

Close
to the
customer...



THE COMPANY

Grupo Lamosa, through its businesses in Mexico, mainly focuses its resources on the Construction Industry. It manufactures and sells construction products such as ceramic tiles, bathroom fixtures and ceramic adhesives.

Grupo Lamosa has made capital expenditures of more than US\$1,000 million over the past few years in order to construct a state-of-the-art, world-leading technological platform, increase productivity, and develop higher value added products.

At the end of 2007, Lamosa acquired Porcelanite, becoming the world's largest ceramic producer in terms of installed capacity.



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Over the past few years, the industry where Grupo Lamosa participates has been changing significantly and is becoming increasingly focused on customers. Thus, it has become of vital importance to come closer to them to understand their needs, what drives them and where they live. Producers have to anticipate, within ever shorter and more dynamic time frames, their changing ways and offer the products that best respond to their demands.

...solidly at the forefront.

Because Grupo Lamosa operates with world-class technology, its different business units can respond immediately to the changing market needs. The Company's passion for innovation and offering its customers the very best solutions enable it to offer new higher value added products that are clearly differentiated from those of the competition. Today, Grupo Lamosa is strategically placed to return to sustained growth as soon as the building sector begins to recover.

Grupo LAMOSA



Wall and Floor Tiles

Businesses / Companies

- Porcelanite Lamosa, S.A. de C.V.
- Revestimientos Porcelanite, S.A. de C.V.
- Revestimientos Porcelanite Lamosa, S.A. de C.V.
- Servicios Comerciales Lamosa, S.A. de C.V.
- Revestimientos Lamosa, S.A. de C.V.

Plants: Benito Juárez, Tlaxcala (4), San Luis Potosí, Sonora, Querétaro, Guanajuato



Adhesives

Businesses / Companies

- Crest, S.A. de C.V.
Plants: Santa Catarina, Guadalajara, Morelia, Chihuahua, Tizayuca
- Adhesivos de Jalisco, S.A. de C.V.
Plants: Guadalajara, León, Mérida
- Industrias Niasa, S.A. de C.V.
Plants: Guadalajara, Chihuahua, Navojoa, Tijuana
- Soluciones Técnicas para la Construcción, S.A. de C.V.
Plant: Tizayuca



Sanitaryware

Businesses / Companies

- Sanitarios Lamosa, S.A. de C.V.
Plants: Monterrey, Benito Juárez

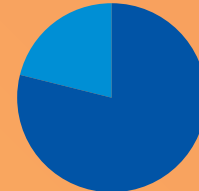
Competitive Advantages

- Strategically located to serve North, Central and South America
- State-of-the-art production platform
- Market leadership and extensive geographic coverage both in Mexico and abroad
- Innovative designs in line with the latest market trends
- Compliance with the highest quality standards

Products and Services

- Floor tiles
- Wall tiles
- Baseboards
- Porcelain enamel tiles
- Special pieces

Sales Breakdown (value)



79%

Domestic

21%

Export

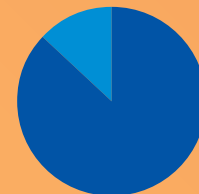
Competitive Advantages

- Products with the most outstanding characteristics and highest quality standards in Mexico
- Extensive product availability and timely delivery through a large number of distributors
- Customer-oriented organization
- New product research and development

Products and Services

- Adhesives for installing wall and floor tiles
- Grouts
- Stuccos
- Texturized finishes
- Waterproofing materials
- Specialized products

Sales Breakdown (value)



87%

Adhesives and grouts

13%

Stuccos and other

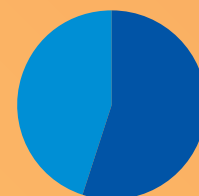
Competitive Advantages

- Product warranty
- Design and innovation of high-performance products
- Development of the intelligent, water-efficient, "Dual Flush" toilet
- "Ideal High" products with added height for greater comfort
- Focus on customer service

Products and Services

- Toilets
- Wall, pedestal, drop-in and under-counter washbasins
- Luxury bidets
- Flushometer bowls
- Urinals
- Drinking fountains

Sales Breakdown (value)



55%

Domestic

45%

Export

Financial Highlights

(Figures expressed in millions of nominal Mexican pesos)

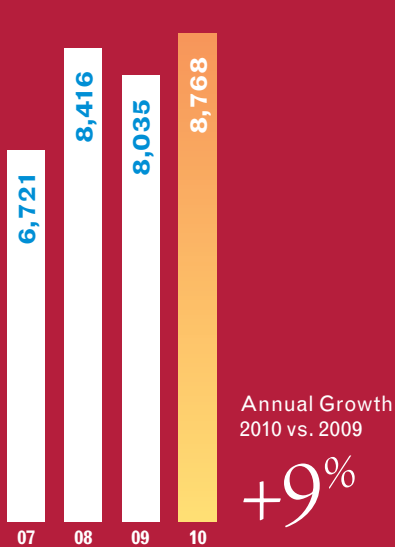
	2009	2010	% CHG.
RESULTS			
Net sales ⁽¹⁾	8,035	8,768	9%
Export sales (millions of USD)	96	117	22%
Export sales / net sales	16%	17%	
Operating Income ⁽²⁾	1,052	1,468	40%
Operating income / net sales	13%	17%	
Comprehensive financing cost	488	463	-5%
Consolidated net income	316	503	59%
FINANCIAL POSITION			
Total assets	15,949	15,346	-4%
Total liabilities	12,462	11,378	-9%
Stockholders' equity	3,486	3,968	14%
Book value per share ⁽³⁾	9.4	10.7	14%
CASH FLOW			
Net operating cash flow ⁽⁴⁾	1,537	1,870	22%
Capital expenditures	28	107	281%
NUMBER OF EMPLOYEES			
Total personnel	4,585	4,657	2%

(1) Includes extraordinary sale of a real estate asset for \$547 million pesos during fourth quarter 2010.

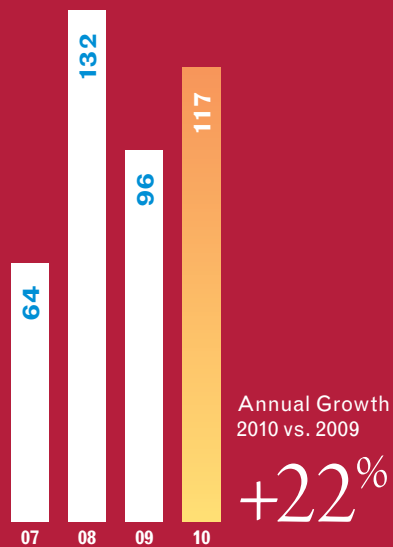
(2) Includes extraordinary operating income of \$200 million pesos from the sale of the real estate asset.

(3) On a total of 370.9 million shares.

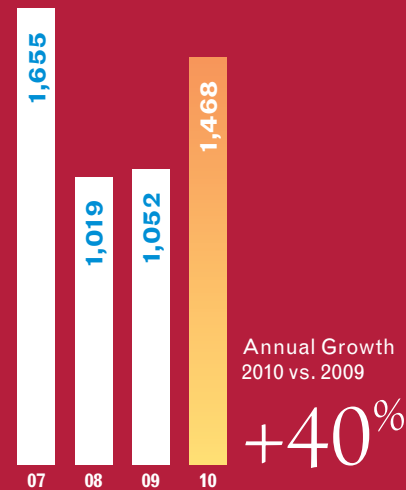
(4) Operating income plus depreciation, amortization and other virtual items.



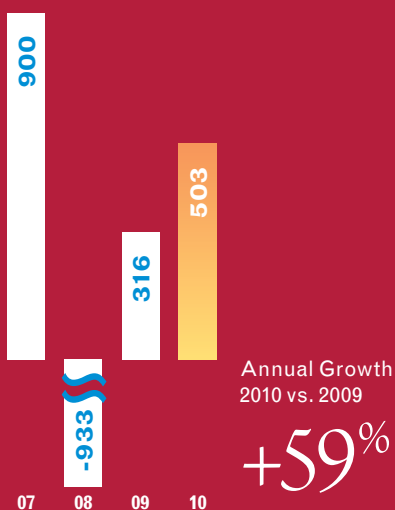
NET SALES
millions of Mexican pesos



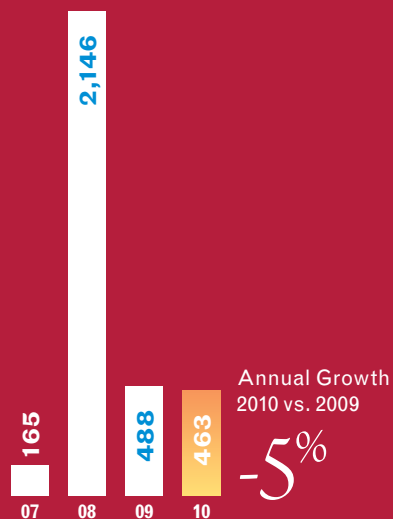
EXPORT SALES
millions of Mexican pesos



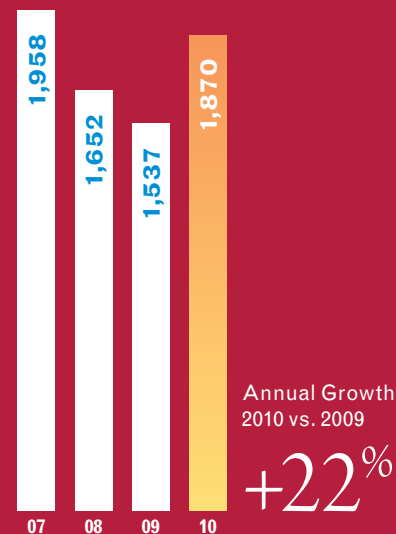
OPERATING INCOME
millions of Mexican pesos



CONSOLIDATED NET INCOME
millions of Mexican pesos



COMPREHENSIVE FINANCING COST
millions of Mexican pesos



NET OPERATING CASH FLOW
millions of Mexican pesos

Note: Figures for 2007 are expressed in millions of constant Mexican pesos as of December 31, 2007, and for 2008, 2009 and 2010 in millions of nominal Mexican pesos.

To our stockholders:

Despite the difficult business environment and no growth in the construction sector in Mexico, Grupo Lamosa posted satisfactory results at yearend 2010.

During the year, the Company's results showed positive growth, with increases in operating margins, and important financial achievements, such as a significant reduction in the Company's leverage indices.

Grupo Lamosa's 2010 consolidated sales totaled \$8,768 million pesos, 9% above those of the previous year, reflecting a recovery of export sales, as well as the sale of a real estate asset for \$547 million pesos in the third quarter of the year.

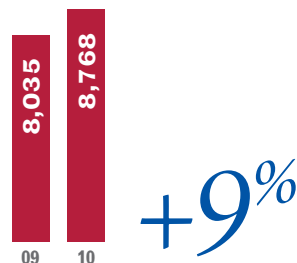
During 2010, Grupo Lamosa continued to focus on reducing and optimizing the costs and expenses of its different business units. Operating income at the close of the year totaled \$1,468 million pesos, 40% above that of the previous year, and the ratio of operating income to sales was 17%. It is important to note that Grupo Lamosa's operating results benefitted from the reduced cost of natural gas and from the extraordinary income resulting from the sale of the real estate asset referred to above.

In 2010, Grupo Lamosa implemented initiatives to strengthen its market position and also began to concentrate once again on

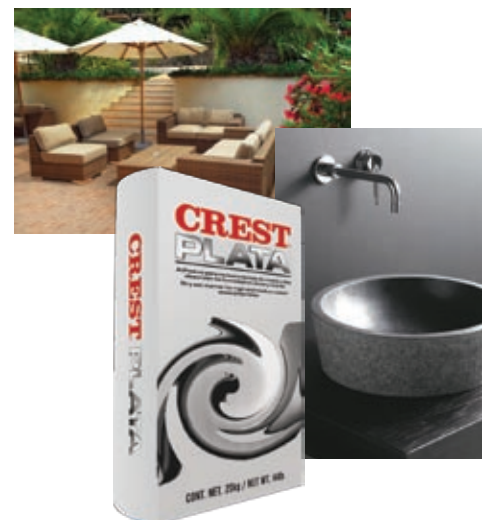
Increased presence in international markets favorably affecting export sales

Growth in Grupo Lamosa's sales

117 million U.S. dollars



With the severe crisis that began at the end of 2008, the construction sector's growth indicators have fallen significantly. Despite initial expectations of favorable growth for 2010, as the year went by the positive scenario was gradually eroded, such that, by yearend, the building component of the Mexican construction GDP had declined 0.6%.



other important aspects of its operations. One of the actions of the year was a renewal of the way Lamosa focuses on its customers, placing them as the main objective of all its activities and beginning efforts to work even more closely with them to identify their needs and preferences.

The Company's capital expenditures and focus on innovation and differentiation have positioned it to respond effectively to changing market conditions. Today, Grupo Lamosa has the competitive advantages and agility to capitalize on future growth when the Mexican construction sector begins to recover.

The year of 2010 was very significant for the Company, as it celebrated 120 years of market presence, although it is now very different from the small enterprise from which it has grown. Grupo Lamosa's continued market presence is concrete proof of its leadership, experience and perseverance, through which it has capitalized on market opportunities and gained a vocation for continuously adapting to changing customer demands and needs.

Although 2010 was a year of recovery, it was not so for the construction sector, which lagged behind other sectors of the economy. However, new housing starts are expected to increase in the coming year as unemployment declines and financing becomes more readily available, so growth perspectives for the immediate future are positive.



Grupo Lamosa is grateful for the ongoing trust of its stockholders, the unconditional efforts of all its personnel and the continuous support of creditors, suppliers, distributors, customers and friends. On behalf of the Board of Directors, I would like to thank you all.

A handwritten signature in black ink, appearing to read 'Federico Elosúa', enclosed within a stylized, elongated signature box.

Federico Toussaint Elosúa
Chairman and CEO of Grupo LAMOSA

Focus on
customers,
placing them
as the main
objective
of all the
Company's
activities



GRUPO LAMOSA IS IMPLEMENTING AN IMPORTANT CULTURAL CHANGE, BRINGING ITS BUSINESS UNITS EVER CLOSER TO THEIR CUSTOMERS' NEEDS AND DEVELOPING INNOVATIVE PRODUCTS AND SERVICES TO EXCEED THEIR EXPECTATIONS.

Close to those
who live with our
products every day



Rollout of new product lines

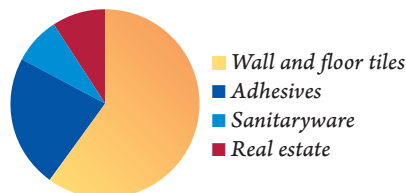
Geographic expansion in the Americas

Presence in more than
20
different nations



In these times of low growth in new construction projects, the market for house remodeling and finishing has gained importance in Grupo Lamosa's product and service offering. Thus, the Company has begun to implement initiatives to bring it ever closer to those who make the purchasing decisions and live with its products every day, offering the market's widest range of products through an extensive distribution network. This is how Grupo Lamosa continuously satisfies their changing tastes, needs and lifestyles.

Current Grupo Lamosa portfolio



+1,000
million U.S. dollars

Capital expenditures over the past seven years

Close to the quality
that makes their work
more productive
and reliable

DEVELOPMENT AND ROLLOUT OF NEW
HIGHER VALUE ADDED PRODUCTS OF-
FERING A WIDE RANGE OF SOLUTIONS
FOR INSTALLING AND MAINTAINING
CONSTRUCTION MATERIALS.



Domestic coverage
from plants
throughout Mexico



13
adhesives production
facilities

Products that
result in significant
energy savings



Grupo Lamosa understands how important it is to work with high quality, reliable products that avoid unnecessary installation and repair times and complaints. So, the Company remains close to installers, listening to them, studying their needs and offering new products, training and advice on installation and use. This is how Grupo Lamosa maintains their preference and they assure the quality and acceptance of their work.

More than
50 years

of market presence,
offering high-
performance
adhesives for
ceramic materials

Rollout of new,
innovative products



LEADING-EDGE TECHNOLOGY THAT ENABLES
THE PRODUCTION OF EXCLUSIVELY DESIGNED
PRODUCTS, BACKED BY PERSONALIZED
SERVICE TO SATISFY THE MOST DEMAND-
ING CUSTOMER NEEDS.



Close to the options
that drive creativity and
recognition

Firenze

tecnoarte

*High value-added
luxury lines*

*Operating flexibility
with state-of-the-art
technology*

9

*ceramic tile
production facilities*



A passion for innovation is one of the basic principles that differentiate Grupo Lamosa in the marketplace. The Company's use of state-of-the-art technology allows its business units to offer exciting products that would have been inconceivable just a short while ago: different-sized ceramic wall and floor tiles in the very latest colors, reliefs, textures and finishes; toilets with the market's best performance and range of designs; and specialized coatings and stuccos. This is how Grupo Lamosa comes close to architects, offering them products that enhance their creativity and reputation.



GRANDES
COLECCIONES
DE MÉXICO

*Rollout and promotion
of innovative line of
porcelain enamel tiles*

*Extensive
nationwide
coverage of
ceramic products*

+1,000
points of sale

Close to
the solutions for
great works



BECAUSE GRUPO LAMOSA IS AWARE OF THE INSTITUTIONAL MARKET'S SPECIFIC NEEDS, IT OFFERS A WIDE PORTFOLIO OF PRODUCTS FOR THIS SEGMENT.



Participation in trade fairs and exhibitions in Mexico and abroad

High quality products backed by a track record spanning

120
years of market presence



During the past year, the Company has come even closer to the institutional market, to builders who need specialized attention and someone to offer a new vision of their needs. The Grupo Lamosa team has extensive experience in the sector and provides solutions for projects such as hotels, public spaces and office buildings that combine aesthetics and durability with technology and high performance. These solutions include such innovations as the Company's line of high-definition, polished porcelain tiles or attractive portfolio of toilets for the institutional market, and all of them are delivered reliably with the lowest lead times in the market. This is how Grupo Lamosa comes close to builders, offering them solutions that are unique in the marketplace.



Increased presence in the institutional market

Grupo Lamosa leverages its closeness to the customer to offer the best possible service



Location of Grupo Lamosa production facilities

Wall and Floor Tiles

The Wall and Floor Tiles Business faced significant challenges in 2010 as it operated in an environment where Mexico's industrial growth was insufficient to regain pre-crisis levels of activity.

The initiatives implemented during the year to increase the business's presence both in Mexico and abroad through a portfolio of higher value added products resulted in a 3% growth in sales year-over-year.

In 2010, the Wall and Floor Tiles Business made capital expenditures to complement its offering with sophisticated products that have world-class designs, formats and textures and are manufactured with state-of-the-art technology.



Products decorated with digital printing using Full Definition technology



It is now positioned at the forefront of the industry in innovation and technology, and has the flexibility and printing capacity to produce tiles with exclusive, leading-edge designs that satisfy the most demanding customers and tastes. During the year, the business launched exclusive polished porcelain products and tiles decorated with *Full Definition* digital printing.

Sales
(millions of Mexican pesos)



In 2010, the Wall and Floor Tiles Business began an important initiative to identify consumers' preferences, lifestyles and changing needs, in order to design programs to improve their level of satisfaction.



*Increased presence
in Mexico and
foreign markets*

The business presented its products at different fairs and exhibitions in Mexico and other nations, including at Expo CIHAC, in Mexico City, and the Coverings 2010 trade fair in the city of Orlando, Florida, in the United States. It is important to note that Coverings is one of the industry's most important fairs and boasts the participation of more than 1,000 exhibitors from different parts of the world. The Wall and Floor Tiles Business won first place as "Overall Best in the Show", the high-

est honor given by the event's organizing committee.

Without doubt, the business's foreign market expansion and diversification strategy has had a favorable impact on its results. Going forward, the recovery of export markets in Central and South America, as well as the United States, will translate into opportunities that the Wall and Floor Tiles Business will capitalize on.

**Overall Best
in the Show
Award at the
Coverings
2010 trade fair**



Adhesives



Contact with an extensive network of installers throughout Mexico

+5,000
installers

Sales
(millions of Mexican pesos)



In 2010, the Adhesives Business maintained its leadership position in Mexico, posting results that exceeded industry averages and a 6% increase in sales compared to 2009.

During the year, the business's complementary lines, such as stuccos and waterproofing materials, grew significantly, enriching the sales mix and driving revenues.

The Adhesives Business continued to implement initiatives to consolidate its image of technological leadership in 2010. It launched a number of specialized products, such as high-performance adhesives for the installation of porcelain tiles, solutions for swimming pool construction, maintenance and protection, and self-leveling products for correcting floor levels.



Committed to the idea of sustainability and its impact on the environment, during the year the Adhesives Business began the process of certifying its products with the Mexican Electricity Savings Trust (Fideicomiso para el Ahorro de Energía Eléctrica (FIDE)) in order to integrate its "Green Line". This line comprises stuccos and waterproofing materials which result in a significant reduction in the temperature of the surfaces where they are applied and consequently an important lowering of energy use.

As part of the strategies implemented to enhance the market's preference for its products, during the second half of the year the Adhesives Business successfully held the first Integral Installer Training Seminar in the city of Guadalajara, Jalisco. This seminar provided theoretical and practical training for a large number of installers, promoting the great variety of CREST-brand products and the different solutions they offer to the construction market.

The Adhesives Business's efforts to develop innovative products with superior, high-performance characteristics have given it a wide portfolio of products across its different brands to satisfy the different needs and preferences of its customers. The outstanding performance and quality of its products, both real and perceived, over more than half a century of operations have contributed to making this business the market's benchmark for adhesives.

Sanitaryware



Lyon



Aruba



The contraction in demand, reflecting the absence of growth in Mexico's sanitaryware industry, had a negative impact on the Sanitaryware Business's revenues in 2010, such that it posted a 5% decline in sales for the year.

The slow market recovery after the crisis that began at the end of 2008 resulted in a complicated business environment in 2010. Despite the actions taken by the Mexican federal government to reactivate the nation's construction industry, the sector is still far from posting pre-crisis activity levels.

Despite the difficult situation facing the Sanitaryware Business in 2010, initiatives were implemented to continue strengthening its market position in Mexico, as well as to increase the presence of its products in export markets such as the United States and Canada.

The Sanitaryware Business took part in different fairs and exhibitions in Mexico, such as Expo Nacional Ferretera, in the city of Guadalajara, Jalisco. This exhibition was used as an opportunity to launch new products, such as the "Lyon" line of one-piece toilets which uses less than five liters (1.3 gallons) of water per flush; the "Aruba" wall-mounted toilet; and a toilet with an "anti-rodent" mechanism.

During the year, the business continued to promote its "Green Line" of high-performance products which result in considerable water savings. This product line is included in the Mexican government's programs to stimulate the construction industry by subsidizing builders who use such environmentally-friendly products in their projects.

During the year, the Sanitaryware Business made important progress in its export markets, obtaining WaterSense EPA Certification for promoting water-saving practices. This certification allows Lamosa sanitaryware products to participate in U.S. government programs to substitute old toilets for water-saving ones.

The presence of the business's products in the U.S. market increased significantly through the "Vortens" brand, which is now sold in 45 of the 50 U.S. states. The Sanitaryware Business's progress in increasing its share in its distribution network, both in Mexico and abroad, has also strengthened its position in its different markets.

Sales
(millions of Mexican pesos)



Financial Performance

During 2010, Grupo Lamosa made significant progress in strengthening its financial structure. The Company's capacity to generate cash flow and the initiatives implemented to optimize working capital enabled it to meet all the financial responsibilities resulting from the debt contracted to purchase Porcelanite and even pay more than 60 million dollars of debt in advance.

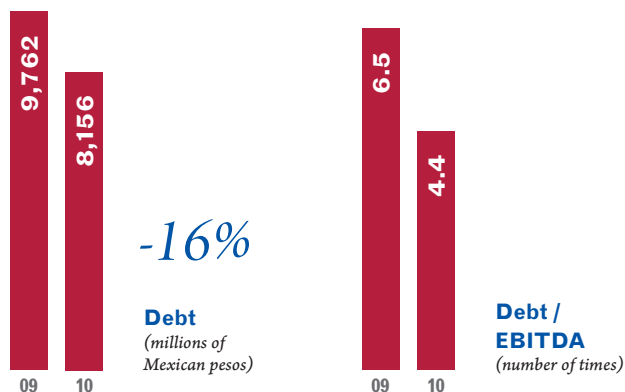
The Company's debt at yearend 2010 was \$8,156 million pesos, 16% below the debt of \$9,762 million existing at the close of 2009. This reduction is reflected in the debt to EBITDA ratio of 4.4 times posted at the end of 2010, compared to a ratio of 6.5 times posted at the close of the previous year.

It is important to note that, as of December 31, 2010, Grupo Lamosa had a balance of cash and cash equivalents of \$1,189 million pesos, sufficient to cover programmed debt payments for the coming 18 months.

2010's favorable financial performance positioned the Company to comply with the financial covenants in its loan contracts with ease. In addition, Grupo Lamosa's reduced leverage contributed to a significant reduction in the interest surcharge rate in these contracts, reducing its financial load.

Grupo Lamosa shares recovered significantly during the year, rising 59%, while the Mexican Stock Market Index only grew 20%.

For Grupo Lamosa, 2010 was a year of important achievements. As well as significantly reducing its financial risk, the Company proved it had the capacity to face the challenges of the worst financial crisis in recent history.



Corporate Governance

In 2010, Grupo Lamosa continued to implement actions to meet the recommendations of the Code of Best Corporate Practices issued by the Mexican Business Coordinating Council (Consejo Coordinador Empresarial) and by year-end had achieved a high level of compliance.

During the year, with the support of specialized, independent consulting firms, methodologies for Total Risk Management were implemented to reinforce the Company's corporate governance and internal control functions.

In order to continue promoting the principles and values of the Lamosa Code of Ethics, cases received through the "Transparency Line System" were attended during the year. This mechanism allows people to present complaints and comments on ethical issues, either anonymously or giving their personal information, so that the Company can take actions to ensure that it is operating in accordance with the required levels of transparency and honesty.

For Grupo Lamosa, the implementation of best corporate practices and the enhanced transparency and professionalism of its management are important tools for generating value for its stockholders in the short and long term.

Members of the Audit Committee:

Carlos Zambrano Plant (Chairman)
Eduardo Padilla Silva
Maximino Michel González

Members of the Corporate Practices Committee:

Eugenio Garza Herrera (Chairman)
Eduardo Elizondo Barragán
Bernardo Elosúa Robles
Salvador Alva Gómez



The image shows a screenshot of the Lamosa Code of Ethics Transparency Line webpage. The page features the Lamosa logo at the top left, followed by navigation links: "Who We Are", "Our Products", and "Invest". The main heading is "Code of Ethics Transparency Line". Below this, there is a paragraph in Spanish explaining the company's commitment to transparency and honesty, and the creation of a Code of Ethics. It mentions a "Transparency Line" system for reporting violations. A "Capture Format" button is visible. At the bottom, there are contact options: "Or by calling toll-free: 01-800 7 LAMOSA (01-800 7 526072) 24 hours a day, 365 days a year" and "Or by sending an e-mail to: lineatransparencia@lamosa.com". A copyright notice "© Copyright 2008 Grupo Lamosa" is at the bottom.



A graphic showing several hands of different skin tones clasped together, symbolizing unity and teamwork. Below the hands is an orange banner with the text "código de ética TODOS SOMOS LAMOSA" and the Lamosa logo.

*Code of Ethics
"We are all
Lamosa"*

Board of Directors



Federico Toussaint Elosúa
Chairman of the Board and Chief Executive Officer of Grupo Lamosa
Member since 1989 **R**



José Alfonso Rubio Elosúa
Independent Consultant
Member since 1989 **R**



Bernardo Elosúa Robles
Independent Consultant
Member since 1993 **R**
Corporate Practices Committee



Guillermo Barragán Elosúa
CEO of Hidrobart
Member since 1993 **R**



Juan Miguel Rubio Elosúa
CEO of Productos Alimenticios XICO
Member since 1996 **R**



Javier Saavedra Valdes
Professional Painter
Member since 1998 **R**



José Manuel Valverde Valdes
Consultant in Consumer Credit Decision Processes
Member since 1998 **R**



Andrés Elosúa González
CEO of Lafon Launay Cosmetics
Member since 2007 **R**



Eduardo Elizondo Barragán
Chairman of the Board and CEO of CRIOTEC and Subsidiaries
Member since 1992 **I**
Corporate Practices Committee



Eugenio Garza Herrera
Chairman of the Board and CEO of Xignux
Member since 1997 **I**
Corporate Practices Committee



Armando Garza Sada
Chairman of the Board of Grupo ALFA
Member since 1997 **I**



Carlos Zambrano Plant
Consultant. Member since 1991 **I**
Audit Committee



Eduardo Padilla Silva
Chief Executive Officer, FEMSA Comercio
Member since 2004 **I**
Audit Committee



Salvador Alva Gómez
President of Novo Capital, S.A. de C.V.
Member since 2008 **I**
Corporate Practices Committee



Maximino Michel González
Operations Manager of Liverpool
Member since 2009 **I**
Audit Committee

R (Related)
I (Independent)
According to the Stockholders' Assembly of March 16, 2010.

Main Company Officers



From left to right:

Sergio Narváez Garza

Wall and Floor Tile Vice-President

Federico Toussaint Elosúa

Chief Executive Officer

Julio Rafael Vargas Quintanilla

Human Resources Vice-President

Jorge Manuel Aldape Luengas

Adhesives Vice-President

Tomás Luis Garza de la Garza

Chief Financial Officer

José Mario Gutiérrez Peña

Sanitaryware Vice-President

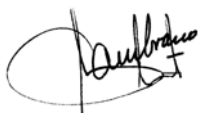
Audit Committee Report

February 25, 2011

To the Board of Directors of Grupo Lamosa, S.A.B. de C.V. ("the Company")

On behalf of the Audit Committee, as Chairman of the same, and pursuant to that set out in Article 42 of the Company Statutes and in Article 43 of Mexican Stock Market Law, I would like to present to you the annual report on the Audit Committee's activities in relation to the financial year ended on December 31, 2010.

1. We reviewed the reports of the external auditors and on the results of the internal audit for the year of 2010.
2. To date, this Audit Committee has no knowledge of any incompliance with the operating and accounting guidelines and policies of the Company and its Subsidiaries.
3. This Committee has met with the representative of the firm of external auditors and evaluated the performance both of the firm and the auditor responsible therefor. The firm is responsible for expressing an opinion on the fairness of the Company's financial statements and their compliance with Mexican Financial Reporting Standards. At the current time, we believe the performance of the firm and its auditors to be satisfactory.
4. This Committee authorized the payment to the firm that supplied external auditing services to the Company for the fiscal year of 2010.
5. We reviewed the plan for adopting International Financial Reporting Standards as of 2012 and analyzed the main effects that the said adoption will imply.
6. This Committee reviewed the methodology and implementation of the integral risk project for the Wall and Floor Tiles Business.
7. We reviewed the report on the operations of the Grupo Lamosa Transparency Line to ensure that the cases received are being treated in accordance with the principles set out in the Company's Code of Ethics.
8. During the year, nothing worthy of note was observed with regard to the accounting, internal controls, and internal and external auditing, nor were there any claims relating to irregularities on the part of Management.
9. This Committee gave the Board of Directors a favorable opinion on the Annual Report of the Chief Executive Officer and on the report on operations and activities in which the Board was involved, corresponding to the fiscal year of 2010.
10. On the basis of the external auditors' report, this Committee believes that the accounting and information policies and criteria followed by the Company are adequate and sufficient, and have been applied consistently in the information presented by the Chief Executive Officer and by the Board of Directors, reflecting fairly the Company's financial position and results.



Carlos Zambrano Plant
Chairman

Corporate Practices Committee Report

February 25, 2011

To the Board of Directors of Grupo Lamosa, S.A.B. de C.V. (“the Company”)

As Chairman of the Corporate Practices Committee and pursuant to that set out in Article 42 of the Company Statutes and in Article 43 of Mexican Stock Market Law, I would like to present to you the annual report on this Committee's activities in relation to the financial year ended on December 31, 2010.

1. We reviewed the previously defined goals, and individual and Company performance during the year and, where necessary, any observations on the performance of Company officers. We also reviewed the employee evaluation system, which validates the performance of the different officers.
2. We reviewed the conditions and structure used to determine the total salary and benefit packages of the Chief Executive Officer and Company officers, on the basis of market trends.
3. We reviewed pension plan alternatives for the Company executives, authorizing the implementation of a defined contribution plan, in accordance with market practices and Company requirements, in 2011.
4. This Committee gave no authorization for any board member, Company officer or person in a position of command to take advantage of business opportunities – either for themselves or for third parties – that correspond to the Company or its Subsidiaries, and is not aware that the Board of Directors or any Committee has done so.
5. The Corporate Practices Committee will continue carrying out all the actions necessary to comply with the legal and statutory requirements that govern it.



Eugenio Garza Herrera
Chairman



Consolidated
Financial
Statements

Independent Auditors' Report

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

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

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Lamosa, S.A.B. de C.V. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations, changes in their stockholders' equity and their cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards.

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

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



C.P.C. Carlos Javier Vázquez Ayala
February 25, 2011

Consolidated Balance Sheets

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

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,189,191	\$ 899,422
Accounts receivable, net	2,839,904	2,858,639
Inventories, net	1,015,647	1,221,530
Current assets	5,044,742	4,979,591
Long-term accounts receivable	122,982	
Real estate inventories	229,456	731,927
Property, plant and equipment, net	5,145,649	5,401,745
Deferred income tax	533,122	422,039
Derivative financial instruments	41,080	113,500
Other assets	45,984	84,781
Intangible assets	4,183,368	4,215,016
Total	\$ 15,346,383	\$ 15,948,599
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable to financial institutions		
Current portion of long-term debt	\$ 605,245	\$ 975,274
Trade accounts payable	806,142	694,932
Other payables and accrued expenses	457,870	365,058
Income tax payable for tax consolidation	513	9,145
Derivative financial instruments	125,491	177,532
Current liabilities	1,995,261	2,221,941
Long-term debt	7,550,914	8,786,440
Employee benefits	157,805	138,673
Derivative financial instruments	22,225	63,493
Income tax payable for tax consolidation	1,651,965	1,251,735
Total liabilities	11,378,170	12,462,282
Stockholders' equity		
Capital stock	334,489	334,489
Additional paid-in capital	149,096	149,096
Retained earnings	3,583,978	3,081,971
Derivative financial instruments	(99,350)	(79,331)
Controlling interest	3,968,213	3,486,225
Noncontrolling interest		92
Total stockholders' equity	3,968,213	3,486,317
Total	\$ 15,346,383	\$ 15,948,599

Ing. Federico Toussaint Elosúa

Chief Executive Officer

Ing. Tomás Luis Garza de la Garza

Chief Financial Officer

Consolidated Statements of Income

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

	2010	2009
Net sales	\$ 8,767,926	\$ 8,035,413
Costs and expenses:		
Cost of sales	5,515,904	5,320,999
Operating expenses	1,784,025	1,662,773
	<u>7,299,929</u>	<u>6,983,772</u>
Operating income	1,467,997	1,051,641
Other expenses, net	164,696	131,388
Net comprehensive financing cost:		
Interest expense	809,754	817,744
Interest income	(27,375)	(44,533)
Exchange gain, net	(282,931)	(307,481)
Valuation effects of derivative financial instruments	(36,922)	22,150
	<u>462,526</u>	<u>487,880</u>
Income before income taxes	840,775	432,373
Income tax expense	337,731	116,473
Consolidated net income	<u>\$ 503,044</u>	<u>\$ 315,900</u>
Net income per share	<u>\$ 1.37</u>	<u>\$ 0.86</u>

Consolidated Statements of Changes in Stockholders' Equity

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

	Capital stock	Additional paid-in capital	Retained earnings	Derivative financial instruments	Noncontrolling interest	Total stockholders' equity
Balances as of January 1, 2009	\$ 334,489	\$ 149,096	\$ 2,766,071	\$ (285,062)	\$ 1,669	\$ 2,966,263
Comprehensive income			315,900	205,731	(1,577)	520,054
Balances as of December 31, 2009	334,489	149,096	3,081,971	(79,331)	92	3,486,317
Purchase of treasury stock, net			(1,037)			(1,037)
Comprehensive income			503,044	(20,019)	(92)	482,933
Balances as of December 31, 2010	\$ 334,489	\$ 149,096	\$ 3,583,978	\$ (99,350)	\$ 0	\$ 3,968,213

Consolidated Statements of Cash Flows

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

	2010	2009
Operating activities:		
Income before income taxes	\$ 840,775	\$ 432,373
Items related to investing activities:		
Depreciation and amortization	331,933	419,225
Impairment of long-lived assets	46,252	12,292
Commission paid		105,710
Other	59,058	24,835
Items related to financing activities:		
Interest income	(27,375)	(44,533)
Interest expense	809,754	817,744
Exchange gain, net	(282,931)	(307,481)
Valuation effects of derivative financial instruments	(36,922)	22,150
	1,740,544	1,482,315
Trade accounts receivable	(112,442)	287,285
Inventories and real estate inventories	698,204	393,710
Trade accounts payable	111,210	(293,612)
Other accounts payable and receivable	28,517	(186,670)
Income taxes reimbursed	3,435	316,137
Net cash provided by operating activities	2,469,468	1,999,165
Investing activities - Purchases of property, plant and equipment	(105,653)	(27,742)
Net cash used in investing activities	(105,653)	(27,742)
Excess cash to apply to financing activities	2,363,815	1,971,423
Financing activities:		
Repayment of notes payable	(1,301,232)	(758,396)
Interest paid	(759,216)	(817,281)
Purchase of treasury stock	(1,038)	
Other		(91,290)
Net cash used in financing activities	(2,061,468)	(1,666,967)
Cash and cash equivalents:		
Net increase in cash and cash equivalents	302,329	304,456
Effects from changes in cash value	(12,560)	20,485
Cash and cash equivalents at beginning of year	899,422	574,481
Cash and cash equivalents at end of year	\$ 1,189,191	\$ 899,422

See accompanying notes to these consolidated financial statements.

Notes to Consolidated Financial Statements

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

1 Nature of operations

Grupo Lamosa, S.A.B. de C.V. and its subsidiaries (the “Company”) are engaged in the manufacture of ceramic products for wall and floor coverings, bathroom fixtures, adhesives for ceramic tiles and real estate projects for sale. The Company is organized into three reportable segments, which include ceramic, adhesive and real estate.

2 Basis of presentation

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

b. Consolidation of financial statements – The consolidated financial statements include those of Grupo Lamosa, S.A.B. de C.V. (“Glasa”) and its subsidiaries. Currently, Glasa owns approximately 100% of the capital stock and trustee rights of a majority of its subsidiaries. For consolidation purposes intercompany balances and transactions have been eliminated.

The subsidiaries and associated companies, classified according to their activities, are shown below:

Ceramic:

Lamosa Revestimientos, S.A. de C.V.	Mercantil de Pisos y Baños, S.A. de C.V.	Lamosa USA Inc.
General de Minerales, S.A. de C.V.	Sanitarios Lamosa, S.A. de C.V.	Porcelanite Holding, S.A. de C.V. ⁽¹⁾
Porcelanite, S.A. de C.V.	Ital Gres, S.A. de C.V.	Porcel, S.A. de C.V.
Gres, S.A. de C.V.	Productos Cerámicos de Querétaro, S.A. de C.V.	Pavillion, S.A. de C.V.
Barros y Pizarras, S.A. de C.V.	Estudio Cerámico México, S.A. de C.V. ⁽²⁾	Servigesa, S.A. de C.V. ⁽²⁾
Porcelanite Lamosa, S.A. de C.V.	Revestimientos Porcelanite, S.A. de C.V.	Servicios Comerciales Lamosa, S.A. de C.V.
Revestimientos Porcelanite Lamosa, Intangibles Ital Gres, S.A. de C.V.	Revestimientos Lamosa, S.A. de C.V. Sanitarios Azteca, S.A. de C.V.	Intangibles Porcelanite, S.A. de C.V. S.A. de C.V.

Adhesive:

Crest, S.A. de C.V.	Proyeso, S.A. de C.V.	Adhesivos de Jalisco, S.A. de C.V.
Industrias Niasa, S.A. de C.V.	Tecnocreto, S.A.	Servicios de Administración de Adhesivos, S.A. de C.V.
Servicios Industriales de Adhesivos, S.A. de C.V.	Soluciones Técnicas para la Construcción, S.A. de C.V.	

Real Estate:

Grupo Inmobiliario Viber, S.A. de C.V.	Inmobiliaria Galerías Valle Oriente, S.A. de C.V.	Inmobiliaria Plaza Cumbres, S.A. de C.V.
Servicios Inmobiliarios Viber, S.A. de C.V.	L&L Consorcio Inmobiliario, S.A. de C.V.	Inmobiliaria Revolución, S.A. de C.V.

Lamosa Desarrollos Inmobiliarios, S.A. de C.V. Trust for the urbanization, development and marketing of real estate

Corporate: Servicios Administrativos Lamosa, S.A. de C.V. and Ladrillera Monterrey, S.A. de C.V.

⁽¹⁾ On December 6, 2010, Porcelanite Holding, S.A. de C.V. merged with Glasa.

⁽²⁾ Associated companies where the Company has a 49% share interest.

Investments in associated companies are accounted for using the equity method.

c. 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”). Certain accounting practices applied by the Company that conform with MFRS (which standards are called “Normas de Información Financiera” or “NIF’s”) may not conform with accounting principles generally accepted in the country of use.

d. Comprehensive income – Represents changes in stockholders’ equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income items of the same period, which are presented directly in stockholders’ equity without affecting the consolidated statements of operations. In 2010 and 2009, other comprehensive income items consist of the effects of derivative financial instruments. Upon the realization of assets and settlement of liabilities giving rise to other comprehensive income items, the latter are recognized in the statement of income.

e. Classification of costs and expenses – The costs and expenses presented in the statement of operations were classified based on their function, as that is the classification used by the industry the Company participates in. Thus, cost of sales was separated from operating costs and expenses.

f. Operating income – Operating income is obtained from subtracting cost of sales and operating expenses from net sales. Although NIF B-3, “Statement of Income”, does not require its presentation, this subtotal is presented in the consolidated statements of income, as it contributes to a better understanding of the Company’s economic and financial performance and is a measure used by management to evaluate the results of operations.

3 Summary of significant accounting policies

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

a. Accounting changes – Beginning on January 1, 2010, the Company adopted the following new NIF’s which had no significant effect on the accompanying financial statements:

NIF C-1, Cash and Cash equivalents - Requires presentation of cash and restricted cash equivalents under the line item titled “cash and cash equivalents”, as opposed to Bulletin C-1, which required these items to be separately presented; it replaces the concept “temporary investments payable on demand” with “readily available investments” and considers a characteristic of this type of investment a maturity within three months from the date of acquisition.

Improvements to Mexican Financial Reporting Standards 2010 applicable to the Company are as follows:

NIF B-2, Statement of cash flows - A separate line item, “Effects from changes in cash value” is required, to show the impact on cash and cash equivalent balances of changes in value resulting from exchange fluctuations and changes in fair value, plus effects from conversion to the reporting currency of cash flows and balances from foreign operations as well as the effects of inflation associated with the cash flows and balances of any of the entities making up the group, that is in an inflationary economic environment.

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

Beginning on January 1, 2008, the Company discontinued recognition of the effects of inflation in its financial statements. However, assets, liabilities and stockholders’ equity include the restatement effects recognized through December 31, 2007.

c. Cash and cash equivalents – This line item consists mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses. This line item is stated at nominal value plus accrued yields, which are recognized in results as they accrue.

d. Inventories – Inventories are valued at the lower of weighted-average cost or net realizable value.

e. Real estate inventories – Real estate inventories consist of the cost of land, licenses, taxes, direct and indirect materials and costs incurred in the Company’s real estate business and are recorded at the lower of cost or net realizable value.

Comprehensive financing cost incurred from loans related to real estate construction is capitalized. Comprehensive financing cost, expressly agreed to or implicit, in the debt, for the acquisition of land, is capitalized only during the development stage.

f. Property, plant and equipment – Property, plant and equipment of domestic origin are initially recorded at acquisition cost and through December 31, 2007 were restated for the effects of inflation by applying factors derived from the National Consumer Price Index (“NCPI”). Through 2007, for fixed assets of foreign origin, restated acquisition cost expressed in the currency of the country of origin is converted into Mexican pesos at the market exchange rate in effect at the balance sheet date. Depreciation is computed using the straight-line method, based on the estimated useful lives of the related assets as follows:

	Average years	
	2010	2009
Buildings and improvements ⁽¹⁾	31	19
Machinery and equipment ⁽¹⁾	11	7
Transportation equipment	3	2
Computer equipment	3	2
Furniture and fixtures	4	4

⁽¹⁾ See note 9.

Net comprehensive financing cost incurred during the period of construction and installation of property, plant and equipment is capitalized and through December 31, 2007 was restated for the effects of inflation using the NCPI.

Maintenance and repair expenses are recorded as an expense in the period they are incurred.

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

h. Financial risk management policy – The activities carried out by the Company expose it to a number of financial risks, including market risk (which encompasses foreign exchange fluctuations, interest rate changes and the increases in the market price of natural gas, which is one of the Company’s significant costs). The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Company uses derivative financial instruments to hedge against some exposures to financial risks recognized in the balance sheet (assets and liabilities). The Company has internal guidelines for conducting transactions by utilizing derivatives financial instruments for hedging purposes. The Board of Directors of the Company has a Finance Committee which is comprised of independent directors.

i. Derivative financial instruments –The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value in the balance sheet, regardless of its intent for holding them. Fair value is determined using prices quoted on recognized markets. If such instruments are not traded, fair value is determined by applying recognized valuation techniques.

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 ineffectiveness of the instrument will be measured. The derivative financial instruments are negotiated only with institution of recognized financial strength. The Company’s policy is to not enter into derivative transactions for speculative purposes.

Changes in the fair value of derivative instruments designated as hedging are recognized as follows; (1) for fair value hedges, changes in both the derivative instrument and the hedged item are recognized in current earnings, (2) for cash flow hedges, changes are temporarily recognized as a component of comprehensive income 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, within comprehensive financing cost, regardless of whether the derivative instrument is designated as a fair value hedge or a cash flow hedge.

The Company discontinues hedge accounting when the derivative instrument matures, is sold, cancelled or exercised; when the derivative instrument does not reach a high percentage of effectiveness to compensate for changes in fair value or cash flows of the hedged item, or when the Company decides to cancel its designation as a hedge.

For cash flow hedges, upon discontinuing hedge accounting, the amounts recorded in stockholders' equity as a component of other comprehensive income (loss) remain there until the time when the effects of the forecasted transaction or firm commitment affect current earnings. If it is not likely that the firm commitment or forecasted transaction will occur, the gains or losses accumulated in other comprehensive income (loss) are immediately recognized in current earnings. When the hedge of a forecasted transaction has proven satisfactory, but subsequently the hedge fails the effectiveness test, the cumulative effects recorded within other comprehensive income (loss) in stockholders' equity are proportionately recorded in current earnings, to the extent that the forecasted asset or liability affects current earnings.

The Company mainly uses interest rate swaps, foreign currency forward contracts and commodity (natural gas) contracts to manage its exposure to fluctuations of interest rates, foreign currencies and the market price of natural gas, respectively.

j. Intangible assets – This line item represents expenditures whose benefits will be received in the future. The Company classifies its intangible assets as either definite lived intangible assets or indefinite lived intangible assets, according to the period in which the Company expects to receive the related benefits.

Intangible assets with a determinable useful life include debt issuance costs, which are being amortized over the term of the respective loans. Indefinite lived intangible assets, such as trademarks and goodwill, are not amortized but are instead tested for impairment on at least an annual basis.

Goodwill represents the excess of the purchase price over the fair value of the net assets and liabilities of acquired businesses. Through December 31, 2007, such assets were restated for the effects of inflation using the NCPI.

k. Employee benefits– Liabilities from seniority premiums, pension plans and severance payments are recognized as they accrued and are calculated by independent actuaries based on the projected unit credit method using nominal interest rates.

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

The tax on assets (“IMPAC”) that is expected to be recovered is recorded as a tax credit and is presented in the balance sheet increasing the asset of deferred taxes.

m. Statutory employee profit sharing (PTU) – Statutory employee profit sharing is recorded in the results of the year in which it is incurred and presented under other income and expenses in the accompanying consolidated statements of income. Deferred PTU is derived from temporary differences that resulted from comparing the accounting and tax basis of assets and liabilities and 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.

n. 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.

o. Foreign currency transactions – Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the date of the financial statements. Exchange fluctuations are recorded in results of operations, except those amounts capitalized as a component of construction costs.

p. Revenue recognition – Revenues are recognized in the period in which the risks and rewards of ownership are transferred to customers, which generally coincides with the shipment of products to customers in satisfaction of orders and the transfer of the rights to possession of real estate inventories.

q. Earnings per share – Earnings per share are computed by dividing consolidated net income by the weighted average number of shares outstanding during each period. Earnings per share are based on 367,823,345 and 367,856,960 weighted average common shares outstanding during 2010 and 2009, respectively.

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

4 Cash and cash equivalents

	2010	2009
Cash and bank deposits	\$ 85,229	\$ 25,617
Cash equivalents - Overnight investments	1,103,962	873,805
	<u>\$ 1,189,191</u>	<u>\$ 899,422</u>

5 Accounts receivable, net

	2010	2009
Trade accounts receivable	\$ 2,547,542	\$ 2,811,486
Allowance for doubtful accounts	(65,142)	(52,870)
Allowance for sales rebates	(130,331)	(132,713)
	<u>2,352,069</u>	<u>2,625,903</u>
Recoverable taxes	69,479	63,155
Accounts receivable from associated companies	41,866	74,975
Derivative financial instruments	5,455	
Current portion of long-term account receivable	234,235	
Other	136,800	94,606
	<u>\$ 2,839,904</u>	<u>\$ 2,858,639</u>

6 Inventories, net

	2010	2009
Finished products	\$ 692,096	\$ 894,944
Work in process	87,942	85,057
Raw materials	155,753	151,303
Supplies and spare parts	91,238	111,620
Merchandise in transit	1,240	413
Advances to suppliers	25,205	3,995
Allowance for obsolescence	(37,827)	(25,802)
	<u>\$ 1,015,647</u>	<u>\$ 1,221,530</u>

7 Long-term accounts receivable

	2010
Long-term accounts receivable	\$ 357,217
Current portion of long-term account receivable	(234,235)
	<u>\$ 122,982</u>

The long term account receivable arising from the sale of land that the company made in 2010 amounting to \$547,716 (U.S. \$43,114 thousand U.S. dollars), of which \$357,217, its maturity was established in various installments through 2012. As a result of this transaction, the Company recorded in the consolidated statements income at December 31, 2010, net sales of \$547,716 which increased operating income by \$200,362.

The resources generated by this transaction were primarily used to pay down long-term debt.

8 Real estate inventories

	2010	2009
Real estate for sale	\$ 99,767	\$ 490,356
Undeveloped land	129,689	241,571
	<u>\$ 229,456</u>	<u>\$ 731,927</u>

9 Property, plant and equipment, net

	2010	2009
Land	\$ 464,973	\$ 466,737
Buildings and improvements	3,123,445	3,118,573
Machinery and equipment	7,654,259	8,059,919
Transportation equipment	89,312	87,136
Furniture and mixtures	82,573	80,986
Computer equipment	97,318	90,212
Construction in progress	101,231	24,213
	<u>11,613,111</u>	<u>11,927,776</u>
Accumulated depreciation	<u>(6,467,462)</u>	<u>(6,526,031)</u>
	<u>\$ 5,145,649</u>	<u>\$ 5,401,745</u>

For the years ended December 31, 2010 and 2009, the Company had spare capacity of 21% and 26%, respectively, of its total plant production primarily due to declines in customer demand. As a result, the Company continues to look for alternatives to improve its operating efficiency.

During 2010, the Company's technical experts, together with an independent appraiser, reviewed the fixed assets' remaining estimated useful lives (RUL). The result thereof caused the average RUL of the buildings and machinery and equipment of the Ceramic Business's to increase (see note 3f).

Unamortized capitalized net comprehensive financing cost was \$32,277 and \$34,352 at December 31, 2010 and 2009, respectively.

10 Intangible assets

	2010	2009
Non-amortizable intangible assets:		
Trademarks	\$ 3,791,424	\$ 3,791,424
Goodwill	267,957	267,957
	<u>4,059,381</u>	<u>4,059,381</u>
Amortizable intangible assets	123,987	155,635
	<u>\$ 4,183,368</u>	<u>\$ 4,215,016</u>

11 Long-term debt

a. **Bank debt in accordance with long-term** credit agreements as of December 31, 2010 and 2009 is summarized as follows:

	2010	2009
Secured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a maximum spread of 3.25% in 2010 and 4.5% in 2009, principal payable in various installments through 2013.	\$ 2,333,172	\$ 2,878,097
Secured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on Interbank Equilibrium Interest Rate ("TIIE") plus a maximum spread of 3.25% in 2010 and 4.5% in 2009, principal payable in various installments through 2013.	3,028,421	3,539,212
Secured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a maximum spread of 4.5%, principal payable in 2010.		390,000
Unsecured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a spread of 6.5%, principal payable in 2014.	2,781,000	2,943,000
Capital leases, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread of 3.25% and 6%, principal payable in various installments through 2013.	13,566	11,405
Total long-term debt	8,156,159	9,761,714
Current portion of long-term debt	(605,245)	(975,274)
Long-term debt	\$ 7,550,914	\$ 8,786,440

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

Year ending December, 31	Amount
2012	\$ 1,454,471
2013	3,314,125
2014	2,782,418
	\$ 7,550,914

As of December 31, 2010, the interest rates of TIIE and LIBOR were 4.875% and 0.30%, respectively.

b. **Certain of the Company's long-term** debt agreements contain restrictions and covenants that require maintenance of various financial ratios, including maintaining a minimum cash balance of US\$ 25 million dollars. Additionally, the Company has an obligation to make prepayments on its debt if it exceeds certain levels of cash or sells non-operating assets. As of December 31, 2010, the Company has complied with its financial restrictions and covenants.

During 2010, the Company made advance principle payments of \$810,177 and \$326,421 prior to their contractual maturity date, which was due in periods subsequent to December 31, 2010.

Debt of the Company totaling \$5,361,593 is collateralized by estate inventories with a book value of \$52,379, fixed assets with a book value of \$5,145,649 and shares of a subsidiary with a book value of \$3,886,040, as of December 31, 2010. Additionally, brands and patents owned by the Company are also granted as collateral.

c. The Company primarily uses interest rate swaps (“interest swaps”) and currency options (“currency options”) to manage its exposure to fluctuations in interest and foreign currency exchange rates. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various derivative transactions; such hedging transactions qualify as cash flow hedges for accounting purposes.

The Company’s currency options grant it the right to buy dollars at a fixed exchange rate. The Company’s interest swaps effectively convert a portion of its variable rate debt to fixed rate debt.

The following table summarizes the derivative financial instruments in place as of December 31, 2010:

Type of transaction	Commencement date	Termination date	Company pays fixed interest rate	Company receives interest rate	Notional amount (Thousands)	Contract currency	Exchange rate
Currency options	May 23, 2008	Various dates up through August 27, 2009 November 26, 2013			US\$76,500	U.S. dollars	15.00
Interest swaps	May 30, 2008	Various dates through November 29, 2013	4.225%	LIBOR reviewed every 3 months	US \$51,000	U.S. dollars	10.394
Interest swaps	May 30, 2008	Various dates through November 29, 2013	4.23%	LIBOR reviewed every 3 months	US \$25,500	U.S. dollars	10.40

As of December 31, 2010, the fair value of the Company’s interest swaps and currency options is as follows:

	Fair value of assets (liabilities)
Interest swaps	\$ (46,085)
Currency options	42,144

The amounts recognized in the statements of income for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Interest swaps	\$ 32,607	\$ 27,578
Currency swaps	5,395	2,173
Net	\$ 38,002	\$ 29,751

12 Employee benefits

The disclosures relating to the Company's pension plans, seniority premium and severance payments required by the NIF D-3, "Employee Benefits", calculated as described in note 3-k), together with certain actuarial assumptions utilized, as of December 31, 2010 and 2009 are presented below:

	2010	2009
Vested benefit obligation	\$ 83,811	\$ 75,812
Nonvested benefit obligation	138,434	101,718
Projected benefit obligation	222,245	177,530
Plan assets	(26,410)	(26,410)
Unfunded status	195,835	151,120
Unrecognized items:		
Past service costs and changes to the plan	832	(1,523)
Unrecognized actuarial gains and losses	(38,862)	(10,924)
Net projected liability	\$ 157,805	\$ 138,673
Net period cost	\$ 33,981	\$ 40,847

Net discount rates used in actuarial calculations were as follows:

	2010	2009
	%	%
Discount rate	7.00	8.25
Estimated wage increase	4.50	4.50

13 Stockholders' equity

a. As of December 31, 2010 the minimum fixed capital stock consists of 360 million ordinary zero-par value shares without voting rights, and variable capital consists of 10.9 million ordinary shares, respectively, without par value. All shares are unrestricted as to ownership.

b. Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (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. At December 31, 2010 and 2009, the legal reserve, in historical pesos, was \$480.

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

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

	2010	2009
Contributed capital account	\$ 305,217	\$ 292,353
Net tax income account	6,159,420	5,899,828
Total	\$ 6,464,637	\$ 6,192,181

14 Contingencies and commitments

a. The Company's consumption of natural gas during 2010 was approximately 7,556,339 millions of British Thermal Units ("MMBTU"), of which, it had hedged a total of 4,063,400 MMBTU based on its expected production. The Company recognized a loss of \$205,168 in the consolidated statement of income for the year ended December 31, 2010 as a result to these transactions.

As of December 31, 2010, the Company maintains hedges to fix the price of natural gas related to its future consumption for approximately 5,733,250 MMBTU. At that date, the fair value of hedges is as follows:

Type of transaction	Notional amount MMBTU	Maturity	Average price	Fair value of assets (liabilities)
Options	3,709,000	2011	5.78	\$ 4,391
Swaps	2,003,250	2011	8.43	(101,070)
Swaps	21,000	2012	7.26	(560)
	5,733,250			\$ (97,239)

The recognition of the aforementioned fair values resulted in a charge to stockholders' equity, net of deferred taxes, of \$67,091 (which is planned to be recognized in earnings in 2011), as the cash flow hedges are considered to be effective hedge for accounting purposes. As of February 25, 2011, the date of issuance of these consolidated financial statements, the market price of natural gas is US\$4.16 MBTUS.

b. The Company has operating lease agreements for machinery and equipment denominated in U.S. dollars. The future estimated obligations arising from this agreement are as follows:

Year	Amount
2011	\$ 31,575
2012	30,732
2013	30,310
2014	30,310
2015 and thereafter	42,789
	\$ 165,716

c. The tax authorities have notified the Company of an ISR tax liability amounting to \$29,539 (without fines and surcharges). The Company's management and its legal counsel believe they have sufficient elements to demonstrate that the ISR calculation prepared by the Company was correct.

d. Neither the Company nor its assets are subject to any outstanding legal action that can arise in a contingency except for what is mentioned in the previous paragraph and certain ordinary lawsuits or incidental to its business against which the Company is duly insured or which amounts are insignificant.

15 Foreign currency balances and transactions

a. The monetary position in foreign currency, expressed in thousands of U.S. dollars as of December 31, 2010, is as follows:

	Foreign currency balances	Mexican peso equivalent
Monetary assets	99,556	\$ 1,230,522
Monetary liabilities	(458,484)	(5,666,861)
Net liability position	(358,928)	\$ (4,436,339)

b. Non-monetary assets of foreign origin, valued in thousands of U.S. dollars as of December 31, 2010 are as follows:

	Foreign currency balances		Mexican peso equivalent
Inventories	3,518	\$	43,481
Machinery and equipment	164,169		1,876,282

c. Transactions in foreign currency, expressed in thousands of U.S. dollars, were as follows:

	2010	2009
Export sales	117,293	96,276
Interest expense, net	24,800	28,992
Import purchases	18,358	12,532

d. The exchange rate used to translate U.S. dollars to Mexican pesos as of December 31, 2010 and 2009, was \$12.36 and \$13.08, respectively (nominal pesos). At February 25, 2010, the issuance date of these consolidated financial statements, the exchange rate was \$12.12 (nominal pesos) per one U.S. dollar.

16 Other expenses, net

	2010		2009
Non-controlling interest in trusts (note 18b)	\$ 3,884	\$	10,178
Commissions paid			105,710
Severance expenses	5,241		7,617
Impairment of long-lived assets	46,252		12,292
Statutory employee profit sharing	20,019		10,421
Other expenses (income), net	89,300		(14,830)
	\$ 164,696	\$	131,388

17 Income taxes

a. The Company is subject to ISR and IETU.

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

On December 7, 2009, Mexico enacted new tax laws that become effective January 1, 2010 (the "2010 Tax Reform"), which states that: a) entities must pay income taxes in installments from 2010 and 2015, related to benefits received from the tax consolidation from 1999 to 2004 and b) tax benefits related to tax consolidation received in 2005 and in subsequent years shall be paid in the form of income taxes during the sixth through the tenth year in which the benefits were obtained. Additionally, tax payments related to benefits received from the tax consolidation from 1982 to 1998 could be required in specific instances.

IETU - Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. The IETU rate is 17.5% and 17%, in 2010 and 2009. The Asset Tax Law was repealed upon enactment of the IETU Law; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid, may be recovered, according to the terms of the law. In addition, as opposed to ISR, the parent and its subsidiaries will incur IETU on an individual basis

Income tax incurred each year will be the higher of the ISR or IETU liability.

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

The reconciliation of the balance of ISR assets and liabilities before and after giving effects to the 2010 Tax Reform is as follows:

Item:	Tax assets	Tax liabilities
Balance before the 2010 tax reform	\$ 0	\$ 0
Recognition of:		
Assets and liabilities related to tax losses and differences in the contributed capital account	934,720	(913,618)
Assets and liabilities for loss on disposal of shares	142,874	(738,860)
Balance after the 2010 tax reform	<u>\$ 1,077,594</u>	<u>\$ (1,652,478)</u>

The ISR liabilities related to the tax consolidation are expected to be paid in the following years:

Year	Tax liabilities
2011	\$ 513
2012	846
2013	13,289
2014	116,154
2015	294,400
2016	386,921
2017	329,872
2018	262,991
2019	178,062
2020	69,430
	<u>\$ 1,652,478</u>

b. The ISR provision for the years ended December 31, is as follows:

	2010	2009
Current	\$ 39,581	
Deferred	298,150	\$ 116,473
Total	<u>\$ 337,731</u>	<u>\$ 116,473</u>

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

	2010	2009
	%	%
Effective income tax rate	35.5	26.9
Effects of permanent differences, mainly non-deductible expenses	(4.9)	
Other	(0.6)	1.1
Statutory income tax rate	<u>30.0</u>	<u>28.0</u>

d. At December 31, the main items comprising the balance of deferred income tax are as follows:

	2010	2009
Deferred income tax liabilities:		
Property, plant and equipment	\$ (600,478)	\$ (741,784)
Inventories	(71,451)	(106,641)
Real estate inventories	(5,196)	(36,468)
Debt issuance costs	(37,196)	(46,691)
	<u>(714,321)</u>	<u>(931,584)</u>
Deferred income tax assets:		
Tax loss carryforwards	1,077,594	1,071,504
Derivative financial instruments	34,431	38,276
Exchange losses, net		2,746
Allowance for doubtful accounts	19,733	15,861
Employee retirement benefits	51,863	41,602
Other	25,443	143,712
	<u>1,209,064</u>	<u>1,313,701</u>
Tax on assets	38,379	39,922
Net asset	\$ 533,122	\$ 422,039

Recoverable tax on assets that have been recognized as advance payment can be recovered subject to certain conditions.

The benefits of restated tax loss carryforwards for which the deferred ISR asset have been recognized, can be recovered subject to certain conditions. Restated amounts as of December 31, 2010 and expiration dates are as follows:

Year	Amount
2016	\$ 1,200
2017	53,813
2018	460,258
2019	384,409
2020	177,914
	<u>\$ 1,077,594</u>

18 Transactions with related parties

a. On December 30, 1998, a subsidiary within the Company's real estate segment, entered into a contract as trustor "A" and trustee (No. 851-00103) with a trust institution (Banco Regional de Monterrey, S.A.), and into an irrevocable business activity trust ("Business Trust Fidudisa") as trustor "B" and trustee with another entity (U-Calli Capital, S.A. de C.V.), a related party. The purpose of such trusts is to operate and develop a mercantile real estate business.

The net income from the trust operations will be completely distributed among the trustees in accordance with the trust contract.

b. The interest in the Business Trust Fidudisa earnings for the trustees was as follows:

	2010	2009
Grupo Inmobiliario Viber, S.A. de C.V.	\$ (45,615)	\$ 6,611
U-Calli Capital, S.A. de C.V.	3,884	10,178
	<u>\$ (41,731)</u>	<u>\$ 16,789</u>

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

	2010	2009
Sales of real estate inventories		\$ 50,400
Sales of finished products	\$ 3,420	4,753
Lease income	5,852	5,852
Purchase of finished products	5,906	5,282
Other expenses, net	(827)	10,178

d. For the years ended December 31, 2010 and 2009, the benefits granted to the Company's key management (and/or relevant officers) was equal to \$48,623 and \$38,748, respectively.

19 Information by industry segment and geographical area

Glasa's reportable segments are strategic business units that offer a variety of products. The segments are managed separately; each requires different manufacturing operations, technology and marketing strategies; and each segment primarily serves a distinct customer base.

Information by industry segment is as follows:

December 31, 2010:	Ceramic	Adhesive	Real estate	Corporate	Consolidated
Total net sales	\$ 6,022,718	\$ 1,975,050	\$ 779,496	\$ 651,974	\$ 9,429,238
Intersegment sales		(3,908)	(5,430)	(651,974)	(661,312)
Net sales to third parties	6,022,718	1,971,142	774,066	0	8,767,926
Operating income (loss)	743,934	524,133	226,970	(27,040)	1,467,997
Depreciation and amortization	285,266	30,340		16,327	331,933
Impairment of long-lived assets	46,252				46,252
Net cash provided by operating activities	1,580,178	563,330	401,694	(75,734)	2,469,468
Net cash (used in) provided by investing activities	(90,296)	(16,883)	3,550	(2,024)	(105,653)
Net cash provided by (used in) financing activities	2,470	1,999		(2,065,955)	(2,061,486)
Total assets	7,872,456	819,241	250,067	6,404,619	15,346,383
Total liabilities	1,166,110	338,776	19,924	9,853,360	11,378,170
			Real estate		
December 31, 2009:	Ceramic	Adhesive	Real estate	Corporate	Consolidated
Total net sales	\$ 5,923,895	\$ 1,855,571	\$ 260,661	\$ 445,979	\$ 8,486,106
Intersegment sales		(4,714)		(445,979)	(450,693)
Net sales to third parties	5,923,895	1,850,857	260,661	0	8,035,413
Operating income (loss)	554,661	456,362	105,040	(64,422)	1,051,641
Depreciation and amortization	375,225	33,169	161	10,670	419,225
Impairment of long-lived assets	12,292				12,292
Net cash provided by operating activities	1,350,339	465,037	111,034	72,755	1,999,165
Net cash (used in) provided by investing activities	(10,329)	(14,388)	1,699	(4,724)	(27,742)
Net cash (used in) provided by financing activities	(22,469)	(9,581)	2,945	(1,637,862)	(1,666,967)
Total assets	12,113,739	798,218	572,695	2,463,947	15,948,599
Total liabilities	1,019,255	305,640	33,336	11,104,051	12,462,282

Export sales represent 16.9% and 16.2% of total sales in 2010 and 2009, respectively, and are made mainly to the United States of America.

20 New accounting principles

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

B-5, “Financial Segment Information”

B-9, “Interim Financial Information”

C-4, “Inventories”

C-5, “Advance Payments and Other Assets”

Improvements to Mexican Financial Reporting Standards

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

NIF B-5, “Financial Segment Information” - Establishes management’s approach to disclose financial information by segment as opposed to Bulletin B-5, which, while using a management’s approach, required that the information be disclosed by economic segments, geographical areas or homogeneous groups of customers. The standard does not require that the business areas be subject to different risks from one another to separate them; it allows classifying as a segment area in the pre-operational stage; and requires the separate disclosure of interest income, interest expense and liabilities, as well as disclosure of information of the entity as a whole, by products, services, geographical areas, and major customers and suppliers. As the previous Bulletin B-5, this standard is only mandatory for public companies or entities in process of becoming public.

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

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

NIF C-5, “Advance Payments and Other Assets” - This standard sets as a basic feature of advance payments the fact that they do not yet transfer to the Company the risks and benefits of the ownership of goods and services to be acquired or received. Therefore, advances for the purchase of inventories or property, plant and equipment, among others, must be presented in the advance payments line item not in inventory or property, plant and equipment, respectively. It requires that advance payments be recognized as an impairment loss when they lose their ability to generate future economic benefits. This standard requires advance payments related to the acquisition of goods to be presented in the current or noncurrent sections of the balance sheet, based on their respective classification.

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

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

NIF B-2, "Statement of Cash Flows" - This standard eliminates the requirement to show the excess cash to be applied in financing activities, or cash to be obtained from financing activities line items, to leave its presentation as a recommendation.

Bulletin C-3, "Accounts Receivable" - This Bulletin includes standards for the recognition of interest income from accounts receivable, and clarifies that it is not possible to recognize accrued interest income derived from receivables considered difficult to recover.

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

NIF C-13, "Related Parties" - This standard defines a close family member as a related party and considers all persons who qualify as related parties or, excludes those who, despite the family relationship, are not related parties.

Bulletin D-5, "Leases" - Bulletin D-5 removes the obligation to determine the incremental interest rate when the implicit rate is too low; consequently, it establishes that the discount rate to be used by the lessor to determine the present value should be the implicit interest rate of the lease agreement. It eliminates the requirement to use the lower interest rate between the incremental interest rate and the implicit interest rate of the lease agreement to determine the present value of minimum lease payments the lessee may capitalize. It requires using the implicit interest rate of the agreement if it can be easily determined; otherwise, the incremental interest rate should be used. Both the lessor and the lessee should disclose more detailed information on their leasing operations. The Bulletin requires that the result in a sale and leaseback transaction be deferred and amortized over the term of the agreement and not in proportion to the depreciation of the leased asset. The Bulletin also establishes that the gain or loss on the sale and leaseback in an operating lease be recognized in results at the time of sale, provided that the transaction is established at fair value, noting that if the sales price is lower, the result should be recognized immediately in current earnings, unless the loss is offset by future payments that are below the market price, in which case it should be deferred and amortized over the term of the agreement and, if the selling price is higher, the excess should be deferred and amortized over the term of agreement.

At the date of issuance of these consolidated financial statements, the Company is in the process of assessing the effects of adopting these new standards on its financial information.

21 International Financial Reporting Standards

In January 2009, the National Banking and Securities Commission published the amendments to its National Securities Law, which requires companies to file financial statements prepared according to International Financial Reporting Standards (“IFRS”) beginning in 2012, and permits their early adoption. The Company is in the process of assessing the effects of adopting IFRS.

The Company has decided to adopt IFRS in 2012 and will present 2011 comparatively as required by such standards. The Company is in the process of assessing the impact of adopting IFRS as it relates to its financial information.

22 Financial statement issuance authorization

On February 25, 2011, the issuance of the consolidated financial statements was authorized by Ing. Federico Toussaint Elosúa, Chief Executive Officer of the Company and Ing. Tomás Luis Garza de la Garza, Chief Financial Officer. These consolidated financial statements are subject to approval at the general ordinary stockholders’ meeting, where the financial statements may be modified, based on provisions set forth by the Mexican General Corporate Law.

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