



Sharing
dreams

 **LAMOSA**

Annual Report 2011


With a track record of more than 120 years in Mexico's construction market, Grupo Lamosa manufactures and markets ceramic tiles, bathroom fixtures and ceramic adhesives and now has a significant presence throughout the American continent.

The Company has made capital expenditures of more than one billion dollars over the past few years, including the acquisition of Porcelanite in 2007, giving it a state-of-the-art technological platform and making it the world's largest ceramic producer in terms of installed capacity.

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We know that Lamosa products are never bought on impulse; the purchasing decision is too important to be anything but reasoned.

Selecting new floor or wall tiles and choosing bathroom fixtures or finishings are decisions that will affect the customer for years to come and often constitute the realization of a dream.

To make such dreams come true, Grupo Lamosa focuses its efforts on coming ever closer to its customers, anticipating their needs, responding to their changing lifestyles and enriching their purchasing experience to assure their preference. By doing just this, the Company also makes its own dreams come true, as it gains competitive advantages to underpin its leadership position so that it can continue to grow and generate value for the stockholder.

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 México, S.A. de C.V.
PLANTS Benito Juárez, Tlaxcala (4), San Luis Potosí, Sonora, Querétaro, Guanajuato

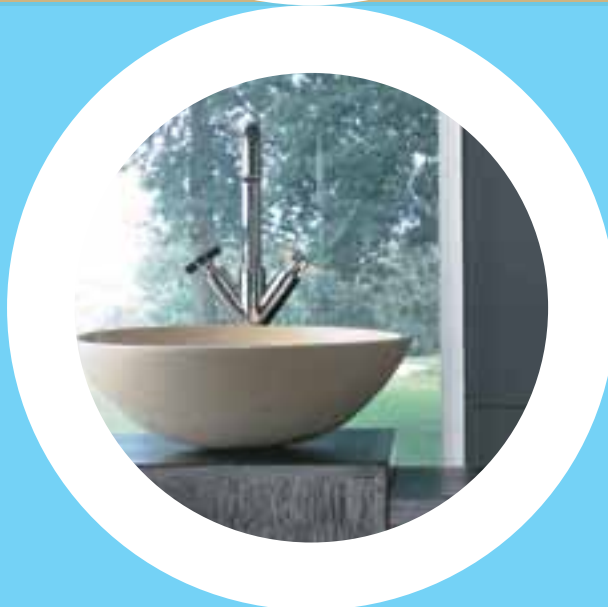
Adhesives



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 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)



76% Domestic
24% 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
- Research and development
- Environmentally-friendly product line

Products and Services

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

Sales Breakdown (value)



88% Adhesives and grouts
12% Stuccos and other

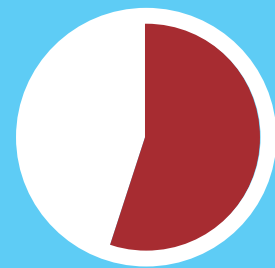
Competitive Advantages

- 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)



60% Domestic
40% Export

Financial Highlights

GRUPO LAMOSA, S.A.B. DE C.V. AND SUBSIDIARIES

(Figures expressed in millions of nominal Mexican pesos)

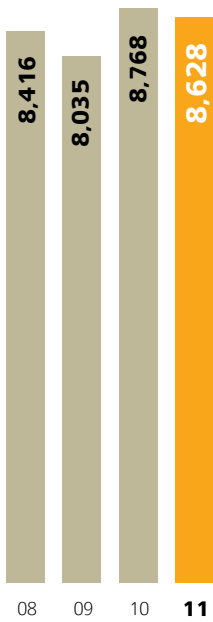
	2010	2011	% CHG.
RESULTS			
Net sales ⁽¹⁾	8,768	8,628	(2)
Export sales (millions of USD)	117	136	16
Export sales / net sales	17%	20%	
Operating income ⁽²⁾	1,468	1,365	(7)
Operating income / net sales	17%	16%	
Comprehensive financing cost	463	1,007	118
Consolidated net income	503	75	(85)
FINANCIAL POSITION			
Total assets	15,328	14,960	(2)
Total liabilities	11,359	10,842	(5)
Stockholders' equity	3,968	4,118	4
Book value per share ⁽³⁾	10.7	11.1	4
CASH FLOW			
Operating cash flow ⁽⁴⁾	1,870	1,734	(7)
Capital expenditures	106	87	(17)
NUMBER OF EMPLOYEES			
Total personnel	4,781	5,110	7

(1) The 2010 figure includes the extraordinary sale of real estate assets amounting to \$726 million pesos.

(2) The 2010 figure includes an extraordinary operating income of \$222 million pesos from the sale of real estate assets.

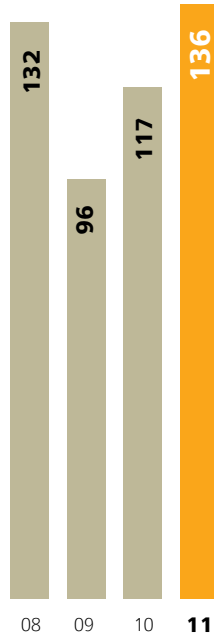
(3) On a total of 370.9 million shares.

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



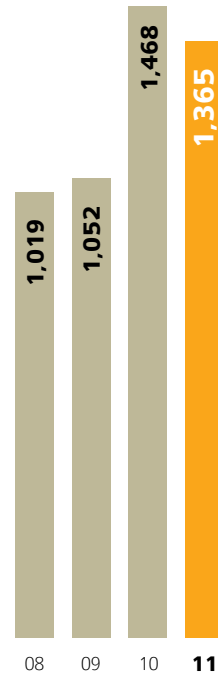
Net sales

millions of Mexican pesos



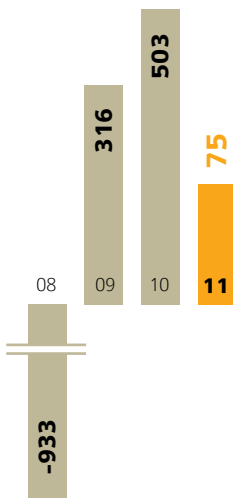
Export sales

millions of U.S. dollars



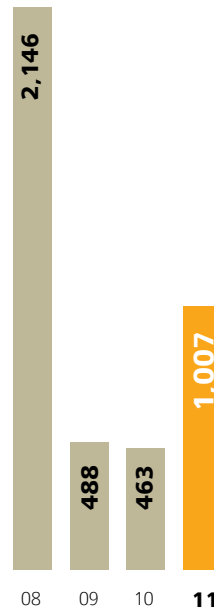
Operating income

millions of Mexican pesos



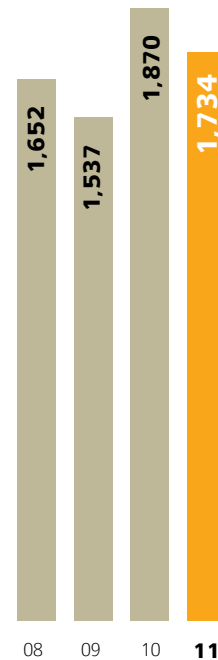
Consolidated net income

millions of Mexican pesos



Comprehensive financing cost

millions of Mexican pesos



Operating cash flow

millions of Mexican pesos

Note: Figures in millions of nominal Mexican pesos.

Letter to our *stockholders*

For Grupo Lamosa, 2011 was a year of recovery and increased activity. In Mexico, the industries in which the Company participates expanded at rates slightly above the economy in general, almost reaching 2008 pre-crisis levels.

Throughout the year, Grupo Lamosa made significant advances that will serve to underpin future growth. Consolidated debt was reduced considerably, the Company's financial structure strengthened and marked progress made in positioning the Company's different businesses, both in Mexico and foreign markets.

Grupo Lamosa closed the year with favorable results in an environment of recovery, despite the

GDP of the Mexican construction sector still lagging behind where it was in 2009 when the crisis began, unlike certain other sectors of the economy.

Grupo Lamosa's 2011 consolidated sales totaled \$8,628 million pesos, generating an EBITDA of \$1,734 million pesos. It is important to note that during 2010 the Company sold real estate assets, generating extraordinary revenues amounting to \$726 million pesos which translated into an op-

Excluding non-recurring revenues from the sale of real estate assets in 2010, sales and EBITDA grew respectively

7% and 5%

Grupo Lamosa exports its products to more than **15 countries** in Central and South America, as well as to the United States and Canada.

erating income of \$222 million pesos. Excluding these non-recurring items, in 2011 the Company posted growths in sales and EBITDA of 7% and 5% respectively.

The initiatives that Grupo Lamosa has implemented to expand its markets and grow the presence of its products in other countries resulted in export sales amounting to \$1,687 million pesos in 2011. This figure represents 20% of total sales for the year and a growth of 14% over 2010. The Company currently exports its products to more than 15 countries in Central and South America, as well as to the United States and Canada.

During 2011, the Company continued with its strategy of coming closer to and understanding better the needs of its product consumers. Because Grupo Lamosa knows how important the selection of a new floor or bathroom furniture is to end consumers, during the year capital expen-

ditures were made and actions taken to satisfy their product requirements and assure world-class service, thereby improving the purchasing experience and exceeding their expectations.

Without doubt, one of the most important accomplishments of the year was the refinancing of the Company's entire debt of US\$605 million dollars in the third quarter of 2011. This achievement was a direct result of the confidence of Grupo Lamosa's financial creditors, reflecting the Company's favorable operational and financial performance, and is especially noteworthy since many of the problems originating from one of the worst crises in recent history are still being resolved.

Grupo Lamosa is grateful for the ongoing trust of its stockholders, the continuous efforts and commitment of its people to achieve its goals, and the support of creditors, distributors, customers and friends. I would like to thank you all.



A handwritten signature in black ink, appearing to read 'Federico Elosúa', written over a stylized, elongated signature line.

Ing. Federico Toussaint Elosúa

Chairman of the Board of Directors
and Chief Executive Officer

Sharing *dreams.*



Transcendental
change in
organizational
culture



*... with our
associates,*
as we reinvent
the way we do
business

Lamosa's innovative spirit

has always been visible in its products and processes, reflecting our investments in state-of-the-art technology and development of the solutions the market demands. It is present in every area of the Company and enhanced by our focus on a single objective: coming closer to the end customer.



Portfolio of products with comprehensive solutions and international recognition

Sharing *dreams.*



Specialized
support and
advice and the
best product
display

The Lamosa logo, featuring a stylized orange and red circular icon to the left of the word "LAMOSA" in white capital letters on a red background.Two white decorative circles of different sizes on the left side of the page.

... with our distributors,
as we strategically partner with them in a win-win relationship

Distributors are a channel for contacting end consumers.

Lamosa runs an extensive program for its distributors in order to come closer to end consumers, helping them to make the best choice and enriching the shopping experience. As strategic partners with our distributors, we share our dreams for mutual benefit.



Lamosa products are marketed throughout the American continent

Sharing *dreams.*



High-quality
products that
guarantee the
projects of
construction
professionals

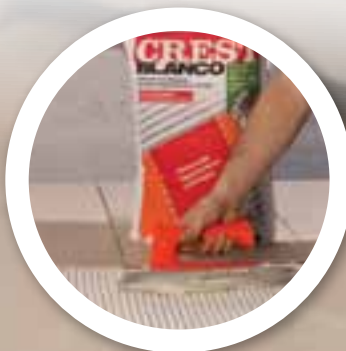


*... with our
customers,*
as we anticipate
their needs,
preferences and
lifestyles

*The end consumer is the central
objective of Grupo Lamosa's
business strategy.*

For those who make the purchasing choice and live with the Company's products every day, the right selection is the realization of a dream to live in the most comfortable and attractive setting.

Reliable, specialized
products guarantee
the results of the
work of installers



Sharing *dreams*.

Strengthening of
the Company's
financial
structure



*... with our
investors,*
as we position
ourselves
advantageously
for the future

***Grupo Lamosa's business
strategy has produced
favorable results***

and given the Company competitive advantages to serve its markets from a solid leadership position. We will continue with our plans to expand and generate value so as to realize the dreams we share with our investors.



Export sales grew
16% year-over-year

Wall and Floor Tiles

The positioning achieved by the Wall and Floor Tiles Business over the past few years, underpinned by the Porcelanite acquisition, allowed it to capitalize on the market recovery and post positive results at the close of 2011.

The revenues of this business increased 7% year-over-year, reflecting extraordinary growth in export sales and recovery in the domestic market, particularly during the second half of the year.

During 2011, the Wall and Floor Tiles Business continued with initiatives to bring it closer to end consumers, in order to understand their demands and needs better and thereby offer products and services to assure a satisfying purchasing experience that meets up to their expectations.

In its efforts to update and complement its product lines with an even more forward-looking offering in accordance with the latest market trends, in 2011 the Wall and Floor Tiles Business complemented its "Firenze" line with new high value added products. These include "Glacier", "Madera Galeón" and "Pietra Romana" porcelain enamel tiles made with the latest, innovative Full Definition digital printing technology, which enables the high-quality reproduction of stone, marble and wood with a very natural look.

During 2011, the business increased its share of the institutional market, strengthening its product offering for the segment. Today, it operates with the necessary infrastructure and know-how to satisfy the most stringent specifications of its institutional clients.



The Wall and Floor Tiles Business also implemented initiatives during the year in its efforts to contribute to environmental protection, by developing and offering products in its different lines that result in a considerable reduction in energy consumption and are therefore suitable for use in sustainable buildings.

During first quarter 2011, Grupo Lamosa's Wall and Floor Tile Business was awarded "Best in the Show" recognition at the Coverings Fair in Las Vegas, Nevada, one of the industry's most important fairs that boasts the participation of 1,200 exhibitors from more than 50 different countries. This is the fourth time in the past six years and the second consecutive year that the business has been recognized at the event.

The Coverings award reflects Grupo Lamosa's commitment to offering sophisticated, world-class products with the most up-to-date designs, formats and textures and manufactured with state-of-the-art technology.



Roll out of new high value added products using Full Definition technology in 2011

The business was awarded Best in the Show recognition at the Coverings Fair

The **revenues** of this business **increased 7%** year-over-year, reflecting extraordinary growth in export sales.



Adhesives



The Adhesives Business performed positively in 2011, closing the year with growth figures above the averages of the industry, which is still in the recovery process.

Sales grew a significant 9% year-over-year and profitability indicators also rose. These favorable results were driven by the development and rollout of new specialized products and an increased share of the institutional market.

During the year, the business launched new lines of specialized products, which complement the technical, high-value solutions that it already offers the construction industry.

As part of the Company's environmental protection initiatives, mid-2011 the Adhesives Business rolled out "Crest Blanco Ecológico"

This business posted a significant year-over-year growth in sales of

9%



Nuevo Crest Blanco Ecológico



As part of the Company's environmental protection initiatives, 2011 saw the launch of **Crest Blanco Ecológico**, an adhesive that requires less water.

and "Crestuco Ecológico", environmentally-friendly adhesives that require less water and reduce dust emissions during the installation process. "Crest Blanco Ligero", a leading-edge tile adhesive that offers greater coverage per given weight, thereby reducing shipping costs and facilitating product handling for the installer, was also launched during the year.

"Crest Constructor" was another line introduced in 2011, comprising practical, innovative products to be used in the initial phases of a construction project. The offering facilitates the building process because the products are ready for use and only require consumers to add the correct amount of water. The line includes "Crest PegaBlock", a mortar for installing concrete blocks and bricks, "Crest Afine", a plastering mortar, and "Crest Empaste", an adhesive product for correcting floor levels.

During 2011, the Adhesives Business continued to implement initiatives to strengthen its relationship with installers and other construction professionals, hosting a significant number of training and information sessions in different Mexican cities for its diverse product lines.

The multiple efforts carried out by this business have translated into competitive advantages that have enhanced the market position, recognition and image of its brands. The Adhesives Business currently offers the most innovative specialized solutions for the construction industry, strengthening its image as the market's technological leader with the most complete product range.

Sanitaryware

Despite the incipient recovery in the domestic market and favorable perspectives for increased activity in export markets at the beginning of 2011, this sector continued to slow and, as a result, the revenues of Grupo Lamosa's Sanitaryware Business fell 3% year-over-year.

The housing sector in the United States, the main client for the Sanitaryware Business's exports, is beginning to show signs of recovery, despite closing the year with approximately 40% of the 2008 pre-crisis level of activity as measured by the number of housing starts.

During 2011, the business continued its efforts to increase its presence and market share in the wholesale plumbing channel, through which the highest value added ceramic products are marketed both in the United States and Canada.

The Sanitaryware Business also took part in the Kitchen and Bath Industry Show in Las Vegas, Nevada, taking advantage of this event to launch new models such as "Sparta", a high hydraulic performance product line that complies with ADA (The Americans with Disabilities Act), a US government initiative that promotes products that are designed for the handicapped.

As with the other Grupo Lamosa businesses, during 2011 the Sanitaryware Business implemented initiatives to further satisfy the needs and requirements of the end consumer, from heads of household to architects and builders. Actions taken include a special focus on the specification market, strengthening the product line for this segment and holding sessions with Architectural Chambers and other construction groups throughout Mexico in order to come closer to them and understand their needs better.



Launch of Sparta, a high hydraulic performance product line that complies with ADA (The Americans with Disabilities Act)

The Sanitaryware Business took part in Expo Ferretera, in the city of Guadalajara, Jalisco, rolling out the "Constructor" line aimed at the building specification market during third quarter 2011. This offering includes bathroom fixtures with innovative designs and performance levels that exceed official Mexican standards.

Continuing with its effort to offer environmentally-friendly, water-saving products, during the year the business launched luxury products such as "Ecoextreme" and "Galicia", bathroom fixtures that contribute to the protection of the environment.

The achievements of this business and the actions taken over the past few years to face the difficult economic environment in which it operates have positioned it to capitalize on the opportunities that will undoubtedly present themselves in the marketplace in the short term.

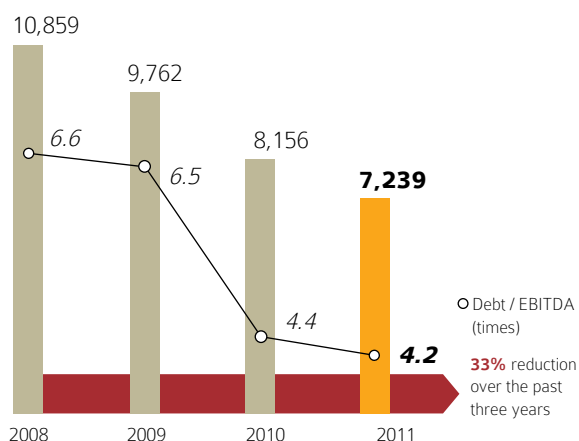


Continuing with its efforts to offer environmentally-friendly, water-efficient products, during 2011 the business rolled out luxury products such as the Ecoextreme toilet

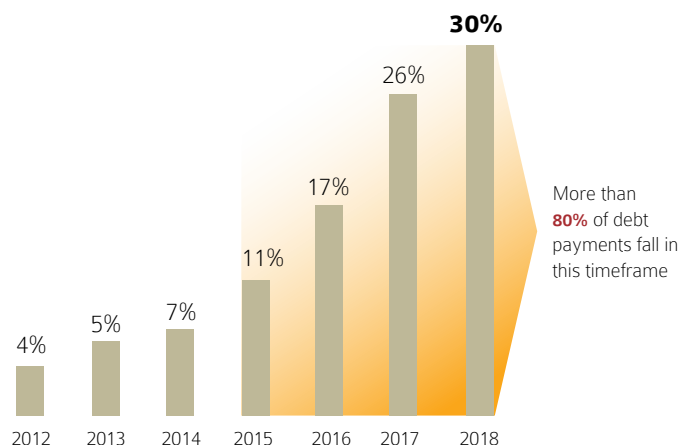


The Sanitaryware Business implemented initiatives to further satisfy the needs and requirements of the end consumer, from heads of household to architects and builders.

Financial Performance



Debt (millions of Mexican pesos)



Debt profile (%)

In 2011, Grupo Lamosa continued its efforts to strengthen the Company's financial structure, lowering its level of indebtedness and refinancing its entire debt, despite great volatility in the financial markets, especially during the second half of the year.

As a result, Grupo Lamosa closed 2011 with a debt of \$7,239 million pesos, which, despite the 13% devaluation of the Mexican peso vis-à-vis the US dollar, translates into an 11% reduction in debt compared to the debt of \$8,156 million pesos posted at yearend 2010.

During the third quarter of 2011, the Company formalized an amendment to the credit contracts corresponding to the debt incurred for the Porcelanite acquisition. The main objectives of the agreement were to refinance the entire debt to a longer term, reduce US dollar exposure and achieve significant savings in interest payments.

The agreement for the refinancing of Grupo Lamosa's debt was approved by the majority of its financial creditors, largely because of the Company's financial capacity, the competitive

position it has achieved with the Porcelanite acquisition, and its favorable relations with the banks.

It is important to note the importance of this achievement for Grupo Lamosa, since it eliminates the refinancing risk for 2013 and gives the Company's debt a gradual and increasing repayment schedule through 2018. The new debt profile will, without doubt, contribute to driving the Company's growth.

As in previous years, during 2011, Grupo Lamosa placed special emphasis on adequately managing its operating cash flow, implementing initiatives to optimize the investment in working capital. This positioned the Company to comply with its operating and financial obligations, prepay debt and close the year with a cash balance of \$780 million pesos, a total that exceeds the debt payments due over the next two years.

During 2011, Grupo Lamosa took all the steps necessary to adopt International Financial Reporting Standards, valid and obligatory in Mexico as of January 1, 2012.

Corporate Governance

In 2011, Grupo Lamosa continued to promote the principles and values of the Lamosa Code of Ethics and the standards of conduct that should be followed by its people and third parties who interact with the Company. Actions taken during the year include the obtaining of letters of commitment from employees stating that they know and understand the Company's ethical standards and are totally committed to complying with them.

Throughout the year, complaints received through the different communication channels of the Company's Transparency Line were attended. Each case was reviewed and analyzed by the Ethics Committee and the Audit Committee was also given the details. In this way, Grupo Lamosa was able to reaffirm its commitment to acting in total accordance with the highest levels of transparency and honesty.

During 2011, Grupo Lamosa followed up on its previous years' efforts to implement methodologies and practices to assure comprehensive risk management. The audit programs that have been instituted include reviews of the different business processes to generate recommendations that contribute to mitigating risks and strengthening the Company's internal control systems.

As in previous years, Grupo Lamosa closed the year with a high level of compliance with the recommendations of the Code of Best Corporate Practices issued by the Mexican Business Coordinating Council. During 2011, the Company also complied with the current applicable rules of the Mexican stock market, which incorporate and promote the practices and principles of good corporate governance.

Members of the Audit Committee:

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

Members of the Corporate Practices Committee:

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



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

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

Rector of the ITESM University System
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 22, 2011

Main Company Officers



From left to right:

Jorge Manuel Aldape Luengas

Adhesives Vice-President

José Mario Gutiérrez Peña

Sanitaryware Vice-President

Federico Toussaint Elosúa

Chief Executive Officer

Julio Rafael Vargas Quintanilla

Human Resources Vice-President

Tomás Luis Garza de la Garza

Chief Financial Officer

Sergio Narváez Garza

Ceramic Division and Wall
and Floor Tiles Vice-President

Audit Committee Report

February 24, 2012

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

As Chairman of the Audit Committee, I would like to present to you the report on this Committee's activities in relation to the financial year ended December 31, 2011, pursuant to Company Statutes and the current Law:

- 1.** We reviewed the reports of the external auditor and on the results of the internal audit for the year of 2011.
- 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 2011.
- 5.** We followed up on the plan for adopting International Financial Reporting Standards as of 2012 and analyzed the main effects that the said adoption will imply.
- 6.** 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.
- 7.** 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 complaints relating to irregularities on the part of Management. In the opinion of this Committee, the Company has made significant progress with its Corporate Governance and its internal control systems.
- 8.** 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 2011.
- 9.** 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 24, 2012

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

As Chairman of the Corporate Practices Committee, I would like to present to you the report on this Committee's activities in relation to the financial year ended December 31, 2011 pursuant to Company Statutes and the current Law.

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. 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 other Committee has done so.

4. The Corporate Practices Committee will continue carrying out all the actions necessary to comply with the legal and statutory requirements that govern it.



Eduardo Elizondo Barragán
Chairman

Consolidated Financial Statements

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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, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

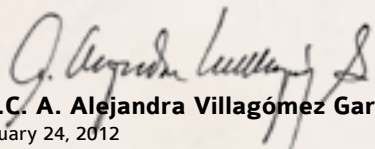
We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with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

As disclosed in Note 20 to the accompanying financial statements, beginning January 1, 2012, the Company adopted International Financial Reporting Standards (IFRS), in conformity with amendments to the National Securities Law issued by the National Banking and Securities Commission in January 2009. The consolidated financial statements for the year ending December 31, 2012 to be issued by the Company will be its first annual financial statements that comply with IFRS. The transition date is January 1, 2011 and, therefore, the year ended December 31, 2011 will be the comparative period established by IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. According to IFRS 1, the Company will apply the relevant mandatory exceptions and certain optional exemptions to the retroactive application of IFRS.

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, 2011 and 2010, 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. A. Alejandra Villagómez García
February 24, 2012

Consolidated Balance Sheets

As of December 31, 2011 and 2010 (In thousands of Mexican pesos)

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 779,928	\$ 1,189,191
Accounts receivable, net	2,998,184	2,846,356
Inventories, net	1,132,052	990,442
Current assets	4,910,164	5,025,989
Long-term accounts receivable		122,982
Real estate inventories	231,373	229,456
Property, plant and equipment, net	4,906,639	5,145,649
Deferred income tax	707,454	533,122
Derivative financial instruments		41,080
Other assets	46,894	45,984
Intangible assets	4,157,485	4,183,368
Total	\$ 14,960,009	\$ 15,327,630
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 306,089	\$ 605,245
Trade accounts payable	1,031,921	806,142
Other payables and accrued expenses	464,909	439,117
Income tax payable for tax consolidation	813	513
Derivative financial instruments	1,289	125,491
Current liabilities	1,805,021	1,976,508
Long-term debt	6,932,895	7,550,914
Employee benefits	181,777	157,805
Derivative financial instruments		22,225
Income tax payable for tax consolidation	1,922,308	1,651,965
Total liabilities	10,842,001	11,359,417
Stockholders' equity		
Capital stock	334,489	334,489
Additional paid-in capital	149,096	149,096
Retained earnings	3,659,107	3,583,978
Derivative financial instruments	(24,684)	(99,350)
Total stockholders' equity	4,118,008	3,968,213
Total	\$ 14,960,009	\$ 15,327,630

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, 2011 and 2010 (In thousands of Mexican pesos, except per share data)

	2011	2010
Net sales	\$ 8,628,146	\$ 8,767,926
Costs and expenses:		
Cost of sales	5,342,304	5,515,904
Operating expenses	1,920,635	1,784,025
	<u>7,262,939</u>	<u>7,299,929</u>
Operating income	1,365,207	1,467,997
Other expenses, net	223,821	164,696
Net comprehensive financing cost:		
Interest expense	573,365	809,754
Interest income	(28,138)	(27,375)
Exchange loss (gain), net	440,677	(282,931)
Valuation effects of derivative financial instruments	21,325	(36,922)
	<u>1,007,229</u>	<u>462,526</u>
Income before income taxes	134,157	840,775
Income tax expense	58,936	337,731
Consolidated net income	\$ 75,221	\$ 503,044
Net income per share	\$ 0.20	\$ 1.37

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2011 and 2010 (In thousands of Mexican pesos)

	Capital stock	Additional paid-in capital	Retained earnings	Derivative financial instruments	Non-controlling interest	Total stockholders' equity
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
Purchase of treasury stock, net			(92)			(92)
Comprehensive income			75,221	74,666		149,887
Balances as of						
December 31, 2011	\$ 334,489	\$ 149,096	\$ 3,659,107	\$ (24,684)	\$ 0	\$ 4,118,008

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010 (In thousands of Mexican pesos)

	2011	2010
Operating activities:		
Income before income taxes	\$ 134,157	\$ 840,775
Items related to investing activities:		
Depreciation and amortization	313,691	331,933
Impairment of long-lived assets	13,426	46,252
Commissions paid	190,764	
Other	54,606	69,898
Items related to financing activities:		
Interest income	(28,138)	(27,375)
Interest expense	573,365	809,754
Exchange loss (gain), net	440,677	(282,931)
Valuation effects of derivative financial instruments	21,325	(36,922)
	1,713,873	1,751,384
Trade accounts receivable	104,451	(112,442)
Inventories and real estate inventories	(146,270)	698,204
Trade accounts payable	225,779	111,210
Other accounts payable and receivable	(87,968)	17,677
Income taxes (paid) reimbursed	(40,209)	3,435
Net cash provided by operating activities	1,769,656	2,469,468
Investing activities:		
Purchases of property, plant and equipment	(87,179)	(105,653)
Acquisition of subsidiaries	(7,308)	
Net cash used in investing activities	(94,487)	(105,653)
Excess cash to apply to financing activities	1,675,169	2,363,815
Financing activities:		
Repayment of notes payable	(1,439,388)	(1,301,232)
Interest paid	(552,290)	(759,216)
Other	(190,858)	(1,038)
Net cash used in financing activities	(2,182,536)	(2,061,486)
Cash and cash equivalents:		
Net (decrease) increase in cash and cash equivalents	(507,367)	302,329
Effects from changes in cash value	98,104	(12,560)
Cash and cash equivalents at beginning of year	1,189,191	899,422
Cash and cash equivalents at end of year	\$ 779,928	\$ 1,189,191

Notes to Consolidated Financial Statements

For the years ended December 31, 2011 and 2010 (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, 2011 and 2010 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, Glasas 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. General de Minerales, S.A. de C.V. ⁽²⁾	Mercantil de Pisos y Baños, S.A. de C.V. Sanitarios Lamosa, S.A. de C.V.	Lamosa USA Inc. Revestimientos Lamosa México, S.A. de C.V. ⁽³⁾
Porcelanite, S.A. de C.V. Gres, S.A. de C.V.	Ital Gres, S.A. de C.V. Productos Cerámicos de Querétaro, S.A. de C.V.	Porcel, S.A. de C.V. Pavillion, S.A. de C.V.
PLG Ceramics Inc. (before Revestimientos Lamosa, S.A. de C.V.) ⁽³⁾	Estudio Cerámico México, S.A. de C.V. ⁽¹⁾	Servigesa, S.A. de C.V. ⁽¹⁾
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, S.A. de C.V.	Gresaise, S.A. de C.V. ⁽⁵⁾	Intangibles Porcelanite, S.A. de C.V. ⁽⁴⁾
Intangibles Ital Gres, S.A. de C.V. ⁽⁴⁾ Revestimientos y Servicios Comerciales, S.A. de C.V. (before L&L Consorcio Inmobiliario, S.A. de C.V.)	Sanitarios Azteca, S.A. de C.V.	Italaise, S.A. de C.V. ⁽⁵⁾

Adhesive:

Crest, S.A. de C.V. Industrias Niasa, S.A. de C.V.	Proyoso, S.A. de C.V. Tecnocreto, S.A.	Adhesivos de Jalisco, S.A. de C.V. 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. ⁽⁶⁾	Inmobiliaria Plaza Cumbres, S.A. de C.V. ⁽⁶⁾
Servicios Inmobiliarios Viber, S.A. de C.V. ⁽⁶⁾	Fideicomiso de actividades empresariales para el desarrollo de inmuebles No. 851-00103	Inmobiliaria Revolución, S.A. de C.V.
Lamosa Desarrollos Inmobiliarios, S.A. de C.V.		

Corporate and other - Servicios Administrativos Lamosa, S.A. de C.V., Ladrillera Monterrey, S.A. de C.V.(2) and Lamosa Servicios Administrativos, S.A. de C.V. (before Barros y Pizarras, S.A. de C.V.).

⁽¹⁾ Associated companies where the Company has a 49% share interest.

⁽²⁾ On October 22, 2011, General de Minerales, S.A. de C.V. and Ladrillera Monterrey, S.A. de C.V. merged with Proyeso.

⁽³⁾ On November 6, 2011, Revestimientos Lamosa, S.A. de C.V. split. In the case of PLG Ceramics Inc. changed its address to the United States on December 6, 2011.

⁽⁴⁾ On March 22, 2011, Intangibles Italgres, S.A. de C.V. and Intangibles Porcelanite, S.A. de C.V. merged with Glasa.

⁽⁵⁾ Companies acquired on September 15, 2011.

⁽⁶⁾ On December 30, 2011, Servicios Inmobiliarios Viber, S.A. de C.V., Inmobiliaria Galería Valle Oriente, S.A. de C.V. and Inmobiliaria Plaza Cumbres, S.A. de C.V. merged with Grupo Inmobiliario Viber, S.A. de C.V.

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 2011 and 2010, 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 - 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 January 1, 2011, the Company adopted the following new NIF's and improvements to NIF's which did not have a significant impact on its consolidated financial statements:

New Mexican Financial Reporting Standards:

NIF B-5, Financial Information by Segments - Establishes the managerial approach to disclose financial information by segments, requiring the separate disclosure of interest income, interest expense and liabilities; and information on products, services, geographical areas and main customers and suppliers, as opposed to Bulletin B-5, which required that information disclosed be classified by economic segments, geographical areas or homogeneous groups of customers.

NIF C-4, Inventories - Eliminates the direct cost and last-in, first-out valuation methods. It establishes that any change in the purchase cost of inventories based on the lower of cost or market, be made only based on net realizable value. It also requires additional disclosures of inventory reduction and impairment losses.

NIF C-5, Prepaid Expenses - Establishes that their basic feature is that they do not transfer to the Company the risks and rewards inherent in the goods and services to be acquired or received. It also requires that impairment be recognized when such payments lose their ability to generate such benefits and how they should be presented in the balance sheet, as current or non-current assets.

NIF C-6, Property, Plant and Equipment - Incorporates the treatment for exchanges of assets pursuant to their commercial substance. It includes the basis to determine the residual value of a component, considering current amounts. It eliminates the requirement for assigning a value based on an appraisal of property, plant and equipment acquired at no cost or at an unsubstantiated cost. It also establishes a requirement that fixed assets be depreciated even if not in use, except when the depreciation methods are based on units of production.

Improvements to Mexican Financial Reporting Standards 2011.

NIF B-1, Accounting Changes and Correction of Errors - Requires that, if an accounting change is made or an error is corrected, a retroactively adjusted balance sheet be presented as of the beginning of the earliest period for which financial information is compared to that of the current period.

Bulletin C-3, Accounts Receivable - Includes criteria for the recognition of interest income and does not allow the recognition of interest income on impaired receivables.

Bulletin D-5, Leases - Establishes that the discount rate to be used by the lessee to determine the asset's present value should be the interest rate implicit in the lease agreement, provided determination is practical; otherwise, the incremental borrowing rate should be used. Both the lessor and the lessee should disclose complete information on their leasing transactions. It also requires that the gain or loss from the sale and leaseback of the asset under a finance agreement be deferred and amortized over the term of the agreement and that the gain or loss from the sale and leaseback of the asset under an operating lease be recognized in current earnings at the time of sale, when the transaction is stated at fair value.

Bulletin C-10, Derivative Financial Instruments and Hedging Transactions - explains that when only a portion of a position subject to risk is hedged, any effects of unhedged risks of the primary position should be recognized in accordance with the valuation method related to such primary position.

b. Recognition of the effects of inflation - Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2011 and 2010, was 15.19% and 14.48%, respectively, the economic environment may be considered non-inflationary in both years. Inflation rates for the years ended December 31, 2011 and 2010 were 3.82% and 4.40%, respectively.

Beginning on January 1, 2008, the Company discontinued recognition of the effects of inflation in its financial statements. However, non-monetary assets and 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 using the standard cost method.

When an impairment indicator suggests that the carrying amounts of inventories might not be recoverable, the Company reviews such carrying amounts, estimates the net realizable value, based on the most reliable evidence available at that time. Impairment is recorded if the net realizable value is less than the book value. Impairment indicators considered for these purposes are, among others, obsolescence, a decrease in market prices, damage, and a firm commitment to sell.

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. Except for depreciation of machinery and equipment, depreciation is computed using the straight-line method, based on the estimated useful lives of the related assets as follows:

	2011	2010
Buildings and improvements	28	31
Machinery and equipment ⁽¹⁾		11
Transportation equipment	2	3
Computer equipment	2	3
Furniture and fixtures	5	4

⁽¹⁾ Beginning 2011, depreciation of machinery and equipment is calculated based on units produced during the period in relation to the total estimated production of the assets over their service lives. Depreciation represented an annual depreciation rate of 8.69% of the value of the related assets (Note 9).

Comprehensive financing cost incurred during the period of construction and installation of qualifying property, plant and equipment was capitalized and restated for inflation through December 31, 2007 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 aforementioned amounts. Impairment indicators considered for these purposes are, among others, operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than that of previous years, obsolescence, reduction in the demand for the products manufactured, competition, definitive plants closing and other legal and economic factors. For the years ended December 31, 2011 and 2010, the Company conducted the respective studies and did not recognize any impairment losses.

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), credit risk and liquidity risk. 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 and stockholders.

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 effectiveness 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 accrue 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 367,826,770 and 367,823,345 weighted average common shares outstanding during 2011 and 2010, respectively.

r. Reclassifications – Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the presentation of the 2011 consolidated financial statements.

4. Cash and cash equivalents

	2011	2010
Cash and bank deposits	\$ 87,694	\$ 85,229
Cash equivalents - Overnight investments	692,234	1,103,962
	\$ 779,928	\$ 1,189,191

5. Accounts receivable, net

	2011	2010
Trade accounts receivable	\$ 2,712,464	\$ 2,547,542
Allowance for doubtful accounts	(66,272)	(65,142)
Allowance for sales rebates	(211,984)	(149,084)
	2,434,208	2,333,316
Recoverable taxes	232,741	69,479
Accounts receivable from associated companies	19,083	41,866
Current portion of long-term account receivable	138,840	234,235
Derivative financial instruments	570	5,455
Advances to suppliers	1,671	25,205
Other	171,071	136,800
	\$ 2,998,184	\$ 2,846,356

6. Inventories, net

	2011	2010
Finished products	\$ 781,094	\$ 692,096
Work in process	92,016	87,942
Raw materials	202,683	155,753
Supplies and spare parts	102,171	91,238
Merchandise in transit	948	1,240
Allowance for obsolescence	(46,860)	(37,827)
	<u>\$ 1,132,052</u>	<u>\$ 990,442</u>

The amount of inventories consumed and recognized in income as part of cost of sales for the years ended December 31, 2011 and 2010 was \$2,922,555 and \$2,548,786, respectively.

7. Long-term accounts receivable

	2011	2010
Long-term accounts receivable	\$ 138,840	\$ 357,217
Current portion of long-term account receivable	(138,840)	(234,235)
	<u>\$ 0</u>	<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 net sales of \$547,716 and operating income of \$200,362 in the consolidated statements of income for the year ended December 31, 2010.

The proceeds obtained by this transaction were primarily used to pay down long-term debt.

8. Real estate inventories

	2011	2010
Real estate for sale	\$ 101,486	\$ 99,767
Undeveloped land	129,887	129,689
	<u>\$ 231,373</u>	<u>\$ 229,456</u>

9. Property, plant and equipment, net

The reconciliation between the carrying amount at the beginning and end of 2011 and 2010 is as follows:

	At December 31, 2010	Additions	Divestitures	Transfers to related assets	At December 31, 2011
Investment					
Land	\$ 464,973	\$ 52	\$ 3,728		\$ 461,297
Buildings and improvements	3,123,445	3,432	2,390	\$ 21,786	3,146,273
Machinery and equipment	7,654,258	13,134	20,219	78,574	7,725,747
Furniture and mixtures	82,573	524	12,222	310	71,185
Transportation equipment	89,313	17,257	13,725		92,845
Computer equipment	97,318	3,458	11,439	13,618	102,955
Construction in progress	101,231	61,172		(114,288)	48,115
Investment	11,613,111	99,029	63,723	0	11,648,417

Depreciation:

Buildings and improvements	1,110,316	69,230	1,021		1,178,525
Machinery and equipment	5,131,134	219,441	813		5,349,762
Furniture and mixtures	64,025	3,326	12,311		55,040
Transportation equipment	76,855	13,644	11,955		78,544
Computer equipment	85,132	7,125	12,350		79,907
Accumulated depreciation	6,467,462	312,766	38,450	0	6,741,778
Net Investment	\$ 5,145,649	\$ (213,737)	\$ 25,273	\$ 0	\$ 4,906,639

	At December 31, 2009	Additions	Divestitures	Transfers to related assets	At December 31, 2010
Investment					
Land	\$ 466,737	\$ 253	\$ 3,537	\$ 1,520	\$ 464,973
Buildings and improvements	3,118,573	3,410		1,462	3,123,445
Machinery and equipment	8,059,919	7,611	419,107	5,835	7,654,258
Furniture and mixtures	80,986	1,474		113	82,573
Transportation equipment	87,136	8,073	5,896		89,313
Computer equipment	90,212	5,097	965	2,974	97,318
Construction in progress	24,213	88,922		(11,904)	101,231
Investment	11,927,776	114,840	429,505	0	11,613,111

Depreciation:

Buildings and improvements	1,044,970	65,346			1,110,316
Machinery and equipment	5,272,317	226,596	367,779		5,131,134
Furniture and mixtures	59,420	4,644	39		64,025
Transportation equipment	70,344	12,056	5,545		76,855
Computer equipment	78,980	6,855	703		85,132
Accumulated depreciation	6,526,031	315,497	374,066	0	6,467,462
Net investment	\$ 5,401,745	\$ (200,657)	\$ 55,439	\$ 0	\$ 5,145,649

Beginning in 2011, the Company changed its depreciation method from straight line to units of production for its machinery and equipment, as management believes this method better reflects a direct relationship between the revenues and costs incurred in the production process to generate such revenues. Through December 31, 2010, the depreciation of machinery and equipment was determined using the straight line method, based on the estimated useful life of the assets. The effect for the change in the aforementioned depreciation method represented an increase in net income of \$43,274, net of deferred income taxes during 2011.

For the years ended December 31, 2011 and 2010, the Company had spare capacity of 17.6% and 21%, 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.

Unamortized capitalized net comprehensive financing cost was \$30,461 and \$32,277 at December 31, 2011 and 2010, respectively.

10. Intangible assets

	2011	2010
Non-amortizable intangible assets:		
Trademarks	\$ 3,791,424	\$ 3,791,424
Goodwill	267,957	267,957
	4,059,381	4,059,381
Amortizable intangible assets	98,104	123,987
	\$ 4,157,485	\$ 4,183,368

11. Long-term debt

a. Bank debt in accordance with long-term credit agreements as of December 31, 2011 and 2010 is summarized as follows:

	2011	2010
⁽¹⁾ Secured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a maximum spread of 3.50% in 2011 and 4.50% in 2010, principal payable in various installments through 2017.	\$ 1,741,022	\$ 2,333,172
⁽¹⁾ 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 3.50% in 2011 and 4.50% in 2010, principal payable in various installments through 2017.	3,314,882	3,028,421
⁽¹⁾ Unsecured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a maximum spread of 9.95%, in 2011 and 6.5% in 2010, principal payable in 2018.	2,161,878	2,781,000
Capital leases, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a maximum spread of 3.25% and 6.00%, principal payable in various installments through 2015.	21,202	13,566
Total long-term debt	7,238,984	8,156,159
Current portion of long-term debt	(306,089)	(605,245)
Long-term debt	\$ 6,932,895	\$ 7,550,914

⁽¹⁾ On September 14, 2011, the Company signed an amendment to the long-term loan agreements related to its debt issued on November 30, 2007. Such agreement resulted in improvements to the loan's general conditions. The Company was able to extend the term of the related debt; as of December 31, 2011, these loans has an average term of 4.7 years. Furthermore, the exposure in U.S. dollars was reduced, having disposed of approximately 50% of the loan denominated in such currency. As a result, the originally capitalized debt issuance costs will be amortized over the new term. Such agreement resulted in the payment of commissions of 13.7 million U.S. dollars, which was recognized in other expenses, net.

As of December 31, 2011, long-term debt matures as follows:

Year ending December, 31	Amount
2013	\$ 404,943
2014	503,063
2015	768,185
2016	1,238,441
2017	1,856,385
2018	2,161,878
	\$ 6,932,895

As of December 31, 2011, the interest rates of TIIE and LIBOR were 4.79% and 0.581%, 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 early payments on the debt when sales of certain assets are made that constitute credit guarantees. As of December 31, 2011, the Company has complied with its financial restrictions and covenants.

During 2011, the Company made advance principle payments of \$983,309 prior to their contractual maturity date, which was due in periods subsequent to December 31, 2011.

c. Debt of the Company totaling \$5,055,904 is collateralized by real estate inventories with a book value of \$46,024, fixed assets with a book value of \$4,906,639 and current assets with book value of \$4,910,164. Additionally, as of December 31, 2011, guarantees are granted on the Company's trademarks and patents.

d. On September 20, 2011, the Company prepaid its interest rate swaps ("interest swaps") and currency options ("currency options") used 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 amounts recognized in the statements of income for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Interest swaps	\$ 24,208	\$ 32,607
Currency swaps	1,890	5,395
Net	\$ 26,098	\$ 38,002

Includes the prepayment effect of the Company's interest swaps and currency options of \$4,247 and \$(17,190), respectively during 2011.

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, 2011 and 2010 are presented below:

	2011	2010
Vested benefit obligation	\$ 95,487	\$ 83,811
Nonvested benefit obligation	164,919	138,434
Projected benefit obligation	260,406	222,245
Plan assets	(26,410)	(26,410)
Unfunded status	233,996	195,835
Unrecognized items:		
Past service costs and changes to the plan	(3,301)	832
Unrecognized actuarial gains and losses	(48,918)	(38,862)
Net projected liability	\$ 181,777	\$ 157,805
Net period cost	\$ 36,258	\$ 33,981

Net discount rates used in actuarial calculations were as follows:

	2011	2010
	%	%
Discount rate	6.75	7.00
Estimated wage increase	4.50	4.50

13. Stockholders' equity

a. As of December 31, 2011 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, 2011 and 2010, 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:

	2011	2010
Contributed capital account	\$ 316,882	\$ 305,217
Net tax income account	6,727,988	6,526,670
Total	\$ 7,044,870	\$ 6,831,887

14. Contingencies and commitments

a. The Company's consumption of natural gas during 2011 was approximately 8,337,252 millions of British Thermal Units ("MMBTU"), of which, it had hedged a total of 6,695,250 MMBTU based on its expected production. The Company recognized a loss of \$119,725 in the consolidated statement of income for the year ended December 31, 2011 as a result to these transactions.

As of December 31, 2011, the Company maintains hedges to fix the price of natural gas related to its future consumption for approximately 5,610,000 MMBTU. At that date, the fair value of hedges is as follows:

Type of transaction	Notional amount MMBTU	Maturity	Average price ⁽¹⁾	Fair value of assets (liabilities)
Options	5,589,000	2012	5.67	\$ 570
Swaps	21,000	2012	7.26	(1,289)
	5,610,000			\$ (719)

⁽¹⁾ In the case of the options is the average maximum price.

The recognition of the aforementioned fair values resulted in a charge to stockholders' equity, net of deferred taxes, of \$902 (which is expected to be recognized in earnings in 2012), as the cash flow hedges are considered to be effective hedges for accounting purposes. As of February 24, 2012, the date of issuance of these consolidated financial statements, the market price of natural gas is US\$2.56 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
2012	\$ 27,573
2013	28,058
2014	29,055
2015	30,108
2016	12,702
	\$ 127,496

c. 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, 2011, is as follows:

	Foreign currency balances	Mexican peso equivalent
Monetary assets	65,729	\$ 916,764
Monetary liabilities	(322,084)	(4,492,299)
Net liability position	(256,355)	\$ (3,575,535)

b. Non-monetary assets of foreign origin, valued in thousands of U.S. dollars as of December 31, 2011 are as follows:

	Foreign currency balances	Mexican peso equivalent
Inventories	3,349	\$ 46,716
Machinery and equipment	148,873	1,719,185

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

	2011	2010
Export sales	\$ 135,790	\$ 117,293
Interest expense, net	24,364	24,800
Commissions expense	9,158	
Import purchases	25,031	18,358

d. The exchange rate used to translate U.S. dollars to Mexican pesos as of December 31, 2011 and 2010, was \$13.95 and \$12.36, respectively (nominal pesos). At February 24, 2011, the issuance date of these consolidated financial statements, the exchange rate was \$12.87 (nominal pesos) per one U.S. dollar.

16. Other expenses, net

	2011	2010
Non-controlling interest in trusts (note 18b)	\$ 8,506	\$ 3,884
Commissions paid (note 11)	190,764	
Severance expenses	2,470	5,241
Impairment of long-lived assets	13,426	46,252
Statutory employee profit sharing	24,531	20,019
Other (income) expenses, net	(15,876)	89,300
	\$ 223,821	\$ 164,696

17. Income taxes

a. The Company is subject to ISR and IETU.

The ISR rate is 30% for 2011 and 2010; it will be 30% for 2012, 29% for 2013, and 28% for 2014 and therefore. The Company pays ISR, together with subsidiaries on a consolidated basis.

On December 7, 2009, amendments to the ISR Law were published, to become effective beginning in 2010. These amendments state that: a) ISR relating to tax consolidation benefits obtained from 1999 through 2004 should be paid in installments beginning in 2010 through 2014, and b) ISR relating to tax benefits obtained in the 2005 tax consolidation and thereafter, should be paid during the sixth through the tenth year after that in which the benefits was obtained. Payment of ISR in connection with tax consolidation benefits obtained from 1982 (tax consolidation starting year) through 1998 may be required in those cases provided by law.

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%. The Asset Tax (IMPAC) Law was repealed upon enactment of the IETU Law; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid for the first time, may be recovered, according to the terms of the law. In addition, as opposed to ISR, the parent and its subsidiaries will incur IETU on an individual basis.

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

Based on its financial projections and according to INIF 8, "Effects of the Business Flat Tax", the Company determined that it will essentially pay ISR in future years. 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	1,158,615	(1,096,644)
Assets and liabilities for loss on disposal of shares	32,378	(826,477)
Balance after the 2010 tax reform	\$ 1,190,993	\$ (1,923,121)

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

Year	Tax liabilities
2012	\$ 813
2013	15,194
2014	118,799
2015	291,200
2016	373,862
2017	400,781
2018	335,708
2019	235,592
2020	113,653
2021	37,519
	\$ 1,923,121

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

	2011	2010
Current IETU	\$ 19,953	\$ 39,581
Deferred ISR	33,229	298,150
Current ISR	5,754	
Total	\$ 58,936	\$ 337,731

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

	2011	2010
	%	%
Effective income tax rate	29.0	35.5
Effects of permanent differences, mainly non-deductible expenses	1.0	(4.9)
Other		(0.6)
Statutory income tax rate	30.0	30.0

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

	2011	2010
Deferred income tax liabilities:		
Property, plant and equipment	\$ (519,295)	\$ (600,478)
Inventories	(78,796)	(71,451)
Real estate inventories	(19,373)	(5,196)
Debt issuance costs	(29,431)	(37,196)
	<u>(646,895)</u>	<u>(714,321)</u>
Deferred income tax assets:		
Tax loss carryforwards	1,190,993	1,077,594
Derivative financial instruments	10,325	34,431
Allowance for doubtful accounts	19,953	19,733
Employee retirement benefits	54,350	51,863
Other	44,307	25,443
	<u>1,319,928</u>	<u>1,209,064</u>
Tax on assets	<u>34,421</u>	<u>38,379</u>
Net asset	<u>\$ 707,454</u>	<u>\$ 533,122</u>

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, 2011 and expiration dates are as follows:

Year	Amount
2016	\$ 1,123
2017	59,746
2018	443,146
2019	239,913
2020	139,794
2021	307,271
	<u>\$ 1,190,993</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 (loss) for the trustees was as follows:

	2011	2010
Grupo Inmobiliario Viber, S.A. de C.V.	\$ 5,934	\$ (45,615)
U-Calli Capital, S.A. de C.V.	8,506	3,884
	\$ 14,440	\$ (41,731)

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

	2011	2010
Sales of real estate inventories	\$ 31,739	
Sales of finished products	4,309	\$ 3,420
Lease income	5,852	5,852
Other income, net	2,880	827
Purchase of finished products	4,712	5,906

d. For the years ended December 31, 2011 and 2010, the benefits granted to the Company's key management (and/or relevant officers) was equal to \$48,128 and \$48,623 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, 2011:	Ceramic	Adhesive	Real estate	Corporate and other	Consolidated
Total net sales	\$ 6,378,578	\$ 2,157,267	\$ 96,047	\$ 766,403	\$ 9,398,295
Intersegment sales	0	(3,746)	0	(766,403)	(770,149)
Net sales to third parties	6,378,578	2,153,521	96,047	0	8,628,146
Operating income (loss)	753,823	576,187	48,245	(13,048)	1,365,207
Depreciation and amortization	270,058	29,330		14,303	313,691
Impairment of long-lived assets	13,426				13,426
Other	33,019	11,935		9,652	54,606
Net cash provided by operating activities	1,031,111	622,407	240,398	(124,260)	1,769,656
Net cash used in investing activities	(60,919)	(24,314)		(9,254)	(94,487)
Net cash provided by (used in) financing activities	1,166	4,710		(2,188,412)	(2,182,536)
Total assets	8,088,249	838,373	225,331	5,808,056	14,960,009
Total liabilities	1,330,360	358,258	(22,737)	9,176,120	10,842,001
December 31, 2010:	Ceramic	Adhesive	Real estate	Corporate and other	Consolidated
Total net sales	\$ 6,022,718	\$ 1,975,050	\$ 779,496	\$ 651,974	\$ 9,429,238
Intersegment sales	0	(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
Other	53,425	12,586		3,887	69,898
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 (used in) provided by financing activities	2,470	1,999		(2,065,955)	(2,061,486)
Total assets	7,862,098	810,846	250,067	6,404,619	15,327,630
Total liabilities	1,155,752	330,381	19,924	9,853,360	11,359,417

Export sales represent 19.6% and 16.9% of total sales in 2011 and 2010, respectively, and are made mainly to the United States of America.

20. Effects of adopting International Financial Reporting Standards

The National Banking and Securities Commission (CNBV) requires certain entities that disclose their financial information to the public through the Mexican Stock Exchange, that beginning in 2012, they must prepare and disclose their financial information according to International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The consolidated financial statements for the year ending December 31, 2012 to be issued by the Company will be its first annual financial statements that comply with IFRS. The transition date is January 1, 2011 and, therefore, the year ended December 31, 2011 will be the comparative period established by IFRS 1, First-Time Adoption of International Financial Reporting Standards. According to IFRS 1, the Company will apply the relevant mandatory exceptions and certain optional exemptions.

The Company will apply the relevant mandatory exceptions to the retroactive application of IFRS as follows:

- **Calculation of estimates** - Estimates at the date of transition are consistent with estimates at the same date under MFRS, unless there is evidence of error in these estimates.

- **Hedge accounting** - Hedge accounting will be applied only if the hedge relationship meets the criteria established by IFRS as of the date of transition.

- **Non-controlling interests** - Certain requirements to recognize and present non-controlling interests will be applied prospectively as of the date of transition.

The Company chose the following optional exemptions to the retroactive application of IFRS:

- **Business combinations** - The business combinations exemption will be applied; therefore, no reformulations have been made to business combinations that took place before the date of transition.

- **Deemed cost** - The deemed cost exemption will be applied; therefore, the Company has opted for using both fair value and the restated amounts according to MFRS as of the date of transition as its deemed cost for certain property, plant and equipment (see disclosure of property, plant, and equipment below).

- **Leases** - The lease exemption will be applied; therefore, the Company determined whether an agreement in effect at the date of transition contains a lease based on facts and circumstances existing as of that date. As of the transition date, the Company recognized a finance lease based on the amount at the inception of the lease, adjusted for depreciation expense according to the Company's policies for such assets under IFRS. The respective liability was recognized and measured at the present value of the minimum lease payments as of the transition date (see disclosure of lease impacts below).

- **Employee benefits** - The employee benefits exemption will be applied; therefore, all cumulative actuarial gains and (losses) as of the date of transition are recognized. The use of this exemption reset the corridor as of the transition date and actuarial gains and losses resulting after the transition date will be recognized in comprehensive income pursuant to IAS 19 (2011), "Employee Benefits".

- **Borrowing costs** - Borrowing costs recognized previously in conformity with MFRS are subject to the fair value exemption described above. For the other elements of property, plant and equipment, the Company has decided to apply transition provisions in IAS 23 "Borrowing Costs", to not modify the capitalized borrowing costs on qualified assets for a period that commenced and ended before the transition date.

Below is a summary of the main differences between MFRS and IFRS that the Company has identified as of the date of the accompanying consolidated financial statements at the transition date to IFRS of January 1, 2011 and an estimate of the significant impacts.

- **Property, plant and equipment** - The Company will recognize as its deemed cost under IFRS its property, plant and equipment at the transition date as their book value under MFRS (inflation adjusted cost) and the fair value of certain land and buildings. The estimated impact for fair valuing fixed assets represents an impact on retained earnings of \$360,174 as of the transition date. Furthermore, the Company recognized the depreciation expense of idle property, plant and equipment; which decreased retained earnings by \$151,505.

- **Leases** - The Company has entered into lease agreements for machinery that according to the criteria set forth in IAS 17, "Leases", will be classified as finance leases as of the transition date. The effect of recording such leased assets as finance leases is a decrease in retained earnings of \$50,173, represented by the difference between the finance lease obligation and the leased asset.

- **Revenue recognition** - The Company has evaluated the transfer of risks and rewards associated with its sale transactions based on the legal terms of the agreements with its customers and the practice of the industry to which it belongs. Accordingly, the Company determined that it holds significant risks associated with the transfer of assets, which differs compared to when revenues were recognized prior to the transition date, although the Company identified that such differences were not material on an annual basis, as they were reduced by the rollover effects of the subsequent period. The effect as of the transition date will be recognized in the opening balance, resulting in a reduction in retained earnings of \$143,409.

- **Debt issuance costs** - According to IAS 39, "Financial Instruments", the debt issuance costs are presented as a deduction from such liability and measured at their amortized cost using the effective interest method. According to MFRS, such costs are presented as a deferred asset and amortized on a straight line basis over the contractual period of the debt. As of January 1, 2011, the impact is a reclassification of the asset of \$123,987, with a reduction in the current liability of \$31,647 and the non-term liability of \$92,340, in the statement of financial position.

- **Effects of inflation** - According to IFRS, inflationary effects are recognized in the financial statements when the economy of the currency in which the Company's transactions are recorded is considered hyperinflationary. The Mexican economy ceased to be hyperinflationary in 1998 and, as a result, the inflationary effects recognized by the Company through December 31, 2007 under MFRS were reversed, representing a decrease in retained earnings of approximately \$58,266, as of the date of transition.

- **Employee benefits** - According to IFRS, the severance payment provision is not recognized until the Company is capable of evidencing its commitment to end the relationship with the employee or has made him/her an offer to encourage voluntary retirement. Therefore, the liability recorded according to MFRS was eliminated. The impact of these differences represents a decrease in retained earnings of \$19,852.

- **Deferred taxes** - According to IFRS, deferred taxes were recalculated using the book values of assets and liabilities as adjusted according to IFRS, which resulted in a reduction in retained earnings of approximately \$18,617 million, as of the date of transition, as of the transition date for the increase in deferred liabilities. In addition, the Company ceased to recognize the deferred tax liability of \$68,946 related to differences arising from the initial recognition of assets and liabilities that did not affect the accounting and/or tax results.

- **Other differences in presentation and disclosures in the financial statements** - IFRS disclosure requirements are, generally, wider in scope than those of MFRS. This may result in a larger number of disclosures regarding accounting policies, significant judgments and estimates; financial instruments and risk management, among others. In addition, there may be differences in presentation, for example, IFRS require a statement of comprehensive income that is not required under MFRS.

The information contained in this Note has been prepared in accordance with the standards and interpretations issued and in effect, or issued and adopted in advance of the date of preparation of these consolidated financial statements. Standards and interpretations that will be applicable as of December 31, 2012, including those that may be applied optionally, are not known with certainty at the time of preparation of the consolidated financial statements as of December 31, 2011 and 2010. In addition, the accounting policies selected by the Company could be modified as a consequence of changes in the economic environment or industry trends that occur after the issuance of these consolidated financial statements. The information contained in this Note is not intended to comply with IFRS, as only a group of financial statements that includes the statements of financial position, comprehensive income, changes in stockholders' equity and cash flows, along with comparative information and explanatory notes, can provide an appropriate presentation of the financial position of the Company, the result of its operations and its cash flows in accordance with IFRS.

21. Financial statement issuance authorization

On February 24 2012, 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.

Investor Information
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