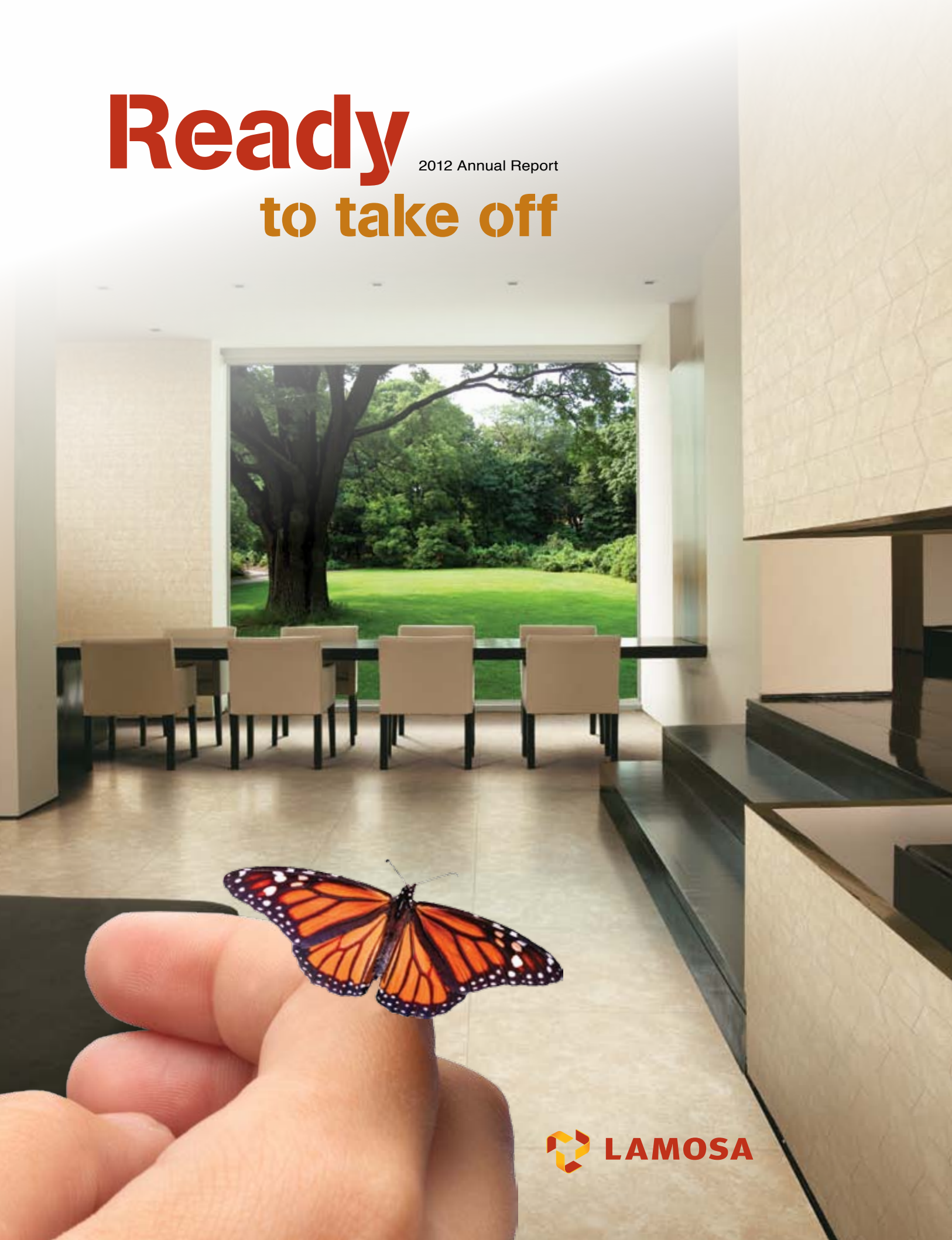


# Ready

2012 Annual Report

# to take off



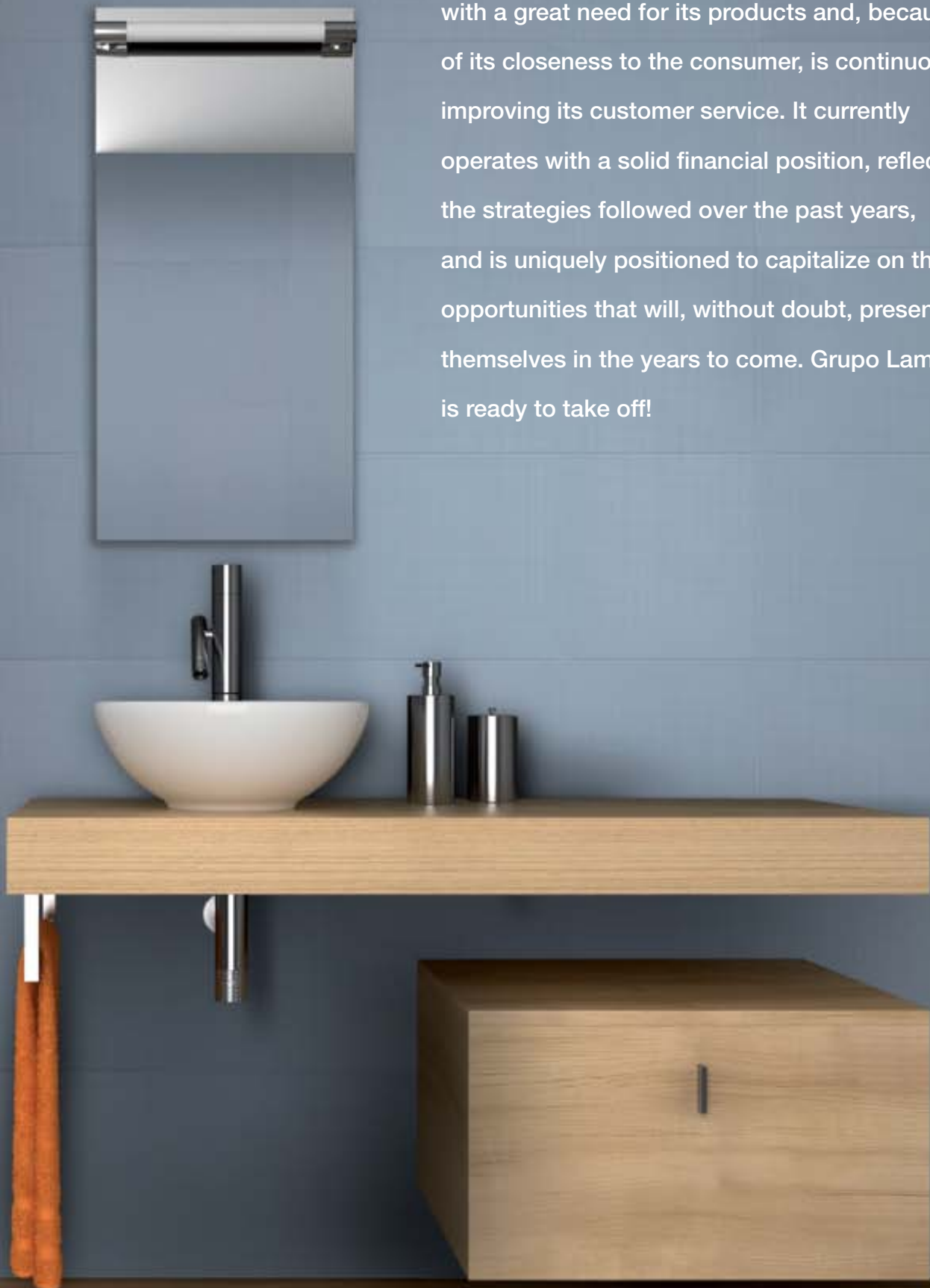
With a track record of more than 120 years in Mexico's construction market, **Grupo Lamosa** manufactures and markets ceramic tiles, bathroom fixtures and ceramic adhesives.

Grupo Lamosa is one of the world's largest ceramic producers and undisputable leader in all its business segments. It exports its products to more than 15 countries in Central and South America, as well as to the United States and Canada. The Company's efforts over the past few years have positioned it to continue capitalizing on growth opportunities in its different markets.

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The economic environment in Grupo Lamosa's markets is favorable for its business activities. The Company has size and leadership in regions with a great need for its products and, because of its closeness to the consumer, is continuously improving its customer service. It currently operates with a solid financial position, reflecting the strategies followed over the past years, and is uniquely positioned to capitalize on the opportunities that will, without doubt, present themselves in the years to come. Grupo Lamosa is ready to take off!



# Wall and Floor Tiles



## Business / 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



## Business / 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



## Business / Companies

**Sanitarios Lamosa, S.A. de C.V.**

**PLANTS:** Monterrey, Benito Juárez

## Competitive Advantages

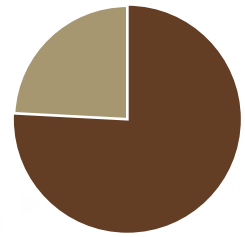
- ✓ Innovative products that offer unlimited options of texture, color, finish and style to create customized results
- ✓ Ceramic tiles that add to sustainable construction by contributing points for LEED\* certification
- ✓ First Mexican manufacturer to have its products certified under the sustainable "Green Squared" standard of the TCNA (Tile Council of North America)
- ✓ Strategically located to serve the different regions of North, Central and South America
- ✓ Production platform with leading-edge technology

## Products and Services

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

## Sales Breakdown (value)

**24%**  
Export



**76%**  
Domestic

## Competitive Advantages

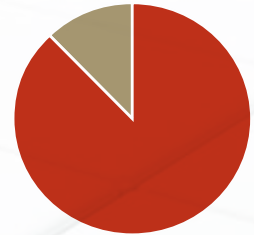
- ✓ Products with the most outstanding characteristics, performance and quality standards in the market
- ✓ Comprehensive product portfolio with wide coverage through a large number of distributors
- ✓ Customer-oriented organization
- ✓ Technological leadership through the research and development of specialized products for the construction industry
- ✓ Environmentally-friendly product lines

## Products and Services

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

## Sales Breakdown (value)

**12%**  
Stuccos and other



**88%**  
Adhesives and grouts

## Competitive Advantages

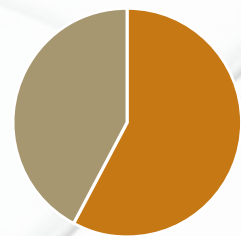
- ✓ Design and innovation of high-performance products
- ✓ Development of the intelligent, water-efficient, "Dual Flush" toilet
- ✓ Leader in Mexico with a track record of half a century and a significant presence across North America
- ✓ Comprehensive product range, including bathroom fixtures and renowned lines of faucets and other fittings
- ✓ Environmentally-friendly line of products, including nanotechnological developments

## Products and Services

*Toilets*  
*Wall, pedestal, drop-in and under-counter washbasins*  
*Bidets*  
*Flushometer bowls*  
*Urinals*  
*Drinking fountains*  
*Faucets and other fittings*

## Sales Breakdown (value)

**42%**  
Export



**58%**  
Domestic

# Financial Highlights

## Grupo Lamosa, S.A.B. de C.V. and Subsidiaries

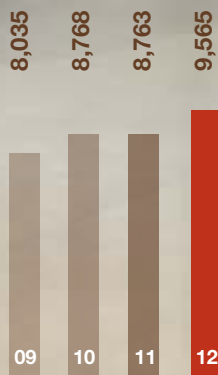
(Figures expressed in millions of nominal Mexican pesos)

	2011	2012	CHG %
<b>RESULTS</b>			
Net sales	8,763	9,565	9
Export sales (millions of USD)	138	150	9
Export sales / net sales	20%	21%	
Operating income	1,337	1,640	23
Operating income / net sales	15%	17%	
Comprehensive financing cost	970	213	-78
Consolidated net income	226	872	286
<b>FINANCIAL POSITION</b>			
Total assets	15,042	15,147	1
Total liabilities	10,727	9,961	-7
Stockholders' equity	4,316	5,186	15
Book value per share <sup>(1)</sup>	11.6	14.0	20
<b>CASH FLOW</b>			
Operating cash flow <sup>(2)</sup>	1,738	2,063	19
Capital expenditures	87	241	177
<b>NUMBER OF EMPLOYEES</b>			
Total personnel	5,110	5,320	4

(1) On a total of 370.9 million shares

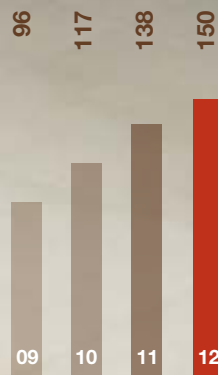
(2) Operating income plus depreciation, amortization and other virtual items

Note: Figures corresponding to 2011 and 2012 in the Company's financial statements are calculated in accordance with International Financial Reporting Standards.



**Net sales**

millions of Mexican pesos



**Export sales**

millions of U.S. dollars



**Operating income**

millions of Mexican pesos



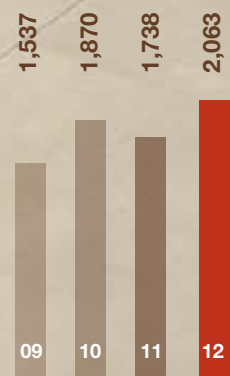
**Consolidated net income**

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 except in the graph corresponding to exports.
- Figures corresponding to 2011 and 2012 in the Company's financial statements are calculated in accordance with International Financial Reporting Standards.

# Letter to Stockholders



Grupo Lamosa capitalized on the opportunities in its different markets in 2012, posting outstanding operating results and significantly improving its financial structure.”

Despite the complex situation and adverse business environment prevailing during the years after the crisis of 2008, the efforts and initiatives implemented to enhance the market position of all the Company’s businesses resulted in a return to significant growth in 2012.

The year was characterized by an increase in the demand for Grupo Lamosa’s products, reflecting the Mexican construction sector expanding at a rate above that of the economy in general. As a result, the Company’s production volume rose, substantially increasing capacity utilization indicators and the year’s capital expenditures.

Grupo Lamosa’s total 2012 sales reached \$9,565 million pesos, 9% above those of the previous year. Operating income was \$1,640 million pesos, 23% above 2011, and EBITDA was \$2,063 million pesos, an increase of 19% year-over-year, similar to the rise in operating income.

2012 operating results were favorably affected by a 15% growth in export sales. One of the factors driving this growth was, without doubt, the improvement in the housing market in the United States, where housing starts and the issue of construction permits rose and the market for existing homes began to recover.



2012 was characterized by an **increase in the demand** for Grupo Lamosa's products.

During 2012, the Company continued implementing innovative initiatives to come closer to customers in order to better satisfy the comprehensive needs of the end consumer. Grupo Lamosa also made a focused effort to enhance its attention to the institutional market, applying the resources and service strategies required by this market segment.

Grupo Lamosa operates in a region with favorable growth perspectives. Its size and reputation have positioned it to take advantage of future market opportunities in order to maintain the leadership of its businesses and continue with a positive rate of growth.

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.



**Ing. Federico Toussaint Elosúa**

Chairman of the Board of Directors and Chief Executive Officer



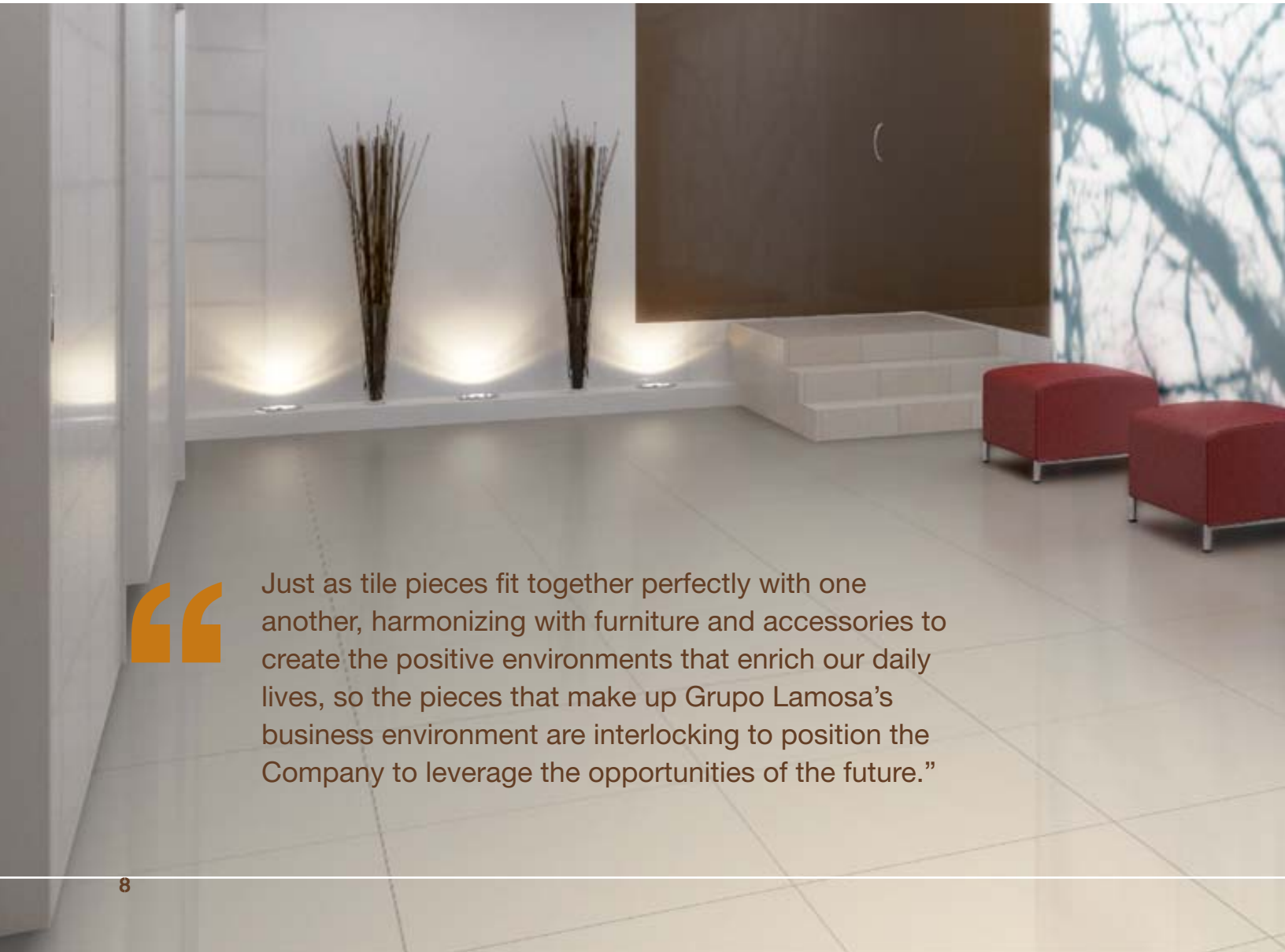
In 2012, **sales grew**

**9% and  
EBITDA 19%**

# Operating in a uniquely favorable environment

Grupo Lamosa operates today in one of the few regions of the world that is growing, giving it considerable competitive advantages in the marketplace. Despite recession in Europe, problems that have reduced competitiveness in Asia and a still incipient recovery in the United States, Mexico offers a positive economic environment, with the construction sector growing at a rate even above the economy in general. The nation also has abundant energy and economic resources.

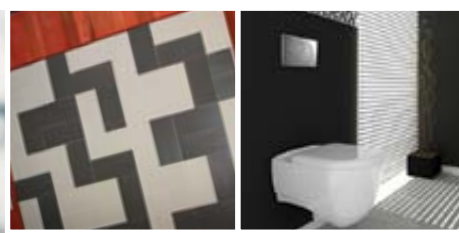
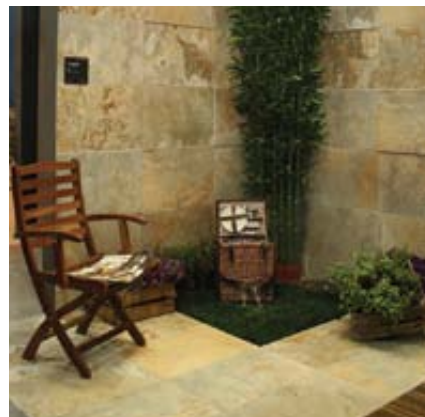
The capital expenditures the Company has made in technology have strengthened its leadership, giving it a privileged position in all its markets. As a result, Grupo Lamosa will return to significant growth and development as it leverages this leading-edge technology and ongoing product innovation.



Just as tile pieces fit together perfectly with one another, harmonizing with furniture and accessories to create the positive environments that enrich our daily lives, so the pieces that make up Grupo Lamosa's business environment are interlocking to position the Company to leverage the opportunities of the future."



**Grupo Lamosa is strategically located**  
in one of the few regions  
of the world that is  
currently growing.



# Competitive size and positioning

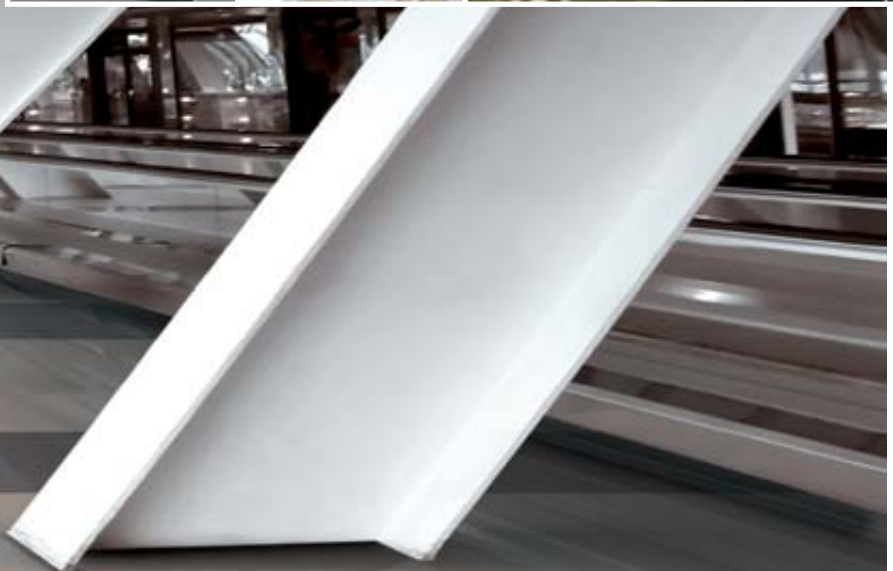
Grupo Lamosa is one of the world's largest ceramic tile producers and this size gives it unique growth opportunities. The North American region, a natural market and great importer of its products, offers great potential, and construction is already recovering in the United States. Moreover, as a result of the recent crisis, the number of market players has been reduced, benefitting the Company, which has

been distributing and marketing its products in this enormous marketplace for years.

In Mexico, Grupo Lamosa's scope and size have enhanced its leadership in the market, where there is a great demand for its products in the new housing segment, for remodeling and for diverse institutional segments.



**Grupo Lamosa** is one of the world's largest ceramic tile producers.



Just like climbing to the top floor of a building to get a better view of the surroundings and, from that position, determine the best path to follow, Grupo Lamosa's extensive size gives it wider and more advantageous perspectives for the future."

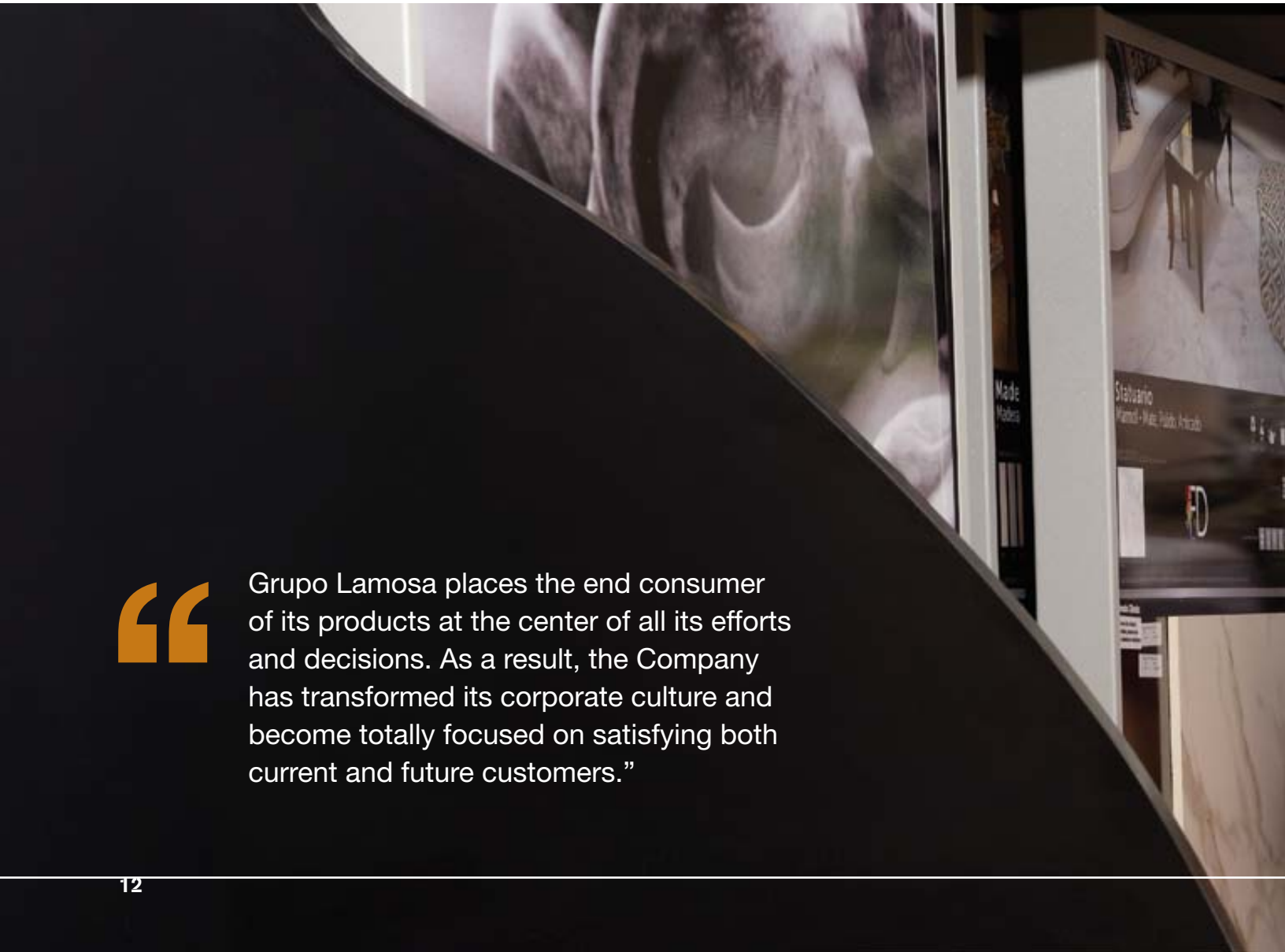
# Focused on the end consumer

In 2012, Grupo Lamosa continued the previous year's efforts to come closer to the customer and implement initiatives that, in partnership with its distributors, benefit the end consumer. Thus, during the year, exhibition areas were updated and ambitious point-of-sale training programs instituted, along with other strategic actions.

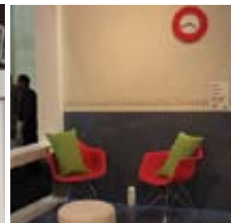
The Company also made significant capital expenditures to develop the image and value of the brands of its different business segments and enhance the precise differentiators in the markets it serves.



Grupo Lamosa places the end consumer of its products at the center of all its efforts and decisions. As a result, the Company has transformed its corporate culture and become totally focused on satisfying both current and future customers.”



**Grupo Lamosa** sees the end consumer of its products as the focal point of all its decisions.



# Financial strength, just one of the factors that will drive Grupo Lamosa's take-off

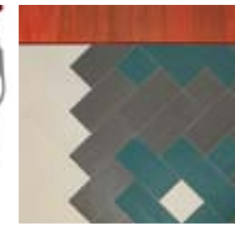
2012 was an extraordinary year for Grupo Lamosa. It is now positioned to move forward with healthy finances, significantly reduced debt, and increased profitability and operating margins. This progress reflects the appropriateness of its business strategies and confirms the Company's capacity to

overcome difficult conditions, such as those of the past few years. Now that perspectives are better, Grupo Lamosa will leverage the opportunities that will surely present themselves in the future. The situation is positive and Grupo Lamosa is ready to take off!



**Facing the future**

with healthy finances,  
significantly reduced  
debt and increased  
profitability.



“

Strength and hardness are characteristics of all Lamosa products, be it the porcelain coating of a tile, a one-piece toilet or a special wall adhesive. All of them are designed to last and perform excellently under every possible condition. In a similar way, the strength of the Company throughout its past history constitutes the platform on which it will take off in the future.”

# Wall and Floor Tiles



The Wall and Floor Tiles Business posted results above industry averages in 2012, with revenues growing 10% year-over-year. The increase in economic activity in Mexico, with employment figures improving slightly and consumer spending growing, had a favorable effect on the demand for this business's products.”



## First Mexican producer to receive Green Square Certification from the Tile Council of North America (TCNA)

The growth and expanded coverage over the past few years, both in Mexico and abroad, were decisive factors for leveraging the business opportunities that presented themselves during 2012. Today, the products of the Wall and Floor Tiles Business are marketed in more than 15 countries across the American Continent.

During the year, the business implemented a structure to better serve the Anglo market in the United States, in order to consolidate its presence and participation in its export markets. One of the main functions of the new structure will be to capitalize on the potential of this market segment through the business's experience and wide range of products and services.

One of the important challenges that the Wall and Floor Tile Business faced in 2012 was to implement an orderly reactivation of the production lines that had been temporarily suspended as a result of the crisis of 2008. Because of the operational flexibility of its production centers, strategically located throughout Mexico, it was able to overcome this challenge and respond rapidly and efficiently to the increased product demand.

In order to continue developing and strengthening the specification market in Mexico, during 2012 the Wall and Floor Tile Business focused on innovating and developing new products. As a result, it now offers the consumer a complete, high-quality, high-design portfolio that enhances the business's image both with the institutional market and the end consumer.

For the third consecutive year, the Wall and Floor Tile Business won the Best in the Show Award at the International Coverings Fair held during the second quarter of the year in the United States. This prize was the fifth of its kind that the business has been awarded at this event over the past seven years. Coverings is one of the world ceramic industry's most important commercial fairs, with approximately one thousand exhibitors from more than 50 countries presenting their products there.

The efforts of the Wall and Floor Tile Business to offer sustainable products were also recognized during the year when it became the first Mexican producer to receive Green Square Certification from the Tile Council of North America (TCNA). This award requires tile manufacturers to comply with a series of sustainability requirements, which span activities ranging from extraction and raw material use to areas of corporate governance and innovation. All of this translates into significant benefits for consumers.

The Wall and Floor Tile Business outperformed the industry in 2012, posting a **10% growth** in revenues.

# Adhesives



In 2012, the Adhesives Business implemented actions and initiatives to strengthen its position, expand its markets and satisfy the needs of its different customers with innovative, high-performance products.”



## Significant investment in the business's brands to enhance their value, positioning and leadership in Mexico

The efforts of this business during the year contributed to the 9% year-over-year sales expansion posted at yearend 2012. The growth in revenues was not only positively affected by the adhesives line, but also by the complementary lines of waterproofing products and stuccos.

An important initiative during the year was a significant investment in the business's brands to enhance their value, positioning and leadership in Mexico. As part of this initiative, advertising campaigns were rolled out in the country's main cities, including Mexico City, Guadalajara and Monterrey, to strengthen the awareness of the qualities of the business's portfolio of brands with the different target users.

In order to expand geographically, during 2012 a structure was implemented to develop the market across North America, the natural target for this business and a strong source of potential revenues. One of the main objectives of the new structure is to leverage the knowhow the business has gained over the years to satisfy the specific demands of this market and identify concrete ways to serve it better.

The Adhesives Business continued to develop and launch new products, enriching its portfolio with innovative solutions with added value for the construction industry. Products launched during the year include "Crest

Blanco Pasta", a high-adherence, flexible, multipurpose adhesive that is ready to use. "Crest Seal Antigraffiti", a transparent, impermeable coating which facilitates the removal of unsightly graffiti, is another interesting product rolled out in 2012.

During the year, the Adhesives Business also continued to develop the specification market, with a focus on the government sector and Mexico's large real estate developers, among others.

The initiatives implemented during 2012 will be key elements for assuring that the Adhesive Business continues to grow at a favorable rate, as it has for its more than half a century in the marketplace.

The efforts made by the Adhesives Business resulted in a **9% growth in sales** in 2012.

# Sanitaryware



The trends in the products and markets of the Sanitaryware Business changed favorably in 2012, with the business posting a 19% year-over-year increase in revenues as of yearend 2012. This growth was significantly driven by a more than 30% rise in the sales of the Vortens line, which serves the wholesale plumbing channel in the United States.”



## One of the highlights of 2012 was the signing of a commercial alliance with Grohe, a German producer of high value added faucets and fittings

The consolidation of the sanitaryware industry over the past few years has resulted in capacity adjustments for some of its players. This situation, combined with a more active market environment, enabled the Sanitaryware Business to capitalize on the increased demand and grow the presence of its products both in Mexico and abroad.

One of the highlights of 2012 for the Sanitaryware Business was the signing of a commercial alliance with Grohe. Grohe is a German producer of high value added faucets and fittings which leads the European market and is one of the world's most important players in the industry. Through this agreement, the Sanitaryware Business complemented its product portfolio and became Mexico's exclusive distributor of bathroom and kitchen fittings under the "Grohe" and "Joyou" brand names.

The Sanitaryware Business continues to develop innovative, high-performance products. During the year, a new line of toilets with antibacterial enamel was rolled out to complement the Green Line, a product range comprising high-value sustainable products. This toilet, developed using nanotechnology and ideally directed to institutional markets, was designed in conjunction with the Advanced Materials Research Center (CIMAV)

with in-house technology. Its main benefits include the elimination of up to 85% of the bacteria that are usually found on this type of product.

The Sanitaryware Business also incorporated new models to its luxury product range, including the "Lyon" one-piece toilet presented to the public at the Expochiac Fair in Mexico City during the fourth quarter of the year.

The perspectives for the sanitaryware industry are much more favorable today than they have been over the past few years. Going forward, the recovery of the North American market represents a unique area of opportunity that this business should leverage, especially considering the business's coverage across the main areas of the United States.

The Sanitaryware Business posted a **sales growth of 19%** compared to 2011.

# Financial Performance

Grupo Lamosa's 2012 financial and operating results allowed the Company to continue reducing debt as it has done over the past years. During the year, debt payments were made in excess of those required by existing credit contracts, thereby strengthening Grupo Lamosa's financial structure and significantly reducing the level of risk.

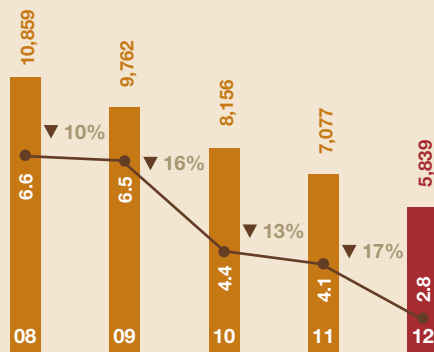
As of yearend 2012, Grupo Lamosa's interest-bearing debt totaled \$5,839 million pesos, 17% below the debt of \$7,077 million pesos posted at the close of the previous year. The ratio of debt to EBITDA as of December 31, 2012 was 2.8 times, comparing favorably with the ratio of 4.1 times reported at the end of 2011.

The Company's efforts to lower the debt incurred for the acquisition of Porcelanite, which has declined 45% over the past four years, have positioned it to continue reducing the interest rates stipulated in the corresponding credit contracts, positively impacting the Company's financing cost.

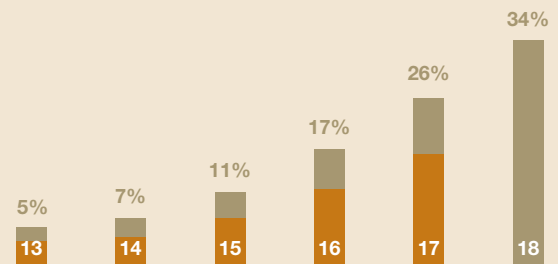
During the year, Grupo Lamosa made capital expenditures amounting to \$241 million pesos, which were mainly focused on maintaining and upgrading production technology, and IT projects.

In 2012, Grupo Lamosa implemented initiatives to optimize the generation of cash flow, focusing on the management of working capital and reduction of costs and expenses. As a result, it closed the year with significantly improved operating margins. For example, the ratio of EBITDA to sales was 22% as of December 31, 2012, compared to 20% at the end of the previous year.

The Company's favorable results were reflected in the performance of the LAMOSA\* share price, which increased 25% during the year, surpassing the growth of the Mexican Stock Exchange's Price Index (IPC). In 2012, there were no movements related to treasury shares.



**Debt**  
(millions of Mexican pesos)  
● Debt / EBITDA (times)



**Debt repayment profile (Dec. 2012)**  
millions of Mexican pesos  
■ Pesos ■ USD

Note: More than 75% of debt payments fall between 2016 and 2018.

# Corporate Governance

Complaints received through Grupo Lamosa's Transparency Line were attended throughout 2012. Each case was reviewed and analyzed by the Ethics Committee, and the Audit Committee was also given the details. Some of the complaints referred to acts and situations that were in violation of the contents of the Company's Code of Ethics. As a result, Grupo Lamosa took action against certain suppliers and internal personnel, indefinitely suspending their services.

During 2012, the Company followed up on its Information Security Program. One of this initiative's most important goals is to standardize and regulate practices for handling and controlling information. An Information Security Committee was set up and policies and procedures established to maintain information confidentiality and integrity.

Additionally, in 2012, efforts continued to strengthen the Company's internal control system. Today, all Grupo Lamosa's businesses operate with audit programs that focus on total risk management throughout all processes.

The Company's track record of more than 60 years of being listed on the Mexican Stock Exchange has assured its institutionalism and the implementation of best corporate practices, for the benefit of its stockholders. In 2012, Grupo Lamosa displayed a high level of compliance with the guidelines and recommendations of the Code of Best Corporate Practices issued by the Mexican Business Coordinating Council.

#### **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**

**Armando Garza Sada**

# Sustainability



Grupo Lamosa is a company with a track record of more than 120 years in the market. Since its founding, its mission and values have emphasized sustainability as the guideline for action and it has always followed basic

principles of respect for others and caring for the environment, with a focus on quality and results.

In order to establish a comprehensive model for sustainability management, during 2012 the Company implemented a program to assure that it complies with the international parameters of the Global Reporting Initiative. The program enables the identification and incorporation of the sustainable actions and projects carried out by Grupo Lamosa's different businesses.

Throughout the year, different economic, environmental and social indicators were selected and a plan of action delineated in order to manage them in accordance with the Company's Sustainability Model. This model clearly defines a vision and also sets out short-, medium- and long-term actions for each indicator, assuring the implementation of best sustainability practices.



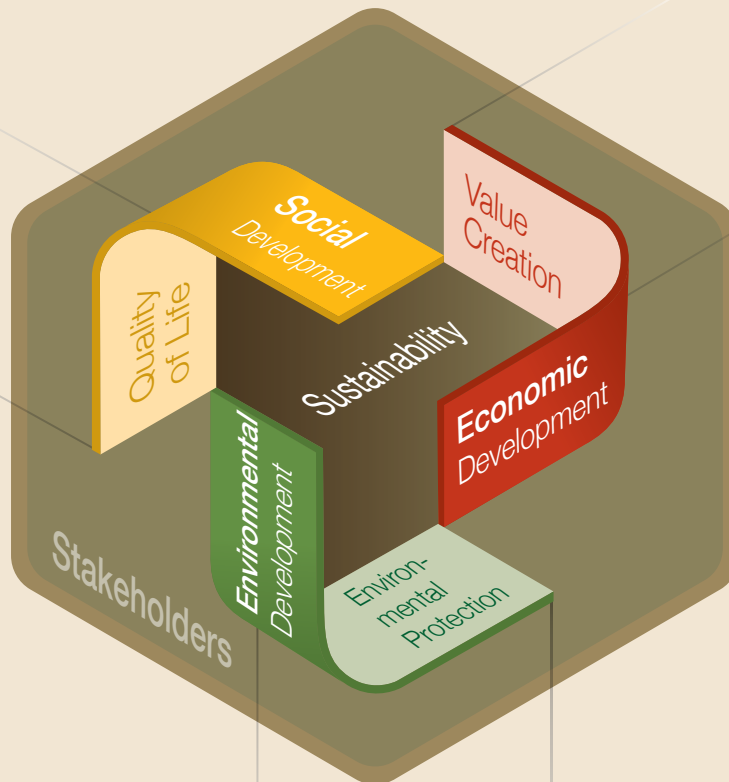
## Grupo Lamosa's Sustainability Vision



To be agents of positive change, driven by a vocation for innovation as a way to create economic, social and environmental value and a focus on sustainability, which will assure the Company's permanence and long-term development and contribute to the wellbeing of all its stakeholders."

### Action Areas

- Quality of life for associates and their families
- Respect for human rights and diversity
- Anti-corruption initiatives
- Social investment



### Action Areas

- Innovation in business model, products and processes
- Creation of economic value
- Development of local suppliers
- Investments in the community

### Action Areas

- Innovation
- Energy
- Water
- Reduction of emissions, spills and waste
- Product recovery

# 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**  
Corporate Practices Committee

## **Carlos Zambrano Plant**

Consultant  
Member since 1991 **I**  
Audit Committee

## **Eduardo Padilla Silva**

CEO of FEMSA Comercio  
Member since 2004 **I**  
Audit Committee

## **Eduardo Garza T. Fernández**

Chairman of the Board of Grupo Frisa Industria  
Member since 2012 **I**

## **Maximino Michel González**

Operations Manager of Liverpool  
Member since 2009 **I**  
Audit Committee

**R** (Related)

**I** (Independent)

According to the Stockholders'  
Assembly of March 13, 2012

# Main Company Officers



From left to right:

**Sergio Narváez Garza**  
Ceramic Division and Wall  
and Floor Tiles Vice-President

**Jorge Manuel Aldape Luengas**  
Adhesives Vice-President

**Federico Toussaint Elosúa**  
Chief Executive Officer

**José Mario Gutiérrez Peña**  
Sanitaryware Vice-President

**Tomás Luis Garza de la Garza**  
Chief Financial Officer

**Julio Rafael Vargas Quintanilla**  
Human Resources Vice-President

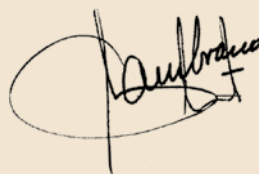
# Audit Committee Report

February 20, 2013

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, 2012, 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 2012.
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 International 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 2012.
5. We reviewed the Information Security Program, through which the practices for handling and controlling Grupo Lamosa’s information are regulated.
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 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 year of 2012.
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 20, 2013

**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, 2012 pursuant to Company Statutes and the current Law:

1. We reviewed the model for determining the operating and strategic objectives. This model is part of the evaluation system used to assess the performance of Company officers.
2. 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.
3. 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.
4. This Committee gave no authorization for any Board Member, Company Officer or person in a position of command to take advantage of business opportunities – either for themselves or for third parties – that correspond to the Company or its Subsidiaries, and is not aware that the Board of Directors or any other Committee has done so.
5. The Corporate Practices Committee will continue carrying out all the actions necessary to comply with the legal and statutory requirements that govern it.



**Eduardo Elizondo Barragán**  
Chairman

# Consolidated Financial Statements

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# Independent Auditors' Report to the Board

## Directors and Stockholders of Grupo Lamosa, S.A.B. de C.V.

We have audited the accompanying consolidated financial statements of Grupo Lamosa, S.A.B. de C.V. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011 and January 1, 2011 (date of transition), and the consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory notes for the years then ended.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Lamosa, S. A. B. de C. V. and its subsidiaries as of December 31, 2012 and 2011 and January 1, 2011 (date of transition), and financial performance, and cash flows for the years ended December 31, 2012 and 2011, in accordance with International Financial Reporting Standards as issued by the IASB.

### Adoption of International Financial Reporting Standards

As disclosed in Note 2, the Company adopted International Financial Reporting Standards issued by the IASB in 2012 with January 1, 2011 as the date of transition. These are the Company's first consolidated financial statements prepared based on IFRS applying the principles of IFRS 1, First adoption of International Financial Reporting Standards. Previously, the consolidated financial statements as of December 31, 2011 and 2010 were prepared based on Mexican Financial Reporting Standards ("MFRS"). The transition effects to IFRS are shown in Note 24.

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



**C.P.A. A. Alejandra Villagómez G.**  
**February 20, 2013**

# Consolidated Statements of Financial Position

As of December 31, 2012 and 2011 and January 1, 2011 (date of transition)  
(In thousands of Mexican pesos)

	Notes	2012	2011	January 1, 2011
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	6	\$ 1,064,900	\$ 779,928	\$ 1,189,191
Accounts receivable, net	7	2,377,983	2,370,793	2,081,842
Inventories, net	9	1,219,985	1,137,193	1,106,917
Other current assets	8	559,924	492,976	442,043
Current assets		5,222,792	4,780,890	4,819,993
Real estate inventories	11	196,932	189,072	187,155
Property, plant and equipment, net	12	4,974,301	5,178,894	5,428,518
Intangible assets, net	13	4,198,157	4,140,827	4,140,827
Derivative financial instruments	5	0	0	41,080
Deferred income taxes	21	495,401	705,891	599,174
Other non-current assets		59,475	46,798	45,984
Long-term account receivable	10	0	0	122,982
<b>Total</b>		<b>\$ 15,147,058</b>	<b>\$ 15,042,372</b>	<b>\$ 15,385,713</b>
<b>Liabilities and stockholders' equity</b>				
<b>Current liabilities:</b>				
Current portion of long-term debt	15	\$ 290,084	\$ 257,790	\$ 568,764
Current portion of capital lease liability	16	31,534	30,580	24,461
Trade accounts payable		1,077,593	1,031,921	806,142
Income taxes for tax consolidation	21	167,960	813	513
Derivative financial instruments	5	0	1,289	125,491
Other current liabilities	14	623,340	454,232	390,815
Current liabilities		2,190,511	1,776,625	1,916,186
Long-term debt	15	5,434,017	6,679,900	7,449,842
Long-term portion for capital leases	16	83,167	108,822	113,478
Employee benefits	17	282,991	239,208	204,067
Derivative financial instruments	5	0	0	22,225
Income taxes for tax consolidation	21	1,970,571	1,922,308	1,651,965
<b>Total liabilities</b>		<b>9,961,257</b>	<b>10,726,863</b>	<b>11,357,763</b>
<b>Stockholders' equity:</b>				
Capital stock	18	202,953	202,953	203,048
Additional paid-in capital	18	139,386	139,386	139,386
Retained earnings		4,882,702	4,010,801	3,784,866
Other comprehensive income items	5,17	(39,240)	(37,631)	(99,350)
<b>Total stockholders' equity</b>		<b>5,185,801</b>	<b>4,315,509</b>	<b>4,027,950</b>
<b>Total</b>		<b>\$ 15,147,058</b>	<b>\$ 15,042,372</b>	<b>15,385,713</b>

See accompanying notes to these consolidated financial statements.

**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, 2012 and 2011

(In thousands of Mexican pesos, except for earning per share, which is in Mexican pesos)

	Notes	2012	2011
Net sales	23	\$ 9,564,974	\$ 8,762,793
Costs and expenses:			
Cost of sales	23	5,682,536	5,453,957
Operating expenses	19	2,242,009	1,971,624
		7,924,545	7,425,581
Operating income		1,640,429	1,337,212
Interest expense		506,071	554,456
Interest income		(30,130)	(28,138)
Exchange (gain) loss, net		(280,866)	422,062
Effects of valuation of financial instruments		18,275	21,325
Other non-operating (income) expenses, net	23	(9,696)	9,472
Income before income taxes		1,436,775	358,035
Income taxes	21	564,874	132,100
Consolidated net income		\$ 871,901	\$ 225,935
Earning per basic and diluted share	3v	\$ 2.37	\$ 0.61

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011  
(In thousands of Mexican pesos)

	Notes	2012	2011
Consolidated net income		\$ 871,901	\$ 225,935
<b>Other comprehensive income items:</b>			
Item which can be potentially reclassified to consolidated net income, net of taxes:			
Valuation of derivative financial instruments	5.2.5	12,793	74,666
Item that cannot be reclassified to consolidated net income, net of taxes:			
Remeasurement of defined benefit obligation	17	(14,402)	(12,947)
Total other comprehensive income items		(1,609)	61,719
Total consolidated comprehensive income		\$ 870,292	\$ 287,654

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011

(In thousands of Mexican pesos)

	Capital Stock	Additional Paid-In Capital	Retained Earnings	Valuation of Derivative Financial Instruments	Remeasurement of Defined Benefit Obligation	Total Stockholders' Equity
Balances as of January 1, 2011	\$ 203,048	\$ 139,386	\$ 3,784,866	\$ (99,350)	\$ 0	\$ 4,027,950
Repurchase of shares	(95)					(95)
Comprehensive income			225,935	74,666	(12,947)	287,654
Balances as of December 31, 2011	202,953	139,386	4,010,801	(24,684)	(12,947)	4,315,509
Comprehensive income			871,901	12,793	(14,402)	870,292
Balances as of December 31, 2012	\$ 202,953	\$ 139,386	\$ 4,882,702	\$ (11,891)	\$ (27,349)	\$ 5,185,801

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011  
(In thousands of Mexican pesos)

	2012	2011
<b>Operating activities:</b>		
Income before taxes	\$ 1,436,775	\$ 358,035
Adjustment for:		
Depreciation and amortization	362,443	325,133
Other reserves	22,308	62,301
Interest income	(30,130)	(28,138)
Interest expense	506,071	554,456
Exchange loss, net	(280,866)	422,062
Impairment	37,665	13,426
Effect of valuation of derivative financial instruments	18,275	21,325
	2,072,541	1,728,600
Changes in working capital:		
Increase in customers	(14,704)	(83,840)
Increase in inventories and real estate inventories	(88,020)	(35,315)
Increase in suppliers	45,672	225,779
Other liabilities	37,233	(32,817)
Income taxes paid	(100,557)	(40,209)
Net cash flows provided by operating activities	1,952,165	1,762,198
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(184,058)	(87,179)
Interest income	30,130	28,138
Acquisition of intangible assets	(57,330)	0
Acquisition of subsidiaries	0	(7,308)
Net cash flows used in investing activities	(211,258)	(66,349)
<b>Financing activities:</b>		
Payments for bank liabilities	(998,691)	(1,458,882)
Interest paid	(474,959)	(553,475)
Other financing activities	0	(190,859)
Net cash flows used in financing activities	(1,473,650)	(2,203,216)
Net increase (decrease) in cash and cash equivalents	267,257	(507,367)
Cash and cash equivalents at beginning of year	779,928	1,189,191
Effects from changes in cash value	17,715	98,104
Cash and cash equivalents at end of the year	\$ 1,064,900	\$ 779,928

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Fort the years ended December 31, 2012 and 2011 and January 1, 2011 (date of transition)  
(In thousands of Mexican pesos)

## 1. ACTIVITIES

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 of real estate projects for sale. The Company's address is Avenida Pedro Ramírez Vázquez No. 200-1 Col. Valle Oriente C.P. 66269 San Pedro Garza García, Nuevo León, Mexico.

## 2. BASIS OF PRESENTATION AND CONSOLIDATION

**a. Compliance status** – The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS"), and their amendments issued by the International Accounting Standards Board ("IASB"), with a transition date of January 1, 2011. These are the Company's first consolidated financial statements prepared based on IFRS applying the principles of IFRS 1, First adoption of International Financial Reporting Standards. Previously, the consolidated financial statements as of December 31, 2011 and 2010 were prepared based on Mexican Financial Reporting Standards ("MFRS"). The transition effects to IFRS are shown in Note 24.

**b. Basis of preparation** – The consolidated financial statements were prepared based on the historical cost, except for that mentioned in the accounting policies in Note 3. The historical cost is generally based on the fair value of the consideration granted in exchange of the assets.

**c. Classification of costs and expenses** - The costs and expenses presented in the consolidated statements of income 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 the remaining costs and expenses.

**d. Basis of consolidation** – The financial statements of Grupo Lamosa, S.A.B. de C.V. ("Glasa") and those of the controlled companies were considered to prepare the consolidated financial statements. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Glasa owns 100% of the capital stock of its subsidiaries. For consolidation purposes, all the significant balances and transactions between affiliated companies have been eliminated.

The subsidiaries and associates grouped by business segment are as follows:

### Ceramic business:

Lamosa Revestimientos, S.A. de C.V. General de Minerales, S.A. de C.V. <sup>(2)</sup>	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. <sup>(3)</sup>
Porcelanite, S.A. de C.V.	Ital Gres, S.A. de C.V.	Porcel, S.A. de C.V.
Gres, S.A. de C.V.	Productos Cerámicos de Querétaro, S.A. de C.V.	Pavillion, S.A. de C.V.
PLG Ceramics, Inc. (formerly Revestimientos Lamosa, S.A. de C.V.) <sup>(3)</sup>	Estudio Cerámico México, S.A. de C.V. <sup>(1)</sup>	Servigesa, S.A. de C.V. <sup>(1)</sup> Servicios Comerciales Lamosa, S.A. de C.V.
Porcelanite Lamosa, S.A. de C.V.	Revestimientos Porcelanite, S.A. de C.V.	
Revestimientos Porcelanite Lamosa, S.A. de C.V.	Gresaise, S.A. de C.V. <sup>(5)</sup>	Intangibles Porcelanite, S.A. de C.V. <sup>(4)</sup>
Intangibles Ital Gres, S.A. de C.V. <sup>(4)</sup>	Sanitarios Azteca, S.A. de C.V.	Italaise, S.A. de C.V. <sup>(5)</sup>
Revestimientos y Servicios Comerciales, S.A. de C.V. (formerly L&L Consorcio Inmobiliario, S.A. de C.V.)	Inmobiliaria Porcelanite, S.A. de C.V. <sup>(7)</sup> PL Ceramics Group, Inc. <sup>(7)</sup>	Servicios Administrativos Porcelanite, S.A. de C.V. <sup>(7)</sup>

**Adhesive business:**

Crest, S.A. de C.V.	Proyeso, S.A. de C.V.	Adhesivos de Jalisco, S.A. de C.V.
Industrias Niasa, S.A. de C.V.	Tecnocreto, S.A.	Servicios de Administración de Adhesivos, S.A. de C.V.
Servicios Industriales de Adhesivos, S.A. de C.V.	Soluciones Técnicas para la Construcción, S.A. de C.V.	Crest Norteamérica, S. A de C. V. <sup>(9)</sup>
Soluciones Técnicas para la Construcción del Centro, S.A. de C.V. <sup>(9)</sup>		

**Real estate business:**

Grupo Inmobiliario Viber, S.A. de C.V.	Inmobiliaria Galerías Valle Oriente, S.A. de C.V. <sup>(6)</sup>	Inmobiliaria Plaza Cumbres, S.A. de C.V. <sup>(6)</sup>
Servicios Inmobiliarios Viber, S.A. de C.V. <sup>(6)</sup>	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. <sup>(6)</sup>	Servicios de Administración el Diente, S.A. de C.V.	

**Corporate and others** - Servicios Administrativos Lamosa, S.A. de C.V., Ladrillera Monterrey, S.A. de C.V. <sup>(2)</sup> and Lamosa Servicios Administrativos, S.A. de C.V. (formerly Barros y Pizarras, S.A. de C.V.)

<sup>(1)</sup> Associated companies where the Company has a 49% share interest.

<sup>(2)</sup> Companies merged with Proyeso, S.A. de C.V. on October 22, 2011.

<sup>(3)</sup> Companies spun off on November 6, 2011. In the case of PLG Ceramics Inc., it changed its residence abroad on December 6, 2011.

<sup>(4)</sup> Companies merged with Grupo Lamosa, S.A.B. de C.V. on March 22, 2011.

<sup>(5)</sup> Companies acquired on September 15, 2011.

<sup>(6)</sup> Companies merged into Grupo Inmobiliario Viber, S.A. de C.V. on December 30, 2011.

<sup>(7)</sup> Companies spun off on August 14, 2012. PL Ceramics Group, Inc. changed to a foreign residence on October 30, 2012.

<sup>(8)</sup> Company liquidated on December 5, 2012.

<sup>(9)</sup> Constituted companies in August 2012.

**Translation of financial statements of foreign subsidiaries** - The separate financial statements of each subsidiary of the Company are prepared in the currency of the primary economic environment in which the Company operates (its functional currency). For purposes of these consolidated financial statements, the results and financial position of each entity are expressed in Mexican pesos, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

**a. Cash and cash equivalents** – Includes cash on hand, sight bank deposits, and short-term investments that are readily convertible to cash, liable to insignificant risk of changes in their value. Cash and cash equivalents are measured at nominal value and yields are recognized in profit or loss as they are accrued.

**b. Financial assets** – Financial assets are recognised and derecognised on trade date where there is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset during a period which is generally regulated by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payable (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

***Financial assets at fair value through profit or loss (FVTPL)***

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statements of income.

***Held to maturity investments***

Bills of exchange and debt bonds with fixed or determinable payments and fixed maturities for which the Company has both the positive intention and the ability to hold to maturity are classified as investments held to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, recognising revenue on an effective yield basis.

***Available-for-sale financial assets (AFS financial assets)***

Are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, except for impairment losses, interest calculated using the effective interest method, and gains and losses on exchange, which are recognised in profit or loss. Where an investment is disposed or determined to impairment, the cumulative gain or loss previously recognised in the investment revaluation reserve is reclassified to income.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

***Accounts receivable and other receivables***

Accounts receivable and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as "accounts receivable". Accounts receivable and other receivables (including trade accounts receivable, other receivables, cash and bank account balances) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be insignificant.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period in between 70 and 130 days that is in the legal process, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Where a financial asset considered available for trade is impaired, the cumulative gain or loss previously recognized in other comprehensive income items is reclassified to the period's profit or loss.

**c. Inventories** – Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average cost method basis and include the acquisition or production cost which is incurred when purchasing or producing a product and other costs incurred in bringing inventories to their current location and condition. For inventories of finished goods and inventories in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The Company reviews the carrying value of inventories, the presence of any indication of impairment that were to indicate that their carrying amount may not be recoverable. Impairment is recorded if the net realisable value is less than the carrying value. The impairment indicators considered are, among others, obsolescence, low market prices, damage and firm sales commitments.

**d. Real estate inventories** – Real estate inventories consist of the cost of acquisition of land, licenses and tax, materials and direct and indirect costs incurred in the real estate business activity of the Company, and are valued at the lower of cost or net realizable value.

Directly related borrowing costs, incurred from loans related to the construction process are capitalised. See more detail in note 3.f for policy of capitalization of borrowing costs.

**e. Property, plant, and equipment** – Property, plant and equipment investments are initially recorded at their cost of acquisition and/or construction net of accumulated depreciation and/or accumulated impairment losses, if any. The borrowing costs related to the acquisition or construction of qualifying asset is capitalized as part of the cost of that asset, according to the Company's policy. The improvements that have the effect of increasing the value of the asset, either because they increase the service capacity, improve efficiency or extend the useful life of the asset, are capitalized. Lower maintenance costs are recognized directly in costs in the period they are made. Depreciation of assets begins when the asset is ready for use.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Except for the depreciation of machinery and equipment which is depreciated based on units produced with the total estimated asset during its service life, the depreciation of other fixed assets is calculated under the straight-line method based on the estimated useful lives, as follows:

	<b>Years</b>
Buildings and improvements	35 to 40
Transportation equipment	4 to 5
Computer equipment	4
Furniture and equipment	10

Gain or loss on the sale or retirement of property, plant and equipment is calculated as the difference between the net income from the sale and the carrying amount of the asset and is recorded in other income (expenses) of the operations, when all significant risks and rewards of ownership of the asset are transferred to the buyer, which normally occurs when transferred the ownership of the property.

**f. Borrowing costs** – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale, are added to the cost of those assets during the construction phase and up to the beginning of operation and / or exploitation. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**g. Investments in associates** – An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate, the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Requirements of IAS 39 are applied to determine whether it is necessary to recognize an impairment loss in respect of the Company's investment in an associate. When necessary, the impairment test of the total carrying value of the investment (including goodwill) in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost of sales) against its carrying value. Any impairment loss recognised is part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

**h. Leases** – Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Company as lessee*

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation. Lease payments are apportioned between interest expenses and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognised immediately in profit or loss under the effective interest rate, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see Note 3.f). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*The Company as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company has no finance leases as lessor.

**i. Intangible assets** – Intangible assets represent payments whose benefits will be received in future years. The Company classifies its intangible assets into definite life and indefinite-lived assets according to the period in which the Company expects to receive benefits.

Intangible assets with finite lives are amortized over their estimated useful lives. Intangible assets with indefinite lives are not amortized and are subject to an annual evaluation to determine if there is impairment of assets.

The Company primarily has trademarks, goodwill, and investments in software.

**j. Goodwill** – Goodwill arising from a business combination and recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but assessed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**k. Impairment of tangible and intangible assets other than goodwill** – At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**i. Financial liabilities** – Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

#### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the consolidated statements of income.

#### *Bank loans and other financial liabilities*

Include loans from financial institutions and accounts payable, which are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, and the interest expense is recognised on an effective yield basis.

Financial liabilities are classified as short- term and long term according to their maturity.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### *Derecognition*

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

**m. Derivative financial instruments** – The Company values and records all operations with derivative financial instruments in the consolidated statements of financial position as either an asset or liability at fair value, regardless of the purpose of holding them.

The fair value of these instruments is determined based on the present value of cash flows. This method involves estimating future cash flows of derivatives according to the fixed rate of the derivative and the curve at that date to determine the variable flows, using the appropriate discount rate to estimate the present value. All derivatives of the Company are classified in Level 2 of the fair value hierarchy established by IFRS 7, “Financial Instruments - Disclosure.” Fair value measurements in Level 2 are those derived from different information than quoted prices included within Level 1 (fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities) that can be seen for the asset or liability, either directly (eg., as prices) or indirectly (eg., derived from prices).

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Derivatives designated as a hedge are recognized valuation changes according to the type of coverage involved: (1) for fair value hedges, changes in both the derivative and the hedged item are recognized at fair value and are recognized in profit or loss, (2) when cash flows hedges, the effective portion is temporarily recognised in other comprehensive income and in profit or loss when the hedged item affects it; the ineffective portion is recognized immediately in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, when it no longer qualifies for hedge accounting or effectiveness is not high enough to compensate changes in fair value or cash flows of the hedged item.

When discontinuing cash flow hedge accounting, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss. Where a hedge for a forecasted transaction is proved satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in other comprehensive income in equity are recognised in proportion to profit or loss, to the extent that the forecasted asset or liability affects it.

Certain derivative financial instruments contracted for hedging from an economic perspective that do not to meet all the requirements under the regulations, are designated for accounting purposes as held for trading. The fluctuation in the fair value of these derivative instruments are recognised in the consolidated statements of income.

The Company uses interest rate swaps, foreign exchange and commodity market prices (natural gas), to manage its exposure to fluctuations in interest rates, foreign exchange, and market prices of natural gas, respectively (see Note 5.2).

**n. Short-term employee benefits** – Short-term employee benefits are calculated based on the services provided, considering their current salaries and the liability is recognised as it accrues. It mainly includes workers' profit sharing (PTU) payable, vacations and vacation premiums, and incentives.

**o. Statutory employee profit sharing (PTU)** – PTU is recorded in the period's profit or loss in which it is incurred and presented in cost of goods sold and operating expenses. PTU is determined based on the taxable income under Section I of Article 10 of the Income Tax Law.

**p. Termination benefits** – The Company provides benefits upon termination of employment under certain circumstances required. These benefits consist of a lump sum payment of three months' salary plus 20 days per year worked in the event of unjustified dismissal.

Termination benefits are recognized when the Company decides to terminate the employment relationship with an employee or when the employee accepts an offer of termination.

**q. Long-term employee benefits** – The Company operates defined contribution retirement benefit plans and defined benefit plans.

**Defined contribution retirement benefit plans** – The Company legally makes payments that are equivalent to 2% of the salary of their workers integrated (met), to the plan defined contribution for the system of retirement savings established by law. The expense recognised for this item is \$ 19,937 in 2012 and \$ 17,889, in 2011.

**Defined benefit plans** – For defined benefit benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. All remeasurements of the Company's defined benefit obligations such as actuarial gains and losses are recognized directly in other comprehensive income ("OCI") and shall not be recycled to profit or loss at any time. The Company presents service costs within cost of goods sold, administrative and selling expenses in the consolidated statements of income. The Company presents net interest cost within interest expense in the consolidated statements of income. The projected benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation as of the end of each reporting period.

The defined benefit obligation recognised in the consolidated statements of financial position represents the present value of the defined benefit obligation less the fair value of plan assets.

The defined benefit plans that the Company provides its employees are:

**Seniority premiums** – In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

**Defined benefit plan** – The Company has a pension plan with defined benefits that consists of a one-time payment or a monthly payment determined based on their base pay according to age and years of service. The retirement ages are: normal. - Staff with 50 years of age and at least 5 years of service; advanced. - Staff with 45 years of age and at least 15 years of service, and early. – Staff with 40 years of age and a minimum of 10 years of service.

**Defined contribution plan:** The Company has a pension plan with defined contribution benefits which such contributions equivalent to a maximum of 6.25% of the annual taxed wage.

The Company has two types of retirement: normal retirement- applies when turning 65 years of age and early retirement-applied with 55 years old and at least 5 years of service.

In the case of leaving prior to retirement, the employee's entitlements on contributions will be adjusted to the years of service with the Company.

**r. Provisions** – Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**s. Revenue recognition** – Revenue is measured at the fair value of the consideration received or receivable, reduced for estimated customer returns, rebates and other similar allowances granted by the Company.

Revenue from the sale of goods and real estate is recognised when all of the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**t. Income taxes** – Income tax expense represents the sum of the tax currently payable and deferred tax.

### *Current tax*

The tax currently payable: income tax ("ISR") and the business flat tax ("IETU"), is based on taxable profit for the year respectively, and is recognised in profit or loss of the period in which is incurred. Taxable profit differs from profit as reported in the consolidated statements of income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

### *Deferred tax*

For deferred tax recognition, the Company determines whether ISR or IETU will be caused by the based on financial forecasts and recognises the appropriate deferred tax to be paid. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, including tax loss benefit. Deferred income tax asset is presented net of the reserve arising from the uncertainty of the realisation of certain benefits.

On initial recognition, such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset short-term assets with short-term liabilities and when they relate to income taxes relating to the same taxation authority and the Company intends to liquidate its assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The business assets tax ("IMPAC"), expected to be recoverable is recorded as a tax credit and is presented in the consolidated statements of financial position increasing income tax deferred asset.

**u. Foreign currency transactions** – The separate financial statements of each subsidiary of the Company are prepared in the currency of the primary economic environment in which the Company operates (its functional currency). For purposes of these consolidated financial statements, the results and financial position of each entity are expressed in Mexican pesos, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for capitalisation of borrowing costs during the construction of assets on construction financing

**v. Earnings per share ("EPS")** – EPS are calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period. Earnings per share are based on 367,824,273 and 367,826,770 weighted average shares outstanding during the years 2012 and 2011, respectively. The Company has no potential dilutive instruments.

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY UNCERTAINTY SOURCES IN ESTIMATES

In the application of the accounting policies mentioned in Note 3, the Company's management made judgments, estimates and assumptions about certain amounts of assets and liabilities of the financial statements. The estimates and associated assumptions are based on experience and other factors that are considered relevant. Actual results could differ from such estimates.

The estimates and associated assumptions are continuously reviewed. Amendments to accounting estimates are recognized in the period in which the estimate is modified if the modification affects only that period, or the current period and future periods if the review affects both current and future periods.

Critical accounting judgments and key uncertainty sources when applying the estimates made at the date of the consolidated financial statements, and that have a significant risk of resulting in an adjustment in carrying amounts of assets and liabilities during the next financial period are as follows:

- Useful lives of property, machinery and equipment. See Note 3.e
- Projections to determine whether the Company is subject to pay ISR or IETU for the determination of deferred taxes. See Note 21
- Valuations to determine recoverability of deferred tax assets. See Note 21
- Impairment of fixed assets and intangibles. See Notes 12 and 13
- Assumptions made in defined plan obligations. See Note 17

The basic assumptions concerning the future and other key uncertainty sources in the estimates at the end of the reporting period, which have a significant risk of causing major adjustments to carrying amounts of assets and liabilities, are disclosed in the corresponding notes of each account or affected item.

The Company's subject to transactions or contingent events on which it uses professional judgment in the development of estimates of probability of occurrence. The factors considered in these estimates are the legal situation at the date of the estimate, and the opinion of legal advisors.

## 5. OBJECTIVES OF THE RISK MANAGEMENT IN FINANCIAL INSTRUMENTS

### ACCIÓN DEL RIESGO EN LOS INSTRUMENTOS FINANCIEROS

The Company is exposed to different financial risks inherent in its operation, which are mainly: a) market risk (foreign exchange, interest and price rates (mainly natural gas), b) liquidity risk and c) credit risk, for which it seeks to manage the potential negative effects thereof in its financial performance. These risks are evaluated through a program of risk management. According to the valuation of these risks and internal guidelines, the Company carries out operations with derivative financial instruments, which are only for purposes of coverage and must be previously approved by the Finance Committee, comprised of independent and related directors of the Company's Board of Directors or the Board of Directors itself.

#### 5.1 Categories and fair value of financial instruments

Below are the financial instruments and their fair value based on their category:

	December 31, 2012	December 31, 2011	January 1, 2011
Financial assets:			
Cash and cash equivalents <sup>(1)</sup>	\$ 1,064,900	\$ 779,928	\$ 1,189,191
Accounts receivable <sup>(1)</sup>	2,377,983	2,370,793	2,081,842
Derivative financial instruments <sup>(2)</sup>	2,150	570	46,535
Financial liabilities:			
Derivative financial instruments <sup>(2)</sup>	0	1,289	147,716
Amortized cost liabilities <sup>(1)(3)</sup>	6,916,395	8,109,013	8,962,687

<sup>(1)</sup> The amounts of cash and cash equivalents, accounts receivable and payable to third parties and related parties approximate their fair value because they are short-term in nature.

<sup>(2)</sup> Derivatives are initially recognized at their fair value based on valuation methods widely accepted in the financial field and observable inputs directly on the market such as curves of interest rates and foreign exchange, among others. The fair value of these instruments is determined based on the present value of the cash flows. This method consists of estimating the future cash flows of derivatives according to the fixed rate of the derivative and the market curve at that date to determine the variable flows, using the appropriate discount rate to estimate the present value. In addition, the Company uses recognized information sources to obtain risk factors. All the Company's derivatives are classified as level 2 in the hierarchy of fair value established by the IFRS 7, Financial instruments - Disclosure. The level 2 fair value measurements are those derived from different information from prices observable directly in an active market contained within level 1 (quoted prices (not adjusted) in active markets for identical assets or liabilities), either directly (e.g., as prices) or indirectly (e.g., derived from prices).

<sup>(3)</sup> This line includes liabilities related to suppliers, long-term debt and finance leases. For purposes of determining the fair value of long-term debt and finance leases discounted cash flow models were used. The fair value of long-term debt and finance leases is equivalent to their carrying value because the debt has variable interest rates applied, baseline rates (TIE / Libor) are periodically adjusted according to market conditions in each period and for purposes of long-term debt, surcharge applies in relation to the degree of leverage of the Company, that through quarterly reviews, these conditions were renegotiated with their current bank creditors in September 2011.

#### 5.2 Market risks

##### 5.2.1 Exchange risk

The Company's exposure to the volatility of the exchange rate of the Mexican peso against the American dollar for the Company's financial instruments is shown as follows (figures in this Note expressed in thousands of U.S. dollars – US\$):

	2012	2011	January 1, 2011
Financial assets	\$US 77,322	\$ US 65,729	\$US 99,556
Financial liabilities	(299,741)	(330,559)	(468,547)
Liability position	\$US (222,419)	\$US (264,830)	\$US (368,991)
Equivalent in Mexican pesos	\$ (2,883,835)	\$ (3,693,735)	\$ (4,560,723)

The exchange rates in effect at the date of the financial statements per U.S. dollar were as follows:

	As of December 31, 2012	As of December 31, 2011	As of January 1, 2011
	\$ 12.97	\$ 13.95	\$ 12.36

At February 20, 2013, the interbank exchange rate established by Banco de México was 12.67 Mexican pesos per U.S. dollar.

### 5.2.2 Sensitivity analysis of exchange risk

As of December 31, 2012, had the Mx. Peso/U.S. dollar ratio increased by \$1.00 Mexican peso, then the amount of the net monetary position in foreign currency would have increased by \$222,419 impacting income before taxes and the Company's stockholders' equity would have resulted in a monetary position loss. If on the other hand, such ratio had decreased by \$1.00 Mexican peso, which represents the amount that Management considers reasonably likely to occur within the year, then the effect would have been the opposite, i.e., a benefit in the income by \$222,419 and stockholders' equity would have resulted in a monetary position gain.

### 5.2.3 Interest rate risk.

All of the bank debt is contracted at a variable rate, which exposes the Company to interest risk. The risk exposure mainly lies in variations that could occur in the reference interest rate used as a base in Mexico and in the United States, (28-day Interbank Equilibrium Interest Rate or "TIIE" and the 3-month London Interbank Offered Rate or "LIBOR").

The Company monitors trends in such interest rates, in recent years the trend of 28-day TIIE and 3 M LIBOR has gone down; the 28-day TIIE was at its lowest level in September 2011 (4.78%), while 3 M LIBOR was at its lowest level in June and July 2011 (0.25%). The Company has contracted hedges to cover a risk of a rise in the aforementioned interest rates. However, the final instrument was settled in early September 2011 and currently no instrument is contracted. The Company will continue monitoring changes in trends in these rates; therefore, in the future it could contract an instrument to cover this risk.

On September 20, 2011, the Company early settled its interest swap transactions and U.S. dollar call option transactions (exchange rate options) used to manage its exposure to fluctuations in interest rates and exchange rate. The Company formally documented the relationship between hedging instruments and hedged items, as well as the risk management objectives and its strategy to conduct different derivative financial instrument transactions. These hedging transactions were rated using the cash flows model.

As of January 1, 2011, the fair value of financial instruments with interest rate and currency options is:

Interest swaps	\$ 42,144
Currency options	(46,086)
Total	\$ (3,942)

The expenses recognized in results during 2011 for transactions with derivative financial instruments covering the interest rate were as follows:

Interest swaps	\$ 24,208
Currency options	1,890
Total	\$ 26,098

Such amounts include the effect of early settlement of interest swaps and exchange rate options of \$4,247 and \$(17,190), respectively.

As of December 31, 2012, the Company recorded a bank debt balance in Mexican pesos of \$2,656,501, with 28-day TIIE rate plus 1.75% and one in U.S. dollars of \$255,034 with a 3 month LIBOR rate plus (1.75% and 5.20%) (weighted average 3.59%). The interest expense recorded at the close of 2012 and 2011 was \$463,556 and \$516,409, respectively.

#### 5.2.4 Sensitivity analysis of interest rate risk

If as of December 31, 2012, the interest rates on the Company's debt instruments had increased one percentage point, which represents the percentage that Management considers reasonably likely to occur in the coming year, income before income taxes and the Company's stockholders' equity would have decreased by \$67,626. If on the other hand, such ratio decreased by one percentage point, then the effect would be the opposite, i.e., a benefit in income and in stockholders' equity of \$67,626.

#### 5.2.5 Natural gas price risk:

The Company is exposed to fluctuations in the price of natural gas. During the years ended December 31, 2012 and 2011, the Company consumed natural gas by approximately 8,993,082 and 8,337,252 million British Thermal Units ("MMBTUS"), respectively. Based on the guidelines established by the Finance Committee to cover the risk of the rise in the price of gas, a permanent strategy to hedge this input has been implemented by contracting derivative financial instruments that have been classified as cash flow hedges.

During the years ended December 31, 2012 and 2011, a total of 6,819,000 and 6,695,250 MMBTUS were hedged, respectively. The effect for the aforementioned hedging transaction represented charges of \$1,177 and 119,725 in the 2012 and 2011 consolidated statements of income, respectively, which was presented within cost of sales.

As of December 31, 2012 and 2011, and January 1, 2011, the Company has derivatives that hedge the natural gas price by approximately 6,190,000, 5,610,000 and 5,733,250 MMBTUS, respectively. At the same date, the fair value of such hedges was as follows:

Type of Transaction	Notional MMBTU in Effect	Maturity	Average Price <sup>(1)</sup>	Fair Value Asset (Liability)
<b>In 2012:</b>				
Options	6,190,000	2013	5.00	\$ 2,150
<b>In 2011:</b>				
Options	5,589,000	2012	5.67	\$ 570
Swaps	21,000	2012	7.26	(1,289)
	5,610,000			\$ (719)

<sup>(1)</sup> In the case of options, the Company has the right, but not the obligation, to buy at the established price in exchange for the payment of a premium, paid at the beginning of each transaction; in the case of swaps, the Company has the right and the obligation to purchase at the established price. This transaction has no initial cost.

As of December 31, 2012 and 2011, January 1, 2011, and February 20, 2013, date of issuance of these consolidated financial statements, the natural gas market price is \$US 3.5591, \$US 3.2268, \$US 3.7718, and \$3.1076, U.S. dollars of MMBTUS, respectively.

The valuation of the effective portion of derivative financial instruments recognised in other comprehensive income for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
<b>Activity of the year:</b>		
Opening balance	\$ (24,684)	\$ (99,350)
Period movement	18,275	106,666
Tax effect	(5,482)	(32,000)
Ending balance	\$ (11,891)	\$ (24,684)

### 5.2.6 Sensitivity analysis of natural gas price risk

If as of the December 31, 2012, the gas price had increased by 10%, which represents the percentage that Management considers reasonably likely to occur in the coming year, the Company's income before taxes would have decreased by \$42,971, having an effect in stockholders' equity of \$30,080. If on the other hand, such ratio had decreased by 10%, then the effect would be the opposite, i.e., a benefit in income of \$42,971 with an effect in stockholders' equity of \$30,080. Such effects consider the aforementioned hedging strategy and the effect of the corresponding derivative financial instruments.

### 5.3 Liquidity risk

The Company is exposed to different industry factors, as well as to economic factors, which could affect the cash flow of its subsidiaries. Some of these factors are not controllable by the Company; however, the Company manages the liquidity risk through the monthly review of actual and projected cash flows to anticipate and control any eventuality. A contractual payments' analysis of non-derivative financial liabilities is disclosed in Note 15 and the maturity analysis for derivative financial liabilities is disclosed in Note 5.2.5, which will be settled in the short-term. This risk has been managed maintaining a proper cash balance for its operation and debt service, complemented by available lines of credit with various banks which to date, have not been needed to use.

### 5.4 Credit risk

The customer portfolio is composed predominantly by legal entities with roots and experience in the field of the construction finishing and with a considerable history in the distribution of the products of the Company's brands, which usually constitute an important source in its line of business. For its credit risk management, the Company carries out a thorough selection of prospects interested in the accreditation for the purchase and distribution of products, as well as the annual evaluation of customers already established, through the analysis of qualitative and quantitative variables, including the analysis of financial statements, based on which and on the implementation of the regulations contained in the credit policy, credit limits are restated. The portfolio is based on the characteristics and conditions of customers, supported with promissory notes when necessary.

In addition, no customer individual or with affiliated companies represent more than 10% of sales or account receivables for the reported years in these consolidated financial statements.

## 6. CASH AND CASH EQUIVALENTS

	2012	2011	January 1, 2011
Cash and bank deposits	\$ 301,684	\$ 87,694	\$ 85,229
Cash equivalents – investments in money market fund	763,216	692,234	1,103,962
	<u>\$ 1,064,900</u>	<u>\$ 779,928</u>	<u>\$ 1,189,191</u>

## 7. ACCOUNTS RECEIVABLE, NET

	2012	2011	January 1, 2011
Trade accounts receivable	\$ 2,436,592	\$ 2,437,065	\$ 2,146,984
Allowance for doubtful accounts	(58,609)	(66,272)	(65,142)
	<u>\$ 2,377,983</u>	<u>\$ 2,370,793</u>	<u>\$ 2,081,842</u>

### Age of due portfolio, not uncollectible

	2012	2011	January 1, 2011
60 to 90 days	\$ 114,263	\$ 105,782	\$ 145,253
90 to 120 days	213,238	236,822	231,123
Over 120 days	26,613	42,235	47,257
	<u>\$ 354,114</u>	<u>\$ 384,839</u>	<u>\$ 423,633</u>

### Movements in the doubtful account estimate

	2012	2011
Opening balance	\$ (66,272)	\$ (65,142)
Allowance for doubtful accounts of the year	(7,514)	(12,161)
Write-offs	15,177	11,031
Ending balance	<u>\$ (58,609)</u>	<u>\$ (66,272)</u>

**8. OTHER CURRENT ASSETS**

	<b>2012</b>		<b>2011</b>		<b>January 1, 2011</b>
Recoverable taxes	\$ 325,460	\$	150,239	\$	34,612
Due from related parties	0		19,083		41,866
Short-term expiration of long-term account receivable	0		138,840		234,235
Derivative financial instruments	2,150		570		5,455
Advance to suppliers	71,828		1,672		25,205
Other	160,486		182,572		100,670
	<b>\$ 559,924</b>	<b>\$</b>	<b>492,976</b>	<b>\$</b>	<b>442,043</b>

**9. INVENTORIES, NET**

	<b>2012</b>		<b>2011</b>		<b>January 1, 2011</b>
Finished goods	\$ 761,194	\$	739,375	\$	770,744
Work in process	99,496		92,016		87,942
Raw materials	202,248		202,683		155,753
Accessories and spare parts	154,470		102,171		91,238
Merchandise in transit	2,577		948		1,240
	<b>\$ 1,219,985</b>	<b>\$</b>	<b>1,137,193</b>	<b>\$</b>	<b>1,106,917</b>

The amount of the inventories consumed and recognised as part of cost of sales for the years ended December 31, 2012 and 2011, amounted to \$3,332,363 and \$2,922,554, respectively.

Inventories recognised as an expense for the years ended December 31, 2012 and 2011 include \$(2,632) and \$ 7,677, respectively, for write-downs of inventory to the net realisable value.

**10. LONG-TERM ACCOUNT RECEIVABLE**

		<b>2011</b>		<b>January 1, 2011</b>
Long-term account receivable	\$	138,840	\$	357,217
Current maturity		(138,840)		(234,235)
	\$	0	\$	122,982

The long-term account receivable arises from the sale of land that the Company sold in 2010 for \$547,716 (US\$43,114 thousands of U.S. dollars. ), of which \$357,217, its maturity was established in various installments through 2012.

The resources arising from such transaction were allocated to the payment of long-term debt.

**11. REAL ESTATE INVENTORIES**

	<b>2012</b>		<b>2011</b>		<b>January 1, 2011</b>
Real estate for sale	\$ 99,552	\$	101,486	\$	99,767
Undeveloped land	97,380		87,586		87,388
	<b>\$ 196,932</b>	<b>\$</b>	<b>189,072</b>	<b>\$</b>	<b>187,155</b>

## 12. PROPERTY, PLANT AND EQUIPMENT, NET

	2012	2011	January 1, 2011
Lands	\$ 745,655	\$ 741,584	\$ 745,259
Buildings and constructions	3,234,965	3,226,160	3,203,332
Machinery and equipment	7,705,145	7,835,356	7,763,867
Furniture and equipment	74,702	71,186	82,573
Vehicles	97,576	92,844	89,313
Computers	104,328	102,954	97,318
Investments in process	135,365	48,115	101,230
	12,097,736	12,118,199	12,082,892
Accumulated depreciation	7,123,435	6,939,305	6,654,374
	\$ 4,974,301	\$ 5,178,894	\$ 5,428,518

	Balance as of December 31, 2011	Additions	Depreciation	Divestitures	Transfers	Balance as of December 31, 2012
<b>Investment</b>						
Lands	\$ 741,584	\$ 4,071				\$ 745,655
Buildings and constructions	3,226,160	3,106		\$ 9	\$ 5,708	3,234,965
Machinery and equipment	7,835,356	12,915		193,210	50,084	7,705,145
Furniture and equipment	71,186	1,531		15	2,000	74,702
Vehicles	92,844	15,540		10,808	0	97,576
Computers	102,954	5,113		9,122	5,383	104,328
Investments in process	48,115	150,425		0	(63,175)	135,365
Total investment	12,118,199	192,701		213,164	0	12,097,736

### Depreciation:

Buildings and constructions	1,174,971	\$ 65,837	0	1,240,808
Machinery and equipment	5,565,375	260,243	146,596	5,679,022
Furniture and equipment	55,040	3,551	3	58,588
Vehicles	64,012	11,933	10,145	65,800
Computers	79,907	8,329	9,019	79,217
Total accumulated depreciation	6,939,305	349,893	165,763	7,123,435
Investment, net	\$ 5,178,894	\$ 192,701	\$ 349,893	\$ 47,401
			\$ 0	\$ 4,974,301

	Balance as of January 1, 2011	Additions	Depreciation	Divestitures	Transfers	Balance as of December 31, 2011
<b>Investment</b>						
Lands	\$ 745,259	\$ 52		\$ 3,727		\$ 741,584
Buildings and constructions	3,203,332	3,432		2,390	\$ 21,786	3,226,160
Machinery and equipment	7,763,867	13,134		20,219	78,574	7,835,356
Furniture and equipment	82,573	524		12,221	310	71,186
Vehicles	89,313	17,257		13,726	0	92,844
Computers	97,318	3,458		11,440	13,618	102,954
Investments in process	101,230	61,173			(114,288)	48,115
Total investment	12,082,892	99,030		63,723	0	12,118,199

**Depreciation:**

Buildings and constructions	1,110,316		65,676	1,021		1,174,971
Machinery and equipment	5,330,416		235,772	813		5,565,375
Furniture and equipment	64,025		3,326	12,311		55,040
Vehicles	64,485		11,482	11,955		64,012
Computers	85,132		7,125	12,350		79,907
Total accumulated depreciation	6,654,374		323,381	38,450		6,939,305
Investment, net	\$ 5,428,518	\$ 99,030	\$ 323,381	\$ 25,273	\$ 0	\$ 5,178,894

During the years ended December 31, 2012 and 2011, the Company had idle capacity of 9.6% and 17.6%, respectively.

During the years ended December 31, 2012 and 2011, borrowing costs were not capitalized.

**13. INTANGIBLE ASSETS**

	2012	2011	January 1, 2011
Unamortised intangible assets:			
Brands	\$ 3,791,459	\$ 3,775,459	\$ 3,775,459
Goodwill	365,368	365,368	365,368
	4,156,827	4,140,827	4,140,827
Amortised intangible assets	41,330	0	0
	\$ 4,198,157	\$ 4,140,827	\$ 4,140,827

Cost	Brands	Goodwill	Total unamortisable	Amortisable Intangibles	Total
Balances as of January 1 and December 31, 2011	\$ 3,775,459	\$ 365,368	\$ 4,140,827	\$ 0	\$ 4,140,827
Purchases	16,000		16,000	41,330	57,330
Balances as of December 31, 2012	\$ 3,791,459	\$ 365,368	\$ 4,156,827	\$ 41,330	\$ 4,198,157

As of December 31, 2012, intangible assets with finite useful lives mainly refer to expenses of the Company related to the implementation of an Enterprise Resource Planning (ERP) system which will begin amortisation in 2014, when the Company estimates said item to be ready for its intended use. As of December 31, 2011 and January 1, 2011, the Company held no intangible assets with finite useful lives.

For the years ended December 31, 2012 and 2011, there were no costs for capitalized loans related to qualifying assets.

For purposes of impairment tests, goodwill was assigned to the Company's following cash generating units (CGUs):

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
Ceramic Tiles	\$ 3,929,028	\$ 3,913,028	\$ 3,913,028
Adhesives	227,799	227,799	227,799
	<b>\$ 4,156,827</b>	<b>\$ 4,140,827</b>	<b>\$ 4,140,827</b>

The following factors are considered to assess the recovery value of the UGCs for impairment test purposes:

- Market share and expected price levels.
- Size of the market where the UGC operates for estimation of recoverable value purposes.
- Behavior of primary costs of raw materials and input, and the necessary expenses to maintain fixed assets in conditions to be used.
- Cash flows projections, discounted to present value based on financial projections, based on the estimates at the date of the valuation using the budget approved by Management, which includes the latest trends.
- The discount rate based on the weighted capital cost and the market participants' variables to be considered.
- Perpetuity growth rate estimated based on the inflation of the economy where the Company operates.

The discount and perpetuity growth rates used for the years ended December 31, 2012 and 2011 and as of January 1, 2011, are as follows:

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
Discount rate	14.37%	12.90%	16.12%
Perpetuity growth rate	4.0%	3.9%	3.6%

For the purposes of the calculation of the recover value of cash generating units, discount rates before tax are used, which are applied to cash flows before tax.

The Company's management believes that any possible reasonable change in the factors to assess the recovery value will not cause the CGUs value to exceed their recovery value.

## 14. OTHER CURRENT LIABILITIES

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
Contributions and taxes payable	\$ 291,518	\$ 187,351	\$ 101,228
Freights payable	123,480	111,587	108,350
Energy payable	82,338	79,957	76,700
Statutory employee profit sharing (PTU)	7,341	24,531	20,007
Other accounts payable	118,663	50,806	84,530
	<b>\$ 623,340</b>	<b>\$ 454,232</b>	<b>\$ 390,815</b>

## 15. LONG-TERM DEBT

a. According to the long-term loan agreements, the bank debt as of December 31, 2012 and 2011 and January 1, 2011, is as follows:

	2012	2011	January 1, 2011
Secured bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum rate of 3.50% in 2012 and 2011 and 4.50% as of January 1, 2011. The principal matures at different dates through 2017 . <sup>(1)</sup>	\$ 1,297,018	\$ 1,741,022	\$ 2,333,172
Secured bank loan denominated in Mexican pesos, bearing variable interest based on the interbank equilibrium interest rate ("TIIE") plus a maximum surcharge interest rate of 3.50% in 2012 and 2011 and 4.50% as of January 1, 2011. The principal matures at different dates through 2017 . <sup>(1)</sup>	2,656,501	3,314,882	3,028,421
Unsecured bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum interest rate surcharge of 9.95% in 2012 and 2011 and 6.50% as of January 1, 2011. The principal matures in 2018. <sup>(1)</sup>	2,009,699	2,161,878	2,781,000
Total financial debt	5,963,218	7,217,782	8,142,593
Debt issuance costs	(239,117)	(280,092)	(123,987)
Total net financial debt	5,724,101	6,937,690	8,018,606
Current portion	(290,084)	(257,790)	(568,764)
Long-term debt	\$ 5,434,017	\$ 6,679,900	\$ 7,449,842

On September 14, 2011, the Company signed an amendment to its long-term credit agreements, originally issued on November 30, 2007. This amendment led to improvements in general credit conditions, the debt was refinanced to a longer term; as of December 31, 2011 it held an average life of 4.7 years. Additionally, dollar exposure decreased with approximately 50% of total loans established in the domestic currency. An analysis to review the terms of the new contract was performed and concluded that it is a modification of the original loan, therefore the incurred costs and expenses as well as the originally incurred are amortised over the remaining life of the new term based on the effective rate. This amendment generated the payment of a fee of 13.7 million U.S. dollars.

Long-term debt maturities as of December 31, 2012, are as follows:

Year	Principal	Interest (1)
2014	\$ 372,831	\$ 290,472
2015	595,662	282,422
2016	988,256	176,137
2017	1,501,810	113,621
2018	1,975,458	48,102
	\$ 5,434,017	\$ 910,754

<sup>(1)</sup> Interest is determined based on variable rates at the end of the period.

TIIE and LIBOR interest rates were as follows:

Year	TIIE %	LIBOR %
2012	4.845	0.306
2011	4.790	0.581
January 1, 2011	4.875	0.300

- b. The clauses of some long-term agreements of the Company set forth certain restrictions as well as the obligation to maintain some financial indicators, including maintaining minimum cash of US\$25 million U.S. dollars. In addition, the Company has the obligation to make advance payments when certain assets that constitute the loan guarantee are sold. Such clauses have been fulfilled as of December 31, 2012.

During 2012, the Company made payments of long-term debt in advance of original maturity of the amount of \$703,221.

- c. As of December 31, 2012, there is a long-term debt aggregating to \$3,953,519, which is pledged with a real estate inventory of \$46,212, fixed assets with a carrying amount of \$4,979,895, and current assets with a value of \$5,198,766. In addition, the brands and patents owned by the Company are granted as a pledge.

## 16. LEASES

The Company has contracted obligations for capital leases contracted in local and foreign currency with different financial institutions to purchase machinery and equipment, and vehicles, which consist of the following:

	2012	2011	January 1, 2011
Capital lease denominated in U.S. dollars, bearing variable interest based on TIIE plus a surcharge interest rate of 3.50% in 2012 and 2011 and January 1, 2011. The principal matures at different dates through 2016.	\$ 88,267	\$ 118,200	\$ 124,373
Capital lease denominated in Mexican pesos, bearing variable interest based on TIIE plus a surcharge interest rate between 3.25% and 6.00% in 2012 and 2011 and January 1, 2011. The principal matures at different dates through 2016.	26,434	21,202	13,566
Total net lease	114,701	139,402	137,939
Current portion	(31,534)	(30,580)	(24,461)
Long-term lease	\$ 83,167	\$ 108,822	\$ 113,478

	Minimum Rent Payments			Present Value of Minimum Rent Payments		
	2012	2011	January 1, 2011	2012	2011	January 1, 2011
Less than one year	\$ 37,646	\$ 36,216	\$ 28,929	\$ 31,534	\$ 30,580	\$ 24,461
More than one year	87,178	116,827	124,351	83,167	108,822	113,478
	124,824	153,043	153,280	\$ 114,701	\$ 139,402	\$ 137,939
Future financial charges	(10,123)	(13,641)	(15,341)			
Present value of minimum rent payments	\$ 114,701	\$ 139,402	\$ 137,939			

The expiration of long-term capital leases as of December 31, 2012 is as follows:

Year	Principal	Interest (1)
2014	\$ 34,648	\$ 5,185
2015	33,651	3,292
2016	14,868	1,646
	\$ 83,167	\$ 10,123

<sup>(1)</sup>Interest is determined based on variable rates at the end of the period.

Part of these contracts is denominated in U.S. dollars and the other, in national currency, the interest rate is variable and their base rate is LIBOR and TIIE. The average effective interest rate is approximately 5.45% in 2012 and 4.89% in 2011.

## 17. EMPLOYEE BENEFITS

a) The main assumptions used for actuarial calculations of defined benefit plans:

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
Discount of the projected benefit obligation at present value	6.25%	6.75%	7.00%
Salary increase	4.50%	4.50%	4.50%

The determination of the discount rate of employee benefit obligations of the Company is based on the annual estimated cashflows which are determined with zero coupon government M bonds for a period of twenty years, assuming an average working life of its employees.

b) The amounts included in the consolidated statements of financial position arising from the Company's obligations related to the defined benefit plans are:

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
Vested benefit obligation	\$ 107,304	\$ 95,486	\$ 83,812
Nonvested benefit obligation	175,687	143,722	120,255
Defined benefit obligation	\$ 282,991	\$ 239,208	\$ 204,067

c) The effects recognized in the statements of comprehensive income for 2012 and 2011 are as follows:

	<b>Net Income</b>		<b>Other comprehensive income items</b>
	<b>Service cost</b>	<b>Net interest on defined benefit obligation</b>	<b>Actuarial remeasurements</b>
<b>2012</b>			
Pension and retirement plans	\$ 838	\$ 3,811	\$ 4,796
Seniority premium	11,133	9,223	9,606
Total	\$ 11,971	\$ 13,034	\$ 14,402

	<b>Net Income</b>		<b>Other comprehensive income items</b>
	<b>Service cost</b>	<b>Net interest on defined benefit obligation</b>	<b>Actuarial remeasurements</b>
<b>2011</b>			
Pension and retirement plans	\$ 994	\$ 3,788	\$ 7,259
Seniority premium	9,194	8,109	5,688
Total	\$ 10,188	\$ 11,897	\$ 12,947

For the years ended in December 31, 2012 and 2011, \$11,971 and \$10,188, respectively, of costs for services have been included in the statements of comprehensive income as part of cost of sales and operating expenses.

The remeasurement of the liability for defined benefits recognized in other comprehensive income items is as follows:

	<b>2012</b>	<b>2011</b>
Amount accumulated in other comprehensive income items at the beginning of the period, net of taxes	\$ 12,947	\$ 0
Actuarial remeasurements	20,574	18,495
Tax effect	(6,172)	(5,548)
Amount accumulated in other comprehensive income items at the end of the period, net of taxes	\$ 27,349	\$ 12,947

d) Changes in the defined benefit obligation for pension and retirement plan and seniority premium plan:

<b>Pension and retirement plan</b>	<b>2012</b>	<b>2011</b>
Opening balance	\$ 120,097	\$ 106,234
Service cost	838	994
Financial cost	3,811	3,788
Actuarial losses and gains	6,851	10,370
Benefits paid	(665)	(1,289)
Ending balance	\$ 130,932	\$ 120,097

<b>Seniority premium</b>	<b>2012</b>	<b>2011</b>
Opening balance	\$ 119,111	\$ 97,833
Service cost	11,133	9,194
Interest cost	9,223	8,109
Actuarial losses and gains	13,723	8,126
Benefits paid	(1,131)	(4,151)
Ending balance	\$ 152,059	\$ 119,111

## 18. STOCKHOLDERS' EQUITY

a. The minimum non-withdrawal fixed capital stock consists of ordinary shares, at no par value, and variable capital of ordinary shares, at no par value. All the shares are freely subscribed.

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
		<b>Number of shares</b>	
Minimum fixed capital stock	360,000,000	360,000,000	360,000,000
Variable capital	10,908,360	10,908,360	10,908,360
	370,908,360	370,908,360	370,908,360

b. According to the current stock market regulations in effect and the Company's bylaws, each year the Annual Ordinary Stockholders' Meeting of Grupo Lamosa, S.A.B. de C.V. approves the maximum amount of resources that the Company can allocate to the acquisition of shares of its capital stock. The maximum amount of resources approved for 2012 and 2011 at the Annual Stockholders' Meetings held on March 13, 2012 and March 22, 2011, respectively, amounted to \$ 90 million Mexican pesos for each of the aforementioned years. During 2011, the Company purchased a total of 5,000 shares of its capital stock at a price of \$18.81 Mexican pesos per share charged to the Company's capital stock. In relation to the year ended December 31, 2012, the Company did not conduct transactions with shares of its capital stock.

c. 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, 2012 and 2011 and January 1, 2011, the legal reserve, in historical pesos, was \$480.

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

e. The balances of the stockholders' equity tax accounts are:

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
Contributed capital account	\$ 328,131	\$ 316,851	\$ 305,217
Net tax income account	7,207,676	6,558,132	6,526,670
Total	\$ 7,535,807	\$ 6,874,983	\$ 6,831,887

**f. Capital management** – For capital management purposes, the Company considers, in addition to stockholders' equity and the items thereof, all the financing sources both internal and external, including liabilities with costs resulting from contracting short-term and long-term debt. Similarly, investment in working capital is considered by considering items such as customers, inventories and suppliers, as well as cash and cash equivalents.

The Company is subject to obligations arising from contacting a secured loan, whose balance as of December 31, 2012 amounted to \$3,953,519. The main obligations contained in such agreements include the following financial covenants<sup>1</sup>:

- Debt service coverage (EBITDA<sup>2</sup> / Net Financial Expenses plus the current portion of long-term debt) greater than or equal to 1.25.
- Leverage of total debt (total debt / EBITDA) less than or equal to 4.25
- Leverage of secured debt (secured debt / EBITDA) less than or equal to 3.25.
- Minimum stockholders' equity greater than or equal to \$3,932,379.
- Minimum cash greater than or equal to \$324,145.

<sup>1</sup> According to the contracts, financial covenants are determined using figures from the financial statements under MFRS.

<sup>2</sup> The EBITDA is defined as the operating income added to depreciation and amortization and other items such as statutory employee profit sharing, doubtful accounts estimate, inventory write-downs, employee obligations, and impairment for long-lived assets.

During 2012, the Company carried out the management of its capital, fulfilling such requirement, fully complying with all of its financial commitments and showing ratios with better performance than those described above.

Below are some of the major items that are considered for the management of the Company's capital as of December 31, 2012, showing them in comparison to those of the prior year.

	<b>2012</b>	<b>2011</b>
Total Debt	\$ 5,838,802	\$ 7,077,092
Cash and Cash Equivalents	1,064,900	779,928
Net Debt	4,773,902	6,297,164
Stockholders' Equity	5,191,395	4,315,509
Leverage measured as Net Debt to Stockholders' Equity	0.92	1.46
	<b>2012</b>	<b>2011</b>
Total Debt Main Items:		
Secured Loan	\$ 3,953,519	\$ 5,055,904
Subordinated Debt	2,009,699	2,161,878
Other	114,701	139,402
Total Debt	\$ 6,077,919	\$ 7,357,184

The decrease in the total debt of \$1,279,265 during 2012 arose mainly from the generation of flow of the Company. This flow allowed supporting the Company's operations and cope with debt maturities scheduled for the year. In addition, debt prepayments of \$703,221 were made, which helped to reduce the Company's level of leverage and improve its financial structure.

## 19. OPERATING EXPENSES

	<b>2012</b>	<b>2011</b>
Sales	\$ 1,635,083	\$ 1,428,406
Administration	606,926	543,218
Total	\$ 2,242,009	\$ 1,971,624

## 20. CONTINGENCIES AND COMMITMENTS

The Company's assets are not subject to any pending legal proceeding for which a contingency might arise, except for some ordinary or incidental litigation against which the Company is duly insured or the amounts of them are unimportant.

## 21. INCOME TAXES

### a) The Company is subject to ISR and IETU.

**ISR** –Through the Law of Federal Income for 2013, income tax rate applicable to companies was amended, which for years had established a transition that affected periods 2013 and 2014. The tax rates were 30% for 2012 y 2011, and will be: 30% for 2013; 29% for 2014, and 28% for 2015 thereafter.

On December 7, 2009, amendments to the Income Tax Law were published and applicable from 2010, which establish: a) the payment of income tax benefits related to fiscal consolidation achieved in the years 1999-2004, will be paid in installments from 2010 to 2014 and b) the tax benefits related to fiscal consolidation achieved in 2005 and subsequent years will be paid during the sixth through the tenth year after that in which the benefit was obtained. The tax benefit related to fiscal consolidation achieved in the years from 1982 to 1998 may be required in some cases pointed by the law.

**IETU** - Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. Beginning in 2010, the IETU rate is 17.5%. 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 ISR and IETU.

Based on its financial projections, the Company determined that its subsidiaries will basically pay ISR; therefore, it only recognizes deferred ISR.

Reconciliation of ISR asset and liability balances before the 2010 tax reform became effective, and the balances as of December 31, 2012, after recognition of the effects of such reform, are as follows:

<b>Item:</b>	<b>Deferred tax assets</b>	<b>ISR liabilities</b>
Balance before the tax reform	\$ 0	\$ 0
Recognition of:		
Assets and liabilities from tax losses	914,516	(965,353)
Assets and liabilities from losses on sale of shares	0	(1,007,616)
Balance after the tax reform	\$ 914,516	\$ (1,972,969)

The ISR liability relating to the tax consolidation expires in the following years:

<b>Year</b>	<b>ISR liabilities</b>
2013	\$ 2,398
2014	87,466
2015	229,402
2016	306,362
2017	356,529
2018	374,491
2019	285,300
2020	167,317
2021	97,392
2022	66,312
	\$ 1,972,969

b. Income taxes for 2012 and 2011 consist of the following:

	<b>2012</b>	<b>2011</b>
Current ISR	\$ 201,357	\$ 5,754
Current IETU	113,712	19,953
Deferred ISR	249,805	106,393
Total	\$ 564,874	\$ 132,100

c. The reconciliation of the statutory and effective ISR rates, expressed as a percentage of income before income taxes in 2012 and 2011 is:

	<b>2012</b>	<b>2011</b>
	<b>%</b>	<b>%</b>
Effective rate	31.0	31.0
Effect of permanent differences, mainly nondeductible expenses	(1.0)	(1.0)
Statutory rate	30.0	30.0

d. Other comprehensive income amounts and items and deferred taxes affected during the period are:

	<b>Amount before</b>	<b>Income taxes</b>	<b>Amount net of</b>
	<b>income taxes</b>		<b>income taxes</b>
<b>As of December 31, 2012:</b>			
Derived from cash flows	\$ 18,276	\$ (5,483)	\$ 12,793
Remeasurement of defined benefit obligation	(20,574)	6,172	(14,402)
	\$ (2,298)	\$ 689	\$ (1,609)

**As of December 31, 2011:**

Derived from cash flows	\$ 106,665	\$ (31,999)	\$ 74,666
Remeasurement of defined benefit obligation	(18,495)	5,548	(12,947)
	\$ 88,170	\$ (26,451)	\$ 61,719

**As of January 1, 2011:**

Derived from cash flows	\$ (141,929)	\$ 42,579	\$ (99,350)
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e. The main items that give rise to a deferred ISR balance, as of December 31, are:

	<b>2012</b>	<b>2011</b>	<b>January 1, 2011</b>
<b>Deferred ISR asset:</b>			
Allowance for doubtful account	\$ 17,449	\$ 19,953	\$ 19,733
Derivative financial instruments	5,096	10,325	34,431
Employee benefits	61,493	54,350	51,863
Benefits from tax loss carryforwards	914,516	1,190,993	1,077,594
Other	131,911	61,820	52,911
Total	1,130,465	1,337,441	1,236,532
<b>Deferred income tax liability:</b>			
Inventories	(89,835)	(72,819)	(66,954)
Real estate inventories	(15,368)	(6,683)	7,494
Property, plant and equipment	(495,187)	(502,470)	(579,081)
Commissions paid for debt restructuring	(70,319)	(83,999)	(37,196)
Total	(670,709)	(665,971)	(675,737)
Tax on assets	35,645	34,421	38,379
Deferred income tax asset, net	\$ 495,401	\$ 705,891	\$ 599,174

The benefits of restated tax loss carryforwards for which the deferred ISR asset has been recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2012, are:

Year	Amount
2016	\$ 1,203
2017	6,428
2018	343,452
2019	43,166
2020	71,074
2021	334,534
2022	114,659
	<b>\$ 914,516</b>

## 22. RELATED PARTY TRANSACTIONS

a. The transactions as of December 31, 2012 and 2011 were as follows:

	2012	2011
Sales of land inventory		\$ 31,739
Sales of finished goods	\$ 8,746	4,309
Lease income	5,852	5,852
Other income, net	2,684	2,880
Purchase of finished goods	2,301	4,712

b. For the years ended December 31, 2012 and 2011, the direct short-term benefits granted to the key management personnel of the Company for \$ 63,915 and \$ 48,128, respectively. The Company does not have agreements or programs share-based payments.

c. On December 30, 1998, a subsidiary member of the real estate business segment, through contract No. 851-00103 established before the fiduciary institution Banco Regional de Monterrey, SA, with the character of Settlor "A" and Trustee, an irrevocable Trust agreement of business activities (Fideicomiso "Fidudisa") to another company (U-Calli Capital, SA de CV), which is a related party and who acts in the capacity of Settlor "B" and Trustee. The Trust's purpose is to serve as a vehicle to facilitate the operation and commercial development of real estate.

The result from the operations of the trust will be fully distributed among the trustees in accordance with the provisions of the trust agreement.

d. The share of profit of the Business Trust Fidudisa's trustees was as follows:

	2012	2011
Grupo Inmobiliario Viber, S.A. de C.V.	\$ 580	\$ 5,934
U-Calli Capital, S.A. de C.V.	316	8,506
	<b>\$ 896</b>	<b>\$ 14,440</b>

## 23. INFORMATION BY OPERATING SEGMENT

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. These segments are managed separately, each requiring its own production, technology, and marketing and distribution strategies. Each market serves different customer bases.

The Company's main products by segment are as follows:

Segment:	Main products:
Ceramic	Floor tiles, wall tiles, bathroom equipment
Adhesive	Adhesives for floors and walls
Real estate	Commercial and residential developments

The Company's segments to be reported pursuant to IFRS 8, Operating segments, are as follows:

<b>December 31, 2012:</b>	<b>Ceramic</b>	<b>Adhesive</b>	<b>Real estate</b>	<b>Corporate and other</b>	<b>Consolidated</b>
Total net sales	\$ 7,217,262	\$ 2,345,115	\$ 7,568	\$ 939,341	\$ 10,509,286
Intersegment sales		(4,971)		(939,341)	(944,312)
Net sales to third parties	7,217,262	2,340,144	7,568	0	9,564,974
Operating income (loss)	1,089,509	565,672	211	(14,963)	1,640,429
Depreciation and amortization	310,229	31,436		20,778	362,443
Impairment of long-lived assets	37,665				37,665
Other	13,519	11,384	(2,899)	304	22,308
Additions in non-current assets	(152,480)	(20,315)		(38,463)	(211,258)
Assets	8,116,002	1,032,334	182,779	5,815,943	15,147,058
Liabilities	1,749,412	434,821	(10,926)	7,787,950	9,961,257

<b>December 31, 2011:</b>	<b>Ceramic</b>	<b>Adhesive</b>	<b>Real estate</b>	<b>Corporate and other</b>	<b>Consolidated</b>
Total net sales	\$ 6,519,345	\$ 2,150,877	\$ 96,047	\$ 766,403	\$ 9,532,672
Intersegment sales		(3,476)		(766,403)	(769,879)
Net sales to third parties	6,519,345	2,147,401	96,047		8,762,793
Operating income (loss)	742,112	551,811	48,245	(4,956)	1,337,212
Depreciation and amortization	284,227	25,775		15,131	325,133
Impairment of long-lived assets	13,426				13,426
Other	31,536	25,215		5,550	62,301
Additions in non-current assets	(60,919)	(24,314)		18,884	(66,349)
Assets	8,251,997	939,971	183,030	5,667,374	15,042,372
Liabilities	1,426,786	391,798	(29,843)	8,938,122	10,726,863

## 24. EFFECTS OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS as of December 31, 2012. The first consolidated financial statements prepared in accordance with IFRS are those for the year ended December 31, 2012, with January 1, 2011 as the date of transition to IFRS. The guidance for the initial adoption of IFRS is established in IFRS 1, First-time adoption of International Financial Reporting Standards.

The date of transition to IFRS is January 1, 2011. Hence, transition rules have been applied to the figures previously reported under MFRS in the preparation of the first IFRS consolidated financial statements. In the preparation of the consolidated financial statements for 2012, some accounting and valuation methods applied in accounting standards on the consolidated financial statements under MFRS have been modified to comply with IFRS. The comparative figures for 2011 were restated to reflect such adjustments.

IFRS 1 allows certain exemptions in the application of specific rules to prior periods in order to support companies in the transition process. The Company has applied the mandatory exceptions and chosen certain optional exemptions for its IFRS first adoption as described below:

a) Mandatory exemptions used by the Company:

**Accounting estimates** – Estimates prepared under IFRS as of January 1, 2011 are consistent with the estimates recognized under MFRS at the same date.

**Hedge accounting** – The Company measured at fair value all derivative financial instruments and hedging relationships designated and documented effectively as accounting hedges as required by IAS 39 at the transition date. Under MFRS, the Company has gains and losses from cash flow hedges of forecasted transactions deferred in equity; it remains highly likely that the hedging relationship was properly designated and documented as effective at the transition date and hedge accounting continues according to IAS 39. As a result, no impacts arise for the Company at the date of transition due to the application of this exemption.

**Non-controlling interest** – The Company applied the requirements in IAS 27, Consolidated and Separate Financial Statements related to non-controlling interests prospectively beginning on the transition date.

b) Optional exemptions used by the Company:

**Business combinations** – The Company elected not to apply IFRS 3, Business Combinations, to business combinations. Therefore, no business combinations that occurred before the date of transition have been restated.

**Deemed cost** – The Company applied the deemed cost exemption and elected a combination of fair value and the amount of the revaluation adjusted to indexes under MFRS to the transition date as the deemed cost of property, plant and equipment (see disclosure of impacts on property, plant and equipment below).

**Leases** – Lease exemption was applied. Therefore, the Company investigated whether an existing contract to the date of transition contained a lease based on facts and existing circumstances at that time. At the transition date, the Company recognised a finance lease to the amount that would result to the register at the time of signing the contract, adjusted by a charge for depreciation according to the policies followed by the Company for such type of assets under IFRS. The corresponding liability is recognised and measured at the present value of the minimum lease payments estimated at the date of transition (see leases impacts disclosure below).

**Employee benefits** – The Company applied the exemption of employee benefits. All cumulative actuarial gains and losses were recognised at the date of transition against retained earnings.

**Borrowing costs** – The Company began capitalizing its borrowing costs at the transition date in accordance with IAS 23, Borrowing Costs. The borrowing costs included previously under MFRS were subject to the deemed cost exemption mentioned in c) above.

c) Effect of adoption of IFRS in the consolidated statements of financial position:

	Note	MFRS	Effects of Transition as of December 31, 2011		IFRS
			Adjustments	Reclassifications	
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents		\$ 779,928			\$ 779,928
Accounts receivable, net	3,8	2,927,183	\$ (63,414)	\$ (492,976)	2,370,793
Inventories, net	3	1,132,052	5,141		1,137,193
Other current assets	8	0	0	492,976	492,976
Current assets		4,839,163	(58,273)	0	4,780,890
Long-term account receivable		0			0
Real estate inventories	4	231,373	(42,301)		189,072
Property, plant and equipment, net	1	4,906,639	272,255		5,178,894
Intangible assets	4	4,254,992	9,822	(123,987)	4,140,827
Derivative financial instruments		0			0
Deferred income taxes	6	707,454	(1,563)		705,891
Other assets		46,798			46,798
Total		\$ 14,986,419	\$ 179,940	\$ (123,987)	\$ 15,042,372
<b>Liabilities and stockholders' equity</b>					
<b>Current liabilities:</b>					
Current portion of long-term liability	2,7	\$ 306,089	\$ (9,321)	\$ (38,978)	\$ 257,790
Current portion of long-term debt for finance lease	2		23,249	7,331	30,580
Trade accounts payable		1,031,921			1,031,921
Income taxes for tax consolidation		813			813
Derivative financial instruments		1,289			1,289
Other current liabilities	3	464,909	(10,677)		454,232
Current liabilities		1,805,021	3,251	(31,647)	1,776,625
Long-term debt	2,7	6,932,895	(146,784)	(106,211)	6,679,900
Long-term portion of debt for finance lease	2		94,950	13,872	108,822
Employee benefits	5	208,187	31,021		239,208
Derivative financial instruments		0	0		0
Income taxes for tax consolidation		1,922,308			1,922,308
Total liabilities		10,868,411	(17,561)	(123,987)	10,726,863
<b>Stockholders' equity:</b>					
Capital stock	4	334,394		(131,441)	202,953
Additional paid-in capital		149,096		(9,710)	139,386
Retained earnings	1,2,3,4,5	3,659,202	210,448	141,151	4,010,801
Other comprehensive income items	9	(24,684)	(12,947)		(37,631)
Total stockholders' equity		4,118,008	197,501	0	4,315,509
Total		\$ 14,986,419	\$ 179,940	\$ (123,987)	\$ 15,042,372

MFRS	Effects of Transition as of January 1, 2011		IFRS
	Adjustments	Reclassifications	
\$ 1,189,191			\$ 1,189,191
2,775,355	\$ (251,470)	\$ (442,043)	2,081,842
990,442	116,475		1,106,917
0	0	442,043	442,043
4,954,988	(134,995)	0	4,819,993
122,982			122,982
229,456	(42,301)		187,155
5,145,649	282,869		5,428,518
4,280,779	(15,965)	(123,987)	4,140,827
41,080			41,080
533,122	66,052		599,174
45,984			45,984
\$ 15,354,040	\$ 155,660	\$ (123,987)	\$ 15,385,713
\$ 605,245		\$ (36,481)	\$ 568,764
	\$ 19,627	4,834	24,461
806,142			806,142
513			513
125,491			125,491
439,117	(48,302)		390,815
1,976,508	(28,675)	(31,647)	1,916,186
7,550,914		(101,072)	7,449,842
	104,746	8,732	113,478
184,215	19,852		204,067
22,225	0		22,225
1,651,965			1,651,965
11,385,827	95,923	(123,987)	11,357,763
334,489		(131,441)	203,048
149,096		(9,710)	139,386
3,583,978	59,737	141,151	3,784,866
(99,350)			(99,350)
3,968,213	59,737	0	4,027,950
\$ 15,354,040	\$ 155,660	\$ (123,987)	\$ 15,385,713

## d) Reconciliation of stockholders' equity

	Notes	December 31, 2011	January 1, 2011
Total Stockholders' Equity under MFRS		\$ 4,118,008	\$ 3,968,213
Property, plant and equipment	1	212,224	208,669
Employee benefits	5	(31,021)	(19,852)
Real estate inventories	4	(42,301)	(42,301)
Leases	2	(58,489)	(50,173)
Revenue recognition	3	(47,276)	(86,693)
Deferred taxes	6	(1,563)	66,052
Debt issuance costs	7	181,892	0
Goodwill	4	(15,965)	(15,965)
Stockholders' equity under IFRS		\$ 4,315,509	\$ 4,027,950

## e) Effects in the statement of income for the year ended December 31, 2011:

	Notes	MFRS	Adjustments	Reclassifications	IFRS
Net sales	3,9	\$ 8,628,146	\$ 166,420	\$ (31,773)	\$ 8,762,793
<b>Costs and expenses:</b>					
Cost of sales	3,9	5,342,304	98,050	13,603	5,453,957
Operating expenses	9	1,920,635	8,221	42,768	1,971,624
		7,262,939	106,271	56,371	7,425,581
Operating income		1,365,207	60,149	(88,144)	1,337,212
Financial expenses	9	573,365	12,864	(31,773)	554,456
Financial income		(28,138)			(28,138)
Exchange loss, net	9	440,677	13,225	(31,840)	422,062
Effects of valuation of financial instruments		21,325			21,325
Other non-operating expenses, net	7,9	223,821	(189,818)	(24,531)	9,472
Income before income taxes		134,157	223,878		358,035
Income taxes	6	58,936	73,164		132,100
Consolidated net income		\$ 75,221	\$ 150,714	\$ 0	\$ 225,935

## f) Reconciliation of comprehensive income

	Notes	December 31, 2011
Consolidated net income under MFRS:		\$ 75,221
Property, plant and equipment	1	2,489
Leases	2	(5,821)
Revenue recognition	3	31,048
Inventories	4	(3,454)
Employee benefits	5	5,128
Debt issuance costs	7	127,324
Deferred taxes	6	(6,000)
Other comprehensive income items	9	61,719
Total adjustments to comprehensive income		212,433
Total comprehensive income under IFRS		\$ 287,654

The statement of comprehensive income was not prepared under MFRS, as MFRS do not require doing so; therefore, the reconciliation starts from the consolidated net income under MFRS.

g) Accounting impacts for adoption of IFRS:

- 1. Property, plant and equipment –** The Company recognized as its assumed cost under IFRS at the transition date certain items of property, plant and equipment, the carrying amount under MFRS (which is considered the indexed cost) and the fair value of certain lands and buildings. The impact estimated for revaluating fixed assets represents an increase in retained earnings of \$363,729 and \$360,174 as of December 31, 2011 and at the transition date, respectively. In addition, the Company recognized depreciation for property, plant and equipment not used; this impact generates a decrease in retained earnings of \$151,505 at the transition date and an increase of \$74,200 in respect of the leased asset mentioned in point 2.

	MFRS	Adjustment to fair value	Assumed cost IFRS
<b>Investment:</b>			
Lands	\$ 461,298	\$ 280,286	\$ 741,584
Buildings	3,146,272	79,888	3,226,160
Subtotal	3,607,570	360,174	3,967,744
Accumulated depreciation -Buildings	1,178,526	(3,555)	1,174,971
Carrying amount	\$ 2,429,044	\$ 363,729	\$ 2,792,773

- 2. Leases –** The Company entered into machinery lease agreements that according to the criteria established by IAS 17, Leases, are classified as capital leases at the transition date. The impact was the recognition of a fixed asset and a lease liability. Additionally, for purposes of IFRS, the Company reclassified finance leases from current portion of long-term debt to long-term debt.

- 3. Revenue recognition–** The Company made a reassessment of the risk transfer in their sales transactions, with a scope that exceeds the legal terms of the agreements with its clients and the practice of the industry in which it participates. The Company identified significant risks associated with the transfer of assets beyond the point where revenues were recognized before the transition date, although it was identified that these differences were not material as they were reduced by the effects of a period to the next. The effect as of December 31, 2011 and at the transition date was recognised in the consolidated statements of financial position, in accounts receivables, inventories, and other accounts payable, and in the consolidated statements of income in net sales and cost of goods sold.

- 4. Effect of inflation on real estate inventories and contributed capital –** In accordance with IFRS, the inflationary effects are recognized in non-monetary assets and liabilities when the economy of the currency used by the Company qualifies as hyperinflationary. The Mexican economy ceased to be hyperinflationary in 1998 and, as a result, the inflationary effects that were recognized by the Company through December 31, 2007 under MFRS were reversed, representing an increase in retained earnings of approximately \$82,885, as of December 31, 2011 and the transition date. The items affected by the elimination of the effects of inflation are as follows:

	MFRS Value	IFRS Adjustment	IFRS Value
Real estate inventories	\$ 231,373	\$ (42,301)	\$ 189,072
Intangible assets	4,059,381	(15,965)	4,043,416
Capital stock	334,489	(131,441)	203,048
Additional paid-in capital	149,096	(9,710)	139,386

- 5. Employee benefits** – In accordance with IFRS, provisions for severance payments are not recognized until the Company has a demonstrable commitment to end the relationship with the employee or has made an offer made to encourage voluntary retirement. Therefore, the liability recognized under MFRS was eliminated. Additionally, the Company applied the exemption in IFRS 1, recognizing all accumulated actuarial losses and the amortizable transition liability against accrued results.
- 6. Deferred taxes** – In accordance with IFRS, deferred taxes with the adjusted book values of assets and liabilities according to IFRS, were recalculated, which resulted in an increase to retained earnings. In addition, the Company ceased to recognise the deferred tax liability related to differences arising in the initial recognition of assets and liabilities that did not affect accounting and/or tax results.
- 7. Reclassification of debt issuance cost** – According to IAS 39, Financial instruments, costs directly attributable to debt issuance are presented as a deduction to such liability and are measured at their amortized cost using the effective interest method. According to MFRS, they are presented as a deferred asset and are amortized on a straight line during the contractual period of the debt. Additionally, in 2011, the Company incurred certain commissions recorded in profit or loss of the year under MFRS. Such commissions are amortised over the life of the long-term debt based on the effective tax rate as they relate to an amendment to the original loan and which increase the income of the year.
- 8. Presentation of the consolidated statement of financial position** – For purposes of IFRS, the Company presents in the consolidated statements of financial position in the caption of accounts receivable, net, only trade receivables. Consequently, the Company reclassified certain assets to other current assets.
- 9. Presentation of the consolidated statements of comprehensive income** – For the purposes of IFRS, certain items are presented as part of net sales, cost of sales, and operating expenses. These items include: cash discounts, statutory employee profit sharing, and the exchange rate effect related to working capital, aggregating to \$88,144 corresponding to the year ended December 31, 2011.

## 25. FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IN EFFECT

The Company will apply, with a potential impact, the following new and revised IFRS that have been issued but not yet effective as of December 31, 2012:

IAS 19	<i>(revised 2011) Employee Benefits</i> <sup>3</sup>
IAS 27	<i>Separate Financial Statements</i> <sup>2</sup>
IAS 28	<i>Investments in Associated Companies and Joint Ventures</i> <sup>2</sup>
IFRS 9	<i>Financial Instruments</i> <sup>1</sup>
IFRS 10	<i>Consolidated Financial Statements</i> <sup>2</sup>
IFRS 11	<i>Joint Arrangements</i> <sup>2</sup>
IFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>2</sup>
IFRS 13	<i>Fair Value Measurement</i> <sup>3</sup>

<sup>1</sup> Effective for annual reporting periods beginning on or after 1 January 2015.

<sup>2</sup> Effective for annual reporting periods beginning on or after 1 January 2013. Earlier application is permitted if all standards are applied at the same time.

<sup>3</sup> Effective for annual reporting periods beginning on or after 1 January 2013.

IAS 19 (revised 2011), Employee Benefits- The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Additionally, borrowing costs and the expected return on plan assets used in the previous version of IAS 19 are replaced with the amount of interest income, which is calculated by applying the discount rate, the same discount rate to the net liability or net asset for defined benefits.

The amendments to IAS 19 are effective for periods beginning on or after January 1, 2013 and require retrospective application with certain exceptions. Management expects for the amendments to IAS 19 to be adopted for the Company's consolidated financial statements on the period that begins January 1, 2013 and that their application may impact the reported figures in respect of the defined benefits plan of the Company. Management is in the process of assessing the impacts related to the adoption of this standard.

IFRS 9, Financial Instruments, issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

The standard requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at FVTPL) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was recognized in profit or loss. The Company's management is in the process of assessing the impacts related to the adoption of this standard.

IFRS 10, Consolidated Financial Statements, replaces IAS 27, Consolidated and Separate Financial Statements to the extent of paragraphs regarding consolidated financial statements and SIC 12, Consolidation – Special Purpose Entities. According to IFRS 10, control is the only basis for consolidation. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over the receiver of investment, (b) exposure, or rights to variable returns for his involvement with the recipient of the investment, and (c) the ability to use its power over the investment receptor to affect the amount of the income of the investor. A broad guideline has been added in IFRS 10 that establishes how to deal with complex scenarios. Management is in the process of assessing the impacts related to the adoption of this standard.

IFRS 11, Joint Arrangements, replaces IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers . IFRS 11 establishes classifications of joint arrangements (where two or more parties have joint control) as either joint operations or joint ventures, depending on the agreed rights and obligations of the parties. In contrast, IAS 31 recognised three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method used under IAS 31. Management is in the process of assessing the impacts related to the adoption of this standard.

IFRS 12, Disclosure of Interests in Other Entities, applies to entities that hold interests in subsidiaries, joint arrangements, associates and / or unconsolidated entities. In general, disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IFRS 13, Fair Value Measurement, establishes a single framework for disclosure and fair value measurement where that is required by other standards. IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” and requires disclosure for its measurements. The standard applies to both financial and non-financial items measured at fair value. In general, disclosure requirements in IFRS 13 are more extensive than those in the current standards. Hence, the quantitative and qualitative disclosures based on the three levels hierarchy of fair value for financial instruments currently required only in accordance with IFRS 7, Financial Instruments: Disclosures, will be extended by IFRS 13 to cover all assets and liabilities within its scope. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. The Company’s management is in the process of assessing the impacts related to the adoption of this standard.

## **26. APPROVAL OF FINANCIAL STATEMENTS**

On February 20, 2013, the issuance of the consolidated financial statements was authorized by Ing. Federico Toussaint Elosúa, Chief Executive Officer, and Ing. Tomás Luis Garza de la Garza, Chief Financial Officer. These consolidated financial statements are subject to the approval of the Board of Directors at the ordinary stockholders’ meeting, where they may modify the consolidated financial statements, based on the provisions set forth by the Mexican General Corporate Law.

## Investor Information

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