



Driving our differentiators

2013 Annual Report



Grupo Lamosa manufactures and markets ceramic tiles, sanitaryware and ceramic adhesives for the construction industry. A track record of more than 120 years in Mexico guarantees the quality and performance of Lamosa's portfolio of high value-added products.

As one of the world's largest ceramic producers, all its business units are unequivocal leaders in the markets they serve. Apart from offering products in the domestic market, Grupo Lamosa exports to more than 15 countries in Central and South America, as well as to the United States and Canada.

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In 2013 adverse conditions characterized the construction industry, with the Mexican building sector in particular experiencing significant difficulties. This situation tested – once more – Grupo Lamosa’s capacity to respond rapidly and effectively to the challenges of a difficult market environment and implement initiatives with positive results.

During the year, Grupo Lamosa leveraged activity in the remodeling and project-finishing markets in Mexico and an increasingly strong position across the North American market to offset the significant downturn in new Mexican building projects.

In order to continue driving future growth, Grupo Lamosa focused on enhancing consumer preference, continuously innovating its products and services, and offering comprehensive solutions for its different customers.





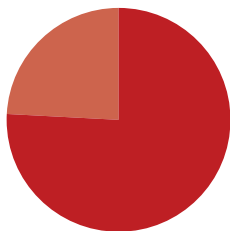
Wall and Floor Tiles

Products and Services

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



Adhesives



Sales Breakdown

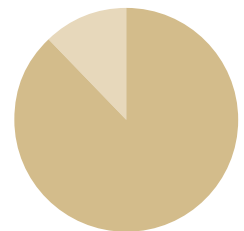
(value)

78% Domestic

22% Export

Competitive Advantages

- Innovative, market-leading, world-class products
- Ceramic tiles that contribute to sustainable construction by providing points for Leadership in Energy and Environmental Design (LEED) Certification
- First Mexican producer to have its products certified under the "Green Squared" sustainable standard of the Tile Council of North America (TCNA)
- Strategically located to serve North, Central and South America
- State-of-the-art production platform



Sales Breakdown

(value)

88% Adhesives and grouts

12% Stuccos and other



Products and Services

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



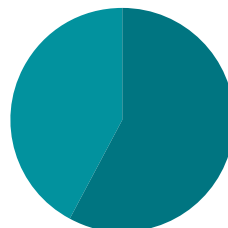
Products and Services

- Toilets
- Wall, pedestal, drop-in and under-counter washbasins
- Bidets
- Flushometer bowls
- Urinals
- Drinking fountains
- Fittings such as faucets and showers

Sanitaryware

Competitive Advantages

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



Sales Breakdown
(value)

56% Domestic
44% Export

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 more than 50 years, and a significant presence across North America
- Comprehensive portfolio of products with extensive lines of sanitaryware and fittings
- Environmentally-friendly products with innovations in nanotechnology

Financial Highlights

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

(Figures expressed in millions of nominal Mexican pesos)

| | 2012 | 2013 | VAR % |
|--------------------------------|-------|-------|-------|
| RESULTS | | | |
| Net sales | 9,565 | 9,545 | |
| Export sales (millions of USD) | 150 | 147 | (2) |
| Export sales / net sales | 21% | 20% | |
| Operating income | 1,640 | 1,366 | (17) |
| Operating income / net sales | 17% | 14% | |
| Comprehensive financing cost | 213 | 372 | 74 |
| Consolidated net income | 872 | 630 | (28) |

FINANCIAL POSITION

| | | | |
|-----------------------------------|--------|--------|-----|
| Total assets | 15,147 | 15,043 | (1) |
| Total liabilities | 9,961 | 9,290 | (7) |
| Stockholders' equity | 5,186 | 5,753 | 11 |
| Book value per share ¹ | 13.8 | 15.4 | 12 |

CASH FLOW

| | | | |
|----------------------------------|-------|-------|------|
| Operating cash flow ² | 2,063 | 1,795 | (13) |
| Capital expenditures | 241 | 504 | 109 |

NUMBER OF EMPLOYEES

| | | | |
|-----------------|-------|-------|---|
| Total personnel | 5,320 | 5,521 | 4 |
|-----------------|-------|-------|---|

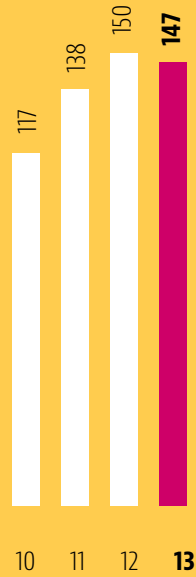
¹ On a total of 374.6 million shares

² Operating income plus depreciation, amortization and other virtual items

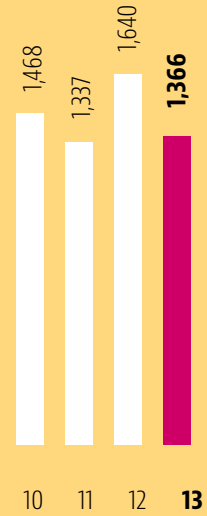
Note: Figures corresponding to 2012 and 2013 in the Company's Financial Statements are calculated according to International Financial Reporting Standards (IFRS).



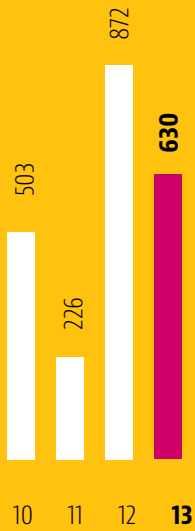
Net sales
Millions of Mexican pesos



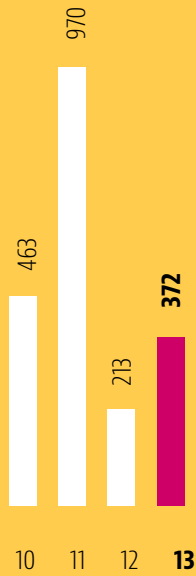
Export sales
Millions of U.S. dollars



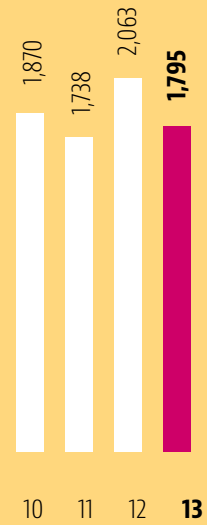
Operating income
Millions of Mexican pesos



Consolidated net income
Millions of Mexican pesos



Comprehensive financing cost
Millions of Mexican pesos



Operating cash flow
Millions of Mexican pesos

Notes · Figures are in millions of nominal Mexican pesos, except for the graph of export sales.
· Figures corresponding to 2011, 2012 and 2013 in the Company's Financial Statements are calculated according to International Financial Reporting Standards (IFRS).

Letter to stockholders

2013 was a complicated year, characterized by a decidedly unfavorable business climate in the construction industry in Mexico.

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In light of the growth achieved in 2012 and the expectations for further expansion in 2013, at the beginning of the year Grupo Lamosa prepared to respond to increased activity in the domestic market, adapting its product offer to market needs and growing production capacity in some businesses.

However, as the year went by, expectations for economic growth began to decline, affecting the construction sector, as well as consumer spending.

Although results were pressured by the contraction in home building in Mexico, activity in the remodeling segment significantly mitigated the impact, since remodeling generates a great demand for Grupo Lamosa's products.

Total annual sales as of yearend 2013 were \$9,545 million pesos, similar to those of the previous year. Operating income for 2013 totaled \$1,366 million pesos and EBITDA \$1,795 million pesos, representing 14% and 19% of sales respectively. The absence of revenue growth and increase in the cost of natural gas were two of the main factors affecting the company's results for the year.

One of the outstanding achievements of 2013 was the successful launch of the "Verve" brand, designed to satisfy the needs of the U.S. market, a natural and attractive

One of the outstanding achievements of 2013 was the successful launch of the “Verve” brand, designed to satisfy the needs of the U.S. market, a natural and attractive target for the company’s growth strategy.



target for the company’s growth strategy. The initiative implied the creation of an organization characterized by differentiated skills and a cultural compatibility with the demands of this particular market.

Because of Grupo Lamosa’s next-generation technology and team of professionals expressly dedicated to developing new products, during 2013 the company was able to make its product line more robust and aligned with the latest international trends, and to consolidate high value lines with leading-edge products specially designed for the particular tastes of the Mexican market.

During 2013, significant progress was made in the specification market, with the consolidation of the infrastructure and know-how necessary to serve this segment. Offering integrated solutions and leveraging the synergies between the different business units drove the company’s participation in major projects,

such as the construction of airports, hospitals, hotels and commercial buildings, and underscored Lamosa’s position as an attractive business option.

In order to support the company’s growth vision for the coming years, in 2013 Grupo Lamosa began implementing a SAP Project. This initiative will migrate its processes to a new technological platform, strengthening its business administration and enhancing the integration of operations.

Expectations for the future are encouraging and, thanks to the actions that have already been taken, the company is favorably positioned to continue growing.

Grupo Lamosa is grateful for the ongoing trust of its stockholders, the commitment of its people, and the support of creditors, distributors, customers and friends.

A stylized handwritten signature in black ink, appearing to read 'Federico', enclosed within a hand-drawn rectangular frame.

Federico Toussaint Elosúa
Chairman of the Board of Directors
and Chief Executive Officer

Market
intelligence





Grupo Lamosa has invested significant resources in identifying, studying and understanding the end consumers of its products, giving it the capacity to foresee their changing preferences, needs and consumption styles and to offer the products and services they demand in a differentiated fashion. As a result, Grupo Lamosa commands a leadership position in all of the markets it serves.

Capital expenditures during 2013 totaled **\$504** million pesos.

Continuous
innovation



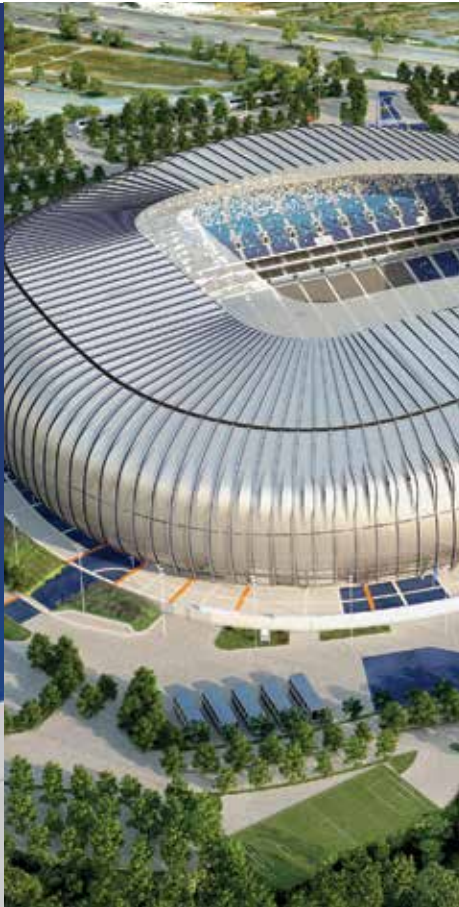


For the sixth time in the past eight years, Grupo Lamosa was given "Best in Show" recognition at Coverings, a trade show in Atlanta, Georgia.

A focus on innovation has allowed Grupo Lamosa to penetrate and gain an advantageous position in a range of markets, segments and niches, some of them new to the company only recently. The company's leading-edge technology and human talent support and drive this innovation and have made it possible to design and produce market-leading products with increasingly short life cycles. As a result, Grupo Lamosa offers products that set trends and enable new uses that would have been unimaginable just a short time ago.

Comprehensive
solutions





Grupo Lamosa offers a wide variety of market-leading, innovative products, including more than **1,000** different options with diverse sizes, functions and designs.

Uniting efforts across Grupo Lamosa's different business units to achieve important synergies has been an important differentiator in the market, helping it to produce more positive results in industry downturns. The company focuses on developing high value added products and services, offering comprehensive solutions that go from guaranteeing builders of large works not only quality products, but installation services, to offering individual customers complementary lines with solutions that make their purchasing decisions easier.

Agility and flexibility





Presence across the American continent, exporting to the United States and Canada, as well as to 15 countries in Central and South America.

In a complex business environment and conditions that changed notably throughout the year, Grupo Lamosa posted results that exceeded industry averages in 2013 because of its agile decision making and flexibility to adapt to new scenarios. These differentiators allowed the company to rapidly redirect its production capacity and commercial efforts to the changing product needs across its diverse markets.

Wall and Floor Tiles

The context of low economic growth and its impact on the construction industry tested once more the capacity of the Wall and Floor Tiles Business to respond rapidly and effectively to the changing environment of 2013.

Because of the implementation of innovative initiatives in product offerings and markets served, this segment's business results were affected less than the industry in general, with revenues only falling 2% year-over-year.

During 2013, product portfolios were strengthened with lines of high value added specialty products. These included new alternatives for ceramic use, such as ventilated facades, products with antibacterial properties

and a wide range of tiles with digital printing and textures to emulate natural surfaces.

The reconfiguration of the segment's product portfolio combined favorably with its efforts in the specification market. The ability to partner with the company's other business segments to offer comprehensive solutions enhanced its participation in the construction of important Mexican building projects, generating synergies for the company.

In order to strengthen the image of porcelain products in Mexico, the Wall and Floor Tiles Business led a series of initiatives to stop practices related to offering consumers tiles that purport to be porcelain, but do not have the



required technical properties, nor quality, to be classified as such.

One of 2013's most outstanding events in the area of exports was the rollout of the "Verve" brand, designed to satisfy the needs of the U.S. market. Not only did this new offering meet expected results, but it was also recognized as "Best in Show" at the Coverings Trade Show held in Atlanta, Georgia. This is the sixth time in the past eight years that the Wall and Floor Tiles Business has been recognized at this event, one of the most important in the ceramics industry worldwide.

A continuous focus on the customer, leading-edge technology and constant product innovation are just some of the differentiators that underpin the market leadership of this segment.



Through VERVE Ceramics, the Wall and Floor Tile Business offers a wide portfolio of products for the U.S. market.

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Adhesives

In 2013, the Adhesives Business posted favorable results, above those of the industry, with a 2% growth in sales.

Despite the adverse environment in the Mexican construction industry and the high concentration of the segment's sales in the domestic market, the overall demand for the Adhesive Business's products was unaffected, largely because of its closeness to the market, constant product innovation and high performance.

During the year, the business continued to develop new products and reformulate existing ones, in order to offer world-class quality and more favorable installation conditions. Products introduced during the year included "Crest Total", an adhesive for installing any kind of ceramic tile on

any surface, and a line of grouts with better sealing properties and a range of 30 different colors.

In order to offer practical, innovative solutions to construction professionals, "BoquiCrest Glass" and "BoquiCrest Cuarzo" were launched in 2013. These grouts are based on urethane technology and are ready to use, offering installers benefits in preparation and application and consumers advantages in performance compared to conventional products.

Another innovative product rolled out during the year was Niasa "Spray It", a ready-to-use ceramic tile adhesive that is sprayed on.

During the year, the Adhesives Business took part in trade fairs and exhibitions in Mexico and abroad, to launch its new product lines. In Mexico, it participated

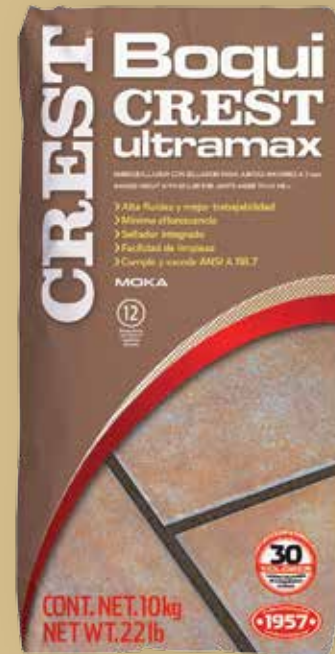
THE TILE ADHESIVE THAT LASTS A LIFETIME



in Expo CIHAC in Mexico City and Expo Ferretera in Guadalajara, as well as showcasing its products at Coverings, an international trade show in the United States.

In 2013, 21 workshops for installers were held in different Mexican cities and Installer Day was organized in Mexico City. These events, with a total of 3,000 participants, served to continue promoting the use and application of the segment's products.

In accordance with the Adhesives Business's growth and expansion strategy, during 2013 it evaluated and developed new business lines related to the construction industry which will be introduced during 2014. These lines will enable the segment to leverage its production capacity and brand value.



The Adhesives Business posted favorable results for 2013, outperforming the industry in general and growing sales by **2%**.

During the year, the Adhesives Business continued to develop new products and reformulate existing ones, in order to offer the best quality and more favorable conditions for installation.

Sanitaryware

The Sanitaryware Business posted a 4% growth in revenues in 2013. Despite the segment being concentrated on new housing construction, which contracted in Mexico during the year, positive performance in export markets drove results.

Taking advantage of the high performance qualities of its products and compliance with related standards, in 2013 the segment focused on creating a wide distribution network of wholesale plumbers in the United States, a channel through which high value added ceramic products are marketed.

An increased presence in the U.S. market and the segment's efforts to

offer efficient, water-saving products positioned it to leverage opportunities in that nation, where the new housing segment grew 18% year-over-year.

During the fourth quarter of the year, the Sanitaryware Business took part in Expo CIHAC, a trade fair held in Mexico City. It took advantage of the occasion to roll out new water-saving products, including the Urban, Galicia Tempest and Ventum toilets which function with 4.8 liters of water per flush, below the volume required by the official standard.

Like Grupo Lamosa's other business segments, during 2013 the Sanitaryware Business implemented initiatives to strengthen its project specification activities, offering, in conjunction



with the company's other business segments, a comprehensive range of products and solutions which resulted in an increase in its share of the institutional market.

As a result of the efforts this business segment has made to move closer to customers in order to understand their needs and preferences, during the year it rolled out new lines of high-tech fittings, building a more robust product offering.

Moving forward, the expectations for growth in Mexico and the favorable development of housing in the United States will strengthen the leadership and market position of the Sanitaryware Business.



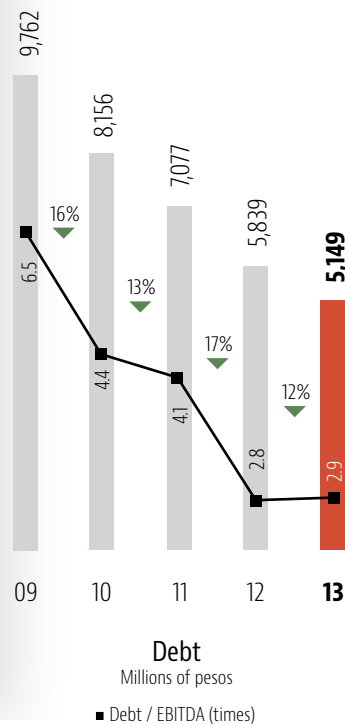
The Sanitaryware Business posted a revenue growth of **4%** for 2013.

An increased presence across the United States and the Sanitaryware Business's efforts to offer the most efficient, water-saving products positioned it to leverage opportunities in the U.S. market, where the new housing segment grew 18% year-over-year.

Financial performance

In 2013, Grupo Lamosa managed its financial resources satisfactorily. Financial discipline and the generation of cash flow allowed it to satisfy working capital requirements, continue with the debt reduction process and invest in the company's businesses, despite the complicated economic environment that prevailed during most of the year.

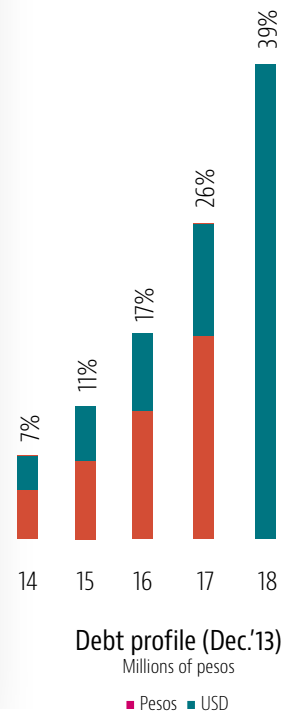
The company's total debt as of yearend 2013 was \$5,149 million pesos, 12% below the debt as of the close of 2012. During the year, as well as making programmed debt payments, installments amounting to \$400 million pesos were paid in advance. The ratio of debt to EBITDA as of December 31, 2013 was 2.9 times.



These financial results and leverage levels allowed Grupo Lamosa to pay dividends during 2013, in accordance with current loan contracts.

In line with the company's Vision and growth and expansion strategy, during the year it made capital expenditures of \$504 million pesos. These resources were mainly used for wall and floor tile capacity expansion and projects related to information technology.

For the second consecutive year, the Grupo Lamosa share price outperformed the Mexican Stock Market Index (IPC), with an annual yield of 45%. During 2013, no operations involving the shares representing Grupo Lamosa's capital stock were made.



Note: More than 80% of debt maturity falls between 2016 and 2018.

Corporate governance

As part of the efforts to continue incorporating new corporate governance practices, during the year recommendations contained in the Code of Best Corporate Practices were implemented, increasing the company's level of compliance with the Code.

The Board of Directors, as well as the committees that fulfill the audit and corporate practices roles, carried out their functions in accordance with the Company Statutes and current Stock Market Law.

Throughout the year, complaints received through the company's Transparency Line were attended and followed up on, strengthening the business processes and controls across the different business units. In order to continue promoting the values and principles that determine the company's actions, during 2013 diverse activities were held for the Lamosa team in order to enhance their knowledge and understanding of the company's Code of Ethics.

In accordance with the risk management protocol that Grupo Lamosa has implemented over the past years, during 2013 the Risk Management Program was revisited, with the support of firms specialized in the area. The year's main activities included a diagnosis of the program and the updating of the managed risks.

Members of the Audit Committee

Carlos Zambrano Plant

Chairman

Eduardo Padilla Silva

Eduardo Garza T Fernández

Maximino José Michel González

Members of the Corporate Practices Committee

Eduardo Elizondo Barragán

Chairman

Bernardo Elosúa Robles

Armando Garza Sada

Sustainability



A track record of more than 120 years in the construction market in Mexico reflects that Grupo Lamosa's Mission and Values have always had sustainability as the focus for its actions.

Aware of how important it is for the company to carry out and communicate sustainable actions, for the past couple of years it has been implementing a program to integrate all efforts in a comprehensive sustainability program that was communicated in 2013.

Grupo Lamosa's sustainability program requires the measuring and recording of a series of selected indicators, as well as the defining of clear goals and objectives in the short, medium and long term for each of them.

Grupo Lamosa abides by the value of transparency on a daily basis and, as a result, reports not only on its economic performance, but also on its actions and achievements in labor, social and environmental matters, as a way of communicating to its different stakeholders and as an important source of value for the company.

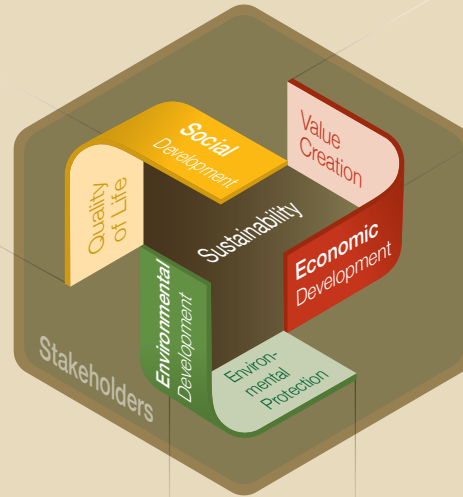
These initiatives and actions in the area of sustainability underscore Grupo Lamosa's commitment to continue acting in a responsible manner, complying with the guidelines of the GRI (Global Reporting Initiative) and the Principles of the UN's Global Compact with regard to human rights, the environment and best practices in labor and anticorruption.

Sustainability Platform

Grupo Lamosa's Sustainability Platform is based on three pillars: Social Development, focused on Quality of Life; Economic Development, with an emphasis on Value Creation; and Environmental Development, focused on Environmental Protection. Action areas, as well as short-, medium- and long-term objectives, have been defined for each of these pillars.

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

Stakeholders

Aware of the importance of its different stakeholders for the company's success, Grupo Lamosa uses different media and ways to communicate and interact with them.

| Stockholders/ Investors | Customers | Associates | Suppliers |
|--|---|---|--|
| <ul style="list-style-type: none"> ■ Stockholders' meetings (annually) ■ Area of stockholder relations (continuously) ■ Transparency line (continuously) ■ Meetings with analysts (continuously) ■ Reports on results (quarterly) | <ul style="list-style-type: none"> ■ Focus groups (continuously) ■ Transparency line (continuously) ■ Visits from commercial advisors (continuously) | <ul style="list-style-type: none"> ■ Evaluation of the work environment (annually) ■ Transparency line (continuously) | <ul style="list-style-type: none"> ■ Transparency line (continuously) ■ Signing of agreements and clauses in favor of human rights and sustainability (continuously) ■ Development of local suppliers and SMEs (small and medium-sized enterprises) |
| Community | Government | Academia | Communication media |
| <ul style="list-style-type: none"> ■ Transparency line (continuously) ■ Donations program (continuously) ■ Dialog with neighbors (continuously) | <ul style="list-style-type: none"> ■ Participation in meetings on this topic and advisory forums (continuously) ■ Relations with Government agencies (continuously) | <ul style="list-style-type: none"> ■ Agreements with research projects (when necessary) | <ul style="list-style-type: none"> ■ Press conferences (annually) ■ Participation in interviews and reporting (when necessary) |

Sourcing

Grupo Lamosa has always tried to support the suppliers of goods and services in the communities and regions in which it operates in whatever ways possible.

More than 90% of Grupo Lamosa's suppliers are Mexican.

During the year, the company actively supported programs for the development and professionalization of Small and Medium-sized Enterprises (SMEs) through institutions such as the Mexican Chamber of Industry (CAINTRA) and the Center for Competitiveness Mexico (CCM).

These programs focus on identifying SMEs' needs and developing training schemes and advisory services in areas such as marketing, innovation, production and quality. The main objective is to share the skills and know-how of large companies with smaller ones.

More than 30% of Grupo Lamosa's suppliers have taken part in diploma courses and professionalization programs.



Health and safety

Caring for the health and safety of the Lamosa team is one of the company's main priorities. Consequently, year after year, all production facilities hold diverse activities to move forward in this area.

Each Lamosa plant has mixed safety and hygiene commissions made up of employees and workers who are responsible for making security inspections within the facility in order to identify unsafe conditions and activities and thus correct them, preventing accidents and risks.

In order to train and prepare people for contingencies, Grupo Lamosa's main offices and plants have brigades for fire prevention, evacuation, search and rescue, first aid and communication to handle crises. These groups carry out drills with the support of the authorities, including the fire brigade and the civil protection agency.

15 drills carried out in 2013.

Labor and Social Welfare Ministry Safety Self-management Certification in 2013 for the Porcel Tile Plant in Tlaxcala.

Training

Grupo Lamosa believes that access to training opportunities motivates its people and guarantees equal growth opportunities across the company.

In order to expand the knowledge base of its personnel, during 2013 the company held training sessions, mainly on topics involving technical knowledge and business management skills.

115 thousand hours of training in 2013.

More than \$9 million pesos invested in training.

Diversity

Grupo Lamosa believes that it is of paramount importance for achieving its business objectives to have a diversified workforce and inclusive environment. This assures equal opportunities and generates significant benefits for the company, such as the retention of talented people, the strengthening of organizational values and the creation of an environment that is receptive to new ideas that drive innovation and creativity within the company.

Through its Human Resources Areas, the company promotes equal work opportunities. Candidates who are involved in recruiting and selection processes are evaluated according to the requirements of the profile of the position they are seeking and their skills, competencies, knowledge and experience, regardless of their sex, race, religion or nationality.

| | Employees | Union Workers |
|------------------------|-----------|---------------|
| Total personnel | 2,194 | 3,327 |
| Men | 1,761 | 3,001 |
| Women | 433 | 326 |
| By age range | | |
| Less than 20 years old | 1 | 43 |
| 20-29 years | 454 | 1,064 |
| 30-39 years | 901 | 1,205 |
| 40-49 years | 589 | 775 |
| 50-59 years | 226 | 235 |
| More than 60 years old | 23 | 5 |
| Nationality | | |
| Mexican | 2,190 | 3,327 |
| Other | 4 | 0 |



Corruption

Through Grupo Lamosa's Transparency Line, complaints are responded to and followed up on, in relation to acts of corruption or anything else related to non-compliance with the Lamosa Code of Ethics. Established bodies, such as the Ethics Committee and Audit Committee, ensure that any complaints are properly channeled, thereby strengthening the company's internal controls.



More than 100 complaints received through the Transparency Line.

30% of the complaints received and responded to were related to acts of corruption.

Human rights

During 2013, the company focused on promoting and assuring that the suppliers of its different business units included Human Rights clauses in their service contracts. The clauses incorporated included those related to the avoidance of discriminatory practices, forced labor and child labor.

More than 80% of Grupo Lamosa's main suppliers included clauses for respecting Human Rights in their contracts.

In order to enhance the knowledge of the Values and Principles contained in the company's Code of Ethics, training sessions based on e-learning were held throughout the year.

1,253 Grupo Lamosa associates trained.

Product recovery

During 2013, practices for recovering different materials used in the different businesses of Grupo Lamosa were standardized. Internal control procedures were implemented in order to homologize the steps required to collect different recoverable materials and assure their adequate treatment.

2,900 tons of recovered materials, mainly wood, cardboard, paper and metals.

A paper, cardboard, PET and aluminum recycling program was implemented at the main offices of the company in order to make people aware and contribute to environmental protection. This program enables personnel training and advising and the production of reports on the environmental impact of the recovered materials, among other benefits.



Social investment

Throughout its history, Grupo Lamosa has sought to be an agent of change, contributing to the communities where it operates by supporting social and educational institutions, among others.

More than \$3 million pesos in donations in cash and kind.

76 institutions supported.

During 2013, voluntary projects were implemented at the company's different plants, with the enthusiastic participation of employees and workers from the different Grupo Lamosa businesses.



Program to support Centro de Adaptación y Atención al Menor, A.C in Santa Catarina, N.L.



Maintaining of Casa de Salud, a clinic in the community of San Marcos Contla, Tlaxcala.

Energy and water

Seeking to protect and preserve the environment, in 2013, Grupo Lamosa continued to voluntarily incorporate new plants into the Mexican National Environmental Audit Program.

Four production facilities awarded Clean Industry Certification by the Mexican Federal Environmental Protection Agency (PROFEPA).



In addition, the company's business units intensified their efforts to optimize the management and control of water consumption and treatment, assuring that they comply with all applicable laws and regulations.

Grupo Lamosa has placed great importance on adopting international standards for sustainable ceramic tiles across its production facilities. One result of this was that during 2013 the Querétaro plant gained ANSI A138.1 - Green Squared Certification.

Three plants certified according to ANSI A138.1 - Green Squared.

First North American ceramic producer to obtain this certification.

With the support of environmental institutions, during the past months Grupo Lamosa has implemented reforestation initiatives at its different plants in the states of Tlaxcala, Guanajuato and Querétaro. These activities received the full support of workers' and employees' families.

Approximately 1,000 trees planted.



Board of Directors

Federico Toussaint Elosúa

Chairman of the Board and Chief Executive Officer of Grupo Lamosa

Member since 1989

Related

José Alfonso Rubio Elosúa

Independent Consultant

Member since 1989

Related

Bernardo Elosúa Robles

Independent Consultant

Member since 1993

Related

Corporate Practices Committee

Guillermo Barragán Elosúa

CEO of Hidrobart

Member since 1993

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CEO of Productos Alimenticios XICO

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Member since 1998

Related

María Del Carmen Elosúa González

Director of María Elosúa Diseño

Member since 2013

Related

Eduardo Elizondo Barragán

Chairman of the Board and CEO of CRIOTEC and Subsidiaries

Member since 1992

Independent

Corporate Practices Committee

Armando Garza Sada

Chairman of the Board of Grupo ALFA

Member since 1997

Independent

Corporate Practices Committee

Carlos Zambrano Plant

Consultant

Member since 1991

Independent

Audit Committee

Eduardo Padilla Silva

CEO of FEMSA Comercio

Member since 2004

Independent

Audit Committee

Eduardo Garza T Fernández

President of Grupo Frisa Industria

Member since 2012

Independent

Audit Committee

Maximino José Michel González

Operations Manager of Liverpool

Member since 2009

Independent

Audit Committee

According to the Stockholders' Assembly of March 12, 2013



Main Company Officers

From left to right:

Tomás Luis Garza de la Garza
Chief Financial Officer

Jorge Manuel Aldape Luengas
Adhesives Vice-President

Federico Toussaint Elosúa
Chief Executive Officer and Chairman of the Board of Directors of Grupo Lamosa

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

Alejandro Javier Nosti Busquets
Sanitaryware Vice-President

Julio Rafael Vargas Quintanilla
Human Resources Vice-President

Audit Committee Report

February 25, 2014

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, 2013, 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 2013.
- 2.** To date, this Audit Committee has no knowledge of any non-compliance 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 payment to the firm that supplied external auditing services to the Company for the fiscal year of 2013.
- 5.** We reviewed the second cycle of the information security program, through which the practices of handling and controlling information related to Grupo Lamosa is 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, or 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 continues to make 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 fiscal year of 2013.

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 25, 2014

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, 2013 pursuant to Company Statutes and the current Law.

1.

We reviewed the previously defined goals and individual and Company performance during the year and, where necessary, any observations on the performance of Company officers.

2.

We reviewed the conditions and structure used to determine the total salary and benefit packages of the Chief Executive Officer and Company officers on the basis of market trends.

3.

This Committee gave no authorization for any board member, Company officer or person in a position of command to take advantage of business opportunities – either for themselves or for third parties – that correspond to the Company or its Subsidiaries, and is not aware that the Board of Directors or any other Committee has done so.

4.

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



Eduardo Elizondo Barragán
Chairman



Consolidated Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Grupo Lamosa, S.A.B. de C.V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, consolidated statement of changes in stockholders' equity and consolidated statements of cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 consolidated 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, 2013 and 2012, and their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the IASB.

Galaz, Yamazaki, Ruiz Urquiza, S. C.

Member of Deloitte Touche Tohmatsu Limited



C.P.A. A. Alejandra Villagómez G.
February 14, 2014

Consolidated Statements of Financial Position

As of December 31, 2013 and 2012
(In thousands of Mexican pesos)

| | Notes | 2013 | 2012 |
|---|-------|----------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | 6 | \$ 626,945 | \$ 1,064,900 |
| Accounts receivable, net | 7 | 2,376,266 | 2,377,983 |
| Inventories, net | 8 | 1,393,244 | 1,219,985 |
| Other current assets | 9 | 726,136 | 559,924 |
| Current assets | | 5,122,591 | 5,222,792 |
| Real estate inventories | 10 | 193,916 | 196,932 |
| Property, plant and equipment, net | 11 | 5,048,131 | 4,974,301 |
| Intangible assets, net | 12 | 4,279,337 | 4,198,157 |
| Deferred income taxes | 20 | 329,081 | 495,401 |
| Other non-current assets | | 69,778 | 59,475 |
| Total | | \$ 15,042,834 | \$ 15,147,058 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Current portion of long-term debt | 14 | \$ 327,349 | \$ 290,084 |
| Current portion of capital lease liability | 15 | 36,818 | 31,534 |
| Trade accounts payable | | 1,010,972 | 1,077,593 |
| Income taxes for tax consolidation | 20 | 570,814 | 167,960 |
| Other current liabilities | 13 | 664,239 | 623,340 |
| Current liabilities | | 2,610,192 | 2,190,511 |
| Long-term debt | 14 | 4,726,924 | 5,434,017 |
| Long-term portion for capital leases | 15 | 57,679 | 83,167 |
| Employee benefits | 16 | 283,749 | 282,991 |
| Derivative financial instruments | 5 | 13,378 | |
| Income taxes for tax consolidation | 20 | 1,598,348 | 1,970,571 |
| Total liabilities | | 9,290,270 | 9,961,257 |
| Stockholders' equity: | | | |
| Capital stock | 17 | 202,978 | 202,953 |
| Additional paid-in capital | 17 | 139,386 | 139,386 |
| Retained earnings | | 5,438,701 | 4,882,702 |
| Other comprehensive income items | 5,16 | (28,501) | (39,240) |
| Total stockholders' equity | | 5,752,564 | 5,185,801 |
| Total | | \$ 15,042,834 | \$ 15,147,058 |

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, 2013 and 2012

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

| | Notes | 2013 | 2012 |
|---|-------|--------------|--------------|
| Net sales | 21 | \$ 9,545,317 | \$ 9,564,974 |
| Costs and expenses: | | | |
| Cost of sales | 21 | 5,790,321 | 5,698,117 |
| Operating expenses | 18 | 2,409,215 | 2,242,009 |
| Other operating income, net | 21 | (20,674) | (15,581) |
| | | 8,178,862 | 7,924,545 |
| Operating income | | 1,366,455 | 1,640,429 |
| Interest expense | | 341,460 | 506,071 |
| Interest income | | (13,802) | (30,130) |
| Exchange loss (gain), net | | 27,450 | (280,866) |
| Effects of valuation of financial instruments | | 16,987 | 18,275 |
| Other non-operating income, net | | | (9,696) |
| Income before income taxes | | 994,360 | 1,436,775 |
| Income taxes | 20 | 364,799 | 564,874 |
| Consolidated net income | | \$ 629,561 | \$ 871,901 |
| Earning per basic and diluted share | 3v | \$ 1.70 | \$ 2.37 |

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012
(In thousands of Mexican pesos)

| | Notes | 2013 | 2012 |
|--|-------|------------|------------|
| Consolidated net income | | \$ 629,561 | \$ 871,901 |
| Other comprehensive income items: | | | |
| Item which can be potentially reclassified to consolidated net income, net of taxes: | | | |
| Valuation of derivative financial instruments | 5.2.5 | 2,277 | 12,793 |
| Item that cannot be reclassified to consolidated net income, net of taxes: | | | |
| Remeasurement of defined benefit obligation | 16 | 8,462 | (14,402) |
| Total other comprehensive items | | 10,739 | (1,609) |
| Total consolidated comprehensive income | | \$ 640,300 | \$ 870,292 |

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2013 and 2012
(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, 2012 | \$ 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 |
| Capital increase | 25 | | | | | 25 |
| Dividend declared | | | (73,562) | | | (73,562) |
| Comprehensive income | | | 629,561 | 2,277 | 8,462 | 640,300 |
| Balances as of December 31, 2013 | \$ 202,978 | \$ 139,386 | \$ 5,438,701 | \$ (9,614) | \$ (18,887) | \$ 5,752,564 |

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012
(In thousands of Mexican pesos)

| | 2013 | 2012 |
|---|-------------|--------------|
| Operating activities: | | |
| Income before taxes | \$ 994,360 | \$ 1,436,775 |
| Adjustment for: | | |
| Depreciation and amortization | 318,657 | 362,443 |
| Other reserves | 78,759 | 22,308 |
| Interest income | (13,802) | (30,130) |
| Interest expense | 341,460 | 506,071 |
| Exchange loss (gain), net | 27,450 | (280,866) |
| Disposal of property, plant and equipment | 30,960 | 37,665 |
| Effect of valuation of derivative financial instruments | 16,987 | 18,275 |
| | 1,794,831 | 2,072,541 |
| Changes in working capital: | | |
| Increase in customers | (9,721) | (14,704) |
| Increase in inventories and real estate inventories | (176,147) | (88,020) |
| (Decrease) increase in suppliers | (66,621) | 45,672 |
| Other liabilities | 46,698 | 37,233 |
| Income taxes paid | (409,882) | (100,557) |
| Net cash flows provided by operating activities | 1,179,158 | 1,952,165 |
| Investing activities: | | |
| Purchase of property, plant and equipment | (423,140) | (184,058) |
| Interest income | 13,802 | 30,130 |
| Acquisition of intangible assets | (81,180) | (57,330) |
| Net cash flows used in investing activities | (490,518) | (211,258) |
| Financing activities: | | |
| Payments for bank liabilities | (757,776) | (998,691) |
| Interest paid | (297,012) | (474,959) |
| Dividends paid | (73,562) | |
| Net cash flows used in financing activities | (1,128,350) | (1,473,650) |
| Net (decrease) increase in cash and cash equivalents | (439,710) | 267,257 |
| Cash and cash equivalents at beginning of year | 1,064,900 | 779,928 |
| Effects from changes in cash value | 1,755 | 17,715 |
| Cash and cash equivalents at end of the year | \$ 626,945 | \$ 1,064,900 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012
(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 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").

b. New IFRS - In the current year, the Company has applied a number of new and revised IFRSs issued by IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

Amendments to IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities-

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to the IFRS 7 have been applied retrospectively.

As the Group does not have any significant offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

IFRS 10 Consolidated Financial Statements-

IFRS 10 replaces the parts of IAS 27, Consolidated and Separate Financial Statements that deal with consolidated financial statements. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. The application of the IFRS 10 has had no impact, because since the day of the adaptation, the Company has control over the consolidated subsidiaries.

IFRS 11, Joint Arrangements -

IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures.

The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The Company doesn't have joint arrangements.

IFRS 13, Fair Value Measurement -

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements.

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 in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. In addition to the additional disclosures, the application of the IFRS 13 does not have a significant on the amounts recognized in the consolidated financial statements.

c. 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.

d. 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.

e. 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. Glasas 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 Segment

Administradora Lamosa, S.A. de C.V. Sofom E. N. R. ⁽⁶⁾
 Estudio Cerámico México, S.A. de C.V. ⁽¹⁾
 Gres, S.A. de C.V. ⁽⁶⁾
 Gresaise, S.A. de C.V.
 Inmobiliaria Sanitarios Lamosa, S.A. de C.V. ⁽⁵⁾
 Inmobiliaria Porcelanite, S.A. de C.V. ⁽⁷⁾
 Ital Gres, S.A. de C.V.
 Italaize, S.A. de C.V.
 Lamosa Revestimientos, S.A. de C.V.
 Lamosa USA Inc.
 Mercantil de Pisos y Baños, S.A. de C.V.
 North American Plumbing Products, Inc. (antes Inmobiliaria Sanitarios Lamosa, S.A. de C.V.) ⁽⁵⁾
 Pavillion, S.A. de C.V.
 PLG, Ceramics Inc.
 PL Ceramics Group, Inc. ⁽⁷⁾
 Porcel, S.A. de C.V.
 Porcelanite, S.A. de C.V. ⁽⁷⁾
 Porcelanite Lamosa, S.A. de C.V.
 Productos Cerámicos de Querétaro, S.A. de C.V.
 Revestimientos Lamosa México, S.A. de C.V.
 Revestimientos Porcelanite, S.A. de C.V.
 Revestimientos y Servicios Comerciales, S.A. de C.V.
 Sanitarios Azteca, S.A. de C.V.
 Sanitarios Lamosa, S.A. de C.V.
 Servicios Administrativos Porcelanite, S.A. de C.V. ⁽⁷⁾
 Servicios Comerciales Lamosa, S.A. de C.V.
 Servicios Industriales Lamosa, S.A. de C.V. (antes Revestimientos Porcelanite Lamosa, S.A. de C.V.)
 Servigesa, S.A. de C.V. ⁽¹⁾

Real Estate Segment

Fideicomiso de actividades empresariales para el desarrollo de inmuebles No. 851-00103
 Grupo Inmobiliario Viber, S.A. de C.V.
 Inmobiliaria Revolución, S.A. de C.V.
 Lamosa Desarrollos Inmobiliarios, S.A. de C.V. ⁽⁸⁾
 Servicios de Administración el Diente, S.A. de C.V.

Adhesive Segment

Adhesivos de Jalisco, S.A. de C.V.
 Adhesivos Perdura, S.A. de C.V. ⁽²⁾
 Crest, S.A. de C.V.
 Crest Norteamérica, S.A. de C.V. ⁽⁹⁾
 Industrias Niasa, S.A. de C.V.
 Ladrillera Monterrey, S.A. de C.V. (antes Proyeso, S.A. de C.V.)
 Niasa México, S.A. de C.V. ⁽²⁾
 Servicios de Administración de Adhesivos, S.A. de C.V. ⁽⁴⁾
 Servicios Industriales de Adhesivos, S.A. de C.V. ⁽³⁾
 Soluciones Técnicas para la Construcción, S.A. de C.V.
 Soluciones Técnicas para la Construcción del Centro, S.A. de C.V. ⁽⁹⁾
 Tecnocreto, S.A.

Corporate and other

Lamosa Servicios Administrativos, S.A. de C.V.
 Servicios Administrativos Lamosa, S.A. de C.V.
 Servicios Lamosa, S.A. de C.V. Sofom E.N.R. ⁽⁶⁾

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

⁽²⁾ Constituted companies in January 2013.

⁽³⁾ Companies merged with Servicios Industriales Lamosa, S.A. de C.V. on October 30, 2013.

⁽⁴⁾ Companies merged with Servicios Administrativos Lamosa, S.A. de C.V. on October 30, 2013.

⁽⁵⁾ Companies spun off on September 17, 2013; changed to a foreign residence on November 27, 2013.

⁽⁶⁾ Companies spun off on December 7, 2013.

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

⁽⁸⁾ Company liquidated on December 5, 2012.

⁽⁹⁾ Constituted companies in August 2012.

f. Reclasifications – The Company presented in the consolidated statements of income, on a separate line in cost and expenses other operating income, net. The consolidated financial statements as of and for the year ended December 31, 2012 have been reclassified to conform to the presentation of the 2013 consolidated financial statements.

g. 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 reporting 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, not subject to significant risk of changes in their value. 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 the 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.

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 financial assets at fair value through profit or loss (FVTPL).

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
- Probability that the borrower will enter bankruptcy or financial re-organisation.

Certain categories of financial assets, such as trade receivables, are not assessed for impairment on an individual basis but 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 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.

When a financial asset is 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.

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.

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.

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 ad 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 would indicate that the 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 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:

| | Years |
|----------------------------|----------|
| 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 ownership of the property is transferred.

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 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.

l. Financial liabilities – Financial liabilities are classified as either financial liabilities “at FVTPL” or “debt 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.

Debt and other financial liabilities

Include loans from financial institutions and other finance liabilities, 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 13 from 2013 and IFRS 7, “Financial Instruments” – Disclosure, in 2012. 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.

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 \$ 23,487 in 2013 and \$ 19,937, in 2012.

Defined benefit plans – For defined 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 incurred based on financial forecasts and recognises the appropriate deferred tax to be paid; (as of December 2013 as a result of the 2014 tax reform, beginning in 2014, IETU is no longer recognized and the Company will only incur ISR). Deferred tax is recognised on the 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 is 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 369,653,594 and 367,824,273 weighted average shares outstanding during 2013 and 2012, 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 20
- Valuations to determine the recoverability of deferred tax assets. See Note 20
- Impairment of fixed assets and intangibles. See Notes 11 and 12
- Assumptions made in defined plan obligations. See Note 16

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

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, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Financial assets: | | |
| Cash and cash equivalents ⁽¹⁾ | \$ 626,945 | \$ 1,064,900 |
| Accounts receivable ⁽¹⁾ | 2,376,266 | 2,377,983 |
| Derivative financial instruments ⁽²⁾ | 2,040 | 2,150 |
| Financial liabilities: | | |
| Derivative financial instruments ⁽²⁾ | 13,378 | |
| Amortized cost liabilities ⁽¹⁾⁽³⁾ | 6,159,742 | 6,916,395 |

⁽¹⁾ See Note 3-a and 3-b.

⁽²⁾ See Note 3-m

⁽³⁾ See Note 3-l. 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.

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 U.S. dollar for the Company's financial instruments is shown as follows (figures in this Note are expressed in thousands of U.S. dollars – US\$):

| | 2013 | | 2012 | |
|-----------------------------|------|-------------|------|-------------|
| Financial assets | US\$ | 47,088 | US\$ | 70,514 |
| Financial liabilities | | (275,157) | | (299,741) |
| Liability position | US\$ | (228,069) | US\$ | (229,227) |
| Equivalent in Mexican pesos | \$ | (2,984,123) | \$ | (2,972,111) |

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

| | As of December 31, 2013 | As of December 31, 2012 |
|----|----------------------------|----------------------------|
| \$ | 13.08 | \$ 12.97 |

At February 14, 2014, the interbank exchange rate established by Banco de México was \$13.25 Mexican pesos per U.S. dollar.

5.2.2 Sensitivity analysis of exchange risk

As of December 31, 2013, 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 \$228,069 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, then the effect would have been the opposite, i.e., a benefit in the income by \$228,069 and stockholders' equity would have resulted in a monetary position gain. Both scenarios represent the amount that Management considers reasonably likely to occur within the year.

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 December 2013 (3.79%), while 3 M LIBOR was at its lowest level in October and November 2013 (0.24%). The Company has contracted hedges to cover a risk of a rise in the aforementioned interest rates. As of December 31, 2013, the Company recorded a bank debt balance in Mexican pesos of \$2,160,007, with 28-day TIIE rate plus 1.75% and one in U.S. thousand dollars of \$236,338 with a 3 month LIBOR rate plus (1.75% and 5.20%) (weighted average 4.01%). The interest expense recorded at the close of 2013 and 2012 was \$293,179 and \$463,556, respectively.

5.2.4 Sensitivity analysis of interest rate risk

If as of December 31, 2013, 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, the impact in the income before income taxes and the Company's stockholders' equity would be of \$58,600. The increase in a ratio would be generating a decrease in the income, and instead a decrease in such ratio would be generating an increase in the income.

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, 2013 and 2012, the Company consumed natural gas by approximately 9,394,135 and 8,993,082 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, 2013 and 2012, a total of 7,490,000 and 6,819,000 MMBTUS were hedged, respectively. The effect for the aforementioned hedging transaction represented charges of \$4,591 and \$1,177 in the 2013 and 2012 consolidated statements of income, respectively, which was presented within cost of sales.

As of December 31, 2013 and 2012, the Company has derivatives that hedge the natural gas price by approximately 9,020,000 and 6,190,000 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 ⁽¹⁾ | Fair Value Asset (Liability) |
|---------------------|-----------------------------|----------|---------------------------------|---------------------------------|
| In 2013: | | | | |
| Swaps | 2,580,000 | 2017 | 4.50 | \$ 13,378 |
| Options | 6,440,000 | 2014 | 5.75 | 2,040 |
| | 9,020,000 | | | \$ 15,418 |
| In 2012: | | | | |
| Options | 6,190,000 | 2013 | 5.00 | \$ 2,150 |

⁽¹⁾ 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, 2013 and 2012 and February 14, 2014, date of issuance of the consolidated financial statements, the natural gas market price is US\$3.6725, US\$3.5591 and US\$5.3401, 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, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|------------------------------|-------------|-------------|
| Activity of the year: | | |
| Opening balance | \$ (11,891) | \$ (24,684) |
| Period movement | 3,253 | 18,275 |
| Tax effect | (976) | (5,482) |
| Ending balance | \$ (9,614) | \$ (11,891) |

5.2.6 Sensitivity analysis of natural gas price risk

If as of the December 31, 2013, 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 \$56,675, having an effect in stockholders' equity of \$39,672. If on the other hand, such ratio had decreased by 10%, then the effect would be the opposite. 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 14 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

| | 2013 | 2012 |
|---|------------|--------------|
| Cash and bank deposits | \$ 119,017 | \$ 301,684 |
| Cash equivalents – investments in money market fund | 507,928 | 763,216 |
| | \$ 626,945 | \$ 1,064,900 |

7. ACCOUNTS RECEIVABLE, NET

| | 2013 | 2012 |
|---------------------------------|--------------|--------------|
| Trade accounts receivable | \$ 2,409,284 | \$ 2,436,592 |
| Allowance for doubtful accounts | (33,018) | (58,609) |
| | \$ 2,376,266 | \$ 2,377,983 |

| | 2013 | 2012 |
|---|------------|------------|
| Age of due portfolio, not uncollectible: | | |
| 60 to 90 days | \$ 162,595 | \$ 114,263 |
| 90 to 120 days | 65,967 | 213,238 |
| Over 120 days | 141,398 | 26,613 |
| | \$ 369,960 | \$ 354,114 |

| | 2013 | 2012 |
|--|-------------|-------------|
| Movements in the doubtful account estimate: | | |
| Opening balance | \$ (58,609) | \$ (66,272) |
| Allowance for doubtful accounts of the year | (11,447) | (7,514) |
| Write-offs | 37,038 | 15,177 |
| Ending balance | \$ (33,018) | \$ (58,609) |

8. INVENTORIES, NET

| | 2013 | 2012 |
|-----------------------------|--------------|--------------|
| Finished goods | \$ 924,630 | \$ 761,194 |
| Work in process | 107,357 | 99,496 |
| Raw materials | 209,402 | 202,248 |
| Accessories and spare parts | 151,855 | 154,470 |
| Merchandise in transit | | 2,577 |
| | \$ 1,393,244 | \$ 1,219,985 |

The amount of the inventories consumed and recognised as part of cost of sales for the years ended December 31, 2013 and 2012, amounted to \$3,249,599 and \$3,330,555, respectively.

Inventories recognised as an expense for the years ended December 31, 2013 and 2012 include \$5,902 and \$(2,632), respectively, for write-downs of inventory to the net realisable value.

9. OTHER CURRENT ASSETS

| | 2013 | 2012 |
|----------------------------------|------------|------------|
| Recoverable taxes | \$ 500,265 | \$ 325,460 |
| Derivative financial instruments | 2,040 | 2,150 |
| Advance to suppliers | 54,491 | 71,828 |
| Other | 169,340 | 160,486 |
| | \$ 726,136 | \$ 559,924 |

10. REAL ESTATE INVENTORIES

| | 2013 | 2012 |
|----------------------|------------|------------|
| Real estate for sale | \$ 97,691 | \$ 99,552 |
| Undeveloped land | 96,225 | 97,380 |
| | \$ 193,916 | \$ 196,932 |

11. PROPERTY, PLANT AND EQUIPMENT, NET

| | 2013 | 2012 |
|-----------------------------|--------------|--------------|
| Lands | \$ 745,655 | \$ 745,655 |
| Buildings and constructions | 3,273,912 | 3,234,965 |
| Machinery and equipment | 8,034,011 | 7,705,145 |
| Furniture and equipment | 77,275 | 74,702 |
| Vehicles | 103,208 | 97,576 |
| Computers | 129,080 | 104,328 |
| Investments in process | 134,498 | 135,365 |
| | 12,497,639 | 12,097,736 |
| Accumulated depreciation | 7,449,508 | 7,123,435 |
| | \$ 5,048,131 | \$ 4,974,301 |

| | Balance as of December 31, 2012 | Additions | Depreciation | Divestitures | Transfers | Balance as of December 31, 2013 |
|--------------------------------|---------------------------------------|------------|--------------|--------------|-----------|---------------------------------------|
| Investment | | | | | | |
| Lands | \$ 745,655 | | | | | \$ 745,655 |
| Buildings and constructions | 3,234,965 | \$ 3,267 | | \$ 3,256 | \$ 38,936 | 3,273,912 |
| Machinery and equipment | 7,705,145 | 14,796 | | 5,386 | 319,456 | 8,034,011 |
| Furniture and equipment | 74,702 | 1,761 | | 1,528 | 2,340 | 77,275 |
| Vehicles | 97,576 | 17,464 | | 11,832 | | 103,208 |
| Computers | 104,328 | 16,823 | | 3,683 | 11,612 | 129,080 |
| Investments in process | 135,365 | 371,487 | | 10 | (372,344) | 134,498 |
| Total investment | 12,097,736 | 425,598 | | 25,695 | 0 | 12,497,639 |
| Depreciation: | | | | | | |
| Buildings and constructions | 1,240,808 | | \$ 66,086 | 1,467 | | 1,305,427 |
| Machinery and equipment | 5,679,022 | | 253,021 | 1,912 | | 5,930,131 |
| Furniture and equipment | 58,588 | | 2,690 | 1,575 | | 59,703 |
| Vehicles | 65,800 | | 12,910 | 9,807 | | 68,903 |
| Computers | 79,217 | | 9,564 | 3,437 | | 85,344 |
| Total accumulated depreciation | 7,123,435 | | 344,271 | 18,198 | | 7,449,508 |
| Investment, net | \$ 4,974,301 | \$ 425,598 | \$ 344,271 | \$ 7,497 | \$ 0 | \$ 5,048,131 |

| | Balance as of December 31, 2011 | Additions | Depreciation | Divestitures | Transfers | Balance as of December 31, 2012 |
|-----------------------------|---------------------------------------|-----------|--------------|--------------|-----------|---------------------------------------|
| Investment | | | | | | |
| 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 | | 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 |

During the years ended December 31, 2013 and 2012, the Company had idle capacity of 14.06% and 9.6%, respectively.

During the years ended December 31, 2013 and 2012, borrowing costs related to fixed assets were no significant.

During the years ended December 31, 2013 and 2012, the Company canceled property, plant and equipment amounting to \$30,960 and \$37,665, respectively, of assets that were removed from use.

12. INTANGIBLE ASSETS

| | 2013 | 2012 |
|--------------------------------|--------------|--------------|
| Unamortised intangible assets: | | |
| Brands | \$ 3,791,459 | \$ 3,791,459 |
| Goodwill | 365,368 | 365,368 |
| | 4,156,827 | 4,156,827 |
| Amortised intangible assets | 122,510 | 41,330 |
| | \$ 4,279,337 | \$ 4,198,157 |

| Cost | Brands | Goodwill | Total unamortisable | Amortisable Intangibles | Total |
|----------------------------------|--------------|------------|---------------------|-------------------------|--------------|
| Balances as of December 31, 2012 | \$ 3,791,459 | \$ 365,368 | \$ 4,156,827 | \$ 41,330 | \$ 4,198,157 |
| Purchases | | | | 81,180 | 81,180 |
| Balances as of December 31, 2013 | \$ 3,791,459 | \$ 365,368 | \$ 4,156,827 | \$ 122,510 | \$ 4,279,337 |

As of December 31, 2013, 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.

For the years ended December 31, 2013 and 2012, borrowing costs related to intangible assets were no significant.

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

| | 2013 | 2012 |
|---------------|--------------|--------------|
| Ceramic tiles | \$ 3,929,028 | \$ 3,929,028 |
| Adhesives | 227,799 | 227,799 |
| | \$ 4,156,827 | \$ 4,156,827 |

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

- Market share and expected price levels.
- Size of the market where the CGU 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, 2013 and 2012, are as follows:

| | 2013 | 2012 |
|------------------------|--------|--------|
| Discount rate | 13.75% | 11.62% |
| Perpetuity growth rate | 3.8% | 4.0% |

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 CGU value to exceed their recovery value.

13. OTHER CURRENT LIABILITIES

| | 2013 | 2012 |
|---|------------|------------|
| Contributions and taxes payable | \$ 324,586 | \$ 291,518 |
| Freights payable | 143,803 | 123,480 |
| Energy payable | 84,534 | 82,338 |
| Statutory employee profit sharing (PTU) | 8,512 | 17,998 |
| Other accounts payable | 102,804 | 108,006 |
| | \$ 664,239 | \$ 623,340 |

14. LONG-TERM DEBT

a. According to the long-term loan agreements, the bank debt as of December 31, 2013 and 2012, is as follows:

| | 2013 | 2012 |
|--|--------------|--------------|
| Secured bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum rate of 3.50% in 2013 and 2012. The principal matures at different dates through 2017. | \$ 1,064,247 | \$ 1,297,018 |
| 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 2013 and 2012. The principal matures at different dates through 2017. | 2,160,007 | 2,656,501 |
| Unsecured bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum interest rate surcharge of 9.95% in 2013 and 2012. The principal matures in 2018. | 2,028,066 | 2,009,699 |
| Total financial debt | 5,252,320 | 5,963,218 |
| Debt issuance costs | (198,047) | (239,117) |
| Total net financial debt | 5,054,273 | 5,724,101 |
| Current portion | (327,349) | (290,084) |
| Long-term debt | \$ 4,726,924 | \$ 5,434,017 |

Long-term debt maturities as of December 31, 2013 are as follows:

| Year | Principal | Interest ⁽¹⁾ |
|------|--------------|-------------------------|
| 2015 | \$ 525,677 | \$ 230,792 |
| 2016 | 875,113 | 198,900 |
| 2017 | 1,332,213 | 148,758 |
| 2018 | 1,993,921 | 84,679 |
| | \$ 4,726,924 | \$ 663,129 |

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

TIIE and LIBOR interest rates were as follows:

| Year | TIIE % | LIBOR % |
|------|-----------|------------|
| 2013 | 3.790 | 0.2461 |
| 2012 | 4.845 | 0.306 |

- 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, 2013.

During 2013, the Company made payments of long-term debt in advance of original maturity of the amount of \$417,446.

- c. As of December 31, 2013, there is a long-term debt aggregating to \$3,224,254, which is pledged with a real estate inventory of \$46,212, fixed assets with a carrying amount of \$5,048,131, and current assets with a value of \$5,122,591. In addition, the brands and patents owned by the Company are granted as a pledge.

15. 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:

| | 2013 | 2012 |
|--|-----------|-----------|
| Capital lease denominated in U.S. dollars, bearing variable interest based on LIBOR plus a surcharge interest rate of 3.50% in 2013 and 2012. The principal matures at different dates through 2016. | \$ 65,691 | \$ 88,267 |
| Capital lease denominated in Mexican pesos, bearing variable interest based on TIIE plus a surcharge interest rate between 2.75% and 5.00% in 2013 and 3.25% and 6.00% in 2012. The principal matures at different dates through 2016. | 28,806 | 26,434 |
| Total net lease | 94,497 | 114,701 |
| Current portion | (36,818) | (31,534) |
| Long-term lease | \$ 57,679 | \$ 83,167 |

| | Minimum Rent Payments | | Present Value of Minimum Rent Payments | |
|--|-----------------------|------------|--|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Less than one year | \$ 39,769 | \$ 37,646 | \$ 36,818 | \$ 31,534 |
| More than one year | 61,367 | 87,178 | 57,679 | 83,167 |
| | 101,136 | 124,824 | \$ 94,497 | \$ 114,701 |
| Future financial charges | (6,639) | (10,123) | | |
| Present value of minimum rent payments | \$ 94,497 | \$ 114,701 | | |

The expiration of long-term capital leases as of December 31, 2013 is as follows:

| Year | Principal | Interest ⁽¹⁾ |
|------|------------------|-------------------------|
| 2015 | \$ 36,330 | \$ 2,042 |
| 2016 | 18,782 | 542 |
| 2017 | 2,529 | 91 |
| 2018 | 38 | 1 |
| | <u>\$ 57,679</u> | <u>\$ 2,676</u> |

⁽¹⁾ 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 4.86% in 2013 and 5.45% in 2012.

16. EMPLOYEE BENEFITS

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

| | 2013 | 2012 |
|---|-------|-------|
| Discount of the projected benefit obligation at present value | 7.25% | 6.25% |
| Salary increase | 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:

| | 2013 | 2012 |
|------------------------------|-------------------|-------------------|
| Vested benefit obligation | \$ 112,874 | \$ 107,304 |
| Nonvested benefit obligation | 170,875 | 175,687 |
| Defined benefit obligation | <u>\$ 283,749</u> | <u>\$ 282,991</u> |

c) The effects recognized in the statements of comprehensive income for 2013 and 2012 are as follows:

| | Net Income | | Other comprehensive income items |
|------------------------------|------------------|--|----------------------------------|
| | Service cost | Net interest on defined benefit obligation | Actuarial remeasurements |
| 2013 | | | |
| Pension and retirement plans | \$ 3,866 | \$ 5,528 | \$ (5,051) |
| Seniority premium | 10,596 | 8,893 | 13,513 |
| Total | <u>\$ 14,462</u> | <u>\$ 14,421</u> | <u>\$ 8,462</u> |

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

For the years ended in December 31, 2013 and 2012, \$14,462 and \$11,971, 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:

| | 2013 | 2012 |
|---|-----------|-----------|
| Amount accumulated in other comprehensive income items at the beginning of the period, net of taxes | \$ 27,349 | \$ 12,947 |
| Actuarial remeasurements | (12,089) | 20,574 |
| Tax effect | 3,627 | (6,172) |
| Amount accumulated in other comprehensive income items at the end of the period, net of taxes | \$ 18,887 | \$ 27,349 |

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

| | 2013 | 2012 |
|------------------------------------|------------|------------|
| Pension and retirement plan | | |
| Opening balance | \$ 130,932 | \$ 120,097 |
| Service cost | 3,866 | 838 |
| Financial cost | 5,528 | 3,811 |
| Actuarial losses and gains | 7,215 | 6,851 |
| Benefits paid | (5,242) | (665) |
| Ending balance | \$ 142,299 | \$ 130,932 |

Seniority premium

| | | |
|----------------------------|------------|------------|
| Opening balance | \$ 152,059 | \$ 119,111 |
| Service cost | 10,596 | 11,133 |
| Interest cost | 8,893 | 9,223 |
| Actuarial losses and gains | (19,304) | 13,723 |
| Benefits paid | (10,794) | (1,131) |
| Ending balance | \$ 141,450 | \$ 152,059 |

17. 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.

| | 2013 | 2012 |
|-----------------------------|------------------|-------------|
| | Number of shares | |
| Minimum fixed capital stock | 360,000,000 | 360,000,000 |
| Variable capital | 14,617,444 | 10,908,360 |
| | 374,617,444 | 370,908,360 |

b. According to the current stock market regulations in effect and the Company's by-laws, 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 2013 and 2012 at the Annual Stockholders' Meetings held on March 12, 2013 and March 13, 2012 amounted to \$ 90 million Mexican pesos for each of the aforementioned years. In relation to the year ended December 31, 2013 and 2012, the Company did not conduct transactions with shares of its capital stock.

c. At the general stockholders' meetings held on March 12, 2013, dividends were declared for \$73,562, from the net tax income account, equivalent 0.20 Mexican pesos per share; in addition, dividends were declared of 1%, equivalent a new share for every 100 shares in circulation. This dividend resulted in an increase in a variable portion of the capital, amounting to \$25 issuing 3,709,084 shares of single series.

d. 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, 2013 and 2012, the legal reserve, in historical pesos, was \$480.

e. 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.

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

| | 2013 | 2012 |
|-----------------------------|---------------------|---------------------|
| Contributed capital account | \$ 341,191 | \$ 328,131 |
| Net tax income account | 7,247,469 | 7,207,676 |
| Total | \$ 7,588,660 | \$ 7,535,807 |

g. 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, 2013 amounted to \$3,224,254. The main obligations contained in such agreements include the following financial covenants¹:

- Debt service coverage (EBITDA² / 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 3.50.
- Leverage of secured debt (secured debt / EBITDA) less than or equal to 2.50.
- Minimum stockholders' equity greater than or equal to \$4,247,160.
- Minimum cash greater than or equal to \$327,108.

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

² 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 2013, 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, 2013, showing them in comparison to those of the prior year.

| | 2013 | 2012 |
|---|--------------|--------------|
| Total debt | \$ 5,148,770 | \$ 5,838,802 |
| Cash and cash equivalents | 626,945 | 1,064,900 |
| Net debt | 4,521,825 | 4,773,902 |
| Stockholders' equity | 5,752,564 | 5,185,801 |
| Leverage measured as net debt to stockholders' equity | 0.79 | 0.92 |

| | 2013 | 2012 |
|------------------------|---------------------|---------------------|
| Total debt main items: | | |
| Secured loan | \$ 3,224,254 | \$ 3,953,519 |
| Subordinated debt | 2,028,066 | 2,009,699 |
| Other | 94,497 | 114,701 |
| Debt issuance costs | (198,047) | (239,117) |
| Total debt | \$ 5,148,770 | \$ 5,838,802 |

The decrease in the total debt of \$731,102 during 2013 arose mainly from the generation of cash flow of the Company. This cash flow allowed supporting the Company's operations and cope with debt maturities scheduled for the year. In addition, debt prepayments of \$417,446 were made, which helped to reduce the Company's level of leverage and improve its financial structure.

18. OPERATING EXPENSES

| | 2013 | 2012 |
|----------------|---------------------|---------------------|
| Sales | \$ 1,732,672 | \$ 1,635,083 |
| Administration | 676,543 | 606,926 |
| Total | \$ 2,409,215 | \$ 2,242,009 |

19. 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.

20. INCOME TAXES

a. The Company is subject to ISR and until December 31, 2013, IETU.

ISR -The rate was 30% in 2013 and 2012 and as a result of the new 2014 ISR law (2014 Tax Law), the rate will continue at 30% in 2014 and thereafter. The Entity incurred ISR on a consolidated basis up to 2013 with its Mexican subsidiaries. As a result of the 2014 tax reform, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the deferred income tax determined as of that date during the subsequent five years beginning in 2014, as illustrated below.

Pursuant to Transitory Article 9, section XV, subsection d) of the 2014 Law, given that as of December 31, 2013 the Entity was considered to be a holding company and was subject to the payment scheme contained in Article 4, Section VI of the transitory provisions of the ISR law published in the Federal Official Gazette on December 7, 2009, or article 70-A of the ISR law of 2013 which was repealed, it must continue to pay the tax that it deferred under the tax consolidation scheme in 2007 and previous years based on the aforementioned provisions, until such payment is concluded.

IETU -- IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective rate was 17.5%.

Income tax incurred will be the higher of ISR and IETU up to 2013.

Through 2012, based on its financial projections, the Company determined that its subsidiaries will basically pay ISR; therefore, it only recognizes deferred ISR. As of 2013, only deferred ISR is calculated due to the elimination of IETU.

Reconciliation of ISR asset and liability balances before the 2010 tax reform became effective, and the balances as of December 31, 2013, after recognition of the effects of such reform, are as follows:

| Item: | Deferred tax assets | ISR liabilities |
|--|------------------------|-----------------------|
| Recognition of: | | |
| Assets and liabilities from tax losses | \$ 750,898 | \$ (505,518) |
| Assets and liabilities from losses on sale of shares | | (1,616,780) |
| Balance after the tax reform | \$ 750,898 | \$ (2,122,298) |

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

| Year | ISR liabilities |
|------|---------------------|
| 2014 | \$ 523,950 |
| 2015 | 523,950 |
| 2016 | 419,160 |
| 2017 | 314,370 |
| 2018 | 340,868 |
| | \$ 2,122,298 |

b. Income taxes for 2013 and 2012 consist of the following:

| | 2013 | 2012 |
|--------------|-------------------|-------------------|
| Current ISR | \$ 13,838 | \$ 201,357 |
| Current IETU | 48,321 | 113,712 |
| Deferred ISR | 302,640 | 249,805 |
| Total | \$ 364,799 | \$ 564,874 |

c. The reconciliation of the statutory and effective ISR rates, expressed as a percentage of income before income taxes in 2013 and 2012 is:

| | 2013 | 2012 |
|--|-------------|-------------|
| | | % |
| Effective rate | 32.0 | 31.0 |
| Effect of permanent differences, mainly nondeductible expenses | (2.0) | (1.0) |
| Statutory rate | 30.0 | 30.0 |

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

| | Amount before income taxes | Income taxes | Amount net of income taxes |
|---|----------------------------------|-------------------|----------------------------------|
| As of December 31, 2013: | | | |
| Derived from cash flows | \$ 3,253 | \$ (976) | \$ 2,277 |
| Remeasurement of defined benefit obligation | 12,089 | (3,627) | 8,462 |
| | \$ 15,342 | \$ (4,603) | \$ 10,739 |
| As of December 31, 2012: | | | |
| 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) |

e. The main items that give rise to a deferred ISR balance, as of December 31, are:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Deferred ISR asset: | | |
| Allowance for doubtful account | \$ 8,647 | \$ 17,449 |
| Derivative financial instruments | 4,119 | 5,096 |
| Employee benefits | 85,722 | 61,493 |
| Benefits from tax loss carryforwards | 750,898 | 914,516 |
| Other | 83,621 | 131,911 |
| Total | 933,007 | 1,130,465 |
| Deferred income tax liability: | | |
| Inventories | (93,528) | (89,835) |
| Real estate inventories | (15,553) | (15,368) |
| Property, plant and equipment | (470,400) | (495,187) |
| Commissions paid for debt restructuring | (59,408) | (70,319) |
| Total | (638,889) | (670,709) |
| Tax on assets | 34,963 | 35,645 |
| Deferred income tax asset, net | \$ 329,081 | \$ 495,401 |

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, 2013, are:

| Year | Amount |
|------|------------|
| 2017 | \$ 2,341 |
| 2018 | 9,588 |
| 2019 | 25,828 |
| 2020 | 68,642 |
| 2021 | 269,353 |
| 2022 | 117,940 |
| 2023 | 257,206 |
| | \$ 750,898 |

21. RELATED PARTY BALANCES AND TRANSACTIONS

a. The accounts receivables as of December 31, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|--|----------|----------|
| Accounts receivable - Estudio Cerámico de México, S.A. de C.V. | \$ 2,953 | \$ 1,746 |

b. The transactions as of December 31, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|----------------------------|----------|----------|
| Sales of finished goods | \$ 6,671 | \$ 8,746 |
| Lease income | 5,852 | 5,852 |
| Other income, net | 3,292 | 2,684 |
| Purchase of finished goods | 905 | 2,301 |

c. For the years ended December 31, 2013 and 2012, the direct short-term benefits granted to the key management personnel of the Company for \$87,440 and \$ 63,915, respectively. The Company does not have agreements or programs share-based payments.

d. 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.

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

| | 2013 | 2012 |
|--|------------|--------|
| Grupo Inmobiliario Viber, S.A. de C.V. | \$ (1,820) | \$ 580 |
| U-Calli Capital, S.A. de C.V. | (506) | 316 |
| | \$ (2,326) | \$ 896 |

22. 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 goods 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:

| December 31, 2013: | Ceramic | Adhesive | Real estate | Corporate and other | Consolidated |
|--|--------------|--------------|-------------|---------------------|---------------|
| Total net sales | \$ 7,121,071 | \$ 2,380,440 | \$ 46,993 | \$ 1,740,916 | \$ 11,289,420 |
| Intersegment sales | | (3,187) | 0 | (1,740,916) | (1,744,103) |
| Net sales to third parties | 7,121,071 | 2,377,253 | 46,993 | 0 | 9,545,317 |
| Operating income (loss) | 795,185 | 580,272 | 7,681 | (16,683) | 1,366,455 |
| Depreciation and amortization | 273,401 | 27,206 | | 18,050 | 318,657 |
| Other | 55,718 | 14,142 | | 8,899 | 78,759 |
| Acquisition of property, plant and equipment and intangible assets | (369,555) | (20,752) | | (114,013) | (504,320) |
| Assets | 7,781,913 | 1,140,171 | 231,810 | 5,888,940 | 15,042,834 |
| Liabilities | 1,628,691 | 584,308 | (2,372) | 7,079,643 | 9,290,270 |
| December 31, 2012: | Ceramic | Adhesive | Real estate | Corporate and other | Consolidated |
| 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 |
| Other | 13,519 | 11,384 | (2,899) | 304 | 22,308 |
| Acquisition of property, plant and equipment and intangible assets | (152,480) | (20,315) | | (68,593) | (241,388) |
| 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 |

23. APPROVAL OF FINANCIAL STATEMENTS

On February 14, 2014, 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.

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