando de marca líder a Empresa Líder			Apr-16-18
Scribe	Notebooks	School Home and Office	Sep-10-12
Scribe and the Paper Star Design			Apr-03-17
Stilo			Dec-01-11
Tcm			May-08-18
Tone Color (Color design)			Mar-22-16
Trazitos y Diseño			Jan-29-19
Tree Free	Cut	Printing Home and Office	N/A
Wood Free	Cut	Printing Home and Office	N/A

We believe that the trademarks, licenses, commercial notices and other industrial and intellectual property rights registered in our name are fundamental for the development of our business.

Employees

As of December 31, 2009, our work force consisted of 1,634 unionized workers and 797 non-unionized workers. The number of workers for each location is shown below:

	Number of Employees		
	Unionized	Non-Unionized	Total
Corporate		383	383
Orizaba	325	46	371
Morelia	217	113	330
Bajío	530	105	635
San Rafael	400	65	465
Naucalpan	162	85	247
	1,634	797	2,431

All union employees at Bajío, Morelia, Naucalpan and San Rafael have been affiliated with the union, *Sindicato de Trabajadores de las Industrias Papelera, Cartonera, Maderera, Celulosas, Sus Materias Primas, Similares y Conexos de la Rep. Mexicana, CTM* or the Industry Worker's Union. All union employees at Orizaba have been affiliated with the union, *Sindicato de Trabajadores de la Industria del Papel y Celulosa del Estado de Veracruz, CTM* or the Veracruz Paper Worker's Union. The salary provisions of the collective labor agreements are negotiated every year, and the benefits provisions are negotiated every other year, as required by the *Ley Federal del Trabajo* or the Federal Labor Act.

We maintain a pension plan for certain employees in Mexico. In addition, we provide seniority premium benefits to our non-union employees in Mexico under certain circumstances.

After we decided to close the commercial forestry operation we owned in the Mexican state of Guerrero, our employment relationship with the workers and their unions at Guerrero were terminated and the relevant severance fees were paid pursuant to Mexican law. In addition, our employment relationship with the workers and their unions at the closed bagasse production facility at our Orizaba mill was terminated in July of 2009. See “— Raw Materials.”

We believe that we have good relations with the labor unions. There have been no employee strikes at our facilities.

We also believe that the salaries and incentives we will pay are competitive compared to the Mexican pulp and paper industry average. We will have a pension and retirement plan for our non-union personnel, which will complement the legally prescribed seniority benefit and the pensions provided by the Mexican Government (IMSS).

We also employ temporary workers depending on our needs. These temporary employees are also affiliated with unions.

Property, Machinery and Equipment

The following table sets forth our principal mills, their location and the main products manufactured at such facilities. Our production capacity has not varied significantly in the last five years.

Plant	Location	Products Manufactured	Installed Capacity	# of Machines
Bajío	San Juan del Río, Querétaro	Printing and writing paper and notebooks	Paper: 147,334 tons Notebooks: 322.4 million	1
Morelia	Morelia, Michoacán	Printing and writing paper and wood pulp	Paper: 78,499 tons Pulp: 97,200 tons	1
Orizaba	Escamela, Veracruz	Printing and writing paper and sugar cane bagasse pulp	Paper: 94,678 tons Pulp: 144,000 tons	2
Naucalpan	Naucalpan, Estado de México	Fine papers and tissue	Paper: 35,151 tons	3
San Rafael	San Rafael, Estado de México	Printing and writing paper	Paper: 100,375 tons	3

Our executive office headquarters are located at José Luis Lagrange 103, Piso 12, Colonia Los Morales Polanco, Delegación Miguel Hidalgo C.P. 11510, México, D.F.

Our production footprint consists of five mills: Bajío, Morelia, Orizaba, Naucalpan and San Rafael. Three of our mills, Bajío, Morelia and Orizaba, are adjacent to facilities of KCM and share certain services (such as water, steam and electricity) and other assets (such as certain buildings, access roads and railroad access) with KCM. We also have one warehouse at each of the mills for finished products.

Bajío Mill

The Bajío mill is essential to our operations as our notebooks are produced there. Of all of our mills, Bajío has the most sophisticated machinery and the greatest capacity to produce rolls of paper from pulp and to convert rolls of paper into cut-size papers used in printing paper and notebooks. The pulp used in this facility is shipped from the Morelia mill or procured from third-party suppliers. Bajío’s Paper and Notebooks production lines are both automated with rigorous safety measures for the protection of our employees.

Morelia Mill

The Morelia mill has machinery for the production of rolls of paper from wood pulp and conversion of rolls of paper into cut-size papers. The Morelia mill also contains a wood storage center that receives approximately 435,200 cubic meters of wood per year. The wood at the Morelia mill consists of 63% pine and similar soft woods and 37% hard woods such as eucalyptus and oak.

Pulp is produced at the Morelia mill from hard and soft woods that we obtain from industrial waste wood and from sustainable commercial forestry operations. The wood is converted into small chips, which are chemically treated and then steamed, bleached and refined to produce pulp. We then fold, stack and dry the pulp. Finally, the pulp is sent to our other facilities where it is treated, pressed and dried. Subsequently, the paper is either cut and marketed in rolls or converted into cut-size paper.

Orizaba Mill

The Orizaba mill has two paper-producing machines that apply coatings to the paper to enhance weight, surface gloss, smoothness and ink absorbency for use in printing paper. Until July 2009, we produced pulp at our Orizaba mill from sugar cane bagasse. We decided to temporarily cease production of pulp at this mill in July of 2009 as bagasse ceased to be an affordable raw material for pulp production. We are presently researching the viability of replacing bagasse with similar fibers such as pennisetum, a family of grasses including Merkeron, Taiwan grass and King grass, which would enable us to reopen production on a cost-effective basis.

Naucalpan Mill

The Naucalpan mill has three paper-production machines that manufacture writing and printing paper, tissue paper and specialty papers for sale domestically and for export.

San Rafael Mill

The San Rafael mill has three paper-production machines that manufacture high quality paper such as card stock as well as writing and printing paper.

We own the manufacturing equipment used to produce our Paper products, our Notebooks products, and pulp at the above production facilities. We also own a tissue manufacturing machine located in Naucalpan.

In 2007, we decided to close a commercial forestry operation we owned in the Mexican state of Guerrero. The operation consisted of a tree farm of approximately 2,000 hectares.

We continually evaluate the efficiency and quality of our machinery with the aid of experts and external consultants. Accordingly, we frequently make investments in our machinery and our mills to maximize their efficiency. At the Bajío mill, we recently invested US\$3.3 million, which increased the Notebooks production capacity of that mill by 19.4 million notebooks. At our Morelia mill, we recently invested US\$2.7 million to improve pulp production processes and enhance steam generation capabilities, US\$1.2 million to voluntarily comply with new environmental regulations, US\$0.7 million to improve energy-efficiency at the mill and US\$1.3 million to improve our computerized operating system and to implement a verification system that will enable us to more closely monitor the quality of paper produced at the mill. At our Orizaba mill, we recently invested US\$1.0 million to expand our cut-sized paper conversion capacity, US\$0.9 million to replace a component from our quality control system, US\$0.5 million on water conservation projects and an additional US\$0.5 million to improve our ability to refine fiber.

In addition to the foregoing, we have invested US\$1.2 million in two new wrappers for the Bajío and Orizaba mills and the improvement of our wrapper at the Morelia mill. These wrappers will enable us to compete in the market for polypropylene wrapped paper, thermo-sealed zippers and re-sealable labels. As we continually conduct research regarding new trends in technology, operating, storage and distribution, we decided to invest in production of polypropylene wrapped paper because demand for polypropylene products is expected to increase. Polypropylene's color range, durability and resistance to dirt make it ideal as a protective cover for papers.

We also maintain warehouse facilities at each of our five mills to store and to deliver our products. We own Agrícola Oriental, a distribution facility in Mexico City. We use this facility primarily to store standard paper products and formats. In addition, we lease a distribution facility, primarily used to store notebooks in Mexico City.

We recently opened new corporate offices and relocated our existing corporate offices to a new facility adjacent to the Naucalpan mill. As a result, we have obtained significant savings and consolidated our logistical operations under one roof. We believe that the centralization of our corporate offices will enable us to operate more efficiently in the future.

Insurance

We have an umbrella insurance policy with a well-known international insurance company that covers all damages caused by fire, thunders, explosions, earthquakes and hydro-meteorological risks as well as risks inherent to the operation of the Company's machinery. All assets located at our plants and warehouses, such as buildings, property and inventories, are covered by this policy.

Additionally, we have an umbrella insurance policy that covers automobiles and trucks, as well as policies covering certain equipment operated by our contractors and forklifts. The Company's shipments are protected by a transport policy that is valid worldwide, with coverage extending to our inventory, machinery, spare parts and any other commodity or asset owned by us that requires transportation.

Environmental Matters

Our operations are subject to environmental regulation at the federal, state and local level in Mexico. The principal federal environmental laws are the *Ley General de Equilibrio Ecológico y Protección al Ambiente*, (the "Ecological Law"), the *Ley de Aguas Nacionales* (the "National Water Act"), and the *Ley General para la Prevención y Gestión Integral de los Residuos* (the "General Law for the Prevention and Comprehensive Management of Waste") and its regulations (jointly the "Environmental Laws"). In addition to the Environmental Laws, several laws, regulations and *Normas Oficiales Mexicanas* or Mexican Official Standards have been enacted concerning water, wastewater, air, waste disposal, pollution control, hazardous materials and hazardous waste management, among other matters. The Environmental Laws along with the applicable Mexican Official Standards set forth standards for wastewater discharge and the emission of pollutants into the atmosphere. Pursuant to this regulatory scheme, we are required to file periodic reports with respect to air and water emissions as well as hazardous waste. Three federal authorities, the Mexican Environmental and National Resources Ministry, the Federal Environmental Protection Bureau and the National Water Commission are the governing authorities responsible for regulating and enforcing the Environmental Laws and the corresponding Mexican Official Standards. Violations of the Environmental Laws and the Mexican Official Standards may result in penalties including fines and suspension of operations.

Pursuant to the National Water Act and the *Ley Federal de Derechos*, or Federal Duties Law, we are required to pay certain duties related to our use of federal waters and for discharging wastewater into federal bodies of water or the water table. Additionally, we are required to comply with the applicable Mexican Official Standards and measurement procedures concerning the applicable quotas for wastewater pollutants.

We are required to comply with the General Law for the Prevention and Comprehensive Management of Waste in addition to the Mexican Official Standards governing the management, storage, transportation, reuse, recycling and disposal of hazardous materials generated by our manufacturing processes. In addition, we are required to comply with certain storage, transportation and control requirements governing the use of wood and other raw materials used in our production processes under the *Ley General de Desarrollo Forestal Sustentable*, or the General Law for Sustainable Forestry Development.

Consistent with the Environmental Laws and our environmental policies, each of our mills has implemented an internal compliance program designed to ensure strict compliance with all applicable regulations and requirements. Our compliance program is also designed to foster conservation and reuse of natural resources, particularly water.

The environmental compliance management system's effectiveness has been historically verified annually. Since our environmental policies are stricter than the applicable legal requirements, we believe we are currently in compliance with the applicable Environmental Laws.

All of the paper produced at our facilities complies with the applicable regulations governing the use of sustainably harvested wood and chlorine-free bleaching processes. In addition, SFI, the world's largest single forest certification standard, certified that all five of our mills are in compliance with chain of custody standards. SFI certifications are backed by a rigorous, third-party certification audit.

Our Bajío, Orizaba and Naucalpan mills are currently certified as "Clean Industries" by the Federal Environmental Protection Bureau. This certification indicates that these facilities are in compliance with the Environmental Laws as well as foreign and international environmental standards in addition to functioning pursuant to operational and engineering best practices. We believe that our San Rafael and Morelia facilities will be certified as "Clean Industries" in 2010.

Since 2007, our total capital expenditures for voluntary environmental controls or controls necessary to comply with legal requirements relating to the protection of the environment at our facilities has been approximately US\$1.2 million (Ps.15.7 million). In the same period, environmental and safety-related expenses were approximately US\$0.1 million (Ps.1.3 million). We consider the environmental impact of our operations to be immaterial and believe that no significant capital expenditures are required in the short term to comply with Mexican environmental law requirements. We estimate that our capital expenditures for environmental purposes will be approximately US\$0.4 million (Ps.5.2 million) in 2010.

Total environmental capital expenditures and operating expenses are not expected to have a material effect on our total capital and operating expenditures, combined earnings or competitive position. However, current environmental spending estimates could be modified as a result of changes in our plans, changes in legal requirements or other factors. Future regulations could materially increase our capital requirements and certain operating expenses in future years.

In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, which may include the restoration of natural resources and liability for personal injury and for damages to property and natural resources.

Legal Proceedings

We are not directly or indirectly party to any judicial, administrative, or arbitration proceeding, nor to any legal proceeding of any other kind, which might have a material adverse impact on the results of our operations or our financial condition. We are, however, a party to several judicial actions and proceedings stemming from our day-to-day operations. In the opinion of our management, the ultimate disposition of any threatened or pending matters, either individually or on a combined basis, will not have a material adverse effect on our combined financial condition, liquidity, or results of operations.

Corporate Structure

Scribe is wholly owned by a holding company, Corporación Scribe, which does not have business operations.

The following are our direct, wholly-owned-subsidiaries, as defined in the "Description of Notes." There are no restrictions in the by-laws of our subsidiaries on the payment of dividends or other distributions to us.

<u>Name of Company</u>	<u>Year and Jurisdiction of Incorporation</u>	<u>Percentage Owned</u>	<u>Assets/ Services</u>
Silvicultora Saraya, S.A. de C.V.	1988; Mexico	99%	Certain forest harvest rights
GPS Trading, S.A. de C.V.	1976; Mexico	99%	Commercial operations and certain real estate related to forest operations

On July 6, 2009, the shareholders of Promotora Mexicana Celulósico Papelero, S.A. de C.V. (“Promex”) and Desarrollo Celulósico Papelero, S.A. de C.V. (“Decepa”) approved a merger into Silvicultora Saraya, S.A. de C.V. (“Saraya”). Pursuant to the merger, Promex and Decepa transferred all of their assets to Saraya.

Saraya provides manufacturing and operational services at our mills as well as administrative and management services. GPS Trading, S.A. de C.V., formerly Celulósicos de Chihuahua, S.A. de C.V. (“Celchisa”) until February 12, 2010, owns certain real estate related to forest operations in Chihuahua, Mexico.

Information Technology

In September 2009, we migrated to SAP, an enterprise-wide information system designed to coordinate all the resources, information, and activities needed to complete business processes such as order fulfillment and billing. We have already improved our management capabilities as a result of the full implementation of our SAP information system. We believe that the SAP platform will allow us to operate more efficiently and at a lower cost.

In addition, we recently implemented the Balanced Score Card, a strategic performance management tool. This tool enables us to identify financial and non-financial areas of our operations, attach target values to these areas and analyze our success in meeting these targets. The Balanced Score Card provides us with a single concise report that enables us to determine whether we are meeting performance expectations and identify areas where we may be operating inefficiently.

Recent Developments

The Company is in negotiations to enter into a 5-year secured revolving credit facility (the “New Revolving Credit Facility”) concurrently with or soon after the issuance of the notes, which will provide for borrowings of up to approximately US\$50.0 million, subject to customary terms and conditions. The Company plans to use the New Revolving Credit Facility to replace its existing Revolving Credit Facility under the Syndicated Loan Facility. The closing of the New Revolving Credit Facility will be subject to customary closing conditions. The offering of the notes is not conditioned upon our entering into the New Revolving Credit Facility. There can be no assurance that any replacement credit facility, including the New Revolving Credit Facility, will be available to the Company on acceptable terms, or at all.

The Company is in preliminary negotiations to expand its current business through acquisition of other complementary businesses in Central America and the Andean region, although at this time the Company does not have any binding agreements or understandings with any potential target acquisitions.

MANAGEMENT

Directors and Executive Officers

The management of our business is vested in the Board of Directors, which consists of 5 members as provided in our by-laws. The Board of Directors is elected or ratified annually at the annual ordinary shareholders' meeting provided that directors and alternate directors continue as members despite the expiration of their term until new members have been appointed and assumed office. Shareholders representing 25% of our outstanding share capital are entitled to appoint one director and one alternate director. The members of the current Board of Directors were elected at the shareholders meeting held on April 22, 2009.

The Board of Directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Meetings of the Board of Directors are validly convened and held if a majority of its members are present. Resolutions passed at these meetings will be valid if approved by a majority of the disinterested members of the Board of Directors that are present at such meeting.

Our Board of Directors can be reached by mail addressed to: José Luis Lagrange 103-12° piso, Col. Los Morales Polanco, Delegación Miguel Hidalgo, C.P., 11510 México, Distrito Federal.

As of the date of this offering circular, the members of our board of directors are as follows:

Name	Age	Position
Genaro Larrea Mota Velasco.....	49	Chairman
Carlos Sacal Hadid	64	Director and Chief Executive Officer
Juan José Orozco Carrera	51	Director
Arturo Luis Pérez Courtade.....	50	Director and Secretary
Víctor Manuel García Barajas	56	Director

Genaro Larrea Mota-Velasco has served as a member of the Board of Directors of Southern Copper Corporation since November 1999. He has also served as Vice President, Commercial of Southern Copper Corporation from December 1999 until April 25, 2002. He was Managing Commercial Director of Grupo México, S.A.B. de C.V. from 1994 to August 30, 2001, and has been a director of Grupo México since 1994. He holds a degree in industrial engineering from Universidad Anáhuac.

Carlos Sacal Hadid has 30 years of experience in the paper industry. He has been CEO of Scribe since 2007. He joined PIMSA in March 2006 as the General Director. His experience prior to joining PIMSA includes various positions in Smurfit Cartón y Papel de México where he worked from 1971 to 1982 and from 1989 to 2004. From 1997 to 2004, he served as President and CEO of Smurfit Carton y Papel de México and from 2004 to 2007 he served as Chairman of the Board of Directors. From 1982 to 1988, he was General Director of Ultrafil and from 1968 to 1971, he worked in Chicago and Mexico City in the Management Advisory Services division of PriceWaterhouse. He holds an MSIA degree from Purdue University and a BS degree in industrial engineering from U.C. Berkeley.

Juan José Orozco Carrera has over 25 years of experience as a financial executive in Mexico. His prior experience includes Chief Financial Officer of Impulso from 2004 to 2006, Chief Financial Officer of Grupo Vitro from 2002 to 2004, Executive Vice President of Banco del Atlántico from 1995 to 2000, Chief Financial Officer of Grupo Mexico from 1987 to 1994 and Vice President of Citibank from 1984 to 1987. He holds an undergraduate degree in business administration and a Masters In Business Administration from the Instituto Tecnológico Autónomo de Mexico.

Arturo Luis Pérez Courtade has over 15 years of experience in the paper industry and joined Impulso in March, 2006. Mr. Pérez currently serves as General Counsel and VP of Institutional Relations. His previous experience includes the position of General Director at Sidek-Situr from 1996 to 2006, Litigator, Legal Manager and Legal Director at Crisoba from 1985 to 1996 and an associate at Rodolfo Alvarado Gomez from 1977 to 1984. He holds a juris doctor degree in law from Universidad Nacional Autónoma de México.

Víctor Manuel García Barajas has over 33 years of experience in the paper industry and has been associated with KCM since 1992. His previous experience includes various positions at Crisoba from 1976 to 1982. Mr. Garcia served as Chief of Production at Copamex from 1982 to 1992. Mr. García served as Assistant VP of Operations for our Orizaba mill from 1994 to 2006 and as Manager of the Naucalpan mill with KCM from 1994 to 2006. Since 2006, Mr. García has served as VP of Operations for our mills. He holds an undergraduate degree in chemical engineering from Instituto Politecnico Nacional.

Secretary

The secretary of the board of directors is Arturo Luis Pérez Courtade.

Senior Management

As of the date of this offering circular, our senior management is as follows:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Years of Experience</u>
Carlos Sacal Hadid	Chief Executive Officer	64	30
Robert Payne McDerment	Chief Financial Officer	51	27
Guillermo Tello Nieto	Chief Operating Officer	63	40
Víctor Manuel García Barajas	Director of Operations	56	33
Juan José Orozco Carrera	Chief Sales and Marketing Officer	51	25
Jorge Valdés Ruiz de Chávez	Director of Sales	51	26
Pedro Luis Desdier Pavia	Director of Logistics	57	32
Arturo Luis Pérez Courtade	General Counsel and VP of Institutional Relations	50	15
Francisco Ruiz Maza Gunter	Director of International and New Business Development	34	10
José de Jesús Oregon Fuentes	Manager of Human Resources	53	29

Carlos Sacal Hadid has 30 years of experience in the paper industry. He has been CEO of Scribe since 2007. He joined PIMSA in March 2006 as the General Director. His experience prior to joining PIMSA includes various positions in Smurfit Cartón y Papel de México where he worked from 1971 to 1982 and from 1989 to 2004. From 1997 to 2004, he served as President and CEO of Smurfit Carton y Papel de México and from 2004 to 2007 he served as Chairman of the Board of Directors. From 1982 to 1988, he was General Director of Ultrafil and from 1968 to 1971, he worked in Chicago and Mexico City in the Management Advisory Services division of PriceWaterhouse. He holds an MSIA degree from Purdue University and a BS degree in industrial engineering from U.C. Berkeley.

Robert Payne McDerment has been associated with KCM since 1984. His previous experience includes Deputy Chief Financial Officer of KCM through 2006 and Relationship Manager at Citibank from 1982 to 1984. He holds an MBA degree from Instituto Panamericano de Alta Dirección de Empresas, Mexico and an undergraduate degree in economics from the University of Western Ontario, London, Canada.

Guillermo Tello Nieto has over 40 years of experience in the paper industry, having been associated with KCM (Crisoba) since 1969. Mr. Tello has worked at various plants and positions at KCM. He holds an MBA degree from Universidad de Las Americas and an undergraduate degree in chemical engineering from Universidad Autonoma de Puebla.

Víctor Manuel García Barajas has over 33 years of experience in the paper industry and has been associated with KCM since 1992. His previous experience includes various positions at Crisoba from 1976 to 1982. Mr. Garcia served as Chief of Production at Copamex from 1982 to 1992. Mr. García served as assistant VP of Operations for our Orizaba mill from 1994 to 2006 and as Manager of the Naucalpan mill with KCM from 1994 to 2006. Since 2006, Mr. García has served as Director of Operations for our mills. He holds an undergraduate degree in chemical engineering from Instituto Politecnico Nacional.

Juan José Orozco Carrera has over 25 years of experience as a financial executive in Mexico. His prior experience includes Chief Financial Officer of Impulso from 2004 to 2006, Chief Financial Officer of Grupo Vitro from 2002 to 2004, Executive Vice President of Banco del Atlántico from 1995 to 2000, Chief Financial Officer of Grupo Mexico from 1987 to 1994 and Vice President of Citibank from 1984 to 1987. He holds an undergraduate degree in business administration and a Masters In Business Administration from the Instituto Tecnológico Autónomo de México.

Jorge Valdés Ruiz de Chávez has been associated with KCM for over 25 years. His previous experience includes various executive positions in the marketing and sales divisions. Since 2006, he has served as Director of sales for our Notebooks line of business and currently serves as the Director of Corporate Sales. He holds an undergraduate degree in business administration from Universidad Tecnológica de México.

Pedro Luis Desdier Pavia has over 32 years of experience in the paper industry and has been associated with KCM since 1983. His previous experience includes the position of Logistics Director at Cannon Mills from 1980 to 1982, Acquisitions Manager at Lan Dermott from 1978 to 1980 and Acquisitions Manager at Papel San Rafael from 1974 to 1979. He holds an undergraduate degree in industrial engineering from Universidad Nacional Autónoma de México.

Arturo Luis Pérez Courtade has over 15 years of experience in the paper industry and joined KCM in March, 2006. Mr. Pérez currently serves as General Counsel and Director of Institutional Relations. His previous experience includes the position of General Director at Sidek-Situr from 1996 to 2006, Litigator, Legal Manager and Legal Director at Crisoba from 1985 to 1996 and an associate at Rodolfo Alvarado Gomez from 1977 to 1984. He holds a juris doctor degree in law from Universidad Nacional Autónoma de México.

Francisco Ruiz Maza Gunter has over 10 years of international experience in consumer products. His previous experience includes Managing Director of Cervezas Internacionales S.A. de C.V. (a subsidiary of Grupo Modelo) from 2004 to 2008, and Senior Manager for International Markets from 2001 to 2004, amongst other positions held at Grupo Modelo. He holds an undergraduate degree in Chemical Engineering from Universidad Iberoamericana, and a Masters In Business Administration from The Kellogg School of Management at Northwestern University.

José de Jesús Oregon Fuentes has over 29 years of experience in the paper industry. Prior to joining Scribe, Mr. Oregon held an executive position in Logistics and Transportation at Fomento Económico Mexicano, S.A.B. de C.V. ("FEMSA"). He holds an undergraduate degree in business administration and a Masters In Business Administration from the Instituto Tecnológico de Estudios Superiores de Monterrey.

Statutory Auditor

In accordance with our by-laws and in accordance with Mexican law, our shareholders elect a statutory auditor (*comisario*) and an alternate statutory auditor at an ordinary shareholders' meeting. The primary role of the statutory auditor is to report to the shareholders at the annual ordinary shareholders' meeting on the adequacy and accuracy of the financial information presented to such shareholders by the Board of Directors. Pursuant to Mexican law, any holder or group of holders representing 10% of our capital stock may elect one statutory auditor.

Compensation of Directors and Senior Management

Members of the board are not compensated for any board meeting attended. For 2009, the aggregate amount of compensation net of taxes paid to all directors, alternate directors and officers was approximately US\$1.58 million (Ps.20.7 million).

PRINCIPAL SHAREHOLDERS

Scribe is a wholly owned subsidiary of Corporación Scribe, S.A.P.I. de C.V., which is 75% owned, through the Trust, by a consortium of private investors comprised by Impulso and Eton Park, and 25% owned by KCM. See “Business—History and Development of our Company and Our Relationship with KCM.”

As of December 31, 2009, we had 1,251,981,350 common shares issued and outstanding, each with a par value of Ps.1.00, of which 50,000 were Class I shares and 1,251,931,350 were Class II shares. All of our shares have been duly paid up.

The table below sets forth information concerning the percentage of our share ownership.

<u>Identity of Shareholder</u>	<u>As of December 31, 2009</u>		
	<u>Number of Class I Shares</u>	<u>Number of Class II Shares</u>	<u>% of Share Capital</u>
Corporación Scribe, S.A.P.I. de C.V.	49,995	1,251,931,345	99.9960%
Deutsche Bank, S.A., Institución de Banca Múltiple, División Fiduciaria, as trustee of Trust No. F/442, dated September 5, 2006.....	5	5	0.0039%
Total	50,000	1,251,931,350	100.0000%

RELATED PARTY TRANSACTIONS

We have engaged, and in the future may engage, in transactions with our shareholders and companies affiliated with our shareholders. Our bylaws require that transactions with our shareholders and companies affiliated with our shareholders be approved by our board of directors. We believe that the transactions in which we have engaged with our shareholders and companies affiliated with our shareholders have been made on terms that are no less favorable to us than those that could be obtained from unrelated third parties.

Agreements with KCM

On September 6, 2006, we entered into the Divestment Agreement with KCM. Pursuant to the Divestment Agreement, Scribe acquired the assets and liabilities associated with the paper and notebooks operations of KCM, including but not limited to (i) specified fixed assets including land, production facilities and machinery and equipment, (ii) ownership of selected trademarks, trade names and intellectual property rights associated with the paper and notebooks operations of KCM, (iii) all material government permits, licenses and water and utilities authorizations necessary to operate the paper and notebooks operations of KCM, (iv) all current commercial agreements related to the paper and notebooks operations of PIMSA and (v) limited use of certain Kimberly-Clark trademarks and logos under a license agreement.

For additional information regarding sales and purchases during the years ended December 31, 2009, 2008 and 2007 and balances due as December 31, 2009 and 2008 pursuant to our agreements with KCM, see Note 14 to our Financial Statements included elsewhere in this offering circular.

In addition to the transfer of the assets of the paper and notebooks operations of KCM to Scribe, the Divestment Agreement sets out the terms and conditions of KCM's capitalization in Corporación Scribe. Under the Divestment Agreement, (i) Corporación Scribe is required to redeem, using available excess cash flow from Scribe, if any, KCM's 40% interest, during the five-year period following closing of the Divestment for an amount equal to US\$50.0 million plus accrued interest payable on the aggregate amount of the unredeemed shares outstanding at the rate of 9.00% per annum, and (ii) the trustee of the Trust (the "Trustee") will be required to purchase from KCM, without recourse to the settlors of the Trust, any Corporación Scribe shares held by KCM upon expiration of such five-year period. For purposes of Corporación Scribe's redemption obligation, available excess cash flow is defined in the Divestment Agreement as cash on hand of Scribe, net of financial obligations due on the date set for redemption and within the six months thereafter and all disbursements made under Scribe's Revolving Credit Facility. In addition, Corporación Scribe and the Trustee each retain an option to acquire KCM's interest in Corporación Scribe at any time for the same price at which the Corporación Scribe shares owned by KCM would have been redeemed by Corporación Scribe. Until KCM's 40% interest in Corporación Scribe is fully redeemed or purchased, Scribe is required to obtain KCM's and the Trustee's consent in order to incur capital expenditures in excess of US\$12,000,000 annually, which amount may be accumulated on a yearly basis. In addition, the amount of permitted capital expenditures for Scribe under this agreement are adjusted for inflation.

Our Bajío, Morelia and Orizaba mills are adjacent to KCM production facilities. Accordingly, KCM and Scribe share energy, water, wastewater treatment, natural gas and steam infrastructure at each of these facilities to minimize the costs associated with separating the physical assets at such facilities. We operate the electricity, water, wastewater treatment, natural gas and steam supply facilities in Orizaba and the water, wastewater treatment, natural gas and steam supply facilities in Morelia. KCM operates the utilities and power infrastructure and provides the related services to us in Bajío.

In connection with the Divestment, we have entered into certain agreements with KCM designed to define our ongoing relationship with KCM after the Divestment and to define responsibility for certain liabilities and obligations arising from periods before our separation from KCM. The following summarizes the material transactions that we have engaged in with KCM in connection with the Divestment.

Tissue Supply Agreement

We entered into a Tissue Supply Agreement with KCM whereby we sell to KCM and KCM is obligated to purchase our entire production of tissue paper from our Naucalpan mill at a guaranteed annual price of an annual

payment equal to the greater of an adjusted EBITDA margin of 26.2% and US\$4.6 million in annual adjusted EBITDA. The term of this agreement is five years from October 2006.

Water Management and Wastewater Treatment

The Bajío, Morelia and Orizaba mills have been physically divided between us and KCM, allowing the mills to be operated independently. Notwithstanding the foregoing, we entered into three Water Management and Wastewater Treatment Services Agreements with KCM in respect of each of the Bajío, Morelia and Orizaba mills. We (in the case of Morelia and Orizaba) or KCM (in the case of Bajío) supply KCM or us, as applicable, the daily water volumes set forth in such agreements which we or KCM are entitled to extract based on the relative water concessions received from the National Water Commission. The supplier is also required to provide wastewater treatment services required to adequately dispose of water used at such facilities.

Prices per cubic meter of water delivered and treated are based primarily on cost to the provider for supplying such amounts, including under the respective water concessions, or for rendering such services. In addition, the recipient of such services also pays a monthly fee for water used for its fire prevention systems and for other ancillary purposes.

These agreements have six-year terms from 2006, and may be renewed with the consent of both KCM and Scribe for yearly terms thereafter.

Redemption of KCM Shares

Pursuant to the Divestment Agreement, Corporación Scribe is required to redeem, using available excess cash flow from Scribe, if any, the 40% interest representing KCM's original capitalization of Corporación Scribe. These redemptions are scheduled to occur during the five-year period following the Divestment for an amount equal to US\$50.0 million plus accrued interest payable on the aggregate amount of the unredeemed shares outstanding at the rate of 9.00% per annum. In October of 2009, Corporación Scribe redeemed the second annual installment, or 10%, of KCM shares in accordance with the redemption procedures contemplated by the Divestment Agreement, having redeemed 10% pursuant to the first installment in December of 2008. As of the date of this offering circular, KCM's ownership interest is presently 25% and there are two remaining annual installments under the Divestment Agreement for redemptions that are scheduled to occur in October 2010 and October 2011, respectively. If we raise sufficient proceeds in this offering, we intend to use a portion of the net proceeds to repay our existing obligations to KCM under the Divestment Agreement in the amount of approximately US\$34.0 million (as may be permitted) pursuant to the terms of the Syndicated Loan Facility and any amendment thereto or pursuant to any replacement revolving credit facility. We are not currently permitted under the terms of the Syndicated Loan Facility to repay in full our existing obligations to KCM other than in two annual installments scheduled to occur in October 2010 and October 2011, respectively. See "Use of Proceeds."

Water Steam Supply

We entered into three Steam Supply Agreements with KCM in respect of each of the Bajío, Morelia and Orizaba mills. Pursuant to these agreements, we (in the case of Morelia and Orizaba) or KCM (in the case of Bajío) supply KCM or us, as applicable, the daily steam volumes set forth in such agreements. We believe that such agreements secure each party's steam needs based on our and KCM's historical consumption. Under such agreements the party that receives steam is also entitled to return condensates and to receive reductions in the purchase price for amounts so returned. Each of the agreements sets forth unitary pricing formulas that the parties believe are in line with market terms (including the market price for steam). These agreements have six-year terms from 2006, and may be renewed with the consent of both of KCM and Scribe for yearly terms thereafter.

Electricity and Natural Gas Management

In connection with the Divestment, we entered into contracts for the supply of electricity for our Orizaba mill and natural gas for our Morelia and Orizaba mills, as well as for KCM's adjacent facilities, with the CFE and with PEMEX, respectively. KCM does the same with respect to their facilities located at Bajío and our adjacent mill. Each of Scribe and KCM have independent electricity agreements with CFE with respect to Morelia. Based on such power and natural gas supply agreements, we or KCM, as applicable provide each other with agency

services that we believe ensure access by us and KCM to each parties' natural gas and power needs. These agreements have six-year terms and may be renewed with the consent of both of KCM and Scribe.

Pulp Supply Agreement

We entered into a Pulp Supply Agreement with KCM whereby we, to the extent possible, are obligated to supply KCM with our excess pulp (pulp not used for our own operations) produced at our Orizaba mill. Pursuant to this agreement, KCM purchases from us any pulp that we notify KCM is available for sale. The purchase price is equal to the "hardwood" market price for sales at the Mexico-U.S. border. The term of this agreement is five years.

Easement Contracts and Other Rights

In connection with the Divestment, KCM granted us such easements and rights of way with respect to our Bajío, Morelia and Orizaba mills as are necessary for the operation of our facilities. We granted to KCM similar rights in respect of such facilities. These agreements cover, among others, roads, service corridors and maneuver areas. No payments are required to be made between KCM and us for such easements and rights of way.

DESCRIPTION OF NOTES

We will issue the Notes under an Indenture, to be dated the Issue Date, among the Company, as Issuer, the Subsidiary Guarantors (as defined below) and Deutsche Bank Trust Company Americas, as Trustee (the “Trustee”). We summarize below certain provisions of the Indenture, but do not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights. You can obtain a copy of the Indenture in the manner described under “Listing and General Information,” and, for so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the multilateral trading facility designated as “Euro MTF” at the office of the paying agent in Luxembourg.

You can find the definition of capitalized terms used in this section under “Certain Definitions.” When we refer to:

- the Company in this section, we mean Grupo Papelero Scribe, S.A. de C.V., and not any of its subsidiaries, nor the Parent Entity or any of its other affiliates; and
- Notes in this section, we mean the Notes originally issued on the Issue Date and Additional Notes.

Prescription

Under New York’s statute of limitations, any legal action upon the Notes in respect of interest or principal must be commenced within six years after the payment thereof is due.

General

The Notes. The Notes will:

- be general unsecured obligations of the Company,
- rank equal in right of payment with all other existing and future Senior Indebtedness of the Company (except for certain obligations, such as tax and labor claims, that are given preference under applicable insolvency law);
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Company, if any,
- be effectively subordinated to all existing and future secured Indebtedness of the Company;
- be unconditionally guaranteed on a general unsecured senior basis by all of the Company’s Subsidiaries on the Issue Date and by all future Significant Subsidiaries; and
- be effectively subordinated to all existing and future secured Indebtedness of the Subsidiary Guarantors; and

be structurally subordinate to all future Indebtedness and trade payables of the Company's future Subsidiaries that do not guarantee the Notes. As of December 31, 2009, on an as adjusted basis after giving effect to this offering and the related transactions as described under “Use of Proceeds”:

- the Company and its Subsidiaries would have had consolidated total indebtedness of \$3,921 million,
- the Company and its Subsidiaries would have had no consolidated secured indebtedness.

Additional Notes

Subject to the limitations set forth under “Certain Covenants — Limitation on Incurrence of Additional Indebtedness,” the Company and its Subsidiaries may incur additional Indebtedness. At the Company’s option, this additional Indebtedness may consist of additional Notes (“Additional Notes”) issued by the Company in one or more transactions, which would have identical terms (other than issue date and issue price) as Notes issued on the Issue Date. Holders of Additional Notes would have the right to vote together with holders of Notes (each such holder of Notes or Additional Notes, a “Holder”) issued on the Issue Date as one class.

Principal, Maturity and Interest

The Company will issue Notes in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The Notes will mature on April 7, 2020. The Notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the Notes will accrue at the rate of 8.875% per annum and will be payable semi-annually in arrears on each April 7 and October 7, commencing on October 7, 2010. Payments will be made to the persons who are registered Holders at the close of business on March 23, and September 22, respectively, immediately preceding the applicable interest payment date.

Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The redemption of Notes with unpaid and accrued interest to the date of redemption will not affect the right of Holders of record on a record date to receive interest due on an interest payment date.

Initially, the Trustee will act as Paying Agent, Registrar and Transfer Agent for the Notes. The Company may change the Paying Agent and Registrar without notice to Holders. If a Holder of \$10 million or more in aggregate principal amount of Notes has given wire transfer instructions to the Company at least 10 (ten) business days prior to the applicable payment date, the Company will make all principal, premium and interest payments on those Notes in accordance with those instructions. All other payments on the Notes will be made at the office or agency of the Paying Agent, Registrar and Transfer Agent in New York City unless the Company elects to make interest payments by check mailed to the registered Holders at their registered addresses. Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF. As long as the Notes are listed on the Euro MTF, the Company shall also maintain a Paying Agent and a transfer agent in Luxembourg.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal of or interest on the notes that remains unclaimed for two years, and, thereafter, Holders entitled to the money must look to the Company for payment as general creditors.

Note Guarantees

On the Issue Date, each subsidiary of the Company will be a Restricted Subsidiary and unconditionally guarantee the performance of all Obligations of the Company under the Indenture and the notes. Each Guarantor will waive any right to which it may be entitled under applicable law so that enforcement for the full amount due under the Notes be sought against such Guarantor. The Obligations of each Subsidiary Guarantor in respect of its Note Guarantee will be limited to the maximum amount as will result in the Obligations not constituting a fraudulent conveyance, fraudulent transfer or similar illegal transfer under applicable law. See “Risk Factors—Risk Factors Related to the Notes—The guarantees may not be enforceable.”

Each Subsidiary Guarantor will be released and relieved of its obligations under its Note Guarantee in the event:

- (1) there is a Legal Defeasance or a Covenant Defeasance of the notes as discussed under “—Legal Defeasance and Covenant Defeasance”;
- (2) there is a sale or other disposition of Capital Stock of such Subsidiary Guarantor following which such Subsidiary Guarantor is no longer a direct or indirect Subsidiary of the Company;
- (3) there is a sale of all or substantially all of the assets of such Subsidiary Guarantor (including by way of merger, stock purchase, asset sale or otherwise) to a Person that is not (either before or after giving effect to such transaction) a Restricted Subsidiary; or
- (4) such Subsidiary Guarantor is designated as an Unrestricted Subsidiary;

provided, that, in each case, such transactions are carried out pursuant to and in accordance with all applicable covenants and provisions of the Indenture.

If any future Subsidiary becomes a Significant Subsidiary (including upon a Revocation of the Designation of a Subsidiary as an Unrestricted Subsidiary), the Company will cause that Significant Subsidiary to become a Subsidiary Guarantor on a senior basis by executing a supplemental indenture and providing the Trustee with an Officers’ Certificate and Opinion of Counsel. In accordance with the terms of the Indenture, after the supplemental indenture becomes effective the Company will mail to Holders a notice of such event. The Company will also make any other notification required by the Luxembourg Stock Exchange.

To the extent that, pursuant to and in accordance with the Indenture, any future Subsidiary is designated as an Unrestricted Subsidiary, these non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us in the event of a bankruptcy, *concurso mercantil*, *quiebra*, liquidation or reorganization of these non-guarantor Subsidiaries. In addition, holders of minority interests in these Subsidiaries may receive distributions prior to or *pro rata* with the Company depending on the terms of the equity interests. See “Risk Factors—Risk Factors Related to the Notes—To the extent that certain of our subsidiaries are not guarantors, our obligations with respect to the Notes will be effectively subordinated to all liabilities of these non-guarantor subsidiaries.”

Additional Amounts

We are required by Mexican tax law to deduct Mexican withholding taxes, and pay such taxes to the Mexican tax authorities, from payments of interest on the Notes made to investors who are not residents of Mexico for tax purposes. In accordance with the Indenture, we will pay additional amounts on those payments to the extent described in this subsection.

The Company and the Subsidiary Guarantors will pay to Holders of the Notes all additional amounts (“Additional Amounts”) that may be necessary so that every net payment of interest (including any premium paid upon redemption of the Notes) or principal to the Holder will not be less than the amount provided for in the Notes, except to the extent such Additional Amounts are attributable to additional withholding with respect to an effective beneficiary who, acting directly or indirectly, severally or jointly, with related parties, receives more than 5% of the aggregate amount of each interest payment under the notes and is (i) a shareholder holding 10% or more of our voting stock, directly or indirectly, or (ii) a corporation or other entity having more than 20% of their stock owned directly or indirectly, jointly or severally, by persons related to us. By net payment, we mean the amount we or our paying agent pay the Holder after we deduct or withhold an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed with respect to that payment by a Mexican taxing authority.

Our obligation to pay Additional Amounts is subject to several important exceptions, however. The Company and the Subsidiary Guarantors will not pay Additional Amounts to any Holder for or solely on account of any of the following:

- any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was a connection between the Holder or beneficial owner of the Note and Mexico (or any political subdivision or territory or possession thereof), including, but not limited to such Holder or beneficial owner (i) being or having been a citizen or resident thereof for tax purposes, (ii) maintaining or having maintained an office, permanent establishment, or branch subject to taxation therein, or (iii) being or having been present or engaged in a trade or business therein (other than solely by reason of the receipt of a payment or the ownership or holding of a Note),
- any estate, inheritance, gift, transfer or similar tax, assessment or other governmental charge imposed with respect to the Notes,
- any taxes, duties, assessments or other governmental charges imposed solely because the Holder or any other person having an interest in the Notes fails to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Mexico (or any political subdivision or territory or possession thereof) of the Holder or any beneficial owner of the Note, if compliance is required by statute, regulation, officially published administrative practice of the taxing jurisdiction or by an applicable income tax treaty, which is in effect, to which Mexico is a party, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the Holders and beneficial owners at least 30 (thirty) days' notice that they will be required to provide such certification, identification, information, documentation or other reporting requirement,
- any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the Notes,
- any taxes, duties, assessments or other governmental charges with respect to such Note presented for payment more than 30 (thirty) days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to Holders, whichever occurs later, except to the extent that the Holders of such note would have been entitled to such Additional Amounts on presenting such Note for payment on any date during such 30 (thirty) day period, and
- any payment on the Note to a Holder that is a fiduciary or partnership or a Person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the Holder of the Note.

The limitations on our obligations to pay Additional Amounts stated in the third bullet point above will not apply if the provision of information, documentation or other evidence described in the applicable bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a Holder or beneficial owner of a Note, taking into account any relevant differences between U.S. and Mexican law, regulation or administrative practice, than comparable information or other reporting requirements imposed under U.S. tax law (including but not limited to the United States of America-United Mexican States income tax convention), regulation (including proposed regulations) and administrative practices.

The exceptions on our obligations to pay Additional Amounts stated in the third bullet point above will not apply if, with respect to taxes imposed by Mexico or any political subdivision or taxing authority thereof, Article 195, Section II a), of the Mexican income tax law (or a substantially similar successor of such Article, whether included in any law or regulation) is in effect, unless (a) the provision of the information described in the applicable bullet point is expressly required by statute, regulation or published administrative practice of general applicability in order to apply Article 195, Section II a), of the Mexican income tax law (or a substantially similar successor of such Article, whether included in any law or regulation), (b) we cannot obtain the information, documentation or other evidence necessary to comply with the applicable laws and regulations on our own through reasonable diligence and without requiring it from Holders of the Notes and (c) we otherwise would meet the requirements for

application of Article 195, Section II a), of the Mexican income tax law (or a substantially similar successor of such Article, whether included in any law or regulation).

In addition, such third bullet point does not, and shall not be construed to require, that any person, including any non-Mexican pension fund, retirement fund, financial institution or any other Holder or beneficial owner of a Note, register with the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

Upon request, the Company and the Subsidiary Guarantors will provide the Trustee with documentation satisfactory to the Trustee evidencing the payment of Mexican taxes in respect of which we have paid any Additional Amount. We will make copies of such documentation available to the Holders of the Notes or the relevant paying agent upon request.

Any reference in this offering circular, the Indenture or the notes to principal, premium, interest or any other amount payable in respect of the Notes by us will be deemed also to refer to any Additional Amount that may be payable with respect to that amount under the obligations referred to in this “Additional Amounts” subsection.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the Holder of such notes, and as a result thereof such Holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such Holder shall, by accepting such notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the Holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto.

In the event of any merger or other transaction described and permitted under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets,” then all references to Mexico, Mexican law or regulations, and Mexican taxing authorities under this “Additional Amounts” subsection (other than the fourth and fifth paragraphs above) and under “—Optional Redemption—Optional Redemption for Changes in Withholding Taxes” shall be deemed to also include the United States of America and any political subdivision therein or thereof, United States law or regulations, and any taxing authority of the United States or any political subdivision therein or thereof, respectively.

Optional Redemption

Optional Redemption. Except as stated below, the Company may not redeem the Notes prior to April 7, 2015. The Company may redeem the Notes, at its option, in whole at any time or in part from time to time, on and after April 7, 2015 at the following redemption prices, expressed as percentages of the principal amount thereof, together with any Additional Amounts, if redeemed during the twelve-month period commencing on April 7 of any year set forth below:

<u>Year</u>	<u>Percentage</u>
2015	104.438%
2016	102.958%
2017	101.479%
2018 and thereafter	100.000%

Prior to April 7, 2015, the Company will have the right, at its option, to redeem any of the Notes, in whole or in part, at any time or from time to time prior to their maturity, on at least 30 (thirty) days’ but not more than 60 (sixty) days’ notice, at a redemption price equal to 100% of the principal amount of such Notes, plus the Make-Whole Amount and accrued and unpaid interest (in each case including Additional Amounts) to the date of redemption.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the

Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Notes.

“Comparable Treasury Price” means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Company.

“Make Whole Amount” means, with respect to any Note on any redemption date, the excess of:

- (a) the present value at such redemption date of (x) the redemption price of such Note at April 7, 2015 (such redemption price being set forth in the table appearing above *plus* (y) all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and April 7, 2015 (excluding accrued but unpaid interest), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points; over
- (b) the outstanding principal amount of the Note.

“Reference Treasury Dealer” means Credit Suisse or its affiliates which are primary United States government securities dealers and not less than two other leading primary United States government securities dealers in New York City reasonably designated by the Company; *provided, however*, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 3:30 p.m. New York City time on the third business day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Optional Redemption upon Equity Offerings. At any time, or from time to time, on or prior to April 7, 2013 the Company may, at its option, use the net cash proceeds of one or more Equity Offerings to redeem in the aggregate up to 35% of the aggregate principal amount of the Notes issued pursuant to the Indenture at a redemption price equal to 108.875% of the principal amount thereof (plus any Additional Amounts); *provided*, that:

- after giving effect to any such redemption at least 65% of the aggregate principal amount of the Notes issued under the Indenture remains outstanding; and
- the Company shall make such redemption not more than 180 (one hundred and eighty) days after the consummation of such Public Equity Offering.

“Equity Offering” means (i) a rights offering of Qualified Capital Stock of the Company made generally to the holders of such Qualified Capital Stock, (ii) any primary public or private offering of Qualified Capital Stock of the Company to any Person other than an Affiliate of the Company or a registration on Form F-4 or (iii) any capital contribution received by the Company from any holder of Capital Stock that is accounted for as Qualified Capital Stock, in each case, other than issuances upon exercise of options by employees of the Company or any of its Subsidiaries.

Optional Redemption for Changes in Withholding Taxes. If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Mexico or any political subdivision or taxing authority or other instrumentality thereof or therein affecting taxation, or any amendment to or change in an official interpretation or application of such laws, rules, regulations or administrative practices, including but not limited to the *Resolución Miscelánea Fiscal*, that has a general effect, which amendment to or change of such laws, rules, regulations or administrative practices becomes effective on or after the date on which the Notes we are offering are issued (which, in the case of a merger, consolidation or other transaction permitted and described under “— Certain Covenants — Limitation on Merger, Consolidation and Sale of Assets,” shall be treated for this purpose as the date of such transaction), we have become, or will become obligated, in each case, after taking all commercially reasonable measures to avoid this requirement, to pay additional amounts in excess of those attributable to a withholding tax rate of 4.9% with respect to the Notes (see “— Additional Amounts” and “Taxation — Mexican Tax Considerations”), then, at our option, all, but not less than all, of the Notes may be redeemed at any time on giving not less than 30 nor more than 60 (sixty) days’ notice, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any Additional Amounts due thereon up to but not including the date of redemption; *provided, however*, that (1) no notice of redemption for tax reasons may be given earlier than 90 (ninety) days prior to the earliest date on which we would be obligated to pay these additional amounts if a payment on the Notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such additional amounts remains in effect.

Prior to the publication of any notice of redemption pursuant to this provision, we will deliver to the Trustee:

- a certificate signed by one of our duly authorized representatives stating that we are entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred, and
- an opinion of Mexican legal counsel of recognized standing (which may be our outside counsel) to the effect that we have or will become obligated to pay such Additional Amounts as a result of such change or amendment.

This notice, once delivered by us to the Trustee, will be irrevocable.

We will give notice to DTC pursuant to the provisions described under “— Certain Covenants — Notices” of any redemption we propose to make at least 30 (thirty) days (but not more than 60 (sixty) days) before the redemption date.

Optional Redemption Procedures. In the event that less than all of the Notes are to be redeemed at any time, selection of Notes for redemption will be made by the Trustee on a *pro rata* basis, by lot or by any other method as the Trustee shall deem fair and appropriate (subject to the procedures of the depository for the Notes). If a partial redemption is made with the proceeds of an Equity Offering, selection of the Notes or portions thereof for redemption will, subject to the preceding sentence, be made by the Trustee only on a *pro rata* basis or on as nearly a *pro rata* basis as is practicable (subject to the procedures of the depository for the Notes), unless the method is otherwise prohibited. No Notes of a principal amount of \$2,000 or less may be redeemed in part and Notes of a principal amount in excess of \$2,000 may be redeemed in part in multiples of \$1,000 only.

Notice of any redemption will be mailed by first-class mail, postage prepaid, at least 30 but not more than 60 (sixty) days before the redemption date to each Holder of Notes to be redeemed at its registered address. If Notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount thereof to be

redeemed. For so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF, the Company will cause notices of redemption also to be published as provided under “— Certain Covenants — Notices.” A new Note in a principal amount equal to the unredeemed portion thereof (if any) will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will pay the redemption price for any Note together with accrued and unpaid interest (including Additional Amounts) thereon through the date of redemption. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any Notes by the Company, such redeemed Notes will be cancelled.

Any redemption and notice thereof pursuant to the Indenture may, in the Company’s discretion, be subject to the satisfaction of a financing or change of control condition precedent. Notwithstanding the foregoing provisions of this “Optional Redemption” section, the Company and its Subsidiaries are not prohibited from acquiring the Notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise.

Change of Control

Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company purchase all or a portion (in minimum principal amounts of \$2,000 and multiples of \$1,000 in excess thereof) of the Holder’s Notes at a purchase price equal to 101% of the principal amount thereof (plus any Additional Amounts), plus accrued and unpaid interest (including Additional Amounts) thereon through the date of purchase (the “Change of Control Payment”).

Within 30 (thirty) days following the date upon which the Change of Control occurred, the Company must send, by first-class mail, a notice to each Holder, with a copy to the Trustee, offering to purchase the Notes as described above (a “Change of Control Offer”) and publish the Change of Control Offer in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). The Change of Control Offer shall state, among other things, the purchase date, which must be no earlier than 30 (thirty) days nor later than 60 (sixty) days from the date the notice is mailed, other than as may be required by law (the “Change of Control Payment Date”).

On the Change of Control Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all Notes or portions thereof properly tendered and not withdrawn pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers’ Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

If only a portion of a Note is purchased pursuant to a Change of Control Offer, a new Note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the Indenture as described above under the caption “—Optional Redemption,” unless and

until there is a default in payment of the applicable redemption price.

A Change of Control Offer may be made in advance of a Change of Control, and conditioned upon the occurrence of such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making the Change of Control Offer. Notes repurchased by the Company pursuant to a Change of Control Offer will be cancelled and cannot be reissued. Notes purchased by a third party pursuant to the preceding paragraph will have the status of notes issued and outstanding.

In the event that Holders of not less than 95% of the aggregate principal amount of the outstanding Notes accept a Change of Control Offer and the Company or a third party purchases all of the Notes held by such Holders, the Company will have the right, on not less than 30 (thirty) nor more than 60 (sixty) days' prior notice, given not more than 30 (thirty) days following the purchase pursuant to the Change of Control Offer described above, to redeem all of the Notes that remain outstanding following such purchase at a purchase price equal to the Change of Control Payment plus, to the extent not included in the Change of Control Payment, accrued and unpaid interest, if any, on the Notes that remain outstanding, to the date of redemption (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date).

Other existing and future Indebtedness of the Company may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to repurchase the Notes upon a Change of Control could cause a default under such Indebtedness even if the Change of Control itself does not.

If a Change of Control Offer occurs, there can be no assurance that the Company will have available funds sufficient to make the Change of Control Payment for all the Notes that might be delivered by Holders seeking to accept the Change of Control Offer. In the event the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations and any other obligations in respect of Senior Indebtedness. However, there can be no assurance that the Company would be able to obtain necessary financing.

Holders will not be entitled to require the Company to purchase their Notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction which is not a Change of Control.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the "Change of Control" provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by doing so.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Company and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Company to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Certain Covenants

Suspension of Covenants

During any period of time that (i) the Notes have an Investment Grade Rating from any two Rating Agencies and (ii) no Default or Event of Default has occurred and is continuing (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a "Covenant Suspension Event"), the Company and its Restricted Subsidiaries will not be subject to the provisions of the Indenture described under:

1. “— Limitation on Incurrence of Additional Indebtedness”;
2. “— Limitation on Guarantees”;
3. “— Limitation on Restricted Payments”;
4. “— Limitation on Asset Sales and Sales of Subsidiary Stock”;
5. “— Limitation on Designation of Unrestricted Subsidiaries”;
6. “— Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
7. clause (2) of the first paragraph of “—Limitation on Merger, Consolidation or Sale of Assets”;
8. “— Limitation on Transactions with Affiliates”; and
9. “— Conduct of Business”

(collectively, the “Suspended Covenants”).

In the event that the Company and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the “Reversion Date”) one of the Rating Agencies withdraws its Investment Grade Rating or downgrades its rating assigned to the Notes below an Investment Grade Rating, then the Company and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. The period of time between the Suspension Date and the Reversion Date is referred to as the “Suspension Period.” Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with the Suspended Covenants during the Suspension Period (or upon termination of the Suspension Period or after that time based solely on events that occurred during the Suspension Period).

On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified as having been incurred pursuant to clause (1) or (2) of “— Limitation on Incurrence of Additional Indebtedness” below (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to clause (1) or (2) of “— Limitation on Incurrence of Additional Indebtedness,” such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (2)(c) of “— Limitation on Incurrence of Additional Indebtedness.” Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under “— Limitation on Restricted Payments” will be made as though the covenant described under “— Limitation on Restricted Payments” had been in effect since the Issue Date and throughout the Suspension Period.

Limitation on Incurrence of Additional Indebtedness

- (1) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness, including Acquired Indebtedness, except that:
 - (a) the Company or any Subsidiary Guarantor may Incur Indebtedness, including Acquired Indebtedness, and
 - (b) any Restricted Subsidiary may Incur Acquired Indebtedness not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation,

if, at the time of and immediately after giving pro forma effect to the Incurrence thereof and the application of the proceeds therefrom, the Consolidated Fixed Charge Coverage Ratio of the Company and its Restricted Subsidiaries is greater than the ratio set forth below in the row opposite the time period containing the date of Incurrence (in each case after the Issue Date).

<u>Time Period (in each case after the Issue Date)</u>	<u>Ratio</u>
Until 4 years.....	2.25 to 1.0
From 4 years and thereafter	2.5 to 1.0

- (2) Notwithstanding clause (1) above, the Company and its Restricted Subsidiaries, as applicable, may Incur the following Indebtedness (“Permitted Indebtedness”):
- (a) the Notes, excluding Additional Notes;
 - (b) Indebtedness permitted under Credit Facilities (including, without limitation, amounts available to be drawn under the Credit Agreement) in an amount not to exceed the greater of (x) \$60 million and (y) 50% of accounts receivable plus 50% of inventory of the Company and its Restricted Subsidiaries at any one time;
 - (c) Indebtedness of the Company and its Restricted Subsidiaries outstanding on the Issue Date (excluding Indebtedness under any Credit Facility permitted under clause (b) of this definition of Permitted Indebtedness);
 - (d) Hedging Obligations entered into by the Company and its Restricted Subsidiaries in the ordinary course of business and not for speculative purposes;
 - (e) intercompany Indebtedness between: (i) the Company and any Restricted Subsidiary or (ii) between any Restricted Subsidiaries; *provided* that:
 - (A) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full of all obligations under the Notes and the Indenture in the case of the Company, or such Subsidiary Guarantee, in the case of any such Subsidiary Guarantor, and
 - (B) in the event that at any time any such Indebtedness ceases to be held by the Company or a Restricted Subsidiary, such Indebtedness shall be deemed to be Incurred and not permitted by this clause (e) at the time such event occurs;
 - (f) Indebtedness of the Company or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (including daylight overdrafts paid in full by the close of business on the day such overdraft was Incurred) drawn against insufficient funds in the ordinary course of business; *provided* that such Indebtedness is extinguished within five business days of Incurrence;
 - (g) Indebtedness of the Company or any of its Restricted Subsidiaries represented by bid, surety or performance bonds (including fianzas) or letters of credit for the account of the Company or any Restricted Subsidiary, as the case may be, issued in the ordinary course of business and not for financing purposes, and reimbursement obligations in respect thereof (according to Mexican commercial practices);
 - (h) Refinancing Indebtedness in respect of:
 - (i) Indebtedness (other than Indebtedness owed to the Company or any Subsidiary of the Company) Incurred pursuant to clause (1) above (it being understood that no Indebtedness outstanding on the Issue Date is Incurred pursuant to such clause (1) above), or
 - (ii) Indebtedness Incurred pursuant to clauses (a), (c) and (d) above, this clause (h) and clause (l) below;
 - (i) Capitalized Lease Obligations and Purchase Money Indebtedness of the Company or any

Restricted Subsidiary, and Refinancing Indebtedness in respect thereof, in an aggregate principal amount at any one time outstanding, not to exceed (x) the greater of \$15 million and (y) 3.5% of Consolidated Total Assets of the Company;

- (j) Indebtedness arising from agreements entered into by the Company or a Restricted Subsidiary providing for bona fide indemnification, adjustment of purchase price or similar obligations not for financing purposes, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of a Restricted Subsidiary, *provided* that, in the case of a disposition, the maximum aggregate liability in respect of such Indebtedness shall at no time exceed the gross proceeds actually received by the Company and its Restricted Subsidiaries in connection with such disposition;
 - (k) Indebtedness of the Company to the extent the net proceeds thereof are promptly (i) used to purchase Notes pursuant to a Change of Control Offer, or (ii) deposited to defease the Notes as described under “— Legal Defeasance and Covenant Defeasance;”
 - (l) (i) Permitted Acquisition Indebtedness and (ii) Indebtedness of the Company or a Restricted Subsidiary Incurred to purchase the notebook business of another Person in Central America and/or the Andean region in an aggregate amount under this clause (2) not to exceed 20 million outstanding at any one time;
 - (m) (i) Guarantees (including the Subsidiary Guarantees and *avales*) by (A) the Company of Indebtedness of any Restricted Subsidiary permitted to be Incurred by such Restricted Subsidiary under this covenant and (B) any Restricted Subsidiary of any Indebtedness of the Company or another Restricted Subsidiary permitted to be Incurred under this covenant by the Company or such other Restricted Subsidiary; and
(ii) Indebtedness constituting a Permitted Lien included in clause (7) of the definition of Indebtedness (A) Incurred by the Company in respect of Indebtedness of a Restricted Subsidiary permitted by such Restricted Subsidiary to be Incurred under this covenant and (B) Incurred by a Restricted Subsidiary in respect of Indebtedness of the Company or another Restricted Subsidiary permitted to be Incurred under this covenant by the Company or such Restricted Subsidiary (excluding Indebtedness of any such other Restricted Subsidiary permitted under clause (c) of this definition of Permitted Indebtedness or Refinancing Indebtedness in respect thereof), as the case may be, which Lien is granted in compliance with, if applicable, “— Limitation on Liens;” and
 - (n) Indebtedness of the Company or a Restricted Subsidiary Incurred in an aggregate amount not to exceed \$15 million outstanding at any one time.
- (3) For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness Incurred pursuant to and in compliance with this covenant, the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with GAAP. Accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Disqualified Capital Stock in the form of additional Disqualified Capital Stock with the same terms will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant; *provided* that any such outstanding additional Indebtedness or Disqualified Capital Stock paid in respect of Indebtedness Incurred pursuant to any provision of clause (2) of this covenant will be counted as Indebtedness outstanding thereunder for purposes of any future Incurrence under such provision.

- (4) In the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in clauses (1) and (2) of this covenant, the Company, in its sole discretion, will be permitted to classify such item of Indebtedness on the date of its Incurrence, and will only be required to include the amount and type of such Indebtedness in one of such clauses although the Company may divide and classify an item of Indebtedness in one or more of the types of Indebtedness and may later re-divide or reclassify all or a portion of such item of Indebtedness in any manner that complies with this covenant. For the avoidance of doubt, Indebtedness permitted by clause (m) of the definition of Permitted Indebtedness will be without duplication for the underlying Indebtedness that is Guaranteed or for which a Lien is granted in accordance with such clause (m).
- (5) For purposes of determining compliance with this covenant, the Mexican peso-equivalent principal amount of Indebtedness denominated in foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred in the case of term Indebtedness (or first committed in the case of revolving credit Indebtedness), *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in foreign currency, and such refinancing would cause the applicable Mexican peso-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Mexican peso-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded as a result solely of fluctuations in exchange rates or currency values.
- (6) For purposes of determining compliance with this covenant, the Mexican peso-equivalent principal amount of Indebtedness denominated in pesos that is inflation-indexed shall be calculated based on the peso-equivalent amount on the date such Indebtedness was Incurred in the case of term Indebtedness (or first committed in the case of revolving credit Indebtedness); *provided* that if such Indebtedness is Incurred to refinance other Indebtedness that is denominated in pesos and inflation-indexed, and such refinancing would cause the applicable Mexican peso-denominated restriction to be exceeded if calculated at the inflation index in effect on the date of such refinancing, such Mexican peso-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced.

Limitation on Guarantees

The Company will not permit any Restricted Subsidiary of the Company (other than a Subsidiary Guarantor) to Guarantee any Indebtedness of the Company or any Subsidiary Guarantor or to secure any Indebtedness of the Company or any Subsidiary Guarantor with a Lien on the assets of such Restricted Subsidiary (other than Permitted Liens), unless contemporaneously therewith (or prior thereto) effective provision is made to Guarantee or secure the Notes or the Note Guarantees, as the case may be, on an equal and ratable basis with such Guarantee or Lien for so long as such Guarantee or Lien remains effective, and in an amount equal to the amount of Indebtedness so Guaranteed or secured. Any Guarantee by any such Subsidiary of Subordinated Indebtedness of the Company or any Subsidiary Guarantor will be subordinated and junior in right of payment to the contemporaneous Guarantee of the Notes by such Subsidiary.

Limitation on Restricted Payments

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a “Restricted Payment”):

- (1) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of the Company or any Restricted Subsidiary to holders of such Capital Stock, other than:
 - (a) dividends or distributions payable in Qualified Capital Stock of the Company,
 - (b) dividends or distributions payable to the Company and/or a Restricted Subsidiary, or
 - (c) dividends, distributions or returns of capital made on a *pro rata* basis to the Company and its Restricted Subsidiaries, on the one hand, and the other holders of Capital Stock of a Restricted Subsidiary, on the other hand (or on a less than *pro rata basis* to any other holder);

- (2) purchase, redeem or otherwise acquire or retire for value:
 - (a) any Capital Stock of the Company (other than in exchange for Qualified Capital Stock of the Company), or
 - (b) any Capital Stock of any Restricted Subsidiary that is held by an Affiliate of the Company, except for:
 - (i) Capital Stock held by the Company or a Restricted Subsidiary, or
 - (ii) purchases, redemptions, acquisitions or retirements for value of Capital Stock on a *pro rata* basis from the Company and/or any Restricted Subsidiaries, on the one hand, and other holders of Capital Stock of a Restricted Subsidiary, on the other hand, according to their respective percentage ownership of the Capital Stock of such Restricted Subsidiary;

- (3) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness (other than (a) any inter-company Indebtedness between or among the Company and or any Restricted Subsidiary or (b) the purchase, repurchase, redemption, defeasance or other acquisition of Subordinated Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition), or
- (4) make any Investment (other than Permitted Investments);

if at the time of the Restricted Payment, immediately after giving effect thereto:

- (a) a Default or an Event of Default shall have occurred and be continuing;
- (b) the Company is not able to Incur at least \$1.00 of additional Indebtedness pursuant to clause (1) of “—Limitation on Incurrence of Additional Indebtedness;” or
- (c) the aggregate amount (the amount expended for these purposes, if other than in cash, being the Fair Market Value of the relevant property) of the proposed Restricted Payment and all other Restricted Payments made subsequent to the Issue Date up to the date thereof shall exceed the sum of:
 - (i) 50% of cumulative Consolidated Net Income of the Company or, if such

cumulative Consolidated Net Income of the Company is a loss, minus 100% of the loss, accrued during the period, treated as one accounting period, beginning on the first full fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which consolidated financial information of the Company is available; *plus*

- (ii) 100% of the aggregate net cash proceeds received by the Company from any Person from any:
 - (A) contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock or issuance and sale of Qualified Capital Stock of the Company, in each case, on or subsequent to the Issue Date, or
 - (B) issuance and sale on or subsequent to the Issue Date (and, in the case of Indebtedness of a Restricted Subsidiary, at such time as it was a Restricted Subsidiary) of any Indebtedness of the Company or any Restricted Subsidiary that has been converted into or exchanged for Qualified Capital Stock of the Company,

excluding, in each case, any net cash proceeds:

- (C) received from a Subsidiary of the Company;
 - (D) used to redeem Notes under “— Optional Redemption — Optional Redemption Upon Equity Offerings;” or
 - (E) applied in accordance with clause (2) or (3) (a) of the second paragraph of this covenant below; *plus*
- (iii) any Investment Return; *plus*
 - (iv) 100% of any dividend or distributions received by the Company or any Restricted Subsidiary from any Unrestricted Subsidiary, to the extent such amounts were not otherwise included in Consolidated Net Income.

Notwithstanding the preceding paragraph, this covenant does not prohibit:

- (1) the payment of any dividend or distribution or the consummation of any irrevocable redemption of Subordinated Indebtedness within 60 (sixty) days after the date of declaration of such dividend or distribution or giving of the redemption notice, as the case may be, if the dividend, distribution or redemption would have been permitted on the date of declaration or notice pursuant to the preceding paragraph;
- (2) if no Default or Event of Default has occurred and is continuing, the making of any Restricted Payment,
 - (a) in exchange for Qualified Capital Stock of the Company or
 - (b) through the application of the net cash proceeds received by the Company from a substantially concurrent sale of Qualified Capital Stock of the Company or a contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock, in each case not received from a Restricted Subsidiary of the Company;

provided that the value of any such Qualified Capital Stock used or the net proceeds of which are used to make a Restricted Payment pursuant to this clause (2) shall be excluded from clause (4)(c)(ii) of the first paragraph of this covenant (and were not included therein at any time);

- (3) if no Default or Event of Default has occurred and is continuing, the voluntary prepayment, purchase, defeasance, redemption or other acquisition or retirement for value of any Subordinated Indebtedness:
 - (a) solely in exchange for, or through the application of net cash proceeds of a substantially concurrent sale, other than to a Subsidiary of the Company, of Qualified Capital Stock of the Company,
 - (b) solely in exchange for Refinancing Indebtedness for such Subordinated Indebtedness, or
 - (c) from Net Cash Proceeds from Asset Sales remaining after the application thereof as required by the covenant described under “—Limitation on Asset Sales” (including after making an Asset Sale Offer pursuant to such covenant and the application of the entire Asset Sale Offer Amount to purchase all Notes tendered pursuant to such Asset Sale Offer).

provided that the value of any Qualified Capital Stock issued in exchange for Subordinated Indebtedness and any net cash proceeds referred to above shall be excluded from clause (4)(c)(ii) of the first paragraph of this covenant (and were not included therein at any time);

- (4) repurchases by the Company of Common Stock of the Company or options, warrants or other securities exercisable or convertible into Common Stock of the Company from any current or former employees, officers, directors or consultants of the Company or any of its Subsidiaries or their authorized representatives upon the death, disability or termination of employment or directorship of such employees, officers or directors, or the termination of retention of any such consultants, in an amount not to exceed \$5 million in any calendar year (with unused amounts in any calendar year being permitted to be carried over into succeeding calendar years up to a maximum of \$5 million) plus (x) any amounts contributed by any Parent Entity to the Company in exchange for Equity Interests of the Company (other than Disqualified Capital Stock); *provided* that such amounts shall be excluded from the calculation of amounts under clause (4)(c)(ii) of the first paragraph of this covenant to the extent such amounts are applied in accordance with this clause (4), and (y) the cash proceeds of key man life insurance policies received by the Company and its Restricted Subsidiaries;
- (5) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;
- (6) the declaration and payment of dividends or to distributions to holders of Disqualified Capital Stock of the Company or any Restricted Subsidiary issued in accordance with to the covenant described under “— Limitation on Incurrence of Additional Indebtedness”;
- (7) cash payments in lieu of the issuance of fractional shares (a) in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company and (b) arising out of stock dividends, splits, combinations or business combinations;
- (8) redemption or other acquisition or retirement for value of any Subordinated Indebtedness of the Company or any Subsidiary Guarantor pursuant to and in accordance with the terms of a “change of control” covenant set forth in the indenture or other agreement pursuant to which such Subordinated Indebtedness is issued and such “change of control” covenant is substantially similar to the Change of Control provision included in the Indenture; *provided* that the Company (or

another Person) has repurchased all Notes required to be repurchased by the Company under the caption “—Change of Control” prior to the purchase, redemption or other acquisition or retirement for value of such Subordinated Indebtedness pursuant to the applicable “change of control” covenant;

- (9) any Restricted Payments made in connection with the Transactions;
- (10) if no Default or Event of Default shall have occurred and be continuing, payment of cash dividends or other distributions to any Parent Entity, which shall not exceed \$5 million per fiscal year of the Company, solely for the purposes set forth in clauses (a) and (b) below:
 - (a) payments, distributions, loans, dividends or advances to the Parent Entity in order to permit such Parent Entity to pay its required and ordinary operating expenses (including, without limitation, directors’ fees, fees associated with services provided by the Parent Entity or any other provider of similar services, indemnification obligations, professional fees and expenses) to the extent such operating expenses are incurred in the ordinary course of business and are not attributable to the ownership or operation of entities other than such Parent Entity, the Company and the Company’s Restricted Subsidiaries;
 - (b) distributions to any Parent Entity to fund the required tax obligations of such Parent Entity or its members or general partner (including, without limitation, any federal, state and local income taxes) related to income generated by the Company and its Restricted Subsidiaries and taxable to such members or general partner; and
- (11) if no Default or Event of Default shall have occurred and is continuing and after the Company has completed all of the payments scheduled to be made pursuant to clause (6) above, other Restricted Payments in an aggregate amount not to exceed \$5 million since the Issue Date.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date, amounts expended pursuant to clauses (1) (without duplication for the declaration of the relevant dividend), (4), (6), (8), (10), (11) and (12) above shall be included in such calculation and amounts expended pursuant to clauses (2), (3), (5), (7), and (9), above shall not be included in such calculation.

Limitation on Asset Sales and Sales of Subsidiary Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (1) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Capital Stock sold or otherwise disposed of; and
- (2) at least 75% of the consideration received for the assets or Capital Stock sold by the Company or the Restricted Subsidiary, as the case may be, in the Asset Sale shall be in the form of cash or Cash Equivalents received at the time of such Asset Sale; *provided, however*, for the purposes of this covenant, the following will be deemed to be cash or Cash Equivalents:
 - (a) the assumption of any liabilities that are included on the balance sheet (other than Subordinated Indebtedness) of the Company or any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability in connection therewith;
 - (b) any securities, notes or other obligations or assets received by the Company or any Restricted Subsidiary from the transferee that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 180 (one hundred and eighty)

days of the receipt thereof (subject to ordinary settlement periods) to the extent of cash or Cash Equivalents received in that conversion; and

- (c) the Fair Market Value of (i) any Capital Stock of a Person engaged in a Permitted Business that will become, upon purchase, a Restricted Subsidiary or (ii) assets (other than current assets as determined in accordance with GAAP or Capital Stock) to be used (or intended to be used) by the Company or any Restricted Subsidiary in a Permitted Business;

provided that amounts received pursuant to clauses (2)(a) and (2)(c) shall not be deemed to constitute Net Cash Proceeds for purposes of making an Asset Sale Offer.

The Company or any Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 (three hundred and sixty-five) days thereof to:

- (1) repay any Senior Indebtedness of the Company or a Subsidiary Guarantor, any Indebtedness secured by the assets subject to such Asset Sale or Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor (including, in each case without limitation, Capital Lease Obligations) and permanently reduce the commitments with respect thereto without Refinancing;
- (2) make capital expenditures in a Permitted Business;
- (3) purchase (a) assets (except for current assets as determined in accordance with GAAP or Capital Stock) to be used (or intended to be used) by the Company or any Restricted Subsidiary in a Permitted Business, or (b) all or substantially all of the assets or Capital Stock of a Person engaged in a Permitted Business that will become or such assets are contributed to, upon purchase, a Restricted Subsidiary; or
- (4) enter into a binding commitment with a Person, other than the Company and its Restricted Subsidiaries, to apply such Net Cash Proceeds pursuant to clause (2) or (3) above, *provided* that such binding commitment shall be subject only to customary conditions and the applicable purchase shall be consummated within 180 (one hundred and eighty) days following the expiration of the aforementioned 365-day period.

To the extent all or a portion of the Net Cash Proceeds of any Asset Sale are not applied within the 365 (three hundred and sixty-five) days of the Asset Sale as described in clause (1), (2), (3) or (4) of the immediately preceding paragraph, the Company will make an offer to purchase Notes (the "Asset Sale Offer"), at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest (including Additional Amounts) thereon, to the date of purchase (the "Asset Sale Offer Amount"). The Company will purchase pursuant to an Asset Sale Offer from all tendering Holders on a *pro rata* basis, and, at the Company's option, on a *pro rata* basis with the holders of any other Senior Indebtedness with similar provisions requiring the Company to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of Notes and the other Senior Indebtedness to be purchased equal to such unapplied Net Cash Proceeds. The Company may satisfy its obligations under this covenant with respect to the Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 365-day period.

The purchase of Notes pursuant to an Asset Sale Offer will occur not less than 20 (twenty) business days following the date thereof, or any longer period as may be required by law, nor more than 45 (forty-five) days following the 365th day following the Asset Sale (except in the case of clause (d) in which case such period shall be extended for 180 days). The Company may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied Net Cash Proceeds from one or more Asset Sales equal to or in excess of \$10 million. At that time, the entire amount of unapplied Net Cash Proceeds, and not just the amount in excess of \$10 million, will be applied as required pursuant to this covenant.

Pending application in accordance with this covenant, Net Cash Proceeds may be applied to temporarily reduce revolving credit borrowings that can be reborrowed or invested in Cash Equivalents.

Each notice of an Asset Sale Offer will be mailed first class, postage prepaid, to the record Holders as shown on the register of Holders within 20 (twenty) days following such 365th day, with a copy to the Trustee offering to purchase the Notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 (thirty) days nor later than 60 (sixty) days from the date the notice is mailed, other than as may be required by law (the “Asset Sale Offer Payment Date”). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their Notes in whole or in part in amounts of \$2,000 and in integral multiples of \$1,000 in excess thereof in exchange for cash.

On the Asset Sale Offer Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all Notes or portions thereof properly tendered pursuant to the Asset Sale Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Asset Sale Offer Amount in respect of all Notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers’ Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

To the extent Holders of Notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw Notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of unapplied Net Cash Proceeds, the Company will purchase the Notes and the other Senior Indebtedness, if any, on a *pro rata* basis (based on amounts tendered). If only a portion of a Note is purchased pursuant to an Asset Sale Offer, a new Note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a global note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the “Asset Sale” provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the “Asset Sale” provisions of the Indenture by doing so.

Upon completion of an Asset Sale Offer, the amount of Net Cash Proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of Notes and other Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied Net Cash Proceeds, the Company and/or its Restricted Subsidiaries may use any remaining Net Cash Proceeds for any purpose not otherwise prohibited by the Indenture.

Limitation on Designation of Unrestricted Subsidiaries

The Company may designate after the Issue Date any Subsidiary of the Company as an “Unrestricted Subsidiary” under the Indenture (a “Designation”) only if:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Designation and any transactions between the Company or any of its Restricted Subsidiaries and such Unrestricted Subsidiary are in compliance with “— Limitation on Transactions with Affiliates”;

- (2) at the time of and after giving effect to such Designation, the Company could Incur \$1.00 of additional Indebtedness pursuant to clause (1) of “— Limitation on Incurrence of Additional Indebtedness”; and
- (3) the Company would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation and treating such Designation as an Investment at the time of Designation) as a Restricted Payment pursuant to the first paragraph of “— Limitation on Restricted Payments” or as a Permitted Investment in an amount (the “Designation Amount”) equal to the amount of the Company’s Investment in such Subsidiary on such date.

Neither the Company nor any Restricted Subsidiary will at any time:

- (1) provide credit support for, subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary) to the satisfaction of, or Guarantee, any Indebtedness of any Unrestricted Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness);
- (2) be directly or indirectly liable for any Indebtedness of any Unrestricted Subsidiary; or
- (3) be directly or indirectly liable for any Indebtedness which provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity upon the occurrence of a default with respect to any Indebtedness of any Unrestricted Subsidiary,

except, in each case, for any non-recourse Guarantee given solely to support the pledge by the Company or any Restricted Subsidiary of the Capital Stock of such Subsidiary.

The Company may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary (a “Revocation”) only if:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of and after giving effect to such Revocation; and
- (2) all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if Incurred at such time, have been permitted to be Incurred for all purposes of the Indenture.

The Designation of a Subsidiary of the Company as an Unrestricted Subsidiary shall be deemed to include the Designation of all of the Subsidiaries of such Subsidiary. All Designations and Revocations must be evidenced by resolutions of the Board of Directors of the Company, delivered to the Trustee certifying compliance with the preceding provisions.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided in paragraph (2) below, the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any other Restricted Subsidiary or pay any Indebtedness owed to the Company or any other Restricted Subsidiary;
 - (b) make loans or advances to, or Guarantee any Indebtedness or other obligations of, or make any Investment in, the Company or any other Restricted Subsidiary; or

- (c) transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) Paragraph (1) above will not apply to encumbrances or restrictions existing under or by reason of:
- (a) applicable law, rule, regulation or order;
 - (b) the Indenture, the Notes and the Note Guarantees;
 - (c) the terms of any Indebtedness outstanding on the Issue Date, and any amendment, modification, restatement, renewal, restructuring, replacement or refinancing thereof; provided, that any amendment, modification, restatement, renewal, restructuring, replacement or refinancing is not materially more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those in existence on the Issue Date;
 - (d) customary non-assignment provisions of any contract and customary provisions restricting assignment or subletting in any lease governing a leasehold interest of any Restricted Subsidiary, or any customary restriction on the ability of a Restricted Subsidiary to dividend, distribute or otherwise transfer any asset which secures Indebtedness secured by a Lien, in each case permitted to be Incurred under the Indenture;
 - (e) any instrument governing Acquired Indebtedness not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired;
 - (f) restrictions with respect to a Restricted Subsidiary of the Company imposed pursuant to a binding agreement which has been entered into for the sale or disposition of Capital Stock or assets of such Restricted Subsidiary; *provided*, that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;
 - (g) customary restrictions imposed on the transfer of copyrighted or patented materials;
 - (h) purchase money obligations for property (including Capital Stock) acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in paragraph (1)(c) above;
 - (i) an agreement governing Indebtedness of the Company or any Restricted Subsidiaries permitted to be Incurred subsequent to the date of the Indenture in accordance with the covenant described above under the caption “—Limitation on Incurrence of Additional Indebtedness”; provided that the provisions relating to such encumbrance or restriction contained in such agreement are no more restrictive, taken as a whole, than those contained in the agreements referred to in clause (c) above;
 - (j) Liens permitted to be incurred under the provisions of the covenant described below under the caption “—Limitation on Liens” that limits the right of the debtor to dispose of the assets securing such Indebtedness;
 - (k) provisions limiting the payment of dividends or the disposition or distribution of assets or property or transfer of Capital Stock in joint venture agreements, sale-leaseback agreements, limited liability company organizational documents and other similar agreements entered into in accordance with the terms of the Indenture and (i) in the ordinary course of business consistent with past practice or (ii) with the approval of the Company’s Board of Directors, which limitation is applicable only to the assets, property or Capital Stock that are the subject of such agreements;

- (l) restrictions on cash, Cash Equivalents, Marketable Securities or other deposits or net worth imposed by customers or lessors under contracts or leases entered into in the ordinary course of business consistent with past practice to secure trade payable obligations; and
- (m) restrictions customarily granted in connection with securitization, factoring or discounting involving receivables that are imposed in connection with a Receivables Transaction.

Limitation on Liens

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur or suffer to exist any Liens of any kind (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, to secure any Indebtedness or trade payables unless contemporaneously therewith effective provision is made to secure the Notes and all other amounts due under the Indenture equally and ratably with such Indebtedness or other obligation (or, in the event that such Indebtedness is subordinated in right of payment to the Notes prior to such Indebtedness or other obligation) with a Lien on the same properties and assets securing such Indebtedness or other obligation for so long as such Indebtedness or other obligation is secured by such Lien.

Limitation on Merger, Consolidation and Sale of Assets

The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's properties and assets (determined on a consolidated basis for the Company and its Restricted Subsidiaries), to any Person unless:

- (1) either:
 - (a) the Company shall be the surviving or continuing Person, or
 - (b) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):
 - (i) shall be a Person organized or formed and validly existing under the laws of Mexico or the United States of America, any State thereof or the District of Columbia, and
 - (ii) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance and observance of every covenant of the Notes, the Note Guarantees and the Indenture on the part of the Company to be performed or observed;
- (2) immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(ii) above (including giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be:

- (a) will have a Consolidated Fixed Charge Coverage Ratio equal to or better than the Consolidated Fixed Charge Coverage Ratio of the Company immediately prior to such transaction; or
 - (b) will be able to Incur at least \$1.00 of additional Indebtedness pursuant to clause (1) of “— Limitation on Incurrence of Additional Indebtedness”;
- (3) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(ii) above (including, without limitation, giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing;
- (4) if the Company is organized under Mexican law and merges with a corporation, or the Surviving Entity is, organized under the laws of the United States, any State thereof or the District of Columbia or the Company is organized under the laws of the United States, any State thereof or the District of Columbia and merges with a Person, or the Surviving Entity is, organized under the laws of Mexico, the Company or the Surviving Entity will have delivered to the Trustee an Opinion of Counsel from each of Mexico and the United States to the effect that, as applicable:
- (a) the Holders of the Notes will not recognize income, gain or loss for U.S. or Mexican income tax purposes as a result of the transaction and will be taxed in the Holder’s home jurisdiction in the same manner and on the same amounts (assuming solely for this purpose that no Additional Amounts are regarded to be paid on the Notes) and at the same times as would have been the case if the transaction had not occurred;
 - (b) any payment of interest or principal under or relating to the Notes or any Note Guarantees will be paid in compliance with any requirements under the section “— Additional Amounts;” and
 - (c) no other taxes on income, including capital gains, will be payable by Holders of the Notes under the laws of Mexico or the United States relating to the acquisition, ownership or disposition of the Notes, including the receipt of interest or principal thereon; *provided* that the Holder does not use or hold, and is not deemed to use or hold the Notes in carrying on a business in Mexico or the United States; and
- (5) the Company or the Surviving Entity has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

Each Subsidiary Guarantor (other than any Subsidiary Guarantor whose Note Guarantee is to be released in accordance with the terms of the Note Guarantee and the Indenture) will not, and the Company will not cause or permit any Subsidiary Guarantor to, consolidate with or merge with or into, or sell or dispose of all or substantially all of its assets to, any Person, other than the Company or any other Subsidiary Guarantor, unless (i) such Person assumes by supplemental indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, all of the obligations of the Subsidiary Guarantor in respect of the Note Guarantee and the Indenture (including the payment of Additional Amounts) or (ii) such sale or other disposition of substantially all of such Subsidiary Guarantor’s assets is made in accordance with “— Limitation on Asset Sales.”

For purposes of this covenant, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the

Company (determined on a consolidated basis for the Company and its Restricted Subsidiaries), will be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The provisions of clause (2) of the previous paragraph will not apply to:

- (1) any transfer of the properties or assets of a Restricted Subsidiary to the Company or another Restricted Subsidiary;
- (2) any merger of a Restricted Subsidiary into the Company or another Restricted Subsidiary; or
- (3) any merger of the Company into a Wholly Owned Subsidiary of the Company created for the purpose of holding the Capital Stock of the Company.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and its Restricted Subsidiaries in accordance with this covenant, in which the Company is not the continuing corporation, the Surviving Entity formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such Surviving Entity had been named as such. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Company (including a Surviving Entity, if applicable) under “— Change of Control,” if applicable.

Limitation on Transactions with Affiliates

- (1) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an “Affiliate Transaction”), unless:
 - (a) the terms of such Affiliate Transaction are no less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm’s-length basis from a Person that is not an Affiliate of the Company;
 - (b) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of \$5 million, the terms of such Affiliate Transaction will be approved by a majority of the members of the Board of Directors of the Company (including a majority of the disinterested members thereof), the approval to be evidenced by a Board Resolution stating that the Board of Directors has determined that such transaction complies with the preceding provisions; and
 - (c) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of \$20 million, the Company will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Affiliate Transaction to the Company and the relevant Restricted Subsidiary (if any) from a financial point of view from an Independent Financial Advisor and file the same with the Trustee.
- (2) Paragraph (1) above will not apply to:
 - (a) Affiliate Transactions with or among the Company and any Restricted Subsidiary of the Company or between or among Restricted Subsidiaries of the Company;
 - (b) reasonable fees and compensation paid to, and any indemnity provided on behalf of, officers, directors, employees, consultants or agents of the Company, the Parent Entity or

any Restricted Subsidiary as determined in good faith by the Company's Board of Directors;

- (c) Affiliate Transactions in existence on the Issue Date and any amendment, modification or replacement of such agreement (so long as such amendment, modification or replacement is not materially more disadvantageous to the Company and its Restricted Subsidiaries or the Holders of the Notes, taken as a whole, than the original agreement as in effect on the Issue Date);
- (d) any Restricted Payments made in compliance with "— Limitation on Restricted Payments" or any Permitted Investment;
- (e) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary made in the ordinary course of business related to the business activities of the Company and its Restricted Subsidiaries;
- (f) any employment agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business or consistent with past practice and payments pursuant thereto; and
- (g) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture, which are fair to the Company or its Restricted Subsidiaries (as applicable), or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party.

Conduct of Business

The Company and its Restricted Subsidiaries will not engage in any business other than a Permitted Business.

Reports to Holders

So long as any Notes remain outstanding:

- (1) The Company will provide the Trustee with annual financial statements audited by an internationally recognized firm of independent public accountants within 120 (one hundred and twenty) days after the end of the Company's fiscal year, and quarterly financial statements (including a balance sheet, income statement and cash flow statement for the fiscal quarter or quarters then ended and the corresponding fiscal quarter or quarters from the prior year) within 60 (sixty) days of the end of each of the first three fiscal quarters of each fiscal year. Such annual and quarterly financial statements will be prepared in accordance with GAAP and be accompanied by a management discussion and analysis of the results of operations and liquidity and capital resources of the Company and its Subsidiaries for the periods presented in a level of detail comparable to the management discussion and analysis of the results of operations and liquidity and capital resources of the Company and its Subsidiaries contained in this offering memorandum. English translations will be provided of any of the foregoing documents prepared in Spanish or any other language;
- (2) The Company will provide the Trustee copies (including English translations of documents prepared in another languages) of all public filings made with any stock exchange or securities regulatory agency or authority within twenty (20) days of such filing; and

- (3) The Company will make available, upon request, to any Holder and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely transferable under the Exchange Act by Persons who are not “affiliates” under the Securities Act.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission nor any provision or regulation of the Mexican Securities and Banking Commission (the “CNBV”). So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, the Company will make available the information specified in the preceding paragraph at the specified office of the Luxembourg paying agent for the Notes.

Listing

In the event that the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF, the Company will use its reasonable best efforts to maintain such admission to listing and trading; *provided* that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the “Transparency Directive”), or any other European regulation or national legislation implementing the Transparency Directive, the Company could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Company would otherwise use to prepare its published financial information, the Company would be entitled to delist the Notes from the Euro MTF in accordance with the rules of the Luxembourg Stock Exchange and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union and recognized by the U.S. Securities and Exchange Commission as the Company may reasonably decide.

Notices

From and after the date the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF and so long as it is required by the rules of such exchange, all notices to the Holders will be published in English:

- (1) in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*);
- (2) if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions; or
- (3) on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to Holders of Notes at their registered addresses.

Events of Default

The following are “Events of Default”

- (1) default in the payment when due of the principal of or premium, if any, on any Notes, including the failure to make a required payment to purchase Notes tendered pursuant to an optional redemption, Change of Control Offer or an Asset Sale Offer;

- (2) default for 30 (thirty) days or more in the payment when due of interest or Additional Amounts on any Notes;
- (3) the failure to perform or comply with any of the provisions described under “—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock” and “—Certain Covenants — Merger, Consolidation and Sale of Assets”;
- (4) the failure by the Company or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or in the Notes for 45 (forty-five) days or more after written notice to the Company from the Trustee or the Holders of at least 25% in aggregate principal amount of the outstanding Notes;
- (5) default by the Company or any Restricted Subsidiary that is a Significant Subsidiary under any Indebtedness which:
 - (a) is caused by a failure to pay principal of or premium, if any, on such Indebtedness prior to the expiration of any applicable grace period provided in the instrument governing such Indebtedness on the date of such default; or
 - (b) results in the acceleration of such Indebtedness prior to its stated maturity;

and the principal or accreted amount of Indebtedness covered by (a) or (b) at the relevant time, aggregates \$30 million or more;
- (6) failure by the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary to pay one or more final and definitive judgments against any of them, aggregating \$30 million or more, which judgment(s) are not paid, discharged or stayed for a period of 60 (sixty) days or more;
- (7) certain events of bankruptcy affecting the Company or any of its Restricted Subsidiaries or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary; or
- (8) any Subsidiary Guarantee ceases to be in full force and effect (except as contemplated by the terms of the Indenture) or is declared null and void in a judicial proceeding or any Subsidiary Guarantor denies or disaffirms its obligations under the Indenture or its Note Guarantee.

If an Event of Default (other than an Event of Default specified in clause (7) above with respect to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may declare the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the Notes to be immediately due and payable by notice in writing to the Company and the Trustee specifying the Event of Default and that it is a “notice of acceleration.” If an Event of Default specified in clause (7) above occurs with respect to the Company, then the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraph, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences:

- (1) if the rescission would not conflict with any judgment or decree;
- (2) if all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration;

- (3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and
- (4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its reasonable expenses, disbursements and advances.

No rescission will affect any subsequent Default or impair any rights relating thereto.

The Holders of a majority in principal amount of the Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Notes.

In the event of any Event of Default specified in clause (5) of the first paragraph above, such Event of Default and all consequences thereof (excluding, however, any resulting payment default) will be annulled, waived and rescinded, automatically and without any action by the Trustee or the Holders, if within 30 (thirty) days after such Event of Default arose the Company delivers an Officers' Certificate to the Trustee stating that (x) the Indebtedness or Guarantee that is the basis for such Event of Default has been discharged or (y) the Holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default or (z) the default that is the basis for such Event of Default has been cured, it being understood that in no event shall an acceleration of the principal amount of the Notes as described above be annulled, waived or rescinded upon the happening of any such events.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable indemnity. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No Holder of any Notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless:

- (1) such Holder gives to the Trustee written notice of a continuing Event of Default;
- (2) Holders of at least 25% in principal amount of the then outstanding Notes make a written request to pursue the remedy;
- (3) such Holders of the Notes provide to the Trustee satisfactory indemnity;
- (4) the Trustee does not comply within 60 (sixty) days; and
- (5) during such 60 (sixty) day period the Holders of a majority in principal amount of the outstanding Notes do not give the Trustee a written direction which, in the opinion of the Trustee, is inconsistent with the request;

provided, that a Holder of a Note may institute suit for enforcement of payment of the principal of and premium, if any, or interest (including Additional Amounts) on such Note on or after the respective due dates expressed in such Note.

The Company is required to deliver to the Trustee written notice of any event which would constitute certain Defaults or Events of Default, their status and what action the Company is taking or proposes to take in respect thereof. In addition, the Company is required to deliver to the Trustee, within 120 (one hundred and twenty) days after the end of each fiscal year, an Officers' Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous fiscal year. The Indenture provides that if a Default or

Event of Default occurs, is continuing and is actually known to the Trustee, the Trustee must mail to each Holder notice of the Default or Event of Default within 90 (ninety) days after the occurrence thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the Holders.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding Notes and all obligations of the Subsidiary Guarantors discharged with respect to the Note Guarantees (“Legal Defeasance”). Such Legal Defeasance means that the Company will be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes and Note Guarantees after the deposit specified in clause (1) of the second following paragraph, except for:

- (1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest (including Additional Amounts) on the Notes when such payments are due;
- (2) the Company’s obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the Trustee and the Company’s and the Subsidiary Guarantors’ obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have its obligations released with respect to certain covenants that are described in the Indenture (“Covenant Defeasance”) and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the Notes or the Note Guarantees. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under “Events of Default” will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, premium, if any, and interest (in each case including Additional Amounts) on the Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;
- (2) in the case of Legal Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that:
 - (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling; or
 - (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon such Opinion of Counsel shall state that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of

such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

- (3) in the case of Covenant Defeasance, the Company has delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) in the case of Legal Defeasance or Covenant Defeasance, the Company has delivered to the Trustee:
 - (a) an Opinion of Counsel from counsel in Mexico reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that, based upon Mexican law then in effect, Holders will not recognize income, gain or loss for Mexican tax purposes, including withholding tax except for withholding tax then payable on interest payments due, as a result of Legal Defeasance or Covenant Defeasance, as the case may be, and will be subject to Mexican taxes on the same amounts and in the same manner and at the same time as would have been the case if such Legal Defeasance or Covenant Defeasance, as the case may be, had not occurred, or
 - (b) a ruling directed to the Trustee received from the tax authorities of Mexico to the same effect as the Opinion of Counsel described in clause (a) above;
- (5) no Default or Event of Default shall have occurred and be continuing on the date of the deposit pursuant to clause (1) of this paragraph (except any Default or Event of Default resulting from the failure to comply with “— Certain Covenants — Limitation on Incurrence of Additional Indebtedness” as a result of the borrowing of the funds required to effect such deposit);
- (6) the Trustee has received an Officers’ Certificate stating that such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under the Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;
- (7) the Company has delivered to the Trustee an Officers’ Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or any Subsidiary of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;
- (8) the Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel from counsel reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and
- (9) the Company has delivered to the Trustee an Opinion of Counsel from counsel reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that the trust resulting from the deposit is not required to register as a regulated investment company under the Investment Company Act of 1940.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (1) either:
 - (a) all the Notes theretofor authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofor been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or
 - (b) all Notes not theretofor delivered to the Trustee for cancellation have become due and payable, and the Company has irrevocably deposited or caused to be deposited with the Trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment to pay and discharge the entire Indebtedness on the Notes not theretofor delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment;
- (2) the Company has paid all other sums payable under the Indenture and the Notes by it; and
- (3) the Company has delivered to the Trustee an Officers' Certificate and Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Modification of the Indenture

From time to time, the Company, the Subsidiary Guarantors and the Trustee, without the consent of the Holders, may amend the Indenture, the Notes or the Note Guarantees for certain specified purposes, including curing ambiguities, defects or inconsistencies, to provide for uncertificated Notes in addition to or in place of certificated Notes; to provide for the assumption of the Company's or a Subsidiary Guarantor's obligations to Holders of Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Company's or such Subsidiary Guarantor's assets, as applicable; to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the rights under the Indenture of any such Holder; to conform the text of the Indenture, the Note Guarantees or the Notes to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture, the Note Guarantees or the Notes; to allow any Subsidiary Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes and to release Subsidiary Guarantors from the Note Guarantee in accordance with the terms of the Indenture; to comply with the requirements of any applicable securities depository; to provide for a successor Trustee in accordance with the terms of the Indenture; to otherwise comply with any requirement of the Indenture and to issue Additional Notes and make any other changes which do not adversely affect the rights of any of the Holders in any material respect. In formulating its opinion on such matters, the Trustee will be entitled to rely on such evidence as it deems appropriate, including solely on an Opinion of Counsel and Officers' Certificate, and shall have no liability whatsoever in reliance upon the foregoing.

Other modifications and amendments of the Indenture or the Notes may be made with the consent of the holders of a majority in principal amount of the then outstanding Notes issued under the Indenture, except that, without the consent of each Holder affected thereby, no amendment may (with respect to any Notes held by a non-consenting Holder):

- (1) reduce the principal amount of Notes whose Holders must consent to an amendment or waiver;
- (2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;
- (3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption, or reduce the redemption price therefor;
- (4) make any Notes payable in money other than that stated in the Notes;
- (5) make any change in provisions of the Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on such Note on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default;
- (6) amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in respect of a Change of Control that has occurred or make and consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;
- (7) make any change in the provisions of the Indenture described under "Additional Amounts" that adversely affects the rights of any Holder or amend the terms of the Notes in a way that would result in a loss of exemption from Taxes;
- (8) make any change to the provisions of the Indenture or the Notes that adversely affect the ranking of the Notes; and

- (9) eliminate or modify in any manner a Subsidiary Guarantor's obligations with respect to its Note Guarantee which adversely affects Holders in any material respect, except as contemplated in the Indenture.

Governing Law; Jurisdiction

The Indenture, the Notes and the Note Guarantees will be governed by, and construed in accordance with, the law of the State of New York, United States of America. The Company and the Subsidiary Guarantors consent to the jurisdiction of the Federal and State courts located in the City of New York, Borough of Manhattan and have appointed an agent for service of process with respect to any actions brought in these courts arising out of or based on the Indenture, the Notes or the Note Guarantees.

The Trustee

Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *provided*, that if the Trustee acquires any conflicting interest as described in the Indenture, it must eliminate such conflict or resign as provided in the Indenture.

No Personal Liability

An incorporator, director, officer, employee, stockholder or controlling person, as such, of the Company or of any Subsidiary Guarantor shall not have any liability for any obligations of the Company under the Notes or the Indenture, or of the Subsidiary Guarantors under the Note Guarantees or the Indenture, or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder waives and releases all such liability.

Currency Indemnity

The Company and the Subsidiary Guarantors will pay all sums payable under the Indenture, the Notes or the Note Guarantees solely in U.S. Dollars. Any amount that you receive or recover in a currency other than U.S. Dollars in respect of any sum expressed to be due to you from the Company or any Subsidiary Guarantor will only constitute a discharge to us, to the greatest extent permitted under applicable law, to the extent of the U.S. Dollar amount which you are able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that date, on the first date on which you are able to do so. If the U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due to you under any Note or Note Guarantee, the Company and the Subsidiary Guarantors will indemnify you against any loss you sustain as a result. In any event, the Company and the Subsidiary Guarantors will indemnify you against the cost of making any purchase of U.S. Dollars. For the purposes of this paragraph, it will be sufficient for you to certify in a satisfactory manner that you would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which you were able to do so. In addition, you will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Company and the Subsidiary Guarantors;

- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any Holder; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for a full definition of all such terms, as well as any other terms used herein for which no definition is provided.

“*Acquired Indebtedness*” means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or any of its Restricted Subsidiaries or is assumed in connection with the acquisition of assets from such Person, in each case not Incurred in contemplation of such transaction. Such Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

“*Additional Amounts*” has the meaning set forth under “— Additional Amounts.”

“*Additional Notes*” has the meaning set forth under “— Additional Notes.”

“*Affiliate*” means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“*Asset Acquisition*” means:

- (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person will become a Restricted Subsidiary, or will be merged with or into the Company or any Restricted Subsidiary;
- (2) the acquisition by the Company or any Restricted Subsidiary of the assets or properties of any Person (other than a Subsidiary of the Company) which constitute all or substantially all of the assets or properties of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business; or
- (3) any Revocation with respect to an Unrestricted Subsidiary.

“*Asset Sale*” means any direct or indirect sale, disposition, issuance, conveyance, lease, assignment or other transfer, including a Sale and Leaseback Transaction (each, a “disposition”) by the Company or any Restricted Subsidiary of:

- (1) any Capital Stock of any Restricted Subsidiary other than Capital Stock of the Company; or
- (2) any property or assets (other than cash, Cash Equivalents or Capital Stock) of the Company or any Restricted Subsidiary;

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

- (1) transactions permitted under “— Certain Covenants — Merger, Consolidation and Sale of Assets”;
- (2) a disposition of assets (including obsolete or worn-out equipment) in the ordinary course of business (including the disposition of current assets (as determined in accordance with GAAP) received in exchange for services provided);
- (3) dispositions of assets in a single or series of related transactions with a Fair Market Value not to exceed \$5 million in the aggregate;
- (4) for purposes of “— Certain Covenants - Limitation on Asset Sales and Sales of Subsidiary Stock” only, the making of a Restricted Payment permitted under “— Certain Covenants — Limitation on Restricted Payments”, or any Permitted Investment;
- (5) a disposition or transfer of assets to the Company or a Subsidiary Guarantor, including a Person that is or will become a Subsidiary Guarantor immediately after the disposition;
- (6) an issuance or sale of Capital Stock by a Restricted Subsidiary of the Company to the Company or any of its Restricted Subsidiaries;
- (7) a disposition of accounts receivable in connection with a Receivables Transaction;
- (8) any sale of assets received by the Company or any of its Restricted Subsidiaries upon the foreclosure on a Lien in favor of the Company or any of its Restricted Subsidiaries;
- (9) the creation of a Lien (but not the sale or other disposition of the property subject to such Lien);
- (10) the good faith surrender or waiver of contract rights or settlement, release or surrender of contract, tort or other claims or statutory rights in connection with a settlement; and
- (11) grants of licenses or sublicenses in the ordinary course of business to use the patents, copyright and other intellectual property of the Company or any of the Restricted Subsidiaries to the extent such license does not interfere with the business of the Company or any Restricted Subsidiary.

“*Asset Sale Offer*” has the meaning set forth under “— Certain Covenants — Limitation on Asset Sales and Sales of Subsidiary Stock.”

“*Asset Sale Transaction*” means any Asset Sale and, whether or not constituting an Asset Sale, (1) any sale or other disposition of Capital Stock, (2) any Designation with respect to an Unrestricted Subsidiary and (3) any sale or other disposition of property or assets excluded from the definition of Asset Sale by clause (4) of that definition.

“*Board of Directors*” means, as to any Person, the board of directors, management committee or similar governing body of such Person or any duly authorized committee thereof.

“*Board Resolution*” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“*Capitalized Lease Obligations*” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

“*Capital Stock*” means:

- (1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person;
- (2) with respect to any Person that is not a corporation, any and all partnership or other equity or ownership interests of such Person; and
- (3) any warrants, rights or options to purchase any of the instruments or interests referred to in clause (1) or (2) above.

“*Cash Equivalents*” means:

- (1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof;
- (2) *Certificados de la Tesorería de la Federación* (Cetes) or *Bonos de Desarrollo del Gobierno Federal* (Bondes), in each case, issued by the federal government of Mexico and maturing not later than one year after the acquisition thereof;
- (3) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor’s Corporation (“S&P”) or Moody’s Investors Service, Inc. (“Moody’s”) or any successor thereto;
- (4) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-2 from S&P or at least P-2 from Moody’s, or its Mexican equivalent;
- (5) demand deposits, certificates of deposit, time deposits or bankers’ acceptances maturing within one year from the date of acquisition thereof issued by (a) any bank organized under the laws of the United States of America or any state thereof or the District of Columbia, (b) any U.S. branch of a non-U.S. bank having at the date of acquisition thereof combined capital and surplus of not less than \$500 million, or (c) in the case of Mexican peso deposits, any of the five top-rated banks (as evaluated by an internationally recognized rating agency) organized under the laws of Mexico;
- (6) repurchase obligations with a term of not more than 180 (one hundred and eighty) days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (5) above; and
- (7) investments in money market funds which invest substantially all of their assets in securities of the types described in clauses (1) through (6) above.

“*Change of Control*” means the occurrence of one or more of the following events:

- (1) (x) prior to the occurrence of the first public offering of common stock of the Company, any Person or Group other than the Permitted Holders is or becomes the beneficial owner (as defined below), directly or indirectly, in the aggregate of more than 50% of the total voting power of the Voting Stock of the Company or, (y) after the occurrence of the first public offering of common stock of the Company, any Person or a Group other than the Permitted Holders is or becomes the beneficial owner, directly or indirectly, in the aggregate of 35% or more of the voting power of the Voting Stock of the Company and the Permitted Holders beneficially own, directly or indirectly,

in the aggregate a lesser percentage of the total voting power of the Voting Stock of the Company (or its successor by merger, consolidation or purchase of all or substantially all of its assets) than such other Person or Group and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors of the Company or such successor (for the purposes of this clause, such other Person or Group shall be deemed to beneficially own any Voting Stock of a specified entity held by a parent entity, if such other Person or Group “beneficially owns” directly or indirectly, more than 35% of the voting power of the Voting Stock of such parent entity and the Permitted Holders “beneficially own” directly or indirectly, in the aggregate a lesser percentage of the voting power of the Voting Stock of such parent entity and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors of such parent entity);

- (2) the Company consolidates with, or merges with or into, another Person, or the Company sells, conveys, assigns, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, determined on a consolidated basis, to any Person, other than a transaction where the Person or Persons that, immediately prior to such transaction “beneficially owned” the outstanding Voting Stock of the Company are, by virtue of such prior ownership, or Permitted Holders are, the “beneficial owners” in the aggregate of more than 50% of the total voting power of the then outstanding Voting Stock of the surviving or transferee person (or if such surviving or transferee Person is a direct or indirect wholly-owned subsidiary of another Person, such Person who is the ultimate parent entity), in each case whether or not such transaction is otherwise in compliance with the Indenture; or
- (3) the approval by the holders of Capital Stock of the Company of any plan or proposal for the liquidation or dissolution of the Company, whether or not otherwise in compliance with the provisions of the Indenture.

For purposes of this definition:

- (a) “beneficial owner” will have the meaning specified in Rules 13d-3 and 13d-5 under the Exchange Act, except that any Person or Group will be deemed to have “beneficial ownership” of all securities that such Person or Group has the right to acquire, whether such right is exercisable immediately, only after the passage of time or, except in the case of the Permitted Holders, upon the occurrence of a subsequent condition;
- (b) “Person” and “Group” will have the meanings for “person” and “group” as used in Sections 13(d) and 14(d) of the Exchange Act; and
- (c) the Permitted Holders or any other Person or Group will be deemed to beneficially own any Voting Stock of a corporation held by any other corporation (the “parent corporation”) so long as the Permitted Holders or such other Person or Group, as the case may be, beneficially own, directly or indirectly, in the aggregate more than 50% of the voting power of the Voting Stock of the parent corporation and no other Person or Group beneficially owns an equal or greater amount of the Voting Stock of the parent corporation.

“*Change of Control Payment*” has the meaning set forth under “Change of Control.”

“*Change of Control Payment Date*” has the meaning set forth under “Change of Control.”

“*Commodity Agreement*” means any commodity or raw material futures contract, commodity or raw materials option, or any other agreement designed to protect against or manage exposure to fluctuations in commodity or raw materials prices, including but not limited to natural gas prices.

“*Common Stock*” of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

“*Consolidated EBITDA*” means, for any Person for any period, Consolidated Net Income for such Person for such period, plus the following, without duplication, to the extent deducted or added in calculating such Consolidated Net Income:

- (1) Consolidated Income Tax Expense for such Person for such period;
- (2) Consolidated Interest Expense for such Person for such period;
- (3) Consolidated Non-cash Charges for such Person for such period;
- (4) net after-tax losses from Asset Sale Transactions or abandonment or reserves relating thereto for such period;
- (5) any income or loss from extraordinary transactions;
- (6) the portion of the net income of any Subsidiary (Restricted Subsidiary in the case of the Company) of such Person which was deducted in calculating Consolidated Net Income for such period as a result of minority interests in such Subsidiary;
- (7) the portion of the net income of any Subsidiary (Restricted Subsidiary in the case of the Company) of such Person that was excluded pursuant to clause (4) of the definition of Consolidated Net Income due to customary corporate law requirements in connection with the payment of dividends or distributions;
- (8) all fees, costs and expenses incurred in connection with the offering of the Notes as disclosed under the “Use of Proceeds” section of the Offering Circular; and
- (9) any income or loss from discontinued operations.

less (x) all other non-cash credits and gains increasing Consolidated Net Income for such Person for such period, other than any items which represent the reversal in such period of any accrual of, or cash reserve for, anticipated charges in any prior period where such accrual or reserve is no longer required under GAAP and (y) all cash payments made by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period relating to non-cash charges that were added back in determining Consolidated EBITDA in any prior period.

“*Consolidated Fixed Charge Coverage Ratio*” means, for any Person as of any date of determination, the ratio of the aggregate amount of Consolidated EBITDA of such Person for the four most recent full fiscal quarters for which financial statements are available ending prior to the date of such determination (the “Four Quarter Period”) to Consolidated Fixed Charges for such Person for such Four Quarter Period. For purposes of this definition, “Consolidated EBITDA” and “Consolidated Fixed Charges” will be calculated after giving effect on a pro forma basis as determined in the good faith judgment of the Company’s chief financial officer, for the period of such calculation to:

- (1) the Incurrence or repayment or redemption of any Indebtedness (including Acquired Indebtedness) of such Person or any of its Subsidiaries (Restricted Subsidiaries in the case of the Company), and the application of the proceeds thereof, including the Incurrence of any Indebtedness (including Acquired Indebtedness), and the application of the proceeds thereof, giving rise to the need to make such determination, occurring during such Four Quarter Period or at any time subsequent to the last day of such Four Quarter Period and on or prior to such date of determination, to the extent, in the case of an Incurrence, such Indebtedness is outstanding on the date of determination,

as if such Incurrence and the application of the proceeds thereof, repayment or redemption occurred on the first day of such Four Quarter Period; and

- (2) any Asset Sale Transaction or Asset Acquisition by such Person or any of its Subsidiaries (Restricted Subsidiaries in the case of the Company), including any Asset Sale Transaction or Asset Acquisition giving rise to the need to make such determination occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to such date of determination, as if such Asset Sale Transaction or Asset Acquisition occurred on the first day of the Four Quarter Period including any pro forma expense and cost reductions, synergies and other operating improvements that have occurred or are reasonably expected to occur and are reasonably the basis of pro forma adjustment (regardless of whether such cost savings, synergies or operating improvements could then be reflected in pro forma financial statements in accordance with Regulation S-X under the Securities Act).

Furthermore, in calculating “Consolidated Fixed Charges” for purposes of determining the denominator (but not the numerator) of this “Consolidated Fixed Charge Coverage Ratio,”

- (a) interest on outstanding Indebtedness determined on a fluctuating basis as of the date of determination and which will continue to be so determined thereafter will be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on such date of determination; *provided* that any interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by Hedging Obligations, will be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements; and
- (b) if interest on any Indebtedness actually Incurred on such date of determination may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on such date of determination will be deemed to have been in effect during the Four Quarter Period.

“*Consolidated Fixed Charges*” means, for any Person for any period, the sum, without duplication, of.

- (1) Consolidated Interest Expense for such Person for such period, *plus*
- (2) the amount of all cash and non-cash dividend payments on any series of Preferred Stock or Disqualified Capital Stock of such Person (other than dividends paid in Qualified Capital Stock) or any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) paid, accrued or scheduled to be paid or accrued during such period, excluding dividend payments on Preferred Stock or Disqualified Capital Stock paid, accrued or scheduled to be paid to such Person or another Subsidiary (Restricted Subsidiary in the case of the Company).

“*Consolidated Income Tax Expense*” means, with respect to any Person for any period, the provision for all applicable federal, state and local income taxes payable by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period as determined on a consolidated basis in accordance with GAAP.

“*Consolidated Interest Expense*” means, for any Person for any period, the sum of, without duplication determined on a consolidated basis in accordance with GAAP:

- (1) the aggregate of cash and non-cash interest expense of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period determined on a consolidated basis in accordance with GAAP, including, without limitation (whether or not interest expense in accordance with GAAP):

- (a) any amortization or accretion of debt discount or any interest paid on Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) in the form of additional Indebtedness, (but excluding any amortization of deferred financing and debt issuance costs),
 - (b) the net costs under Hedging Obligations (but excluding amortization of fees),
 - (c) all capitalized comprehensive result of financing,
 - (d) commissions, discounts and other fees and charges Incurred in respect of letters of credit or bankers' acceptances, and
 - (e) any interest expense paid in respect of Indebtedness of another Person that is Guaranteed by such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company) or secured by a Lien on the assets of such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company); and
- (2) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period.

“*Consolidated Net Income*” means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries (after deducting (or adding) the portion of such net income (or loss) attributable to minority interests in Subsidiaries of such Person) for such period on a consolidated basis, determined in accordance with GAAP; *provided* that there shall be excluded therefrom to the extent reflected in such aggregate net income (loss):

- (1) net after-tax gains from non-ordinary course Asset Sale Transactions or abandonments or reserves relating thereto;
- (2) net after-tax items classified as extraordinary gains or losses;
- (3) the net income (or loss) of any Person, other than such Person and any Subsidiary of such Person (Restricted Subsidiary in the case of the Company); except that the net income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions actually paid in cash to the Company or any of its Restricted Subsidiaries;
- (4) the net income (but not loss) of any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) to the extent that a corresponding amount could not be distributed to such Person at the date of determination as a result of any restriction pursuant to the constituent documents of such Subsidiary (Restricted Subsidiary in the case of the Company) or any law, regulation, agreement or judgment applicable to any such distribution;
- (5) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time following the Issue Date;
- (6) any gain (or loss) from foreign exchange translation or change in net monetary position; and
- (7) the cumulative effect of changes in accounting principles.

“*Consolidated Net Worth*” of any Person means the consolidated stockholders' equity of such Person, determined on a consolidated basis in accordance with GAAP, less (without duplication) amounts attributable to Disqualified Capital Stock of such Person.

“*Consolidated Non-cash Charges*” means, for any Person for any period, the aggregate depreciation, amortization and other non-cash expenses or losses of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period, determined on a consolidated basis in accordance with GAAP (excluding any such charge which constitutes an accrual of or a reserve for cash charges for any future period or the amortization of a prepaid cash expense that is a current asset paid in a prior period).

“*Consolidated Total Assets*” means, for any Person at any time, the total consolidated assets of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) as set forth on the most recent balance sheet of such Person, prepared in accordance with GAAP.

“*Covenant Defeasance*” has the meaning set forth under “— Legal Defeasance and Covenant Defeasance.”

“*Credit Agreement*” means the revolving credit facility made to the Company pursuant to the Credit Agreement, dated October 26, 2006, as amended, extended, modified, restated, renewed, Refinanced, supplemented or otherwise modified (in whole or in part) from time to time, by and among the Company, as borrower, the Lenders named therein, Citibank, N.A., as administrative agent, Banco Nacional de México, S.A., as collateral agent and Citigroup Global Markets Inc., as book manager and arranger or, any replacement or substitute revolving credit facility entered into after the Issue Date.

“*Credit Facilities*” means one or more debt facilities (including the Credit Agreement), commercial paper facilities or Debt Issuances, in each case with banks, investment banks, insurance companies, mutual funds and/or other institutional lenders or institutional investors providing for revolving credit loans, term loans, receivables or inventory financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from (or sell receivables to) such lenders against such receivables), letters of credit or Debt Issuances, in each case, as amended, extended, modified, renewed, restated, Refinanced (including, Refinancing with Debt Issuances), supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time.

“*Currency Agreement*” means, in respect of any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed to hedge foreign currency risk of such Person.

“*Debt Issuances*” means, with respect to the Company or any Restricted Subsidiary, one or more issuances after the Issue Date of Indebtedness evidenced by notes, debentures, bonds or other similar securities or instruments.

“*Default*” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“*Designation*” and “*Designation Amount*” have the meanings set forth under “—Certain Covenants — Limitation on Designation of Unrestricted Subsidiaries” above.

“*Disqualified Capital Stock*” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, on or prior to the final maturity date of the Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the final maturity of the Notes shall not constitute Disqualified Stock if:

- (1) the “asset sale” or “change of control” provisions applicable to such Capital Stock are not materially more favorable to the holders of such Capital Stock than the terms applicable to the Notes and described under “—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock” and “—Change of Control”; and

- (2) any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto.

The amount of any Disqualified Capital Stock shall be equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any. The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided, however*, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

“*Divestment Agreement*” means the Investment, Temporary Partnership and Divestment Agreement, dated September 6, 2006, among Kimberly-Clark de México, S.A.B. de C.V., Servicios Empresariales Során, S.A. de C.V., Controladora Celulósico Papelero, S.A.P.I. de C.V., Papeles Industriales de Michoacán, S.A. de C.V., Promotora Mexicana Celulósico Papelero, S.A. de C.V., Desarrollo Celulósico Papelero, S.A. de C.V., Silvicultora Saraya, S.A. de C.V., Celulósicos de Chihuahua, S.A. de C.V., Ecatepec Industrial S. de R.L. de C.V. and Deutsche Bank México, S.A., Institución de Banca Múltiple, as Trustee of Trust No. F/442, and which is further described under “Related Party Transactions — Agreements with KCM.”

“*Equity Offering*” has the meaning set forth under “— Optional Redemption — Optional Redemption upon Equity Offerings.”

“*Event of Default*” has the meaning set forth under “— Events of Default”.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“*Fair Market Value*” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) which could be negotiated in an arm’s-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction.

“*Fitch*” means Fitch Ratings, Ltd. or any successor to the rating agency business thereof.

“*Four Quarter Period*” has the meaning assigned to it in the definition of Consolidated Fixed Charge Coverage Ratio above.

“*GAAP*” means *normas de información financiera aplicable* in Mexico that are in effect from time to time.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

- (1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or
- (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part,

provided, that “*Guarantee*” will not include endorsements for collection or deposit in the ordinary course of business. “*Guarantee*” used as a verb has a corresponding meaning.

“*Hedging Obligations*” means the obligations of any Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

“*Incur*” means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person (and “*Incurrence*,” “*Incurred*” and “*Incurring*” will have meanings correlative to the preceding).

“*Indebtedness*” means, with respect to any Person, without duplication:

- (1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;
- (2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;
- (4) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all payment obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities accounted for as current liabilities (in accordance with GAAP) arising in the ordinary course of business that are not overdue by 180 (one hundred and eighty) days or more or are being contested in good faith);
- (5) all obligations of such Person in respect of letters of credit, banker’s acceptances or similar credit transactions, including reimbursement obligations in respect thereof;
- (6) Guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (5) above and clauses (8) through (10) below;
- (7) all Indebtedness of any other Person of the type referred to in clauses (1) through (6) above which is secured by any Lien on any property or asset of the first Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset or the amount of the Indebtedness so secured;
- (8) all obligations under Hedging Obligations of such Person;
- (9) to the extent not otherwise included in this definition, the Receivables Transaction Amount outstanding relating to any Receivables Transaction; and
- (10) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any.

“*Independent Financial Advisor*” means an accounting firm, appraisal firm, investment banking firm or consultant of internationally recognized standing that is, in the judgment of the Company’s Board of Directors, qualified to perform the task for which it has been engaged and which is independent in connection with the relevant transaction.

“*Interest Rate Agreement*” of any Person means any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge interest rate risk of such Person.

“*Investment*” means, with respect to any Person, any:

- (1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee) to any other Person,
- (2) capital contribution (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) to any other Person, or
- (3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person.

“Investment” will exclude accounts receivable or deposits arising in the ordinary course of business. “Invest,” “Investing” and “Invested” will have corresponding meanings.

For purposes of the “Limitation on Restricted Payments” covenant, the Company will be deemed to have made an “Investment” in an Unrestricted Subsidiary at the time of its Designation, which will be valued at the Fair Market Value of the sum of the net assets of such Unrestricted Subsidiary at the time of its Designation and the amount of any Indebtedness of such Unrestricted Subsidiary or owed to the Company or any Restricted Subsidiary immediately following such Designation. Any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer. If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Company or any Restricted Subsidiary or owed to the Company or any other Restricted Subsidiary immediately following such sale or other disposition.

“*Investment Grade Rating*” means a rating equal to or higher than Baa3 (or the equivalent) by Moody’s, BBB- (or the equivalent) by S&P and BBB- (or equivalent) by Fitch.

“*Investment Return*” means, in respect of any Investment (other than a Permitted Investment) made after the Issue Date by the Company or any Restricted Subsidiary:

- (1) the cash proceeds received by the Company or any Restricted Subsidiary upon the sale, liquidation or repayment of such Investment or, in the case of a Guarantee, the amount of the Guarantee upon the unconditional release of the Company and its Restricted Subsidiaries in full, less any payments previously made by the Company or any Restricted Subsidiary in respect of such Guarantee;
- (2) in the case of the Revocation of the Designation of an Unrestricted Subsidiary, an amount equal to the lesser of:
 - (a) the Company’s Investment in such Unrestricted Subsidiary at the time of such Revocation; and
 - (b) the Designation Amount with respect to such Unrestricted Subsidiary upon its Designation which was treated as a Restricted Payment; and
- (3) in the event the Company or any Restricted Subsidiary makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, the Fair Market Value of the Investment of the Company and its Restricted Subsidiaries in such Person;

in the case of each of (1), (2) and (3), up to the amount of such Investment that was treated as a Restricted Payment under “- Certain Covenants - Limitation on Restricted Payments” less the amount of any previous Investment Return in respect of such Investment.

“*Issue Date*” means the first date of issuance of Notes under the Indenture.

“*Joint Venture*” means any joint venture between the Company or any Restricted Subsidiary and any other Person, whether or not such Joint Venture is a Subsidiary of the Company or any Restricted Subsidiary.

“*Legal Defeasance*” has the meaning set forth under “Legal Defeasance and Covenant Defeasance.”

“*Lien*” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder.

“*Marketable Securities*” has the meaning ascribed to such term under GAAP.

“*Moody’s*” means Moody’s Investors Service, Inc. or any successor to the rating agency business thereof.

“*Net Cash Proceeds*” means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries from such Asset Sale, net of:

- (1) reasonable out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);
- (2) taxes paid or payable in respect of such Asset Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;
- (3) repayment of Indebtedness secured by a Lien permitted under the Indenture that is required to be repaid in connection with such Asset Sale; and
- (4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness.

“*Note Guarantee*” means any Guarantee of the Company’s Obligations under the Notes and the Indenture provided by a Subsidiary Guarantor pursuant to the Indenture.

“*Obligations*” means, with respect to any Indebtedness, any principal, interest (including, without limitation, Post-Petition Interest), penalties, fees, indemnifications, reimbursements, damages, and other liabilities payable under the documentation governing such Indebtedness, including in the case of the Notes, the Indenture.

“*Offering Circular*” means the Offering Circular, dated March 30, 2010, relating to the original issuance and sale of the Notes.

“*Opinion of Counsel*” means a written opinion of legal counsel, who may be an employee of or legal counsel for the Company (except as otherwise provided in the Indenture) and who shall be reasonably acceptable to the Trustee.

“*Parent Entity*” means Corporación Scribe, S.A.P.I. de C.V.

“*Permitted Acquisition Indebtedness*” means Indebtedness of the Company or any of its Restricted Subsidiaries to the extent such Indebtedness was (i) Indebtedness of a Subsidiary prior to the date on which such

Subsidiary became a Restricted Subsidiary, (ii) Indebtedness of a Person that was merged consolidated or amalgamated into the Company or a Restricted Subsidiary or (iii) assumed in connection with the acquisition of assets from a Person; *provided* that on the date such Subsidiary became a Restricted Subsidiary or the date such Person was merged, consolidated or amalgamated into the Company or a Restricted Subsidiary or assumed in connection with an asset acquisition, as applicable, after giving pro forma effect thereto, (a) the Consolidated Net Worth of the Company and the Restricted Subsidiaries would be greater than the Consolidated Net Worth immediately prior to such transaction, (b) the Company, would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to paragraph (1) under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” or (c) the Consolidated Fixed Charge Coverage Ratio of the Company would be equal to or better than the Consolidated Fixed Charge Coverage Ratio of the Company immediately prior to such transaction.

“*Permitted Business*” means the business or businesses conducted by the Company and its Restricted Subsidiaries as of the Issue Date and any business ancillary or complementary thereto.

“*Permitted Holders*” means (i) Genaro Federico Larrea Mota Velasco, (ii) a parent, brother or sister of the individuals named in clause (i), (iii) the spouse or a former spouse of any individual(s) named in clause (i) or (ii), (iv) the lineal descendants of any person named in clauses (i) through (iii) and the spouse or a former spouse of any such lineal descendant, (v) the estate or any guardian, custodian or other legal representative of any individual named in clauses (i) through (iv), (vi) any trust established principally for the benefit of any one or more of the individuals named in clauses (i) through (v), (vii) any Person in which a majority of the equity interests are owned, directly or indirectly, by any one or more of the Persons named in clauses (i) through (vi), (viii) Kimberly-Clark de México S.A.B. de C.V. (ix) Impulso de Desarrollos Estrategicos, S.A. de C.V., (x) Hickory Netherlands Coöperatie U.A., (xi) Willow Netherlands Coöperatie U.A., (xii) Corporación Scribe, S.A.P.I. de C.V. and (xiii) the Company’s employee stock option trusts.

“*Permitted Indebtedness*” has the meaning set forth under clause (2) of “Certain Covenants — Limitation on Incurrence of Additional Indebtedness.”

“*Permitted Investments*” means:

- (1) Investments by the Company or any Restricted Subsidiary in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary or constituting a merger or consolidation of such Person into the Company or with or into a Restricted Subsidiary;
- (2) Investments by any Restricted Subsidiary in the Company;
- (3) Investments in cash and Cash Equivalents;
- (4) any extension, modification or renewal of any Investments existing as of the Issue Date (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof, other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind pursuant to the terms of such Investment as of the Issue Date);
- (5) Investments permitted pursuant to clause (2) (b) or (e) of “— Certain Covenants — Limitation on Transactions with Affiliates”;
- (6) Investments received as a result of the bankruptcy or reorganization of any Person or a foreclosure, or taken in settlement of or other resolution of claims or disputes, and, in each case, extensions, modifications and renewals thereof;
- (7) Investments made by the Company or its Restricted Subsidiaries as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under “— Certain Covenants — Limitation on Asset Sales and Sales of Subsidiary Stock”;

- (8) Investments in the form of Hedging Obligations permitted under clause 2(d) of “— Certain Covenants — Limitation on Incurrence of Additional Indebtedness;”
- (9) prepayments and credits or advances to customers or suppliers (including talent) in the ordinary course of business accounted for as current assets in accordance with GAAP;
- (10) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers’ compensation, performance and other similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;
- (11) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (12) cash deposits with banks made in the ordinary course of business of the Company and its Restricted Subsidiaries, consistent with past practice, to secure payment of trade payables;
- (13) Investments in a Receivables Entity in connection with a Receivables Transaction; *provided* that such Investment in any such Person is in the form of any equity interest or interests in receivables and related assets generated by the Company or any Restricted Subsidiary and transferred to such Person in connection with a Receivables Transaction; and
- (14) Investments in a Person engaged in a Permitted Business not to exceed the greater of (x) \$30 million and (y) 6.00% of Consolidated Total Assets of the Company and its Restricted Subsidiaries as of the most recent fiscal quarter ended;

provided, however, that with respect to any Investment, the Company may, in its sole discretion, allocate all or any portion of any Investment and later re-allocate all or any portion of any Investment to, one or more of the above clauses (1) through (14) so that the entire Investment would be a Permitted Investment.

“*Permitted Liens*” means any of the following:

- (1) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith;
- (2) Liens Incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);
- (3) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person’s obligations in respect of bankers’ acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (4) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;
- (5) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or a Restricted Subsidiary, including rights of offset and set-off;

- (6) Liens securing Hedging Obligations that relate to Indebtedness that is Incurred in accordance with “— Certain Covenants — Limitation on Incurrence of Additional Indebtedness” and that are secured by the same assets as secure such Hedging Obligations;
- (7) Liens existing on the Issue Date and Liens securing Refinancing Indebtedness incurred to refinance Indebtedness that was previously secured by a Permitted Lien (other than Permitted Liens incurred pursuant to clause (14) below), provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distribution in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is the security for a Permitted Lien hereunder;
- (8) Liens securing Acquired Indebtedness Incurred in accordance with “Certain Covenants— Limitation on Incurrence of Additional Indebtedness” not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; *provided* that
 - (a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and
 - (b) such Liens do not extend to or cover any property of the Company or any Restricted Subsidiary other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Restricted Subsidiary and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary;
- (9) purchase money Liens securing Purchase Money Indebtedness or Capitalized Lease Obligations Incurred to finance the acquisition, construction, improvement or leasing of property of the Company or a Restricted Subsidiary used in a Permitted Business; *provided*, that:
 - (a) the related Purchase Money Indebtedness does not exceed the cost of such property and shall not be secured by any property of the Company or any Restricted Subsidiary other than the property so acquired, constructed or improved, and
 - (b) the Lien securing such Indebtedness will be created within 90 (ninety) days of such acquisition, construction or improvement;
- (10) any pledge or deposit of cash or property in conjunction with obtaining surety and performance bonds and letters of credit required to engage in constructing on-site and off-site improvements required by municipalities or other governmental authorities in the ordinary course of business;
- (11) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;
- (12) Liens encumbering customary initial deposits and margin deposits, and other Liens that are customary in the industry and incurred in the ordinary course of business securing Indebtedness under Hedging Obligation and forward contracts, options, futures contracts, futures options or similar agreements or arrangement designed to protect the Company and its Restricted Subsidiaries from fluctuations in the price of commodities;
- (13) Liens on accounts receivable or related assets incurred in connection with a Receivables Transaction;

- (14) licenses of intellectual property in the ordinary course of business;
- (15) Liens to secure a defeasance trust to the extent such defeasance is otherwise permitted pursuant to the terms of the Indenture;
- (16) Liens for taxes, assessments or other governmental charges not yet subject to penalties for nonpayment or which are being contested in good faith by appropriate proceedings provided appropriate reserves required pursuant to GAAP have been made in respect thereof;
- (17) encumbrances, easements, or reservations, or rights of others, licenses, rights of way, zoning and similar restrictions, reservations, restrictions or encumbrances in respect of real property or title defects that do not in the aggregate materially adversely affect the value of said properties (as such properties are used by the Company or its Restricted Subsidiaries) or materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;
- (18) leases and subleases of real property which do not materially interfere with the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries;
- (19) Liens arising from precautionary Uniform Commercial Code financing statement filings regarding operating leases entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business;
- (20) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within such proceedings may be initiated has not expired;
- (21) Liens on Capital Stock of an Unrestricted Subsidiary that secure Indebtedness or other obligations of such Unrestricted Subsidiary;
- (22) Liens to secure Indebtedness permitted under the Credit Facilities permitted to be Incurred pursuant to clause (2)(b) of “—Certain Covenants—Limitations on Incurrence of Additional Indebtedness”; or
- (23) other Liens to secure Indebtedness of the Company or any of its Restricted Subsidiaries, not to exceed \$15 million at any one time.

“*Person*” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“*Post-Petition Interest*” means all interest accrued or accruing after the commencement of any insolvency or liquidation proceeding (and interest that would accrue but for the commencement of any insolvency or liquidation proceeding) in accordance with and at the contract rate (including, without limitation, any rate applicable upon default) specified in the agreement or instrument creating, evidencing or governing any Indebtedness, whether or not, pursuant to applicable law or otherwise, the claim for such interest is allowed as a claim in such insolvency or liquidation proceeding.

“*Preferred Stock*” of any Person means any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

“*Public Equity Offering*” means an underwritten public offering of common stock of the Company pursuant to an effective registration statement under the Securities Act (but excluding in any event any issuance pursuant to employee benefit plans or otherwise in compensation to officers, directors or employees).

“*Purchase Money Indebtedness*” means Indebtedness Incurred for the purpose of financing all or any part of the purchase price, or other cost of construction or improvement, including related development costs, of any property (other than Capital Stock); *provided*, that the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property or such purchase price or cost, including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of Refinancing.

“*Qualified Capital Stock*” means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

“*Rating Agencies*” mean Moody’s, S&P or Fitch. In the event that any of Moody’s, S&P or Fitch is no longer in existence or issuing ratings, such organization may be replaced by a nationally recognized United States securities rating agency or agencies, or the case may be, designated by the Company with notice to the Trustee.

“*Receivables Entity*” means a Person in which the Company or any Restricted Subsidiary makes an Investment and:

- (1) to which the Company or any Restricted Subsidiary transfers receivables and related assets in connection with a Receivables Transaction;
- (2) which engages in no activities other than in connection with the Receivables Transaction;
- (3) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:
 - (a) is guaranteed by the Company or any Restricted Subsidiary (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings);
 - (b) is recourse to or obligates the Company or any Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings; or
 - (c) subjects any property or asset of the Company or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;
- (4) with which neither the Company nor any Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Receivables Transaction) other than on terms no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company, other than fees payable in the ordinary course of business in connection with servicing receivables; and
- (5) to which neither the Company nor any Restricted Subsidiary has any obligation to maintain or preserve such entity’s financial condition or cause such entity to achieve certain levels of operating results.

“*Receivables Transaction*” means any securitization, factoring, discounting or similar financing transaction or series of transactions that may be entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business pursuant to which the Company or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to any Person (including a Receivables Entity), or may grant a security interest in, any receivables (whether now existing or arising in the future) of the Company or any of its Restricted Subsidiaries, and any assets related thereto, including all collateral securing such receivables, all contracts and all guarantees or other obligations in respect of such receivables, the proceeds of such receivables and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with securitization, factoring or discounting involving receivables.

“*Receivables Transaction Amount*” means the amount of obligations outstanding under the legal documents entered into as part of a Receivables Transaction on any date of determination that would be characterized as principal if such Receivables Transaction were structured as a secured lending transaction rather than a purchase.

“*Refinance*” means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part. “Refinanced” and “Refinancing” will have correlative meanings.

“*Refinancing Indebtedness*” means Indebtedness of the Company or any Restricted Subsidiary issued to Refinance any other Indebtedness of the Company or a Restricted Subsidiary so long as:

- (1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable expenses incurred by the Company in connection with such Refinancing);
- (2) such new Indebtedness has:
 - (a) a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced, and
 - (b) a final maturity that is equal to or later than the final maturity of the Indebtedness being Refinanced; and
- (3) if the Indebtedness being Refinanced is:
 - (a) Indebtedness of the Company, then such Refinancing Indebtedness will be Indebtedness of the Company or a Subsidiary Guarantor, or
 - (b) Subordinated Indebtedness, then such Refinancing Indebtedness shall be subordinate to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced.

“*Representative*” means any trustee, agent or representative (if any) for an issue of Senior Indebtedness of the Company.

“*Restricted Payment*” has the meaning set forth under “- Certain Covenants - Limitation on Restricted Payments.”

“*Restricted Subsidiary*” means any Subsidiary of the Company which at the time of determination is not an Unrestricted Subsidiary.

“*Revocation*” has the meaning set forth under “— Certain Covenants — Limitation on Designation of Unrestricted Subsidiaries.”

“*S&P*” means Standard & Poor’s Ratings Services or any successor to the rating agency business thereof.

“*Sale and Leaseback Transaction*” means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such Property.

“*Senior Indebtedness*” means the Notes and the Note Guarantees and any other Indebtedness of the Company that ranks equal in right of payment with the Notes or the relevant Note Guarantees, as the case may be.

“*Significant Subsidiary*” means a Subsidiary of the Company constituting a “Significant Subsidiary” of the Company in accordance with Rule 1-02(w) of Regulation S-X under the Securities Act in effect on the date hereof, except that each reference therein to “10 percent” shall be “5 percent” for the purposes of the Indenture.

“*Standard Securitization Undertakings*” means representations, warranties, covenants and indemnities entered into by the Company or any Restricted Subsidiary which are reasonably customary in securitization of receivables transactions.

“*Stated Maturity*” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“*Subordinated Indebtedness*” means, with respect to the Company or any Subsidiary Guarantor, any Indebtedness of the Company or such Subsidiary Guarantor, as the case may be which is expressly subordinated in right of payment to any Senior Indebtedness or the relevant Note Guarantee, as the case may be.

“*Subsidiary*” means, with respect to any Person, any other Person of which such Person owns, directly or indirectly:

- (1) more than 50% of the voting power of the other Person’s outstanding Voting Stock, or
- (2) at least 50% of the voting power of the other Person’s Voting Stock as long as such other Person is required by GAAP to be consolidated with such Person for purposes of general financial reporting.

“*Subsidiary Guarantor*” means any Restricted Subsidiary, which provides a Note Guarantee pursuant to the Indenture until such time as its Note Guarantee is released in accordance with the Indenture.

“*Surviving Entity*” has the meaning set forth under “— Certain Covenants — Limitation on Merger, Consolidation and Sale of Assets.”

“*Transactions*” means the repayment, directly or indirectly by the Company or through any of its affiliates, of the amounts payable to KCM under the Divestment Agreement and the other transactions described under “Use of Proceeds” in the Offering Circular.

“*Unrestricted Subsidiary*” means any Subsidiary of the Company Designated as such pursuant to “— Certain Covenants — Limitation on Designation of Unrestricted Subsidiaries.” Any such Designation may be revoked by a Board Resolution of the Company, subject to the provisions of such covenant.

“*U.S. Government Obligations*” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer’s option.

“*Voting Stock*” with respect to any Person, means securities of any class of Capital Stock of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

- (1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into
- (2) the sum of the products obtained by multiplying:
 - (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by
 - (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

“*Wholly Owned Restricted Subsidiary*” means a Restricted Subsidiary that is a Wholly Owned Subsidiary.

“*Wholly Owned Subsidiary*” means, for any Person, any Subsidiary (Restricted Subsidiary in the case of the Company) of which all the outstanding Capital Stock (other than, in the case of a Subsidiary not organized in the United States, directors’ qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) is owned by such Person or any other Person that satisfies this definition in respect of such Person.

TAXATION

General

The following summary contains a description of the material U.S. and Mexican federal tax consequences of the purchase, ownership and disposition of the notes by certain non-Mexican holders that are not residents of Mexico for tax purposes.

This summary is based upon federal tax laws of the United States and Mexico as in effect on the date of this offering circular, including the provisions of the income tax treaty between the United States and Mexico, which we refer to in this offering circular as the Tax Treaty, all of which are subject to change. This summary does not purport to be a comprehensive description of all the U.S. or Mexican federal income tax considerations that may be relevant to a decision to purchase, hold or dispose of the notes. The summary does not address any tax consequences under the laws of any state, municipality or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States. All of the foregoing are subject to change, possibly with retroactive effect, which could affect the continued validity of this summary.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE MEXICAN AND UNITED STATES TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF NOTES, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY FOREIGN (NON-MEXICAN AND NON-U.S.), STATE OR LOCAL TAX LAWS AND ANY TREATIES FOR THE AVOIDANCE OF DOUBLE TAXATION.

Mexico has also entered into or is negotiating several other double taxation treaties with various countries that may have an impact on the tax treatment of the purchase, ownership or disposition of notes. Prospective purchasers of notes should consult their own tax advisors as to the tax consequences, if any, of the application of any such treaties.

General Mexican Tax Considerations

The following is a summary of the main Mexican federal income tax consequences for non-residents of Mexico for tax purposes in connection with the purchase, ownership and holding or disposition of notes, and is based upon the federal tax laws of Mexico as in effect on the date of this offering circular, all of which are subject to change.

This summary does not purport to be a comprehensive description of all Mexican tax considerations that may be relevant to a decision to purchase, hold or dispose of the notes. The summary does not address any tax consequences under the laws of any state or municipality of Mexico; nor does it address any tax consequences under the laws of the United States, Luxembourg or any other taxing jurisdiction.

The tax implications described herein may vary depending on the applicability of a treaty for the avoidance of double taxation. Mexico has entered into or is negotiating several treaties regarding the avoidance of double taxation with various countries that may have an impact on the tax treatment of the purchase, ownership and holding or disposition of notes.

Mexican Federal Tax Considerations

An individual is a resident of Mexico if such person has established his or her domicile in Mexico. When such person has a home in another country, the individual will be considered a resident of Mexico for tax purposes, if his/her center of vital interests is located in Mexico, which is deemed to occur if (i) more than 50% of such individual's total income, in any calendar year, has a Mexican source, or (ii) such individual's principal center of professional activities is located in Mexico. Mexican nationals that are employed by the Mexican government are deemed residents of Mexico, even if his/her center of vital interests is located outside of Mexico. Unless otherwise proven, Mexican nationals are deemed residents of Mexico for tax purposes. A legal entity is a resident of Mexico if it maintains the principal administration of its business or the effective location of its management in Mexico.

Furthermore, a permanent establishment in Mexico for tax purposes of a foreign person, will be required to pay taxes in Mexico, in accordance with applicable tax laws, for any and all income attributable to such permanent establishment. Mexican tax residents—both individuals and legal entities—are taxed on worldwide income regardless of the location of its source.

The following is a general summary of the principal Mexican federal income tax consequences of the purchase, ownership and holding, and disposition of the notes by holders that are not residents of Mexico for tax purposes and that do not hold the notes through a permanent establishment for tax purposes in Mexico to which the holding of the notes is attributable.

Taxation of Interest

Payment of Interest. Pursuant to the Mexican Income Tax Law, payments of interest (including original issue discount and premiums, which are deemed interest under the Mexican Income Tax Law) on the notes made by us or the guarantors, to a non-resident of Mexico holding the notes, will generally be subject to Mexican withholding taxes at a rate of 4.9%, if, as expected, the following requirements are satisfied:

- a notice has been filed with the CNBV describing the main characteristics of the notes offering, including that the notes were subject of a public offering outside of Mexico, as specified in Article 7 of the Mexican Securities Market Law;
- the notes, as expected, are placed in an offering outside of Mexico, through banks or brokerage houses, in a country with which Mexico has in force a treaty for the avoidance of double taxation (which currently includes the United States of America and Luxembourg); and
- the information requirements specified from time to time by the *Servicio de Administración Tributaria* (Mexican Tax Administration Service) under general rules, including, after completion of the offering of the notes, certain information related to the notes offering and this offering circular, are duly satisfied.

If any of the above-mentioned requirements is not met, the Mexican withholding tax applicable to interest payments under the notes made to non-residents of Mexico for tax purposes, will be imposed at a rate of 10% or higher.

In addition, if the effective beneficiaries, whether acting directly or indirectly, severally or jointly, with related parties, receiving more than 5% of the aggregate amount of each interest payment under the notes are (i) shareholders holding 10% or more of our voting stock, directly or indirectly, or (ii) corporations or other entities having more than 20% of their stock owned directly or indirectly, jointly or severally, by persons related to us, the Mexican withholding tax will be applied at a rate of 30% or higher.

As of the date of this offering circular, neither the U.S.-Mexico Tax Treaty nor the Luxembourg-Mexico Tax Treaty is expected to have any effect on the Mexican tax consequences described in this summary, because, as described above, under the Mexican income tax law, we expect to be entitled to withhold taxes in connection with interest payments under the notes to non-residents of Mexico for tax purposes, at a 4.9% rate.

Payments of interest on the notes made by us to non-Mexican pension and retirement funds will be exempt from Mexican withholding tax provided that:

- such fund is duly incorporated pursuant to the laws of its country of residence and is the beneficial owner of the interest payment;
- such income is exempt from taxes in its country of residence; and
- such fund is registered in the Registry of Banks, Financing Entities, Pension and Retirement Funds and Investment Funds from Abroad, of the Mexican Ministry of Finance and Public Credit, in accordance with the rules issued by the Mexican Tax Administration Service for such purposes.

Holders or beneficial owners of the notes may be requested to, subject to specified exceptions, provide certain information or documentation necessary to enable us to apply the appropriate Mexican withholding tax rate on interest payments under the notes, to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested and required, is not timely and duly provided, we may withhold Mexican tax from interest payments on the notes to that non-Mexican holder or beneficial owner at the maximum applicable rate, but our obligation to pay Additional Amounts relating to those withholding taxes will be limited as described under “Description of Notes—Additional Amounts.”

We have agreed, subject to certain limitations and exceptions, to pay additional amounts in respect of

the above-mentioned Mexican withholding taxes in connection with interest payments on the notes. See “Description of Notes—Additional Amounts.”

Payments of Principal. Pursuant to the Mexican Income Tax Law, payments of principal made by us in respect of the notes to a non-resident of Mexico for tax purposes holding the notes, will not be subject to Mexican withholding or similar taxes.

Gains obtained from the Disposition of the Notes. Pursuant to the Mexican Income Tax Law, in certain cases gains realized by a non-Mexican resident from the disposition of notes, may be subject to income tax in Mexico. In this regard, if notes are transferred by a non-Mexican resident investor to a Mexican resident or to a permanent establishment in Mexico for tax purposes of a non-Mexican resident, gains, if any, would be subject to Mexican withholding tax pursuant to the rules described above in respect of interest payments. The amount of deemed interest income will be determined according to the rules established in the Mexican Income Tax law.

Gains realized by a non-Mexican resident investor from the sale or other disposition of notes transferred to another non-Mexican resident, would not be subject to Mexican withholding tax, provided that neither transferor nor transferee have a permanent establishment in Mexico for tax purposes.

Other Mexican Taxes. Under current Mexican tax laws and regulations, non-Mexican holders of the notes are not subject to estate, gift, inheritance or similar taxes in connection with the holding or disposition of the notes, nor will they be liable for Mexican stamp, registration or similar taxes with respect to purchase or holding of the notes.

U.S. Federal Income Tax Considerations

To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this offering circular or any document referred to herein is not intended or written to be used, and cannot be used by prospective investors for the purpose of avoiding penalties that may be imposed on them under the United States Internal Revenue Code as amended (the “Code”); (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

U.S. Holders

The following discussion is a summary of certain U.S. federal income tax consequences that may be relevant to a holder or a beneficial owner of notes that is an individual citizen or resident of the United States, a domestic corporation or otherwise is subject to U.S. federal income tax on a net income basis with respect to the notes (a “U.S. Holder”). This summary is based upon provisions of the Code and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below. This summary does not address all aspects of U.S. federal income taxes or all tax considerations that may be relevant to U.S. holders in light of their personal circumstances.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that acquires or holds the notes should consult its own tax advisers regarding the U.S. federal income tax consequences of purchasing, owning and disposing of the notes.

This summary is only applicable to U.S. Holders who purchase the notes at original issuance, at their initial offering price and who will hold the notes as capital assets.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to a particular holder or to certain types of holders subject to special treatment, such as persons subject to certain U.S. federal income tax laws regarding expatriates, dealers in securities or foreign currency, traders in securities electing to mark their positions to market, financial institutions, insurance companies, tax-exempt organizations and taxpayers whose functional currency is not the U.S. dollar, or who hold the notes as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or other integrated investment. Finally, this summary does not address the effect of any U.S. federal tax laws other than the U.S. federal income tax laws.

If you are considering the purchase of notes, you should consult your own tax advisors concerning the particular U.S. federal income tax consequences to you regarding the purchase, ownership or disposition of the notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

Payments of Interest

Interest on a note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. In addition to interest on the notes, you will be required to include in income any additional amounts and any Mexican tax withheld from the interest payments you receive, even if you do not in fact receive this withheld tax. Thus, you may have to report income in an amount that is greater than the amount you receive from payments on your notes. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including Mexican taxes withheld from the interest payments and any additional amounts) on a note generally will be considered foreign source income and generally should constitute “passive category income.” You may be denied a foreign tax credit for foreign taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange, Redemption and Retirement of Notes

Your tax basis in a note will, in general, be your cost for that note. Upon the sale, exchange, redemption, retirement or other disposition of a note, you will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, retirement or other disposition (including any Make-Whole Amount, but less an amount equal to any accrued interest that you did not previously include in income, which will be taxable as ordinary interest income) and the adjusted tax basis of the note. Such gain or loss will be capital gain or loss and will generally be treated as U.S. source gain or loss. Consequently, you may not be able to claim a credit for any Mexican tax imposed upon a disposition of a note unless such credit can be applied (subject to applicable limitation) against tax due on other income treated as derived from foreign sources. Capital gains of individuals derived with respect to capital assets held for more than one year are currently eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments we make to you and the proceeds from a sale of a note paid to you, unless you establish, if required, that you are an exempt recipient such as a corporation. Additionally, if you fail to provide your taxpayer identification number, or in the case of interest payments, fail either to report, in full, dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, *provided* the required information is timely furnished to the Internal Revenue Service.

Non-U.S. Holders

The following summary applies to you if you are a holder of notes other than a U.S. Holder (a “Non-U.S. Holder”), as defined above.

The interest income that you derive with respect to the notes generally will be exempt from United States federal income taxes, including United States withholding tax on payments of interest, unless such income is effectively connected with the conduct of a trade or business in the United States.

If you are a Non-U.S. Holder, any gain you realize on a sale, exchange, redemption or retirement of the notes generally will be exempt from United States federal income tax, including United States withholding tax, unless:

- your gain is effectively connected with your conduct of a trade or business in the United States; or
- you are an individual holder and are present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Although Non-U.S. Holders generally are exempt from backup withholding and information reporting, a Non-U.S. Holder may, in certain circumstances, be required to comply with certification procedures to prove entitlement to this exemption.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated March 30, 2010, we have agreed to sell to Credit Suisse Securities (USA) LLC and Morgan Stanley & Co. Incorporated as initial purchasers, the following principal amount of notes.

Initial Purchasers	Principal Amount of Notes
Credit Suisse Securities (USA) LLC	US\$273,000,000
Morgan Stanley & Co. Incorporated	US\$ 27,000,000
Total	US\$300,000,000

The purchase agreement provides that the initial purchasers are obligated to purchase all of the notes if any are purchased. The purchase agreement also provides that if any of the initial purchasers defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the notes initially at the offering price on the cover page of this offering circular and may also offer the notes to selling group members at the offering price less a concession. After the initial offering, the offering price may be changed.

The notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act.

The initial purchasers have agreed that except as permitted by the purchase agreement they will not offer, sell or deliver the notes (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the notes are restricted as described under “Notice to Investors.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

European Economic Area

Each of the initial purchasers severally represents and agrees that, in relation to each member state of the EEA which has implemented the Prospectus Directive (each, a “Relevant Member State”), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of the notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, as implemented in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the initial purchasers;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the company; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of notes shall require the company or initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. The EEA selling restriction is in addition to any other selling restrictions set out below.

United Kingdom

Each of the initial purchasers severally represents and agrees that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

General

Each of the initial purchasers has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any notes directly or indirectly, or distribute this offering circular or any other offering material relating to the notes in or from any jurisdiction, except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Purchasers of notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering circular.

The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business for which they have received customary compensation. Affiliates of the initial purchasers are lenders under certain of our and our parent company’s term credit facilities and derivatives counterparties in connection therewith. We expect to use a portion of the net proceeds from this offering to repay indebtedness owed to affiliates of the initial purchasers.

We have agreed to indemnify the initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

The notes are a new issue of securities for which there currently is no market. The initial purchasers have advised us that they intend to make a market in the notes as permitted by applicable law. They are not obligated, however, to make a market in the notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the notes.

Application has been made to admit the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

NOTICE TO INVESTORS

This offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered hereby only (a) to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act), or “QIBs”, in compliance with Rule 144A under the Securities Act and (b) in offers and sales that occur outside the United States to persons other than U.S. persons (“non-U.S. purchasers,” which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)), in offshore transactions meeting the requirements of Rule 903 of Regulation S. As used herein, the terms “offshore transactions,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

Each purchaser of notes will be deemed to have represented and agreed with Scribe and the initial purchasers as follows:

(1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or (b) a non-U.S. purchaser that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);

(2) It understands that the notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the notes have not been and will not be registered under the Securities Act, and that the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) It shall not resell or otherwise transfer any of such notes prior to (a) the date which is one year (or such other period of time as permitted by Rule 144(d)(1) under the Securities Act or any successor provision thereunder) after the later of the date of original issuance of the notes and (b) such later date, if any, as may be required by applicable laws except:

- to Scribe or any of its subsidiaries;
- pursuant to a registration statement which has been declared effective under the Securities Act;
- within the United States to a QIB in compliance with Rule 144A under the Securities Act;
- outside the United States to non-U.S. purchasers in offshore transactions meeting the requirements of Rule 904 of Regulation S under the Securities Act; or
- pursuant to another available exemption from the registration requirements of the Securities Act;

(4) It agrees that it will give notice of any restrictions on transfer of such notes to each person to whom it transfers the notes;

(5) It understands that the certificates evidencing the notes (other than the Regulation S global notes) will bear a legend substantially to the following effect unless otherwise agreed by Scribe and the trustee:

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR

OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. NEITHER THIS GLOBAL NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS GLOBAL NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS GLOBAL NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 903 OR 904 OF REGULATION S, (2) AGREES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THIS GLOBAL NOTE, EXCEPT (A) (I) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH RULE 144A, (II) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS GLOBAL NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE INDENTURE TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE INDENTURE.

(6) If it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering circular, it acknowledges and agrees that, until the expiration of the 40-day "distribution compliance period" within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a U.S. global note, and that each Regulation S global note will contain a legend to substantially the following effect:

PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), THIS GLOBAL NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED

STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A (“RULE 144A”) UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE.

THIS GLOBAL NOTE IS A TEMPORARY GLOBAL NOTE FOR PURPOSES OF REGULATION S UNDER THE SECURITIES. NEITHER THIS TEMPORARY GLOBAL NOTE NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD OR DELIVERED, EXCEPT AS PERMITTED ABOVE.

NO BENEFICIAL OWNERS OF THIS TEMPORARY GLOBAL NOTE SHALL BE ENTITLED TO RECEIVE PAYMENT OF PRINCIPAL HEREOF OR INTEREST HEREON UNLESS THE REQUIRED CERTIFICATIONS HAVE BEEN DELIVERED PURSUANT TO THE TERMS OF THE INDENTURE.

IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE INDENTURE TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE INDENTURE.

(8) It acknowledges that the foregoing restrictions apply to holders of beneficial interests in the notes, as well as holders of the notes;

(9) It acknowledges that the trustee will not be required to accept for registration of transfer any notes acquired by it, except upon presentation of evidence satisfactory to Scribe and the trustee that the restrictions set forth herein have been complied with; and

(10) It acknowledges that Scribe, the trustee, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify Scribe, the trustee and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

NOTICE TO CANADIAN INVESTORS

Resale Restrictions

The distribution of the offering circular in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of notes are made. Any resale of the notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the notes.

Representations of Purchasers

By purchasing notes in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the notes without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text above under Resale Restrictions, and
- the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the notes to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

Rights of Action – Ontario Purchasers Only

Under Ontario securities legislation, certain purchasers who purchase a security offered by this offering circular during the period of distribution will have a statutory right of action for damages, or while still the owner of the notes, for rescission against us in the event that this offering circular contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the notes. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the notes. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the notes were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the notes as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

CANADIAN PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN LEGAL AND TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES IN THEIR PARTICULAR CIRCUMSTANCES AND ABOUT THE ELIGIBILITY OF THE NOTES FOR INVESTMENT BY THE PURCHASER UNDER RELEVANT CANADIAN LEGISLATION.

GENERAL INFORMATION

Clearing Systems

Application has been made to have the notes accepted for clearance through Euroclear and Clearstream. In addition, application has been made to have the notes accepted for trading in book-entry form by DTC. For the Rule 144A notes, the ISIN number is US40053AAA79 and the CUSIP number is 40053A AA7. For the Regulation S notes, the ISIN number is USP49768AA59 and the CUSIP number is P49768 AA5. The common code of the Regulation S notes is 050033961.

Listing

Application has been made to admit the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Copies of our by-laws, the bylaws of our subsidiary guarantors, the Indenture, as may be amended or supplemented from time to time, our published annual Financial Statements and any published quarterly Unaudited Financial Statements will be available at our principal executive offices, as well as at the offices of the trustee, registrar, paying agent and transfer agent, and at the offices of the Luxembourg listing agent, paying agent and transfer agent, as such addresses are set forth in this offering circular. Our subsidiary guarantors do not publish separate non-consolidated financial statements. Their financial statements are consolidated with ours when we publish Financial Statements. We do not publish unconsolidated financial statements. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Luxembourg for so long as any of the notes are listed on the Luxembourg Stock Exchange.

The notes will not be registered with the Mexican National Registry of Securities and may not be offered or sold publicly in Mexico, except pursuant to the private placement exemption set forth under Article 8 of the Mexican Securities Market Law, the notes may be offered to institutional and qualified investors.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the notes pursuant to the resolutions duly adopted by the relevant Board of Directors on March 1, 2010.

No Material Adverse Change

Except as disclosed in this offering circular, there has been no material adverse change in the financial position or prospectus of Scribe and its subsidiaries taken as a whole since December 31, 2009.

Litigation

We are not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened) relating to claims or amounts which may have or have had during the 12 months prior to the date of this offering circular a material adverse effect on our financial position and our subsidiaries taken as a whole.

LEGAL MATTERS

Certain matters relating to the validity of the notes will be passed upon for us by Santamarina y Steta, S.C., our special Mexican counsel, and for the initial purchasers by Ritch Mueller, S.C., special Mexican counsel to the initial purchasers. Certain legal matters in connection with this offering are being passed upon for us by Milbank, Tweed, Hadley & McCloy LLP, New York, New York, our special U.S. counsel, and for the initial purchasers by Clifford Chance US LLP, special U.S. counsel to the initial purchasers.

INDEPENDENT AUDITORS

The Financial Statements of Scribe as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 included in this offering circular have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., a Member of Deloitte Touche Tohumatsu, independent auditors, as stated in their report appearing herein.

DIFFERENCES BETWEEN MFRS AND U.S. GAAP

Our Financial Statements are prepared and presented in accordance with MFRS issued by the Mexican Board for Research and Development of Financial Information Standards (“*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*” or “CINIF”). Certain differences exist between MFRS and accounting principles generally accepted in the United States, or U.S. GAAP, which might be material to the financial information contained herein. The following summarizes certain differences between MFRS and U.S. GAAP that may be material. We have not prepared a reconciliation of our Financial Statements and related footnote disclosures, appearing in this offering circular, from MFRS to U.S. GAAP, nor have we quantified any of the differences mentioned below or any others that may exist. Accordingly, we provide no assurance that the following summary of differences between MFRS and U.S. GAAP is complete. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between MFRS and U.S. GAAP, and how those differences might affect the financial information herein.

Accounting for the effects of inflation

Mexico

Through December 31, 2007, MFRS required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Mexican pesos as of the latest balance sheet date presented. Beginning January 1, 2008, MFRS modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” where the cumulative inflation of the three preceding years is 26.0% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” where the cumulative inflation of the three preceding years is less than 26.0%, in which case no inflationary effects should be recognized in the financial statements.

United States

Under U.S. GAAP, companies are generally required to prepare financial statements using historical cost, whereby amounts are not subsequently adjusted for inflation. However, specific rules and regulations established by the SEC allow for the presentation of inflation in a company’s reconciliation from local GAAP to U.S. GAAP for companies registering securities with the SEC for sale in the United States, when, for local purposes, such company prepares comprehensive price-level adjusted financial statements, as required or permitted by their home-country GAAP.

Capitalization of comprehensive financing cost

Mexico

MFRS requires certain comprehensive financing cost to be capitalized on qualifying assets, which are assets that require a period of time to be ready for their intended use. Comprehensive financial results to be capitalized include interest expense, foreign currency exchange gains and losses and inflationary monetary gain or loss related to financial liabilities.

United States

Under U.S. GAAP, interest expense incurred during the construction (development) period on qualifying assets must also be considered as an additional cost to be capitalized. When financing is denominated in Mexican pesos, the monetary gain related to the financing is included in this computation; when financing is denominated in U.S. dollars, only the interest is capitalized and the monetary gains and losses are excluded. In all instances, foreign exchange gains and losses are excluded.

Consolidation criteria

Mexico

Under MFRS, an entity is required to consolidate subsidiaries over which it has established control, despite not holding a majority of the voting common stock of the subsidiary. Determining whether an entity has control is based on an analysis of corporate governance and economic risk and benefits.

United States

U.S. GAAP only permits consolidation when a company has a controlling financial interest either through a majority voting interest or through the existence of other control factors. Additionally, it permits consolidation of variable interest entities for which the company is the primary beneficiary, which is defined as the entity that (i) will absorb a majority of the investee's expected losses and (ii) is entitled to receive a majority of the investee's expected residual returns or both.

In the instance that a non-controlling interest in an investment exists, and such non-controlling interest has substantive rights to effectively participate in significant decisions related to the investee's ordinary course of business, the majority investor is precluded from consolidating such entity.

Under both MFRS and U.S. GAAP, the terminology "minority interest" was changed to "non-controlling interest" in 2009.

Under U.S. GAAP, all pre-operating and development costs are expensed as incurred.

Labor obligations

Mexico

Liabilities and costs related to pension plans, seniority premiums and severance payments are accounted in a similar manner under both MFRS and U.S. GAAP. The primary difference is that MFRS does not require recognition of the over- or underfunded status of a defined postretirement plan as is required by U.S. GAAP as discussed below.

United States

Under U.S. GAAP, the accounting for defined benefit postretirement plans, which include seniority premiums within Mexico, was amended in 2006 such that an employer is required to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, recognizing changes in that funded status in the year in which the changes occur through other comprehensive income. Accordingly, unrecognized items may exist in MFRS which are included as part of the employee benefit liability under U.S. GAAP.

Deferred income tax and statutory employee profit sharing

Mexico

MFRS is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under this approach, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as the recognition of operating loss and tax credit carryforwards. These temporary differences are measured using enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled. Under MFRS, (i) any deferred tax assets recorded must be reduced by a valuation allowance if it is "highly probable" that all or a portion of the deferred tax asset will not be realized and (ii) the net deferred income tax asset or liability is presented as a long-term asset or liability.

In addition, during 2007, the Mexican tax authorities issued a new Business Flat Tax or IETU. For MFRS purposes, companies must determine whether they will be subject to regular income tax or IETU in the future and recognize the deferred income tax accordingly. Therefore, deferred taxes are calculated by scheduling the reversal of temporary differences under each tax regime and applying either the income tax or IETU rate to such temporary differences, based on what the entity expects to pay in each period. If, based on its projections, a company determines that it will be subject to both IETU and ISR in the future, it is required to schedule out the reversal of temporary differences under each tax regime and record the amount that represents the larger liability or the smaller benefit.

Under MFRS, through 2007, deferred employee profit sharing was recognized based on timing differences arising from the reconciliation between accounting and taxable income for employee profit sharing purposes.

Effective January 1, 2008, MFRS was modified such that it now requires a balance sheet methodology for determining deferred employee profit sharing, similar to that used for deferred income taxes.

MFRS allows the recognition of a net statutory employee profit sharing asset.

United States

Under U.S. GAAP, deferred income taxes are also accounted for using the asset and liability approach discussed above. However, under U.S. GAAP, a valuation allowance is recognized if, based on the weight of available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

In addition, with respect to IETU, similar to MFRS, companies must determine whether they will be subject to regular income tax or IETU in the future based on company projections, and accordingly recognize deferred taxes based on the tax they expect to pay in each period. However, if a company’s projections indicate that it will be subject to both IETU and ISR in the future, it is required to record deferred taxes based on what they expect to pay in each future year, which could potentially result in the recognition of a deferred tax asset or liability that includes both income tax and IETU effects.

U.S. GAAP also requires the use of the balance sheet methodology when calculating deferred employee profit and requires that a related liability be recorded for all temporary differences. U.S. GAAP does not allow the recognition of a net deferred employee profit sharing asset.

Impairment of long-lived assets

Mexico

Under MFRS, long-lived assets with definite lives, such as property, machinery and equipment, including certain intangible assets, are evaluated periodically in order to determine whether there is an indication of potential impairment. The calculation of impairment losses requires the determination of the recoverable value of the assets, which is defined as the greater of the net selling price of a cash generating unit and its value in use, which is the present value of discounted future net cash flows.

In addition, under certain limited circumstances, the reversal of previously recognized impairment losses is permitted. Any recorded impairment losses are presented as non-ordinary expenses.

United States

U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of an asset is not recoverable when the estimated future undiscounted cash flows expected to result from the use of the asset are less than the carrying value of the asset. The impairment loss is measured as the difference between the carrying value of the asset and its fair value. Any impairment loss recorded for an asset to be held and used establishes a new

cost basis and, therefore, cannot be reversed in the future. Any recorded impairment losses are presented in operating expenses.

Statement of changes in financial position

Mexico

Through December 31, 2007, MFRS required the presentation of a statement of changes in financial position, which presented sources and uses of resources, determined based the change in assets and liabilities in the balance sheet in constant pesos. Monetary position results and unrealized foreign exchange gains and losses were included in operating activities. Also, no supplemental disclosures were required.

Beginning January 1, 2008, new MFRS standards require the presentation of a cash flow statement, using either the direct or indirect method, presented in nominal pesos.

United States

U.S. GAAP requires a statement of cash flows describing the cash flows provided by or used in operating, investing and financing activities, similar to that presented under MFRS beginning January 1, 2008. Non-cash transactions are excluded from the statement of cash flows. Supplemental disclosure of interest and income taxes paid must be disclosed.

Vacation expense

Mexico

Through December 31, 2007, under MFRS, vacation expense and other paid absences were recognized only when paid, rather than during the period in which they were earned by employees. Beginning January 1, 2008, vacation expense and other paid absences must be accrued during the period in which they are earned by employees.

United States

Under U.S. GAAP, the amount of the outstanding vacation liability and other compensated absences are accrued at the balance sheet date.

Other income and expense

Under MFRS, other income (expense) includes items which have been excluded from the determination of operating income under MFRS. Certain items included therein, such as the effects of valuation of derivative financial instruments, gains/losses from sales of fixed assets, and employee profit sharing, would be included as part of operating income (loss) for U.S. GAAP purposes.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Grupo Papelero Scribe, S.A. de C.V. and its Subsidiaries Years Ended December 31, 2009, 2008 and 2007

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Independent Auditors' Report to the Board of Directors and Stockholder of Grupo Papelero Scribe, S.A. de C.V.

We have audited the accompanying consolidated balance sheets of Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations and changes in stockholder's equity for the years ended December 31, 2009, 2008 and 2007, of cash flows for the years ended December 31, 2009 and 2008 and of changes in financial position for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations, and changes in stockholder's equity for the years ended December 31, 2009, 2008 and 2007, of cash flow for the years ended December 31, 2009 and 2008 and of changes in financial position for the year ended December 31, 2007, in conformity with Mexican Financial Reporting Standards.

Our audits also comprehended the translation of the Mexican peso amounts as of for the year ended December 31, 2009 into U.S. dollar amounts and, in our opinion, such translation has been performed in conformity with the basis stated in Note 2 to the accompanying financial statements. The translation of the financial statements amounts into U.S. dollars and the translation of the 2009 financial statements into English have been made solely for the convenience of readers.

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

C. P. C. Adalberto Chaparro Zúñiga
February 19, 2010

Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2009 and 2008
(In thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.))

	2009	2009	2008
	Convenience translation (See Note 2)		
Assets			
Current assets:			
Cash and cash equivalents	\$ 28,610	Ps. 373,928	Ps. 647,831
Receivables – Net	104,075	1,360,255	1,220,726
Due from the Holding Company	17,630	230,426	-
Inventories – Net	57,969	757,657	771,872
Derivative financial instruments	518	6,774	9,475
Total current assets	208,802	2,729,040	2,649,904
Property, machinery and equipment – Net	216,098	2,824,402	2,959,007
Derivative financial instruments	-	-	10,413
Deferred income taxes	5,769	75,399	121,849
Deferred statutory employee profit sharing	-	-	8,198
Other assets - Net	17,259	225,577	174,698
Total	\$ 447,928	Ps. 5,854,418	Ps. 5,924,069
Liabilities and stockholder's equity			
Current liabilities:			
Borrowings from financial institutions	\$ -	Ps. -	Ps. 427,424
Current portion of long-term debt	16,843	220,137	-
Trade accounts payable	38,860	507,903	650,670
Due to related parties	420	5,487	13,831
Direct employee benefits	4,193	54,808	7,411
Accrued expenses and taxes other than income taxes	22,093	288,750	178,276
Derivative financial instruments	735	9,608	47,562
Income taxes payable	1,715	22,414	-
Total current liabilities	84,859	1,109,107	1,325,174
Long-term debt	245,774	3,212,262	3,643,260
Derivative financial instruments	-	-	18,793
Employee benefits	7,037	91,975	102,036
Deferred statutory employee profit sharing	466	6,091	-
Total liabilities	338,136	4,419,435	5,089,263
Stockholder's equity	109,792	1,434,983	834,806
Total	\$ 447,928	Ps. 5,854,418	Ps. 5,924,069

See accompanying notes to consolidated financial statements.

Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries

Consolidated Statements of Operations

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

(In thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.))

	2009 Convenience translation (See Note 2)	2009	2008	2007
Net sales	\$ 447,064	Ps. 5,843,128	Ps. 5,498,129	Ps. 5,175,354
Cost of sales	326,333	4,257,236	4,520,228	3,984,382
Depreciation and amortization	<u>18,879</u>	<u>246,752</u>	<u>244,790</u>	<u>227,156</u>
Gross profit	101,852	1,339,140	733,111	963,816
Operating expenses:				
Selling and distribution expenses	22,396	300,651	242,911	239,583
Administration expenses	12,036	157,311	121,462	100,061
Marketing expenses	<u>4,879</u>	<u>63,770</u>	<u>51,447</u>	<u>46,960</u>
	<u>39,311</u>	<u>521,732</u>	<u>415,820</u>	<u>386,604</u>
Income from operations	62,541	817,408	317,291	577,212
Other (expenses) income - Net	(8,011)	(104,699)	39,974	(45,007)
Comprehensive financing income(cost):				
Interest expense – Net	(15,866)	(207,370)	(257,193)	(299,566)
Exchange gain (loss) - Net	9,843	128,655	(720,552)	1,622
Monetary position gain	-	-	-	85,026
Effects of valuation of derivative financial instruments	<u>8,604</u>	<u>112,450</u>	<u>(115,284)</u>	<u>(31,712)</u>
	<u>2,581</u>	<u>33,735</u>	<u>(1,093,029)</u>	<u>(244,630)</u>
Income (loss) before income taxes	57,111	746,444	(735,764)	287,575
Income tax (benefit) expense	<u>11,191</u>	<u>146,267</u>	<u>(168,610)</u>	<u>102,950</u>
Consolidated net income (loss)	<u>\$ 45,920</u>	<u>Ps. 600,177</u>	<u>Ps. (567,154)</u>	<u>Ps. 184,625</u>

See accompanying notes to consolidated financial statements.

Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries

Consolidated Statements of Changes in Stockholder's Equity

For the years ended December 31, 2009, 2008 and 2007
(In thousands of U.S Dollars (\$) and thousands of Mexican pesos (Ps.))

		Capital stock	Retained earnings (accumulated deficit)	Insufficiency in restated stockholder's equity	Total stockholder's equity
Balances as of January 1, 2007	Ps.	1,398,062	Ps. 29,447	Ps. (2,658)	Ps. 1,424,851
Transfer of insufficiency in restated stockholders' equity		-	(2,658)	2,658	-
Balances before comprehensive income:		1,398,062	26,789	-	1,424,851
Net income for the year		-	184,625	(256)	184,369
Total comprehensive income		-	184,625	(256)	184,369
Balances as of December 31, 2007		1,398,062	211,414	(256)	1,609,220
Transfer of insufficiency in restated stockholder's equity		-	(256)	256	-
Dividend declared		-	(207,260)	-	(207,260)
Balances before comprehensive loss		1,398,062	3,898	-	1,401,960
Net loss for the year		-	(567,154)	-	(567,154)
Total comprehensive loss		-	(567,154)	-	(567,154)
Balances as of December 31, 2008		1,398,062	(563,256)	-	834,806
Net income for the year		-	600,177	-	600,177
Total comprehensive income		-	600,177	-	600,177
Balances as of December 31, 2009	Ps.	<u>1,398,062</u>	Ps. <u>36,921</u>	Ps. <u>-</u>	Ps. <u>1,434,983</u>
Balances as of January 1, 2009	\$	106,967	\$ (43,095)	\$ -	\$ 63,872
Convenience translation (See Note 2)					
Net income for the year		-	45,920	-	45,920
Total comprehensive income		-	45,920	-	45,920
Balances as of December 31, 2009	\$	<u>106,967</u>	\$ <u>2,825</u>	\$ <u>-</u>	\$ <u>109,792</u>

See accompanying notes to consolidated financial statements.

Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008
(In thousands of U.S dollars (\$) and thousands of Mexican pesos (Ps.))

	2009 Convenience translation (See Note 2)	2009	2008
Operating activities:			
Income (loss) before income taxes	\$ 57,111	Ps. 746,444	Ps. (735,764)
Item related to investment activities:			
Depreciation and amortization	18,879	246,752	244,790
Items related to financing activities:			
Unrealized exchange (gain) loss	(9,009)	(117,746)	604,664
Effects of valuation of derivative financial Instruments	(8,604)	(112,450)	115,284
Interest expense	17,393	227,733	270,241
	<u>75,770</u>	<u>990,733</u>	<u>499,215</u>
(Increase) decrease in:			
Receivables – Net	(10,676)	(139,529)	(18,713)
Due from and to related parties – Net	(638)	(8,344)	1,085
Inventories – Net	1,088	14,215	7,373
Increase (decrease) in:			
Trade accounts payable	(10,923)	(142,767)	200,155
Accrued expenses and taxes other than income taxes	8,452	110,474	16,055
Direct employee benefits and employee benefits	3,950	51,625	(33,047)
Income taxes paid	(5,922)	(77,403)	(134,978)
Net cash provided by operating activities	<u>61,101</u>	<u>799,004</u>	<u>537,145</u>
Investing activities:			
Due from the Holding Company	(17,630)	(230,426)	-
Acquisitions of machinery and equipment	(8,260)	(107,963)	(68,865)
Other assets	(5,498)	(72,262)	(20,086)
Net cash used in investing activities	<u>(31,388)</u>	<u>(410,651)</u>	<u>(88,951)</u>
Excess cash to apply to financing activities			
	29,713	388,353	448,194
Financing activities:			
(Repayment of) proceeds from borrowings from financial institutions	(32,703)	(427,424)	427,424
Repayment of long-term debt	-	-	(446,432)
Interest paid	(17,967)	(234,832)	(307,502)
Dividend paid	-	-	(207,260)
Net cash used in financing activities	<u>(50,670)</u>	<u>(662,256)</u>	<u>(533,770)</u>
Net decrease in cash and cash equivalents	(20,957)	(273,903)	(85,576)
Cash and cash equivalents at beginning of year	<u>49,567</u>	<u>647,831</u>	<u>733,407</u>
Cash and cash equivalents at end of year	<u>\$ 28,610</u>	<u>Ps. 373,928</u>	<u>Ps. 647,831</u>

See accompanying notes to consolidated financial statements.

Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 2007
(In thousands of Mexican pesos (Ps.))

	2007
Operating activities:	
Consolidated net income	Ps. 184,625
Add (less) items that did not require (generate) resources:	
Depreciation and amortization	227,156
Deferred statutory employee profit sharing	13,608
Deferred income taxes	8,914
	434,303
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables - Net	(35,129)
Recoverable value-added taxes	435,543
Other accounts receivable	1,502
Inventories - Net	(256,325)
Increase (decrease) in:	
Trade accounts payable	395,419
Due to related parties - Net	(574,143)
Accrued expenses and taxes other than income taxes	129,912
Direct employee benefits	(53,965)
Income taxes payable	45,908
Statutory employee profit sharing	33,320
Deferred income taxes	(2,049)
Net resources generated by operating activities	554,296
Financing activities:	
Repayments of long-term debt	(138,231)
Derivative financial instruments	(31,712)
Net resources used in financing activities	(169,943)
Investing activities:	
Acquisition of machinery and equipment	(108,633)
Other assets	36,322
Net resources used in investing activities	(72,311)
Cash and cash equivalents:	
Increase	312,042
Balance at beginning of year	421,365
Balance at end of year	Ps. 733,407

See accompanying notes to consolidated financial statements.

Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements

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

(In thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.))

1. Nature of business

Grupo Papelero Scribe, S.A. de C.V. and Subsidiaries (the “Company”) is a wholly-owned direct subsidiary of Corporación Scribe, S.A.P.I. de C.V. (the “Holding Company”) The Company is engaged mainly in the manufacture and sale of pulp, printing and writing paper, notebooks.

2. Basis of presentation

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

The financial statements are stated in Mexican pesos, the functional currency of the Company and the currency of the country in which the Company is incorporated and operates. The translation of Mexican pesos amounts into U.S. dollars in the accompanying financial statements as of and for the year ended December 31, 2009 are included solely for the convenience of readers and are translated at the rate of Ps. 13.07 per U.S. dollar, the rate established by the Mexican Central Bank in the Mexican Official Gazette of the Federation. Such translation should not be construed as representation that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this or any other exchange rate.

- a. **Consolidation of financial statements** - The consolidated financial statements include the financial statements of Grupo Papelero Scribe, S.A. de C.V. and those of its wholly-owned subsidiaries, as follows:

Company	Ownership Percentage 2009	Ownership Percentage 2008	Activity
Silvicultora Saraya, S.A. de C.V. and Subsidiaries	100%	100%	Planting, exploitation, purchase and sale of all kinds of forest products
Celulósicos de Chihuahua, S.A. de C.V.	100%	100%	Leasing of real estate

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

- b. **Comprehensive income (loss)** - Represents changes in stockholder’s equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income (loss) for the period, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholder’s equity without affecting the consolidated statements of operations. There were no other comprehensive income (loss) items for the years ended December 31, 2009 and 2008; the other comprehensive income (loss) items for the year ended December 31, 2007, is represented by the insufficiency of restated stockholder’s equity.

- c. **Classification of costs and expenses** - Costs and expenses presented in the consolidated statements of operations were classified according to their function. Consequently, cost of sales is presented separately from other costs and expenses.
- d. **Income from operations** - Income from operations is the result of subtracting cost of sales and general expenses from net sales. While NIF B-3, *Statement of Income*, does not require inclusion of this line item in the consolidated statements of operations, it has been included for a better understanding of the Company's economic and financial performance.

3. Summary of significant accounting policies

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

- a. **Reclassifications** - Certain amounts in the consolidated financial statements as of and for the years ended December 31, 2008 and 2007 have been reclassified to conform to the presentation of the 2009 consolidated financial statements. The effects of these reclassification in the accompanying balance sheets as of December 31, 2009 and 2008, according to NIF B-1, "*Accounting Changes and Correction of Errors*" are as follows:

	2008 Amounts		
	Amount for the year ended December 31, 2008	Retroactively reclassified	Originally reported
Depreciation and amortization	Ps. 244,790	Ps. 244,790	Ps. -
Operating expenses:			
Selling and distribution expenses	Ps. 242,911	Ps. 242,911	Ps. -
Administration expenses	121,462	121,462	-
Marketing expenses	<u>51,447</u>	<u>51,447</u>	<u>-</u>
Operating expenses	Ps. 415,820	Ps. 415,820	Ps. 660,610
Exchange loss	Ps. (720,552)	Ps. (31,712)	Ps. (688,840)
Loss of valuation of financial instruments	Ps. (115,284)	Ps. 31,712	Ps. (146,996)
	2007 Amounts		
	Balances as of December 31, 2007	Retroactively reclassified	Originally reported
Depreciation and amortization	Ps. 227,156	Ps. 227,156	Ps. -
Operating expenses:			
Selling and distribution expenses	Ps. 239,583	Ps. 239,583	Ps. -
Administration expenses	100,061	100,061	-
Marketing expenses	<u>46,960</u>	<u>46,960</u>	<u>-</u>
Operating expenses	Ps. 386,604	Ps. 386,604	Ps. 613,760

- b. **Recognition of the effects of inflation** - Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2009 and 2008, was 15.01% and 11.56%, respectively, the economic environment may be considered non-inflationary in both years. Inflation rates for the years ended 2009 and 2008 were 3.57% and 6.53%, respectively

Accordingly, beginning on January 1, 2008, the Company discontinued recognition of the effects of inflation in its financial statements. Therefore, the financial statements and notes as of and for the year ended December 31, 2009 and 2008 included balances and transactions denominated in Mexican pesos of different purchasing power. However, assets, liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

The Company reclassified the entire balance of the excess (insufficiency) in restated stockholders' equity to retained earnings (accumulated deficit), and concluded that it is impractical to identify the gain (loss) from holding non-monetary assets related to assets not realized as of that date.

- c. **Cash and cash equivalents** - This line item consists mainly of bank deposits in checking accounts and readily available investments of cash surpluses, which are subject to insignificant value change risks. This line item is stated at nominal value and any yields are recognized in the comprehensive financing cost of the period as they accrue.
- d. **Inventories and cost of sales** - Inventories are stated at the lower of cost or realizable value, using the average cost method.
- e. **Property, machinery and equipment** - Property, machinery and equipment are recorded at acquisition cost. Balances arising from acquisitions made through December 31, 2007 were restated for the effects of inflation by applying factors derived from the National Consumer Price Index ("NCPI") through that date. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Average remaining useful life	
	2009	2008
Buildings	16	17
Industrial machinery and equipment	9	10
Vehicles and other	3	4

- f. **Impairment of long-lived assets in use**- Each year, the Company performs a review to determine if impairment indicators exist, indicating that the carrying amounts of long-lived assets in use may not be recoverable. As of December 31, 2009 and 2008, there were no impairment indicators.
- g. **Derivative financial instruments** - The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value in the consolidated balance sheets, regardless of its intent for holding them. Fair value is determined using prices quoted in recognized markets. If such instruments are not traded, fair value is determined by applying recognized valuation techniques. It is not a Company policy to carry out transactions with derivative financial instruments for the purpose of speculation. When derivatives are entered into to hedge risks, and such derivatives meet all hedging requirements, their designation is documented at the beginning of the hedging transaction, describing the transaction's objective, characteristics, accounting treatment and how the effectiveness of the instrument will be measured.

Changes in the fair value of derivative instruments designated as hedges are recognized as follows: (1) for fair value hedges, changes in both the derivative instrument and the hedged item are stated at fair value and recognized in current earnings; (2) for cash flow hedges, changes in the effective portion are temporarily recognized as a component of other comprehensive income in stockholder's equity and then reclassified to current earnings when affected by the hedged item. The ineffective portion of the change in fair value is immediately recognized in current earnings.

- h. **Other assets** – Systems development costs that meet certain requirements for recognition as assets, and that the Company has determined will have future economic benefits, are capitalized and amortized based on the straight-line method over four years. Intangible assets with indefinite lives, such as trademarks and water treatment trust, are not amortized; however, their value, which includes the effects of inflation through December 31, 2007, is subject to impairment tests. Fees and expenses incurred in connection with long-term financing are amortized over the lives of the related liabilities, which mature in 2013.
- i. **Provisions** – Provisions are recognized for current obligations that result from a past event, are probable to result in the use of economic resources, and can be reasonably estimated.
- j. **Direct employee benefits** – Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues.
These benefits include mainly PTU payable, compensated absences, such as vacation and vacation premiums, and incentives.
- k. **Employee benefits**– Liabilities from seniority premiums, pension and severance payments are recognized as they accrue and are calculated by independent actuaries using the projected unit credit method and nominal interest rates in 2009 and 2008 and real interest rates in 2007.
- l. **Statutory employee profit sharing** - PTU is recorded in the results of the year in which it is incurred and presented under other income and expenses in the accompanying consolidated statements of operations. During 2009, PTU was determined based on taxable income, according to Article 16 of the Income Tax Law. In 2008 and 2007, PTU was determined based on taxable income, according with Section I of Article 10 of the Income Tax Law. Deferred PTU is derived from temporary differences that in 2009 and 2008 resulted from comparing the accounting and tax basis of assets and liabilities. Deferred PTU is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.
- m. **Income taxes** - Income tax (“ISR”) and the Business Flat Tax (“IETU”) are recorded in the results of the year they are incurred. To recognize deferred income taxes, based on its financial projections, the Company determines whether it expects to incur ISR or IETU and, accordingly, recognizes deferred taxes based on the tax it expects to pay. Deferred taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery.
- n. **Foreign currency balances and transactions** - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded, as they occur, as a component of net comprehensive financing income (cost) in the consolidated statements of operations.
- o. **Revenue recognition** – Revenues are recognized in the period in which the risks and rewards of ownership of the inventories are transferred to the customers, which generally coincides with the delivery of products to customers in satisfaction of orders.

4. Cash and cash equivalents

	2009	2008
Cash and bank deposits	Ps. 9,539	Ps. 35,381
Cash equivalents – Treasury certificates (CETES)	<u>364,389</u>	<u>612,450</u>
	<u>Ps. 373,928</u>	<u>Ps. 647,831</u>

5. Receivables

	2009	2008
Trade accounts receivable	Ps. 1,328,004	Ps. 1,117,355
Allowance for doubtful accounts	<u>(29,000)</u>	<u>(20,000)</u>
	1,299,004	1,097,355
Other accounts receivable	61,251	24,050
Recoverable taxes	<u>-</u>	<u>99,321</u>
	<u>Ps. 1,360,255</u>	<u>Ps. 1,220,726</u>

6. Inventories

	2009	2008
Finished products	Ps. 460,191	Ps. 344,280
Production in-process	23,262	55,132
Raw materials and spare parts	<u>291,204</u>	<u>389,460</u>
	774,657	788,872
Allowance for obsolete inventories	<u>(17,000)</u>	<u>(17,000)</u>
	<u>Ps. 757,657</u>	<u>Ps. 771,872</u>

7. Property, machinery and equipment

	2009	2008
Buildings	Ps. 579,372	Ps. 562,172
Industrial machinery and equipment	2,472,718	2,377,627
Vehicles and other	<u>4,794</u>	<u>5,240</u>
	3,056,884	2,945,039
Accumulated depreciation	<u>(764,015)</u>	<u>(529,900)</u>
	2,292,869	2,415,139
Land	495,662	495,662
Construction in-progress	<u>35,871</u>	<u>48,206</u>
	<u>Ps. 2,824,402</u>	<u>Ps. 2,959,007</u>

The Company's land, buildings, and industrial machinery and equipment are pledged to secure long-term bank notes (see Note 9).

8. Other assets

	2009	2008
Trademarks	Ps. 62,677	Ps. 62,677
Water treatment trust	44,998	44,998
Debt-associated fees and expenses	104,956	104,956
Systems development costs - SAP	<u>92,349</u>	<u>20,087</u>
	304,980	232,718
Accumulated amortization	<u>(79,403)</u>	<u>(58,020)</u>
	<u>Ps. 225,577</u>	<u>Ps. 174,698</u>

9. Long-term debt

	2009	2008
Secured notes payable to Citibank, N.A. for US\$202.9 million, as of December 31, 2009 and 2008, with interest at the London Interbank Offered rate ("LIBOR") plus a 2.25 to 3.25 point spread, with maturity terms ranging from 4 to 6 years. At December 31, 2009 and 2008, the annual average interest rate ranged from 2.6183% to 3.6698% and from 3.9117% to 4.9632%, respectively. Debt is syndicated among 12 financial institutions.	Ps. 2,652,182	Ps. 2,794,226
Secured Mexican-peso denominated notes payable to Citibank, N.A., with interest at Mexican Equilibrium Interbank Offered rate ("TIIE") plus a 2.25 to 3.25 point spread, with maturity terms ranging from 4 to 6 years. At December 31, 2009 and 2008, the annual average interest rate ranged from 7.2550% to 8.2550% and from 10.9775% to 11.9775%, respectively. Debt is syndicated among 7 financial institutions.	<u>780,217</u> 3,432,399	<u>780,217</u> 3,574,443
Less – Current portion	<u>220,137</u> 3,212,262	<u>-</u> 3,574,443
Adjustment to state debt at fair value (see Note 10)	<u>-</u>	<u>68,817</u>
	<u>Ps. 3,212,262</u>	<u>Ps. 3,643,260</u>

The long-term loan agreements establish certain financial conditions relative to indebtedness, among others, which at December 31, 2009, had been met. Company's property, machinery and equipment are pledged to secure certain long-term bank notes.

As of December 31, 2008, borrowings from financial institutions were comprised of a revolving line of credit with Citibank, N. A., with an outstanding borrowing of Ps.427,424, bearing interest at an annual average interest rate of 11.0525%, which matured on October 30, 2009.

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

2011	Ps. 635,089
2012	813,844
2013	<u>1,763,329</u>
Total	<u>Ps. 3,212,262</u>

10. Derivative financial instruments

The Company obtained financing in a currency other than its functional currency. To reduce exposure to the risks of exchange rate and interest rate fluctuations, it enters into exchange rate and interest rate swaps, thus converting its debt amortization and interest payment profile from U.S. dollars to Mexican pesos and modifying the variable interest profile of such debt.

In 2007, the Company entered into four exchange rate and interest rate swaps covering exposure to the risks of exchange rate fluctuations for part of its existing US\$220 million debt. Derivatives cover amortization of principal and payment of interest from March 2007 to April 2010. U.S. dollar-denominated debt is divided into two portions: a) the first portion of US\$189 million matures in October 2013, with interest at the six-month LIBOR rate plus 325 basis points, which a portion of such tranche is covered by three interest rate swaps that change interest payments to an average 91-day TIE (interbank equilibrium interest rate) plus 80.9 basis points and sets an average exchange rate of 10.785 Mexican pesos to the U.S. dollar, and b) the second portion of US\$31 million matures in October 2011, with interest at the six-month LIBOR plus 225 basis points, which a portion of such tranche is covered by one swap that changes interest payments to an average 91-day TIE plus 60 basis points, and sets an average exchange rate of 10.775 Mexican pesos to the U.S. dollar.

As of December 31, 2009 and 2008, the exchange rate and interest rate swaps showed the following characteristics:

Inception date	Termination date	Notional amount (Thousands of USD)	Agreed-upon exchange rate	Rate received	Rate paid	Derivative at fair value (asset) liability	
						2009	2008
29/Mar/07	30/Apr/10	\$ 61,740	10.7445	6-month LIBOR + 325 basis points	91-day TIE + 109.9 basis points	Ps. 4,078	Ps. 16,870
29/Mar/07	30/Apr/10	\$ 61,740	10.7350	6-month LIBOR + 325 basis points	91-day TIE + 108 basis points	3,994	16,608
31/Oct/07	30/Apr/10	\$ 61,740	10.8680	6-month LIBOR + 325 basis points	91-day TIE + 25 basis points	1,536	(19,888)
30/May/07	30/Apr/10	\$22,940 in 2009 \$27,590 in 2008	10.7750	6-month LIBOR + 225 basis points	91-day TIE + 60 basis points	(6,774)	3,303
						<u>Ps. 2,834</u>	<u>Ps. 16,893</u>

In 2008, the above derivatives were designated as fair value hedges. Accordingly, both derivatives and the hedged items were stated at fair value and the offsetting effect was reflected in comprehensive financing income (cost). During the second quarter of 2008, the Company prepaid part of its US\$220 million debt. Principal prepayment was Ps.305 million Mexican pesos, pro-rata between the semi-annual payments to be made between April 2008 and April 2010 of Tranches B and C. However, the Company maintained the fair value hedges for Tranche B and C. In 2008, the ineffective portion of the fair value hedges above was Ps. 2,269, which was recorded directly to results.

As of December 31, 2008, the Company also maintained a forward (short position) for Mexican peso/U.S. dollar hedges, which, for accounting purposes, were classified as trading. The forward had the following characteristics: notional amount US\$10.6 million; inception date, September 2008; termination date, April 2009; Mexican peso/US dollar spot exchange rate Ps.13.775 and Mexican peso/US dollar forward average rate of Ps.11.260. Fair value at December 31, 2008 was Ps.29,574.

At the beginning of 2009, the Company decided to discontinue the hedge accounting established by Bulletin C-10 *Derivative Financial Instruments and Hedging Activities*, and recorded the effects through results of 2009, as required by Interpretation of Financial Reporting Standard (“INIF”) 13 *Recognition of the Primary Hedge Position Adjustment upon Cancellation of Fair Value Hedge Accounting*. The amount of adjustment included the primary position hedged through the date hedge accounting was discontinued, totaling Ps.115,284, which was recorded in comprehensive financing income in 2009. The Company continued to maintain the derivatives in 2009, and has classified them as trading, with fluctuations in fair value recognized directly in results.

11. Employee benefits

The liabilities and annual cost of statutory seniority premiums, pension plan for qualifying personnel and severance payments are calculated by an independent actuary based on the projected unit credit method.

As of December 31, relevant data relating to these obligations, at present value, are as follows:

	2009	2008
Vested benefit obligation	Ps. 946	Ps. 7,250
Non-vested benefit obligation	<u>258,609</u>	<u>268,316</u>
Defined benefit obligation	259,555	275,566
Plan assets at fair value	<u>(72,665)</u>	<u>(78,401)</u>
Underfunded liability	<u>186,890</u>	<u>197,165</u>
Unrecognized items:		
Past service costs and changes to the plan	(18,955)	(22,413)
Unrecognized actuarial losses	<u>(75,960)</u>	<u>(72,716)</u>
	<u>(94,915)</u>	<u>(95,129)</u>
Net projected liability	<u>Ps. 91,975</u>	<u>Ps. 102,036</u>

a. Net period cost comprises the following:

	2009	2008	2007
Service costs	Ps. 15,589	Ps. 11,872	Ps. 7,282
Expected return on plan assets	6,712	10,369	2,375
Actuarial gains and losses - Net	<u>13,510</u>	<u>7,065</u>	<u>387</u>
Net period cost	<u>Ps. 35,811</u>	<u>Ps. 29,306</u>	<u>Ps. 10,044</u>

b. Rates used in actuarial calculations were as follows:

	2009	2008	2007
	%	%	%
Discount of the projected benefit obligation at present value	8.50	8.50	4.50
Expected yield on plan assets	9.00	9.00	5.00
Salary increase	5.50	5.50	1.50
Future pension increase	4.50	4.50	4.00

- c. Unrecognized items are charged to results based on the average remaining service lives of employees, which is 18 years.

12. Stockholder's equity

As of December 31, 2009 and 2008, capital stock at par value (historical pesos) was represented by common, nominative, no-par value shares, as follows:

	Number of shares	Amount
Class I	50,000	Ps. 50
Class II	<u>1,251,931,350</u>	<u>1,251,931</u>
Total	<u>1,251,981,350</u>	<u>Ps. 1,251,981</u>

- a. 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 (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason.
- b. Stockholder's equity, except restated paid-in capital and tax retained earnings, will be subject to income tax payable by the Company at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.
- c. During a General Ordinary Stockholders' Meeting held in December 2008, the stockholder approved dividends of \$ 0.16554 per share, equivalent to Ps.207,260, which was paid on December 17, 2008.
- d. The balances of the stockholder's equity tax accounts as of December 31 are:

	2009	2008
Contributed capital account	Ps. 1,737,797	Ps. 1,677,898
Net tax income account	<u>404,814</u>	<u>134,452</u>
Total	<u>Ps. 2,142,611</u>	<u>Ps. 1,812,350</u>

13. Foreign currency balances and transactions

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

	2009	2008
In thousands of U.S. dollars:		
Monetary assets	\$ 15,887	\$ 31,225
Monetary liabilities	<u>(220,924)</u>	<u>(235,289)</u>
Short position	<u>\$(205,037)</u>	<u>\$(204,064)</u>
Equivalent in Mexican pesos	<u>Ps. (2,679,834)</u>	<u>Ps. (2,809,961)</u>

- b. Transactions denominated in foreign currency for the year ended December 31 were as follows:

	In thousands of U.S. dollars		
	2009	2008	2007
Export sales	\$ <u>21,074</u>	\$ <u>33,644</u>	\$ <u>39,372</u>
Import purchases	\$ <u>105,231</u>	\$ <u>115,388</u>	\$ <u>137,111</u>
Interest expense – Net	\$ <u>16,728</u>	\$ <u>14,517</u>	\$ <u>19,372</u>

- c. Mexican peso exchange rates in effect at December 31, 2009, 2008 and 2007 were Ps. 13.07, Ps. 13.77 and Ps. 10.93, respectively, per U.S. dollar. As of February 19, 2010, the exchange rate was Ps. 12.84 per U.S. Dollar.

14. Transactions and balances with related parties

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

	2009	2008	2007
Sales	Ps. 459,855	Ps. 532,055	Ps. 566,514
Purchases of raw materials and services received	Ps. 482,488	Ps. 762,811	Ps. 1,210,437

- b. As of December 31, balances due to related parties are as follows:

	2009	2008
Kimberly Clark de México, S. A. B. de C. V. and Subsidiaries	Ps. <u>5,487</u>	Ps. <u>13,831</u>

15. Other (expenses) income

- a. Detail is as follows:

	2009	2008	2007
Other (expense) income	Ps. <u>(38,860)</u>	Ps. <u>18,626</u>	Ps. <u>3,520</u>
PTU:			
Current	Ps. (51,550)	Ps. -	Ps. (34,919)
Deferred	<u>(14,289)</u>	<u>21,348</u>	<u>(13,608)</u>
	Ps. <u>(65,839)</u>	Ps. <u>21,348</u>	Ps. <u>(48,527)</u>
Other (expenses) income, net	Ps. <u>(104,699)</u>	Ps. <u>39,974</u>	Ps. <u>(45,007)</u>

- b. The main items comprising the (liability) asset balance of deferred PTU are:

	2009		2008
Deferred PTU (liability) asset:			
Derivative financial instruments	Ps. 283		Ps. 7,776
Property, machinery and equipment	(31,071)		(4,585)
Other assets, net	(3,220)		(1,907)
Exchange loss	9,398		-
Accrued expenses	<u>18,519</u>		<u>6,914</u>
	<u>Ps. (6,091)</u>		<u>Ps. 8,198</u>

16. Income taxes

The Company is subject to ISR and IETU.

The ISR rate for 2009 and 2008 was 28%, and will be 30% for 2010 to 2012, 29% for 2013, and 28% for 2014 and thereafter.

IETU - Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. The IETU rate was 17% and 16.5%, in 2009 and 2008, respectively; and will be 17.5% as of 2010. The Asset Tax Law was repealed upon enactment of the IETU Law; however, under certain circumstances, asset tax ("IMPAC") paid in the ten years prior to the year in which ISR is paid, may be recovered, according to the terms of the law.

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

- a. Income tax expense (benefit) is as follows:

	2009		2008		2007
ISR:					
Current expense	Ps. 106,009		Ps. -		Ps. 97,501
Deferred (benefit) expense	47,501		(158,854)		8,341
Conacyt tax credit	(6,192)		(10,252)		(3,465)
Tax effect due to rate changes	(1,472)		-		-
Change in valuation allowance on benefits from tax loss carryforwards	<u>421</u>		<u>496</u>		<u>573</u>
	<u>Ps. 146,267</u>		<u>Ps. (168,610)</u>		<u>Ps. 102,950</u>

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

	2009		2008		2007
Statutory rate	28%		28%		28%
Add (less) non-deductible items, and effects of inflation and other	(7)		(5)		8
Tax effect due to rate changes	<u>(1)</u>		<u>-</u>		<u>-</u>
Effective rate	<u>20%</u>		<u>23%</u>		<u>36%</u>

- c. The main items comprising the asset balance of deferred ISR asset, are:

	2009	2008
Deferred ISR asset (liability):		
Effect of tax loss carryforwards	Ps. 8,262	Ps. 106,683
Derivative financial instruments	850	21,773
Property, machinery and equipment	22,985	(12,019)
Other assets	(3,977)	(5,342)
Direct employee benefits and accrued expenses	<u>55,541</u>	<u>19,437</u>
Net deferred ISR asset	83,661	130,532
Valuation allowance on benefits from tax loss carryforwards	<u>(8,262)</u>	<u>(8,683)</u>
	<u>Ps. 75,399</u>	<u>Ps. 121,849</u>

The benefits of restated tax loss carryforwards can be recovered subject to certain conditions. Restated amounts as of December 31, 2009 and expiration dates are:

Year of expiration	Tax loss carryforwards
2011	Ps. 5,232
2012	6,678
2013	6,226
2014	3,751
2015	3,442
2016	<u>2,211</u>
	<u>Ps. 27,540</u>

17. New accounting principles

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

- a) For fiscal years that begin on January 1, 2010:

C-1, *Cash and Cash equivalents*
Improvements to NIFs for 2010
INIF 14, *Construction Contracts, Sale of Real Property and Rendering of Related Services*
INIF 17, *Service Concession Contracts*

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

NIF C-1, *Cash and Cash Equivalents*, requires restricted cash and cash equivalents to be included within the cash and cash equivalents caption, as opposed to Bulletin C-1, which required presentation under separate captions; NIF C-1 replaces the caption on-demand temporary investments with the caption on-demand available investments clarifying that this type of investment has a maturity of up to three months from its acquisition date.

Improvements to NIFs for 2010 – The main improvements generating accounting changes that must be recognized retroactively are:

NIF B-1, *Accounting Changes and Correction of Errors* – Requires further disclosures when a Company applies a particular Standard for the first time.

NIF B-2, *Statement of Cash Flows* – Requires recognition of the effects of fluctuations in exchange rates used for translating cash in foreign currencies, and changes in fair value of cash in the form of precious metal coins, and other cash items, at fair value, in a specific line item.

NIF B-7, *Business Acquisitions* – Permits recognition of intangible assets or provisions in a business acquisition for a contract whose terms and conditions are favorable or unfavorable with respect to market, only when the acquired business is the lessee in an operating lease. This accounting change should be recognized retroactively for acquisitions made on or after January 1, 2009.

NIF C-7, *Investments in Associated Companies and Other Permanent Investments* – Modifies how the effects derived from increases in equity percentages in an associated company are determined. It also establishes that the effects due to an increase or decrease in equity percentages in associated companies should be recognized under equity in income (loss) of associated companies, rather than in the non-ordinary line item within the statement of income.

NIF C-13, *Related Parties* – Requires that, if the direct or ultimate controlling entity of the reporting entity does not issue financial statements available for public use, the reporting entity should disclose the name of the closest, direct / indirect, controlling entity that issues financial statements available for public use.

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

18. Financial statement issuance authorization

On February 19, 2010, the issuance of the accompanying consolidated financial statements, and their notes, was authorized by Ing. Carlos Sacal, Chief Executive Officer, and Lic. Robert Payne, Chief Finance Officer. These consolidated financial statements are subject to the approval of the Board of Directors, and at the General Ordinary Stockholder's Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

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ISSUER

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