2012

Interceramic
ANNUAL REPORT

Interceramic®

INDEX

Chief Executive Officer Report

The year 2012 saw Interceramic posting record annual consolidated sales and highest ever EBITDA for a calendar year. The Company continued steady improvement in its operating results with, as was the case during 2011, growth in operating income being particularly noteworthy. With consolidated sales for the year of Pesos 6,365.0 million up by 11.2 percent over consolidated sales of Pesos 5,726.3 million in 2011, operating income increased by 43.3 percent to Pesos 559.3 million in 2012 compared to the Pesos 390.2 million posted in 2011. Operating expenses in 2012 were equal to 26.3 percent of sales, an improvement of 1.1 percentage points over the 27.4 percent recorded in 2011. Sales in the Mexican market for the year grew 9.3 percent over 2011, and we were pleasantly surprised by the growth in the international markets for 2012 (up 8.7 percent measured in United States Dollars), putting an end to a trend of decreasing sales that started back in 2008. After a number of years of being a drag on consolidated financial results our business in the United States is on track to provide a boost to the Company.

On the consolidated sales of Pesos 6,365.0 million for 2012, cost of sales of Pesos 4,121.9 million resulted in gross income of Pesos 2,243.1 million, an increase of 12.0 percent over 2011 gross income of Pesos 2,002.5 million. Our gross margin for the year of 2012 was fractionally higher than 2011, up to 35.2 percent from 35.0 percent last year. Operating expenses for 2012 of Pesos 1,674.2 million, compared to operating expenses of Pesos 1,570.0 million last year, resulted in operating income for 2012 of Pesos 559.3 million, 43.3 percent higher than the Pesos 390.2 million of operating income posted in 2011. The excellent growth in operating income over 2012 also, as expected, lifted the Company's EBITDA to a record Pesos 855.2 million, up 18.6 percent over EBITDA of Pesos 720.9 million for 2011. The year ended with the Company's two key financial ratios in the best shape in many years. Our debt service coverage ratio at December 31, 2012 was 9.3 times compared to 8.1 for the same ratio the year before. The Company's ratio of debt to EBITDA declined appreciably, down to 1.9 from 2.6 at the end of 2011.

Our results in Mexico for 2012 show sustained improvement, much as we have seen over the past few periods. Mexican sales for 2012 were Pesos 4,301.4 million and compared to 2011 Mexican sales of Pesos 3,936.6 million grew by 9.3 percent. In the International markets, sales for 2012 of US $156.7 million were up by 8.7 percent over International sales of US $144.2 million in 2011. Results from both markets are good, with the International results particularly encouraging.

Switching focus to the last quarter of 2012, fourth quarter 2012 consolidated sales were Pesos 1,620.0 million, an increase of 7.5 percent over fourth quarter 2011 sales of Pesos 1,506.3 million. Mexican sales of Pesos 1,146.9 million for the fourth quarter of 2012 rose by 6.7 percent over Mexican sales for the same period of 2011 of Pesos 1,074.7 million. In the International markets, fourth quarter 2012 sales were US $36.4 million and, compared to sales of US $31.7 million in the fourth quarter of 2011, rose by a very positive 14.9 percent. Operating income for the fourth quarter of 2012 swelled to Pesos 149.2 million, a leap of 70.6 percent over operating income for the same period in 2011 of Pesos 87.4 million. The Company's EBITDA for the quarter was Pesos 229.1 million as opposed to EBITDA for the final quarter of 2011 of Pesos 177.5 million, a 29.1 percent increase.

Financial Results

Net Sales

For 2012, our consolidated sales increased 11.2 percent over the previous year, up from $5,726.3 million pesos in 2011 to $6,365.0 million pesos in 2012.

Regarding the results obtained in Mexico, we had an increase in sales of 9.3 percent over the sales in 2011, up from $3,936.6 million pesos in 2011 to $4,301.4 million pesos in 2012.

Our sales in the international market in 2012 showed an increase of 15.3 percent over the sales in 2011, up from $1,789.7 million pesos in 2011 to $2,063.6 million pesos in 2012.

Cost of Goods Sold

The cost of goods sold increased 10.7 percent during the year up from $3,723.8 million pesos in 2011 to $4,121.9 million pesos in 2012. As a percentage over sales, the cost of goods sold during 2012 represented 64.8 percent compared to 65.0 percent the year before.

Operating Expenses

Operating expenses during 2012 increased 6.6 percent over 2011, up to $1,674.2 million pesos in 2012 from $1,570.0 million pesos in 2011. Operating expenses in 2012 were equal to 26.3 percent of sales, an improvement over the 27.4 percent recorded in 2011.

Integral Result of Financing

The integral result of financing for 2012 represented a gain of $28.1 million pesos compared to a loss of $255.9 million pesos in 2011. As of December 31st, 2012, the exchange rate of the Mexican Peso against the U.S. dollar was lower than the one registered as of December 31st, 2011. Considering the passive monetary position of the company, we recorded a gain in 2012 of $109.7 million pesos which was compared to a loss of $184.5 million pesos in 2011. The net financial expense of $92.3 million registered in 2012 was higher than the net financial expense registered in 2011 of $89.1 million pesos.

Debt

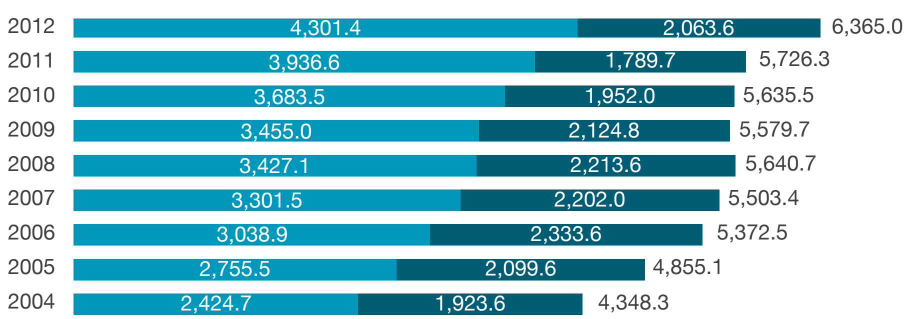
As of December 31st 2012, the Company had $1,606.5 million pesos of debt. Of this debt, $188.4 million pesos were short term and $1,418.0 million pesos were long term. The total debt is denominated in dollars.

On the heels of a good year in 2011, Interceramic's financial results for 2012 are even better news, with sustained growth in sales and increasing Company-wide efficiencies driving inevitably to healthy operating results. Our unrivalled position at the top of the Mexican market, together with the material improvements in the United States have given us great encouragement for the future, and we very much look forward to consolidating and improving further upon these results in 2013. As always, we thank our investors, our customers and our employees for their continued support.

Victor D. Almeida Garcia
Chairman of the Board of Directors
and Chief Executive Officer

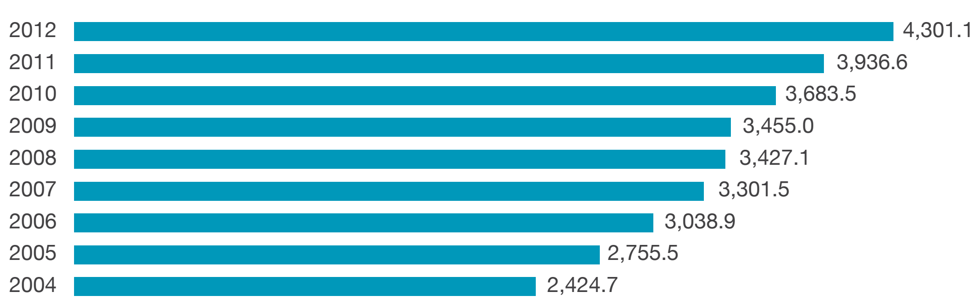
Financial Information

CONSOLIDATED SALES Amounts in millions of pesos



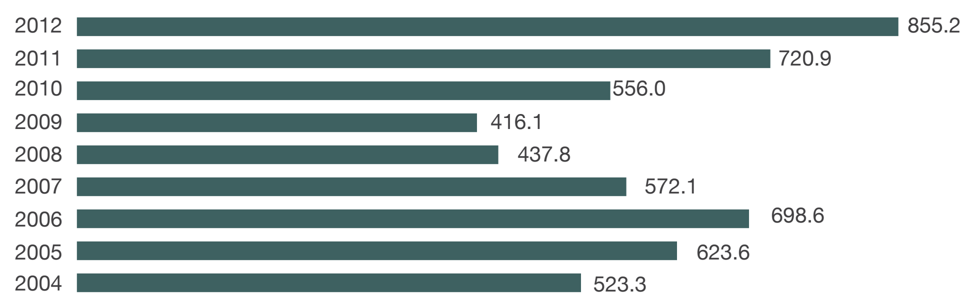
DOMESTIC SALES Amounts in millions of nominal pesos

2004-2007 Sales in million of pesos as of december 31, 2007
2008 - 2012 Sales in million nominal pesos



INTERNATIONAL SALES Amounts in millions of nominal US dollars

EBITDA Amounts in millions of pesos



Financial Information

	2011	2012	Var %
Sales	5,726.3	6,365.0	11.2%
Domestic	3,936.6	4,301.4	9.3%
International (millions of nominal US dollars)	144.2	156.7	8.7%
Gross Income	2,002.5	2,243.1	12.0%
Gross Margin	35.0%	35.2%	
Operating Income	390.2	559.3	43.3%
Operating Margin	6.8%	8.8%	
Net Majority Income	3.4	288.0	N/A
Total Assets	5,071.5	5,345.3	5.4%
Total Liabilities	2,822.5	2,860.5	1.3%
Total Equity	2,249.0	2,484.8	10.5%
Book Value per Share	13.8	15.3	10.5%
EBITDA	720.9	855.2	18.6%
Weighted Average Number of Shares Outstanding (Thousands)	162,664	162,664	0%

(Amounts expressed in millions of nominal pesos)
Except for gross margin, operating margin, book value per share, average shares outstanding, earnings per share and number of employees

Report of the Board of Directors
For the Year Ended 31 December 2012

The Board of Directors of Internacional de Ceramica, S.A.B. de C.V., in accordance with the provisions of the Stock Market Law and with its Bylaws, is providing the following report which details the actions taken by the Board as to the Company's activities for the year ended December 31st 2012.

In accordance with the provisions of Article 42, section II, paragraph f) of the Stock Market Law, the report contained herein was prepared with the support of the Audit and Corporate Practices Committee.

During the course of this year the Board has, apart from its monthly monitoring of the Company's operations and financial statements, taken the following actions

a. Approval of the 2012 Company's operations budget, including the review and approval of the Company's financial and operational goals, as well as investment capital to be made during the year.

b. Approval of the integral remuneration received by the President of the Board of Directors.

c. The Board was fully apprised and aware of the Report by the Chief Executive Officer for the year 2011.

d. The Board reviewed and approved the main Policies and Accounting and Reporting Standards followed by the company for the year ended December 31st 2011, for their presentation to the Special and Ordinary Annual Shareholders Meeting.

e. The Board was fully apprised and aware of the Report of the Auditors and Corporate Practices Committee for the Year Ended December 31st, 2011.

f. Reviewed and approved the Board of Directors Report and the report of its activities carried out during 2011, for its presentation at the Annual Shareholders Meeting

g. Approval of the audited financial statements of the Company for the year 2011, for its presentation to the Special and Ordinary Annual Shareholders Meeting on the recommendation by the Auditors and Corporate Practices Committee.

h. Approval of the convening of the Special and Ordinary Shareholders Meeting held on April 2012, and approved at said Meetings of the proposals that the Board resolved to submit at the Meetings for their approval.

i. The Board was fully apprised and aware of the legal status of the company, which was informed by the Auditors and Corporate Practices Committee.

j. Approved the waiver request to the Banks, submitted by the Deputy CEO, required to guarantee certain tax contingencies in favor of the Tax Authorities, with mortgages on certain Real Estate Properties in order to avoid the expense of obtaining Bonds to cover such contingencies.

k. Acknowledged the degree of compliance with the Better Corporate Practices Code, as well as with the Professional Ethics Code of the Securities Community and of the Regulations of the Mexican Stock Exchange (Bolsa Mexicana de Valores), and informed the Board members of its Responsibilities.

l. Approval of, with the prior favorable opinion and approval of the Auditors and Corporate Practices Committee, the hiring of Mancera, S.C., as independent auditors for the review of the Company's financial statements for the year ended December 31st 2012.

m. The Board was fully apprised and aware of the Company's operations and financial plan, as well as the strategies which were to be implemented in 2012.

Regarding to (i) Policies for the Use of Assets for Related Parties; (ii) Guidelines for Internal Control and Internal Auditing of the Company and its Subsidiaries; (iii) Policies for Granting Loans or any type of Credits or Guaranties to Related Parties; (iv) Policies for the appointment of the General Director and Relevant Executives, as well as the remuneration for the President of the Board of Directors, General Director, and Relevant Executives of the Company; and (v) Communication Policies with Shareholders and the Market, as well as the Board and Relevant Directors of the Company, these were not modified during the year 2012, the year covered by this Report.

With respect to the Company's Stock Repurchase fund, which was approved for an amount up to $180.6 million pesos, the Board informed the shareholders that during the year 2012 no operation was executed.

Chihuahua, Chihuahua, April 30th 2013

Víctor David Almeida García
Chairman of the Board of Director
and Chief Executive Officer

Report of the Audit and Corporate Practices Committee
For the Year Ended 31 December 2012

Internacional de Cerámica, S.A.B. de C.V.'s management is responsible for all internal controls applied over all processes of the company as well as those entities it controls. It is also responsible for preparing their financial information. Mancera, S.C. (Member of Ernst & Young Global), external auditors for Internacional de Cerámica, S.A.B. de C.V. and entities controlled by Interceramic, is responsible for examining the annual consolidated financial statements, under the Financial Information Norms, and issue an opinion on said financial statements regarding the presentation of International Financial Reporting Standards (IFRS). The Committee for Auditing and Company Practices (hereinafter referred to as "the Committee") will watch over and supervise said processes and is who, among other activities, recommends to the Board of Directors for their approval, the independent accounting firm that will serve as the Company's external auditor.

As a part of the monitoring processes, the Committee met with the Company's management and the external independent auditors to discuss the effectiveness of the internal controls applied to the operating and accounting processes, and to evaluate the accounting policies and practices as well as the results derived by the annual audits.

Additionally, the Committee undertook the following actions:

A).-Transactions or Dealings with Related Parties.- The transactions carried out by the Company with Related Parties were reviewed and the opinions were that said transactions are not more or less favorable for the Company than if they had been performed by any other supplier.

Transactions with related parties constituted contracting services from the following companies: (i) Corporación Administrativa y Técnica, S.A. de C.V. in the amount of $42.8 million pesos, for security services, rental fees and office services, office expenses of the President of the Board and IT services; (ii) Corporación Aerea Cencor, S.A. de C.V., in the amount of $14.3 million pesos for aerial taxi services; (iii) Autocamiones de Chihuahua, S.A. de C.V. in the amount of $2.2 million pesos for the purchase and maintenance service of company vehicles; (iv) Autos Internacionales de Chihuahua, S.A. de C.V., in the amount of $1.2 million pesos for the purchase and maintenance services of company vehicles; (v) Vehiculos Toy, S. de R.L. de C.V., in the amount of $1.0 million pesos for the purchase and maintenance services of company vehicles; (vi) Inmobiliaria Chihuahuense, S.A. de C.V., in the amount of $1.4 million pesos for warehouse space rental; (vii) Arquitectura Habitacional e Industrial, S.A. de C.V., in the amount of $23.4 million pesos for the expansion of productive plant number 9; (viii) Diablos Rojos de Mexico, in the amount of $3.0 million pesos for sponsorships and advertising; and (ix) Promotora de Espectaculos Deportivos de Oaxaca, S.A. de C.V., in the amount of $3.1 million pesos for sponsorships and advertising.

Operations (i), (ii), (vi), (viii), (ix) and part of operations (iii), (iv) and (vii) refer to costs and operating expenses, and represent 1.1% over the total costs and consolidated operating expenses. Operation (v), and part of operations (iii), (iv) and (vii) refer to investments which represent 8.4% of total capital investments performed in 2012. In addition of the before mentioned operations, ceramic tile sales operation were also performed to Daltile International, Inc. in the amount of $130.3 million pesos, transactions for the purchasing of inventory to Kohler Co and Custom Building Products, Inc in the amount of $146.8 and $26.9 million pesos respectively.

B).- Waivers for Officers and Executives to Participate in Business Opportunities.- For the year ended as of December 31st 2012, no waiver for Officers and Executives to Participate in Business Opportunities was granted.

C).- Opinion as to the Chief Executive Officer's Report.- As to the Chief Executive Officer's annual report, on the conduct of the company for the year 2012, in accordance with section IV of Article 28 of the Securities Market Law, in pursuance of Section II of Article 42 and Article 44, section XI of the Law express the following:

- i) Policies and accounting and reporting standards followed by the company are adequate and sufficient, taking into account the particular circumstances of the same.
- ii) These policies and standards have been applied consistently in the information presented by the Chief Executive Officer
- iii) Following this, the information presented by the Chief Executive Officer reasonably reflects the financial position and results of the Company for the year ended as of December 31, 2012.

D).- Opinion as to the Company's Financial Statements and as to the role of the independent Auditors.- As to its review of the Company's Financial Statements, the Committee undertook the following:

a. Financial statements for the fiscal year ending December 31st, 2012 were reviewed and discussed with the Company' Management and external auditors.
b. Discussions were held with the independent auditors as to all matters pertaining to and relevant to the carrying out of the audit of the Company's consolidated financial statements, including the scope of such audit, any observations stemming from the audit and the results derived from the audit.
c. The economic and decision-making independence of the independent auditors was reviewed and evaluated.

Based upon the discussions between Company management and the independent auditors, the statements made by the Company's management to the Committee, and subject to the favorable opinion of the independent auditors as to the mentioned financial statements, the Committee recommended the Board of Directors that it presents the annual consolidated and audited financial statements for their approval to the Shareholders at the next Annual Shareholders Meeting, noting that the role of the independent auditors was carried out adequately and sufficiently, and similarly noting that the results derived from the audit reasonably presented, as to all relevant and important aspects, the Company's and all the persons controlled by the Company, financial picture or situation, as required by the International Accounting Standards Board´s International Financial Reporting Standards ("IFRS").

E).-Internal Controls Report.- During 2012 the Company conducted several actions for the revision and control of procedures, policies, registries, operational flows, etc. for the different activities both of the Company and the entities it controls, such as the departments of Sales, Costs, Treasury, Administration Inventory management, Fixed Assets, Organizational Development, and found several opportunities for improvement in different areas; the corrective measures were taken.

Also, the Internal Control Plan for 2012 was approved; this plan will follow up on the items identified during the previous year, going over the main operations of the Company.

F).- Monitoring of Corrective and Preventive Measures.- During the fiscal year ending December 31st 2012, there were certain violations to the guidelines and operational policies which were presented before this Committee on the Internal Control Report. Also in this inform, preventive and corrective measures were presented in order to avoid and/or repair these violations. In regards to the accounting record policies, no breaches were found, neither by the Company nor by the entities it controls and thus, it was not necessary to follow up on the preventive or corrective measures that would have been brought upon by those causes.

G).- Monitoring of Shareholders and Board Meeting Agreements.- The Committee attended the Board meetings held during 2012, monitored and followed up on all agreements reached at said meetings. Also, the Committee had access to all the information and resolutions of all shareholder meetings held in 2012.

H).- Actions Taken in Response to Relevant Observations made to the Company.– During the fiscal year ending December 31st, 2012, the external auditors issued a letter of recommendation to the Company following the audit made for the year 2011. The Committee received this letter which, in addition to the observations made by the external auditor, included comments made by management referring to measures taken on these observations. The Committee will also receive from the external auditors a letter of recommendation for the fiscal year 2012 which will be followed up during 2012.

I).- Description and Effects Caused by Modifications Applied to the Company's Accounting Policies.- In january 2012, the International Accounting Standards Board ("IASB") amended the NIC 1 "Income Taxes" in the differed taxes part – recovery of subjacent assets.

The Company has made the necessary modifications to its accounting practices in order to comply with such amendment, which changes have no material effect in its Financial Statements.

J).- Review of Performance of and Actions Taken by Relevant Directors.- The Committee, in fulfillment of its obligations to the Company, performed a revision of the performance of the Relevant Directors of the society and concluded that the Chief Executive Officer and all Relevant Directors acted according to the terms established by the law, to all authorized policies and activities entrusted to them for the year of 2012 and thus recommends the Board of Directors requests approval and ratification of all acts performed by the Management of the Company to the Board of Directors at the Annual Shareholders Meeting.

K).- Compensation of Chief Executive Officer and Relevant Executives.- In accordance with the Company's "Policies for the Designation of the Chief Executive Officer and of the Relevant Executives as well as the establishment of compensation for the President of the Board of Directors, the Chief Executive Officer and the Relevant Executives", the Committee issued a favorable opinion regarding the ratification of Mr. Victor David Almeida García as Chief Executive Officer of the Company.

During 2012, the combined amount of earnings and compensation received by the Chief Executive Officer and the Company's Relevant Executives totaled $68,909,094 Pesos.

L).- Opinion and Recommendation regarding awarding a contract to the Company who Provided External Audit Services and, if applicable, additional or complementary services.- The Committee agreed and ratified the selection of Mancera, S.C., as the independent auditors for Internacional de Cerámica, S.A.B. de C.V., to examine the Company's consolidated financial statements and issue a report to be presented at the Company's next Annual Shareholders Meeting.

Additionally, the Committee issued a favorable opinion regarding the proposal for fees submitted by Mancera, S.C. for its services in auditing the Company's and its subsidiaries' Financial Statements.

The Committee also issued a favorable opinion regarding awarding a contract to Mancera, S.A., so that in addition to its services stemming from the Audit, Mancera S.A. will also conduct a taxes review, an audit of the Company's transactions to the IMSS and the INFONAVIT, and will also conduct a reconciliation of the United States Generally Accepted Accounting Principles ("USGAAP") of the company Adhesivos y Boquillas Interceramic, S. de R.L. de C.V.

During the fiscal year ending December 31st 2012, no independent specialists were hired nor contracted for any transaction or operation, and therefore no funds were expended for such services.

M).- Review of the Interceramic Code of Ethics.- The Committee reviewed Interceramic' Code of Ethics and was duly aware of its characteristics, purposes and contents. The Committee also reviewed the implementation and diffusion phases of the code, as well as the responsibilities of the Ethic Committee of the Company.

N).- Review of the "ETHOS" System.- Mechanism of Disclosure of Undue Events and Protection to Informants.- The Committee reviewed the Company's "Ethos" System, the procedure by which employees are able to consult or report unethical behavior or situations in a confidential or open manner. The questions and complaints made through this system were reviewed, and were revised as per the Ethics Committee which subsequently carried out the actions or corrective measures.

O).- Information Contingency and Recovery Plan.- The Committee reviewed the Information Contingency and Recovery Plan, which was prepared by the management and the Information Technology department of the Company and contains plans and sufficient measures to reduce to a minimum the impact to normal operation of the Company in case of an unforeseen event that could affect computer equipment, communications, and/or information systems critical to the area of Information Technology.

P).- Review of the Legal Situation of the Company.- The Committee received from the attorneys of the Company, the reports referring to legal situations of the Company, which discuss lawsuits, litigation, regulatory demands or requirements and other legal topics. The Committee is of the opinion that within the reports, there are no lawsuits, litigation, regulatory demands or requirements, or other legal matters which could potentially unfavorably affect the operation or the financial situation of the Company.

The Committee determined, based on the actions taken during the year ended December 31st, 2012, to give a favorable opinion regarding the issues mentioned in this report, and to recommend to the Board of Directors that the report be presented at the Shareholders Meeting for its consideration and approval.

José Luis Barraza González
Chairman of the Audit
and Corporate Practices Committee


COLOR
AMERICAN

Interceramic DIGITAL Technology

CARAS / FACES

The use of a new digital technology allows Interceramic to offer floor and wall tile that looks and feels like a natural product.

With this new technology, we are now able to produce a practically limitless number of different faces for one product that resemble the veins and marks found on wood, marble, slate and many other natural products.

The appearance is so real that it is difficult to tell apart a piece of stone taken from natural quarries and a tile from these new creations.


interceramic
In
ter
cera
mic
color
interceramic
Pisos
Azulejos

Interceramic 20/20

The new Store Concept

In its new 20/20 Store Concept, Interceramic combines technology and design to create a dynamic, modern, simple and elegant concept in its showrooms, presenting avant-garde and original collections arranged in an organized and efficient way so that even the most demanding consumers can enjoy a unique shopping experience.

The exceptional customer service that has always set the Interceramic stores apart, now has a revolutionized way of showing an unlimited display of ceramic product installations in a dynamic, friendly and fun way. Visitors to the Interceramic stores can choose materials in their own personal style, adapting product to their specific needs and tastes.

Social Responsability

For Interceramic, 2012 was a year of significant achievements in terms of sustainability, it allowed us to move forward and consolidate best practices to accomplish an economic, social and environmental performance with a positive impact.

I am very proud to communicate that for the ninth time Interceramic received the distinction as a Socially Responsible Company granted by the Mexican Philanthropic Center (CEMEFI), fact that reinforces our commitment to focus our business strategy and operations on a social vision of common well-being and permanence.

Through this document, we present a summary of the most relevant actions of the year which demonstrate our concern in fostering socially responsible actions in labor, human rights ethics, economic and social development of the employees, their families, and communities, as well as the care and preservation of our planet.

We will continue promoting a sustainable vision, working in collaboration through an open dialogue with our stakeholders, to grow as a company and in parallel with the communities in which we operate.

We recognize that we still have challenges in this matter, however, we are convinced that the confidence from our shareholders, communities, customers and suppliers and particularly the hard workand dedication of our employees, conform a great work team that
generates value and allows us to achieve an enduring success.

Víctor Almeida
Chairman of the Board of Directors
and Chief Executive Officer

Board of Directors

Chairman of the Board / CEO
VÍCTOR D. ALMEIDA GARCÍA (P,R)

Vice Chairman of the Board
CHARBEL CHRISTIAN HARP CALDERONI (P,R)
Vicechairman, Fundación Alfredo Harp Helú, A.C.

Secretary
LUIS FERNANDO MESTA SOULE

Directors
NORMA ALMEIDA DE CHAMPION (P,R)
President, Autocamiones de Chihuahua, S.A. de C.V.

SYLVIA ALMEIDA (P,R)
President, Corporación Administrativa y Técnica, S.A. de C.V.

DIANA E. ALMEIDA (P,R)
Director

PATRICIA ALMEIDA (P,R)
Director

LUIS NARCHI KARAM (R)
President, Narmex, S.A.

CARLOS LEVY COVARRUBIAS (I)
President, Nummos Asesores Financieros S.C.

DAVID KOHLER (P,I)
President and COO, Kohler Co.

JOSÉ LUIS BARRAZA GONZÁLEZ * (I)
Chairman of the Board, Grupo Aeroméxico

Directors Elected by Series “D” Shareholders
SERGIO MARES DELGADO * (I)
Chairman & CEO, Grupo Futurama

AUGUSTO O. CHAMPION (R)
Chairman & CEO, Arquitectura Habitacional e Industrial, S.A. de C.V.

* Members of the Audit and Corporate Practices Committee
P Board Member with Stock Participation
I Independent Director
R Related Director

INTERNACIONAL DE CERAMICA, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011
with Report of Independent Auditors

Contents:

Ernst & Young

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Valle Escondido 5500
Fracc. Desarrollo El Saucito
31125 Chihuahua, Chih.

Tel: 614 425 3570
Fax: 614 425 3580
www.ey.com/mx

To the Shareholders of
Internacional de Cerámica, S.A.B. de C.V. and subsidiaries

We have audited the accompanying consolidated financial statements of Internacional de Cerámica, S.A.B. de C.V. and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Internacional de Cerámica, S.A.B. de C.V. and subsidiaries at December 31, 2012 and 2011, and their consolidated financial performance and cash flows for the years then ended, in conformity with International Financial Reporting Standards.

Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version to English for convenience purposes only.

Mancera, S.C.
A Member Practice of Ernst & Young Global

C.P.C. José Antonio Reyes Cedeño
Partner

Chihuahua, Chih., a
April 4, 2013

Ernst & Young

Internacional de Cerámica, S.A.B. de C.V. and Subsidiaries
Consolidated Statements of Financial Position (Amounts in thousands of Mexican pesos)

	Note	December 31 2012		2011	
Assets					
Current assets:					
Cash and cash equivalents	6	**Ps.**	**139,770**	Ps.	244,019
Trade and other accounts receivable	7		**452,936**		449,244
Recoverable income tax			**19,009**		106,317
Inventories, net	8		**2,134,542**		1,854,298
Other current assets	9		**67,562**		33,898
Total current assets			**2,813,819**		2,687,776
Non-current assets:					
Property, plant and equipment	10		**2,402,509**		2,272,353
Investments in associated companies	11		**25,570**		5,939
Intangible assets	12		**40,171**		52,534
Other non-current assets	9		**63,255**		52,848
Total assets		**Ps.**	**5,345,324**	Ps.	5,071,450
Liabilities and equity					
Current liabilities:					
Financial debt	14	**Ps.**	**188,427**	Ps.	132,415
Suppliers and other accounts payable	13		**579,580**		345,645
Taxes and contributions payable			**64,417**		49,182
Employee benefits	15		**99,394**		86,900
Income tax			**18,117**		12,013
Total current liabilities			**949,935**		626,155
Long-term liabilities:					
Financial debt	14		**1,418,025**		1,726,451
Employee benefits	15		**140,649**		116,773
Deferred income tax	16		**351,899**		353,102
Total liabilities			**2,860,508**		2,822,481
Equity	17				
Capital stock			**531,479**		531,479
Share premium			**1,346,960**		1,346,960
Reserve for repurchase of shares			**180,600**		180,600
Retained earnings (accumulated deficit)			**172,395**	(	98,782)
Accumulated other comprehensive (loss) income items		**(**	**3,160)**		26,044
Equity attributable to equity holders of the parent			**2,228,274**		1,986,301
Non-controlling interest			**256,542**		262,668
Total equity			**2,484,816**		2,248,969
Total liabilities and equity		**Ps.**	**5,345,324**	Ps.	5,071,450

The accompanying notes are an integral part of these financial statements.

Internacional de Cerámica, S.A.B. de C.V. and Subsidiaries
Consolidated Statements of Income (Amounts in thousands of Mexican pesos)

	Note	For the year ended December 31 2012	2011
Operating income	21	**Ps. 6,365,008**	Ps. 5,726,280
Cost of sales	22	**(4,121,933)**	(3,723,809)
Gross profit		**2,243,075**	2,002,471
Operating expenses:			
General and administrative expenses	23	**(1,674,237)**	(1,569,976)
Other expenses, net	25	**(9,575)**	(42,283)
		(1,683,812)	(1,612,259)
Operating income		**559,263**	390,212
Accrued interest receivable	26	**10,710**	17,688
Accrued interest payable	26	**(92,257)**	(89,103)
Exchange gain (loss), net		**109,696**	(184,497)
Equity interest in net loss of associated company	11	**(11,482)**	(20,754)
		16,667	(276,666)
Income before taxes on profits		**575,930**	113,546
Taxes on profits	16	**(232,325)**	(54,241)
Net income		**Ps. 343,605**	Ps. 59,305
Net income for the period attributable to:			
Equity holders of the parent		**Ps. 287,991**	Ps. 3,379
Non-controlling interest		**55,614**	55,926
		Ps. 343,605	Ps. 59,305
Basic and diluted earnings per share (in Mexican pesos)		**Ps. 1.77**	Ps. 0.02

Las notas adjuntas son parte integrante de estos estados financieros.

Internacional de Cerámica, S.A.B. de C.V. and Subsidiaries

Consolidated Statements of Comprehensive Income (Amounts in thousands of Mexican pesos)

	Note	For the year ended December 31 2012		2011	
Net consolidated income		Ps.	**343,605**	Ps.	59,305
Other comprehensive (loss) income items:					
Translation effect of foreign entities	17		**(41,720)**		72,658
Deferred income tax	17		**12,516**		(21,797)
			(29,204)		50,861
Actuarial losses from labor obligations	17		**(16,814)**		(5,534)
Deferred income tax	17		**5,044**		1,660
Valuation allowance			**(5,044)**		(1,660)
			(16,814)		(5,534)
Unrealized gain on valuation of derivatives	17		**-**		3,850
Deferred income tax	17		**-**		(1,155)
			-		2,695
Other comprehensive (loss) income items, net			**(46,018)**		48,022
Comprehensive income		Ps.	**297,587**	Ps.	107,327
Comprehensive income for the period attributable to:					
Equity holders of the parent		Ps.	**241,973**	Ps.	51,131
Non-controlling interest			**55,614**		56,196
		Ps.	**297,587**	Ps.	107,327

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity. For the years ended December 31, 2012 and 2011 (Amounts in thousands of Mexican pesos)

				(Accumulated deficit) retained earnings							
	Capital stock	Share premium	Reserve for repurchase of shares	Legal reserve	Undistributed losses	Net income for the year	Total (accumulated deficit) retained earnings	Accumulated other comprehensive (loss) income items (Note 17)	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at December 31, 2010	Ps. 531,479	Ps. 1,346,960	Ps. 180,600	Ps. 72,751	Ps. (183,932)	Ps. 14,554	Ps. (96,627)	Ps. (27,242)	Ps.1,935,170	Ps. 288,022	Ps.2,223,192
Net income						3,379	3,379		3,379	55,926	59,305
Unrealized gain on derivatives, net of taxes								2,425	2,425	270	2,695
Actuarial losses from labor obligations					(5,534)		(5,534)		(5,534)	-	(5,534)
Effect of translation of foreign entities								50,861	50,861	-	50,861
Comprehensive income for the year					(5,534)	3,379	(2,155)	53,286	51,131	56,196	107,327
Shareholders' resolutions:											
Appropriation of net income of prior year					14,554	(14,554)	-		-	-	-
Capital reimbursement to minority shareholders											
Non-controlling interest									-	(31,500)	(31,500)
Dividend paid (Note 19)									-	(50,050)	(50,050)
Balance at December 31, 2011	531,479	1,346,960	180,600	72,751	(174,912)	3,379	(98,782)	26,044	1,986,301	262,668	2,248,969
Net income						**287,991**	**287,991**		**287,991**	**55,614**	**343,605**
Actuarial losses from labor obligations					**(16,814)**		**(16,814)**		**(16,814)**	**-**	**(16,814)**
Effect of translation of foreign entities								**(29,204)**	**(29,204)**	**-**	**(29,204)**
Comprehensive income for the year					**(16,814)**	**287,991**	**271,177**	**(29,204)**	**241,973**	**55,614**	**297,587**
Shareholders' resolutions:											
Appropriation of net income of prior year					**3,379**	**(3,379)**	**-**		**-**	**-**	**-**
Dividend paid (Note 19)									**-**	**(61,740)**	**(61,740)**
Balance at December 31, 2012	**Ps. 531,479**	**Ps. 1,346,960**	**Ps. 180,600**	**Ps. 72,751**	**Ps. (188,347)**	**Ps. 287,991**	**Ps. 172,395**	**Ps. (3,160)**	**Ps. 2,228,274**	**Ps. 256,542**	**Ps.2,484,816**

The accompanying notes are an integral part of these financial statements.

Internacional de Cerámica, S.A.B. de C.V. and Subsidiaries
Consolidated Statements of Cash Flows (Amounts in thousands of Mexican pesos)

	Note	For the year ended December 31 2012	2011
Operating activities			
Income before taxes on profits		**Ps. 575,930**	Ps. 113,546
Items not affecting cash flows:			
Depreciation	10	**266,146**	272,309
Amortization of intangible assets	12	**12,899**	13,451
Amortization of showrooms		**2,628**	2,647
Impairment in the value of long-lived assets	12	**22,140**	45,483
Charge to earnings for pensions and seniority premiums	15	**15,189**	13,981
Equity interest in net loss of associated company	11	**11,482**	20,754
Loss (gain) on the sale of plant and equipment	25	**676**	(387)
Interest expense		**51,836**	54,188
Exchange (gain) loss, net		**(120,000)**	229,809
Change in working capital:			
Accounts receivable		**(42,067)**	(55,639)
Prepaid expenses		**(34,733)**	(19,978)
Related parties		**3,300**	3,037
Other assets		**(15,171)**	8,081
Inventories		**(319,085)**	(177,965)
Employee benefits paid		**(8,127)**	(1,490)
Accounts payable and accrued liabilities		**194,392**	3,685
Taxes on profits paid		**(106,623)**	(112,248)
Net cash flow provided by operating activities		**510,812**	413,264
Investing activities			
Acquisition of property, plant and equipment		**(380,172)**	(141,365)
Income from sale of fixed assets		**22,819**	3,304
Acquisition of intangible assets	12	**(22,957)**	(14,659)
Increase in equity investments in associated companies	11	**(31,113)**	(26,693)
Net cash flow used in investing activities		**(411,423)**	(179,413)
Financing activities			
Loans obtained	14	**-**	1,883,250
Repayment of loans		**(139,500)**	(2,053,217)
Interest paid		**(44,751)**	(63,739)
Capital reimbursement to minority shareholders		**-**	(31,500)
Dividend paid	19	**(61,740)**	(50,050)
Net cash flow used in financing activities		**(245,991)**	(315,256)
Net decrease in cash and cash equivalents		**(146,602)**	(81,405)
Cash and cash equivalents at beginning of period		**244,019**	335,443
Adjustment to cash flows due to exchange rate fluctuations		**42,353**	(10,019)
Cash and cash equivalents at end of period	6	**Ps. 139,770**	Ps. 244,019

The accompanying notes are an integral part of these financial statements.

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

1. Description of the Business

Internacional de Cerámica, S.A.B. de C.V. (Interceramic) was incorporated under the Mexican Corporations Act and it operates in terms of the Mexican Securities Trading Act as a publicly traded variable capital corporation listed in Bolsa Mexicana de Valores, S.A.B. de C.V. (the Mexican Stock Exchange). Its corporate offices are located in Chihuahua, Chih., at Ave. Pacheco No. 7200, Colonia Madera 65.

Interceramic and its subsidiaries (hereinafter the Group) are primarily engaged in producing and selling ceramic tiles for floors and walls, in selling bathroom furniture and in extracting raw materials for the production of ceramic tiles. The Group is also engaged in producing and selling materials used in the installation of ceramic floor and wall tiles, as well as in distributing granite, marble and other natural stone products used for decorative purposes.

In Mexico, the Group sells its products mainly to independent franchise stores. In the U.S., the Group primarily distributes its products through its own network of stores under the banner Interceramic Tile and Stone Galleries (ITS), and it also has a network of 49 independent distributors in both the U.S. and Canada for a total of 172 locations.

On March 26, 2013, the accompanying consolidated financial statements and these notes were authorized by the Group's Chief Executive Officer, the Deputy General Manager and the Finance and Administrative Director, for their issuance and subsequent approval by the Board of Directors.

2. Basis of Presentation

The consolidated financial statements of Interceramic and its subsidiaries were prepared in conformity with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

3. Consolidation

The consolidated financial statements include the statements of Interceramic and those of its subsidiaries, which are prepared for the same reporting period as the parent company, using consistent accounting policies.

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

3. Consolidation (continued

Subsidiaries

Subsidiaries are understood to be those entities over which the Group has the power to govern the investee's operating and financial policies and obtain benefits from its activities, as of the date control is obtained and through the date control is lost. The financial statements of the subsidiaries have been prepared for the same accounting period and following the same accounting policies as those of the Group. All intercompany balances and transactions, intra-group unrealized gains and losses, and dividends have been eliminated in the consolidated financial statements. When the Group holds equity interest of less than 100% and, therefore, there is a non-controlling interest in the net assets of the consolidated subsidiary, a separate non-controlling interest caption is included in the balance sheet.

Business acquisitions are accounted for using the purchase method. Under this method, the assets acquired and liabilities assumed are recognized at fair value at the purchase date. The operating results of acquired businesses are recognized in the consolidated financial statements as of the effective acquisition date. The operating results of businesses sold during the year are included in the consolidated financial statements through the effective date the business was sold. A gain or loss on the sale of an acquired business, which is the difference between the income received from the sale, net of the related expenses, and the net assets attributable to the equity interest in the business at the date of sale, is recognized in the income statement.

Associated companies

Associated companies are those entities over which the Group exercises significant influence but does not have control. Investments in associated companies are initially recognized at cost and later accounted for using the equity method, which consists of recognizing the Group's share in the changes in the issuer's equity. The income statement reflects the Group's equity interest in the associated company's net income or loss. Dividends received from the associated company are subtracted from the valuation of the investment. Gains and losses on transactions with associated companies are eliminated in the consolidated financial statements based on the percentage of equity interest held in each investee.

Acquisition of associated companies are accounted for using the purchase method. Acquisition cost is recognized at the fair value of the assets received from and liabilities assumed for the issue at the purchase date. The unrealized gain on the investment in an associated company is reflected in the carrying amount of the investment.

After the application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the associate. To this end, at each reporting date the Group determines whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Group Interceramic calculates the amount of impairment as the difference between the recoverable amount of its investments in the associate and its carrying value and recognizes the amount under the caption equity interest in net loss of the associate in the consolidated income statement.

The Group's subsidiaries are as follows:

		% equity interest	
Subssidiary	Country	December 2012	December 2011
Adhesivos y Boquillas Interceramic, S. de R.L. de C.V.	México	51.00	51.00
Recubrimientos Interceramic, S.A. de C.V.	México	50.01	50.01
Inmobiliaria Interceramic, S.A. de C.V.	México	100.00	100.00
Holding de Franquicias Interceramic, S.A. de C.V.	México	100.00	100.00
Holding de Servicios Interceramic, S.A. de C.V.	México	100.00	100.00
Interceramic Trading, Co.	EUA (1)	100.00	100.00
Interceramic Internacional Holding	EUA (1)	100.00	100.00
Interceramic HK Limited	China	100.00	100.00

(1) United States of America.

4. Significant Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, inherent uncertainty surrounding these assumptions and estimates could result in actual outcomes that require material adjustments to the carrying amounts of the Group's asset or liabilities or its earnings of future periods.

Specific information on these judgments and estimates is disclosed in the description of the accounting policies and/or notes to the consolidated financial statements. A summary of the principal estimates and assumptions used is shown below:

a) Impairment

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is calculated using available data on binding arm's length sales of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. Cash flow forecasts are based on budgeted sales over the next five years and exclude the effects of restructuring activities that the Group is not yet committed to and of significant future investments that will enhance the performance of the asset or cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 30.

b) Property, plant and equipment

Depreciation of property, plant and equipment is computed based on the useful lives of the assets. Useful lives are determined based on technical studies performed by specialized internal personnel with the assistance of independent specialists. The Group's useful lives are reviewed at least annually and such analyses consider the current condition of the assets and the estimate of the period during which they will generate economic benefits for the Group. Changes in these estimated useful lives could prospectively alter depreciation amounts and the carrying values of property, plant and equipment.

c) Retirement benefits

Assumptions are used to compute the best estimate of the Group's employee retirements benefits. These assumptions, as well as the estimates they give rise to, are determined together with independent actuaries. An actuarial valuation involves making various assumptions which may differ from actual future outcomes. These assumptions include demographical hypothesis, discount rates, expected salary increases and estimated working lifetimes, among other areas.

Although the assumptions used are considered appropriate based on current circumstances, future changes to the assumptions could affect the measurement of the liabilities for personnel benefits and the operating results of the period in which such changes occur. All assumptions are reviewed at each reporting date.

4. Significant Judgments, Estimates and Assumptions (continued)

c) Retirement Benefits (continued)

To compute the appropriate discount rate, the Group's actuaries considered the median spread of 131 basis points and a zero coupon bond interest rate of a 5.63%, resulting in a discount rate of 7%. The mortality table used is the so-called Experiencia Mexicana del Seguro Social 1997. Future salary increases and pension increases are calculated based on expected future inflation rates.

d) Contingencies

Given their nature, contingencies are only resolved when one or more future events or uncertain facts not entirely under the Group's control either occur or do not occur. The evaluation of the existence of contingencies requires significant judgment and the use of estimates regarding the outcome of future events. The Group evaluates the probability of losing its on-going litigations based on the estimates of its legal advisors and these evaluations are reassessed periodically.

e) Taxes

Deferred tax assets are recorded for all unused tax losses only when it is probable that the Group will have sufficient tax profits in future years against which to carry forward the losses. Significant management judgment is required to determine the amount of deferred tax assets that should be recorded based upon the likely timing and amounts of expected future taxable profits. Further details on taxes are disclosed in Note 16.

f) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair values are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets when possible, but where this is not feasible, a degree of judgment is required to set fair values. These judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in the assumptions surrounding these judgment factors could affect the reported fair value of the Group's financial instruments.

5. Summary of Significant Accounting Policies

A summary of the accounting policies used in the preparation of the consolidated financial statements is found below. These polices have been applied consistently by the Group in all of the periods presented in the accompanying financial statements.

a) Foreign currency translation

Functional currency and reporting currency

The accompanying consolidated financial statements are presented in Mexican pesos, which is the parent company's functional currency. Each subsidiary determines its own functional currency and all the accounts of the financial statements of each entity are measured using that functional currency. Except for certain foreign subsidiaries, the functional currency of all of the Group's entities is the Mexican peso.

Translation to the reporting currency

The following methodology was used to translate the foreign subsidiaries' financial statements from their functional currency to the reporting currency at the reporting date:

5. Summary of Significant Accounting Policies (continued)

a) Foreign currency translation (continued)

- Monetary and non-monetary items measured are translated using the exchange rates in effect at the statement of financial position reporting date.

- Income, cost and expense items in the income statement are translated using the average exchange rate of the period, unless such rates fluctuate significantly during the period, in which case the transactions are translated at the prevailing exchange rate on the transaction date.

- Equity accounts are translated at historical exchange rates in effect at the time capital contributions were made and earnings were generated.

- Translation adjustments are recognized as a separate item in equity.

Transactions in foreign currency

Foreign currency transactions are translated at the prevailing exchange rate at the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated at the prevailing exchange rate at the latest statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. These translation adjustments are carried directly to the statement of income.

The exchange rates used in the preparation of the accompanying consolidated financial statements were as follows

	December 31, de 2012	December 31, de 2011
Prevailing exchange rate (MXN to USD)	12.99	13.95
Average exchange rate (MXN to USD)	12.87	13.74

At April 4, 2013 the date of the audit report on these consolidated financial statements, the exchange rate is $ 12.33 pesos per U.S. dollar. At April 4, 2013, the average exchange rate is $ 12.57 pesos per U.S. dollar.

b) Cash and cash equivalents

Cash and cash equivalents shown in the statement of financial position include petty cash, cash in banks and highly liquid investments, which are readily convertible into cash. Cash in banks and liquid investments bear interest at market rates and have maturities of less than 30 days.

c) Financial assets

Financial assets are classified, at the time of their initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. Their designation is reevaluated at each year-end closing.

5. Summary of Significant Accounting Policies (continued)

c) Financial assets (continued)

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The Group's financial assets include cash and short-term deposits, trade and other receivables. Subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and that are not traded on an active market. After their initial recognition, these financial assets are subsequently valued at amortized cost using the effective interest rate method (EIR), less impairment. The amortized cost is computed by taking into consideration any discount or premium on the acquisition and the fees and costs that are integral part of the EIR. The amortization is included as part of the Accrued interest receivable caption in profit and loss. Impairment losses are recognized in the statement of income as part of the caption Accrued interest payable..

Financial assets at fair value through profit or loss

Financial assets are classified as for trading purposes if they are acquired to be sold in the short-term. Derivative financial instruments are classified as held for trading unless they are designated as hedges. Financial assets acquired for trading are recognized at their fair value through profit or loss in the statement of financial position and changes in such value are recognized in the financial income or financial expenses captions in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as such or that are not classified in any of the previously mentioned categories and do not qualify as held-to-maturity investments.

Available-for-sale financial assets represent investments with a quoted price in an active market and can therefore be reliably valued at their fair value. After initial measurement, available-for sale assets are valued at their fair value and the unrealized gains or losses are recognized as a separate item in equity. When the available-for-sale financial assets are sold and all of the risks and rewards have been transferred to the buyer, all previous fair value adjustments recognized directly in equity are reclassified to the income statement.

d) Allowance for bad debts

The Group periodically recognizes an allowance for bad debts based on aged and qualitative analyses of its accounts receivable. The computation of this allowance also takes into account an evaluation of historical losses from uncollectible balances and an analysis of the economic environment in which the Group operates. Collection policies and procedures vary from account to account depending on the credit history of the customer and the amount of the credit extended.

Accounts receivable, along with their respective allowance for bad debts, are written off when there is no realistic expectation of receiving payment in the future and all guarantees against the account have been executed or transferred to the Group. Any previously written off account that is later recovered is recognized directly in the income statement.

5. Summary of Significant Accounting Policies (continued)

e) Impairment of financial instruments

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and the intention is to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets carried at amortized cost

If there is objective evidence of an impairment loss, the amount of the loss is measured as the difference between the book value of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not yet been incurred). The present value of expected future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced through a provision and the amount of the loss is recognized in the income statement. The loans and the related provisions are written off when there is no realistic possibility of future recovery and all of the collateral guarantees have been realized or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases due to an event that occurs after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to the income statement.

The Group evaluates whether there is objective evidence of impairment in financial assets that are individually significant, or collectively for financial assets that are not individually significant; if the Group determines there is no objective evidence of impairment for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and they are collectively evaluated for impairment. Assets that are assessed individually for impairment and for which an impairment loss is or continues to be recognized are not included in the collective evaluation of impairment.

Available-for-sale financial instruments

If an available-for-sale asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is reclassified from comprehensive income or loss in equity to the income statement. For equity instruments classified as available-for-sale, if there is a significant or prolonged decline in their fair value to below acquisition cost, impairment is recognized directly in the income statement but subsequent reversals of impairment are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, as long as the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in income.

5. Summary of Significant Accounting Policies (continued)

f) Derivatives

Hedging instruments

The Group mitigates certain financial risks, such as the risk related to volatility in its energy costs, interest rates, exchange rates, and the value of its financial assets and liabilities, through a controlled risk management program that includes the use of derivative financial instruments.

The Group's derivative activities are limited in volume and confined to risk management activities. The Group's senior management takes an active part in the analysis and monitoring of the design, performance and impact of the Group's hedging strategies and transactions with derivatives. Derivative instruments are contracted solely with financially-strong institutions. Group's policy is to not carry out speculative transactions with derivative financial instruments.

All derivative financial instruments are recognized as assets and liabilities and stated at fair value.

The Group documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. This documentation includes the identification of the derivative financial instrument, the item or transaction being hedged, the nature of the risk being hedged and the method that will be used to evaluate whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedges should be highly effective in neutralizing the effects of fluctuations in the fair value or cash flows and they are constantly evaluated to determine whether they are actually effective throughout the reporting periods to which they have been assigned. Hedges that meet the criteria are recognized as explained below.

Cash-flow hedges

For derivatives that are designated and qualify as cash flow hedges, and the effective portion of changes in fair value is recorded as a separate component in equity and is carried to the income statement at the settlement date, as part of either the sales, cost of sales or comprehensive financing income caption. The ineffective portion of changes in the fair value of cash flow hedges is immediately recognized in the income statement.

If the hedging instrument matures or is sold, terminated or exercised without being replaced or without continuous financing or if its designation as a hedge is revoked, the cumulative gain or loss recognized directly in equity as of the effective date of the hedge remains in equity and is recognized in the income statement when the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is immediately carried to profit and loss.

Derivatives designated as hedges that are effective hedging instruments are classified based on the classification of the underlying item. The derivative instrument is divided into a short-term portion and a long-term portion only if the two portions can be determined reliably.

Fair value hedges

Derivatives acquired primarily to hedge the Group's energy costs are designated as fair value hedges. Changes in the fair value of the Group's fair value hedges are recognized in the income statement, along with the changes in the fair value of the item being hedged or attributable to the risk being hedged.

5. Summary of Significant Accounting Policies (continued)

f) Derivatives (continued)

Embedded derivativess

The Group's financial and non-financial agreements are periodically evaluated to determine whether they contain embedded derivatives. Embedded derivatives are separated from the host contract and are recorded at their fair value if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and the host contract is not held for trading or is marked at fair value through profit or loss.

Embedded derivatives are valued at fair value and changes in fair value are recognized in the income statement. Embedded derivatives are revalued only if there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

g) Inventories

Inventories are recognized at historical cost and are valued using the average-cost method. The carrying value of inventories is not to exceed their net realizable value. Net realizable value represents the estimated sale price that would be set in the normal course of operations, less the estimated completion costs and the cost of sales of the final product.

Obsolete, slow-moving and defective inventories are written down to their net realizable value. The estimate of the realizable value of existing inventories is based on their age and turnover.

h) Property, plant and equipment

Property, plant and equipment are carried at cost, net of accumulated depreciation and/or any accumulated impairment loss. The cost includes the purchase price and any other costs directly attributable to refurbishing and getting the asset ready for use, as well as the cost of replacing component parts of property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement cost if the recognition criteria are satisfied.

Borrowing costs that are incurred for general financing for construction in progress for periods exceeding 6 months are capitalized as part of the cost of the respective assets, provided they give rise to future economic benefits and these benefits can be measured reliably.

In addition to the purchase price and costs directly attributable to preparing an asset in terms of its physical location and condition for use as intended by management, the cost also includes the estimated costs of decommissioning and removing the asset and restoring of the site where it is located. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Maintenance and repair costs are expensed as incurred.

Depreciation is computed using the straight-line method based on acquisition cost, less the residual value of the property, plant and equipment throughout its useful life or over the expected period in which the benefits of their use will be received. Depreciation begins when the asset is available for use, on the following bases:

Buildings	3% to 10%
Industrial machinery and equipment	3% to 15%
Office furniture and equipment	8% to 20%
Automotive equipment	5% to 25%

5. Summary of Significant Accounting Policies (continued)

h) Property, plant and equipment (continued)

The residual values, useful lives and methods of depreciation of the Group's assets are reviewed periodically and they are adjusted prospectively where appropriate.

For property, plant and equipment made up of components with different useful lives, the major individual components are depreciated over their individual useful lives.

Construction in progress

Construction in progress includes the associated property, plant and equipment assets. Once construction is complete, these assets are reclassified to property, plant and equipment and depreciation begins as of the date they are capitalized, which is when their period of use begins.

Sale and retirement of assets

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in other operating income or other operating expenses when the asset is derecognized.

Maintenance and repairs

Repairs are capitalized if the related recognition criteria are met, while at the same time the book values of the parts being replaced are cancelled. All other expenses, including repairs and maintenance, are recognized in the income statement as they are incurred.

Impairment

The carrying value of property, plant and equipment is reviewed whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the greater between its selling price and value in use (the present value of future cash flows), is lower than its net carrying value, the difference is recognized as an impairment loss.

i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible assets.

5. Summary of Significant Accounting Policies (continued)

i) Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Licenses and rights-to use software with finite useful lives are amortized using the straight-line method over the term of the license. Goodwill is no longer amortized, but rather is subject to impairment tests.

j) Impairment of non-financial assets

The book value of depreciated or amortized assets is tested for impairment when there are situations or changes in circumstances that indicate that the asset's carrying value is not recoverable. At each reporting date, non-monetary assets are tested to determine whether there are indicators of impairment.

If there are indicators of impairment, a review is conducted to determine whether the carrying value exceeds the recoverable amount of the asset. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

If the book value of an asset or its cash generating unit exceeds the recoverable amount, impairment is recognized by reducing the carrying amount of the asset in the statement of financial position to the asset's recoverable amount. The recoverable amount of an asset is the higher of either its value in use or fair value less its sales cost. Impairment losses are recognized in the income statement. In assessing value in use, 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 each asset. The computation of fair value less costs to sell is based on available recently market data. Where no such market data exists, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its value in use calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year. Cash generating units are the smallest identifiable groups of assets that generate cash income that is independent from the cash income attributable to other assets or groups of assets.

For assets, excluding goodwill, an assessment is made at each reporting date to determine whether there are any changes in the circumstances and estimates and verify whether any previously recognized impairment losses may no longer exist or may be reversed. If so, the book value of the asset is increased to the asset's recoverable amount and the effects of this reassessment are recognized in the income statement. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

5. Summary of Significant Accounting Policies (continued)

j) Impairment of non-financial assets (continued)

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as of 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

k) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and financial debt, or derivatives designated as hedging instruments in effective hedges. The Group determines the classification of its financial liabilities at the time of their initial recognition.

All financial liabilities are initially recognized at their fair value and, for loans and financial debt, fair value includes directly attributable transaction costs.

Financial liabilities include accounts payable to suppliers, other accounts payable and financial debt.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, (i) there is a currently enforceable legal right to offset the recognized amounts; and
(ii) there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Subsequent recognition of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at its fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the short term. This category includes derivative financial instruments nogotiated by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the income statement.

5. Summary of Significant Accounting Policies (continued)

k) Financial liabilities (continued)

The Group has not designated any financial liabilities upon initial recognition at its fair value through profit or loss. Derivatives not designated as hedges are recognized at fair value through profit or loss.

Financial debt and interest bearing loans

After initial recognition, interest-bearing loans are subsequently measured at their amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in financial costs in the income statement.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

l) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, (i) there is a currently enforceable legal right to offset the recognized amounts; and (ii) there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

m) Fair value of financial instrumentss

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's-length market transactions; reference to the current fair value of another financial instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

n) Provisions

Provisions are recognized whenever (i) the Group has present obligations (legal or constructive) resulting from a past event; (ii) when it is probable the obligation will give rise to a future cash disbursement for its settlement; and
(iii) the amount of the obligation can be reasonably estimated. When the effect of the time value of money is material, provisions are discounted using a discount rate determined on a pre-tax basis. Where discounting is used, the increase in the provision due to the passage of time is recognized as financial cost in profit or loss.

5. Summary of Significant Accounting Policies (continued)

n) Provisions (continued)

Where the Group expects some or all of a provision to be reimbursed by a third party, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The amount recorded for the asset must not exceed the amount of the provision.

o) Dividends

Proposed dividends are recognized as a liability in the same period they are declared by the shareholders. Dividends payable to minority shareholders are recognized as a liability when they are declared by the shareholders or partners of the subsidiaries.

p) Employee benefits

As a result of the Group's early adoption of IAS 19 (amended), actuarial gains and losses are recognized in other comprehensive income.

Short-term direct employee benefits

Liabilities for employee benefits are charged to the income statement on an accrual basis taking into account the wages and salaries that the entity expects to pay at the statement of financial position date, including the related taxes that will be payable by the Group. Paid absences for vacation and vacation premiums are expensed as the benefits accrue.

Defined benefit plan

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method based on the earnings of employees and their years of service. This actuarial valuation is prepared by an independent actuarial firm. The liability is recorded at present value using a discount rate that represents the yield at the reporting date on credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and denominated in the same currency in which the benefits are expected to be paid. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Seniority premiums

In conformity with Mexican labor law, the Group is required to pay a premium equal to 12 days' salary for each year of service to its outgoing employees who have rendered 15 or more years of service.

The cost of benefits related to seniority premiums payable upon voluntary retirement of unionized employees is computed using the projected unit credit actuarial valuation method. Seniority premiums are included in the defined benefits plan. Actuarial gains or losses are recognized directly in the income statement.

5. Summary of Significant Accounting Policies (continued)

p) Employee benefits (continued)

Termination benefits

Employee termination benefits for dismissal are charged to operating results of the year in which such payments are made or whenever the Group's obligation to pay such amounts can be reliably demonstrated.

Employee profit sharing

In conformity with Mexican legislation, the Group must distribute the equivalent of 10% of its annual taxable income as employee profit sharing. This amount is recognized in the income statement as part of the Operating expenses caption.

q) Income tax

Current income tax

Assets and liabilities for current year income tax are measured based on the amount expected to be recovered from or paid to the tax authorities.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is determined using the asset and liability method, based on the temporary differences between the book and tax values of assets and liabilities at the date of the financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognized on all temporary taxable differences, except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and

- With regard to taxable temporary differences related to investments in subsidiaries, associated companies and joint ventures, when the controlling company, the investor or partner may control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not reverse in the near future.

Deferred tax assets are recognized for all deductible temporary differences and for the amortization of unused tax credits and tax losses, to the extent that it is probable that that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

5. Summary of Significant Accounting Policies (continued)

q) Income tax (continued)

- When the deferred tax asset related to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, the deferred tax asset does not affect either the book income or taxable profit or loss.

- With regard to deductible temporary differences related to investments in subsidiaries, associates and joint ventures, deferred tax assets are recognized only to the extent that it is probable that such temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and is recognized to the extent that it is unlikely that sufficient taxable income will be available to allow the deferred income tax assets to be realized either partially or in full. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized outside profit or loss is recognized in other comprehensive income.

r) Earnings per share

Earnings per share are determined by dividing net income for the year by the weighted-average number of shares outstanding during the year. The computation of the average weighted number of shares issued and outstanding excludes treasury shares.

s) Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issuance or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

t) Recognition of revenues

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates and other taxes on sales.

5. Summary of Significant Accounting Policies (continued)

t) Recognition of revenues (continued)

Sales revenues are recognized at the time the significant risks and rewards of ownership are transferred to the customer, which usually occurs when the related assets are delivered to the customer and the customer assumes responsibility for the merchandise.

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR) method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the income statement under accrued interest receivable.

u) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A lease is classified as a financial lease when it transfers substantially all of the risks and rewards of ownership to the lessee. Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases.

Assets acquired through financial leases are recorded at the inception of the lease at the lower of their fair value of the leased asset or the present value of minimum lease payments discounted using the interest rate implicit in the lease. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financial charges are recognized as part of accrued interest payable in the income statement. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognized in the income statement on a straight-line basis over the lease term.

v) Contingent assets and liabilities

Contingent assets are not recognized, but are disclosed in the notes of the financial statements unless the possibility of receiving economic benefits is remote.

Contingent liabilities are not recognized, but are disclosed in the notes of the financial statements unless the possibility of an outflow of economic resources is remote.

w) Statement of income presentation

Costs and expenses presented in the consolidated income statement were classified based on their function, since the separate presentation of costs of sales and other costs and expenses, and the inclusion of a gross income caption, provide an objective evaluation of efficiency at the different revenue levels, considering the industrial sector in which the Group operates.

Operating income consists of ordinary revenues and operating costs and expenses. The presentation of operating income is not required; however, this caption is shown in the statement of income, since it is an important indicator used for evaluating the Group’s operating results.

5. Summary of Significant Accounting Policies (continued)

x) Operating segments

Segment information is presented based on information used by the Group in its decision-making processes for those geographical areas in which the Group operates.

Management is responsible for deciding on the resources allocated to the segments, as well as their performance assessment.

y) New and modified standards and interpretations

The accounting policies used are consistent with those applied last year, except for the following changes in IFRS applicable as of January 1, 2012:

- IAS 12 Taxes on profits*: Deferred tax: Recovery of Underlying Assets*
- IFRS 7 Financial Instruments: *Disclosures – Improvement in Disclosure Requirements for the Derecognition of Financial Instruments*
- IFRS 1 *Severe hyperinflation and Removal of Fixed Dates for First-time Adopters*

The adoption of these standards and interpretations is as follows:

IAS 12, *Taxes on profits: Deferred taxes* – Recovery of underlying assets

This amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the assets. The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment did not have an impact on the Group's financial position, performance or its disclosures

IFRS 7, *Financial instruments: Disclosures* - Improvement in disclosure requirements for the derecognition of financial instruments

This amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity´s continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. Since the Group does not have financial instruments with these characteristics, the amendment did not have an impact on the Group's financial position, performance or its disclosures.

IFRS 1 Severe hyperinflation and change of date of first application

The International Accounting Standards Board (IASB) provides guidance on how an entity should present its financial statements under IFRS when its functional currency is no longer considered hyperinflationary. This amendment is effective for annual periods beginning on or after 1 July 2011. This modification has not had any impact for the Group.

The standards and interpretations, and their amendments, issued by the IASB but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt these standards and interpretations when they become effective:

5. **Summary of Significant Accounting Policies (continued)**

y) New and modified standards and interpretations (continued)

- *IFRS 9, Financial Instruments (new).* The release of IFRS 9 is the first phase of the project to replace IAS 39, Financial Instruments. IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of IAS 39. This standard shall be effective for periods beginning on or after January 1, 2013.

- *IFRS 10, Consolidated financial statements (new).* In May 2011, the IASB issued IFRS 10, which supersedes IAS 27, Consolidated and Separate Financial Statements. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard shall be effective for periods beginning on or after January 1, 2013.

- *IFRS 11, Joint Arrangements (new).* This standard supersedes IAS 31, Interests in Joint Ventures. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses and corrects inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. This standard shall be effective for periods beginning on or after January 1, 2013.

- *IFRS 12, Disclosure of Interests in Other Entities (new).* This standard requires additional disclosures on all forms of an entity's interests in its consolidated and non-consolidated entities. IFRS 12 shall be effective for periods beginning on or after January 1, 2013.

- *IFRS 13, Fair Value Measurement (new).* This standard is intended to provide clarity regarding fair value by introducing a precise definition of fair value and providing a framework for measuring fair value in a single standard. This new standard also requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value.

- *IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures (revised).* In May 2011, several amendments were made to IAS 27 to establish requirements for separate financial statements. Certain sections of IAS 27 are now contained in IFRS 10. IAS 28 was amended to be consistent with the changes arising as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The amendments shall come into force for periods beginning on or after January 1, 2013.

- *IFRIC 20, Stripping costs in the production phase of a surface mine (new)*. This interpretation establishes that the costs of a stripping activity which provides a benefit in the form of improved access to ore is to be recognized as a non-current asset, provided that the entity can identify the component of the ore body for which access has been improved and it is probable that the future economic benefit associated with the stripping activity will flow to the entity. The new interpretation shall come into force for periods beginning on or after January 1, 2013.

The IASB has issued other amendments resulting from improvements to IFRS that the Group does not expect will affect its accounting policies or financial position.

The Group expects to adopt the standards, amendments and interpretations described above in the years they become effective. The Group does not expect their adoption to have a material effect on its consolidated financial statements in the period of their initial application.

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

6. Cash and Cash Equivalents

An analysis of this caption at December 31, 2012 and 2011 is as follows:

		2012		2011
Cash in hand and in banks	Ps.	139,757	Ps.	226,874
Liquid investments		13		17,145
	Ps.	139,770	Ps.	244,019

7. Trade and Other Accounts Receivable

An analysis of this caption at December 31 is as follows:

		2012		2011
Trade receivables	Ps.	445,754	Ps.	439,909
Less: Allowance for impairment of accounts receivable		(86,511)		(109,081)
Trade receivables, net		359,243		330,828
Related parties (Note 20)		23,905		27,205
Recoverable value added tax		22,150		61,614
Recoverable flat-rate business tax		11,870		4,346
Other accounts receivable		35,768		25,251
Total trade and other current accounts receivable	Ps.	452,936	$	449,244

An analysis of activity in the allowance for impairment of accounts receivable for the years ended December 31, 2012 and 2011 is as follows:

		2012		2011
Balance at the beginning of the year	Ps.	109,081	Ps.	96,618
Increase for the year		13,937		31,424
Charges to allowance		(29,967)		(29,670)
Translation effect		(6,540)		10,709
Balance at the end of the period	Ps.	86,511	Ps.	109,081

For the terms and conditions relating to related party receivables, please refer to Note 20.

Trade accounts receivable which are due and payable within a period ranging from 1 to thirty days bear interest at the Mexican Treasury Certificates (CETES) rate, plus 2.5 points. Accounts receivable more than 30 days old bear interest at the CETES rate plus 3.0 points. Accounts receivable are collected within an average term of between 30 and 60 days. Recoverable value added tax and other accounts receivable are non-interest bearing and are payable within an average term of from 90 to 180 days.

8. Inventories

An analysis of inventories at December 31, 2012 and 2011 is as follows:

		2012		2011
Finished goods (at cost or net realizable value)	Ps.	1,855,695	Ps.	1,548,665
Production in process		134,084		135,496
Operating materials (at cost or net realizable value)		144,763		170,137
	Ps.	2,134,542	Ps.	1,854,298

9. Other Assets, net

At December 31, 2012 and 2011, an analysis of other assets is as follows:

	2012		2011	
Current portion:				
Advances to suppliers	**Ps.**	**67,562**	Ps.	33,898
Total	**Ps.**	**67,562**	Ps.	33,898
Non-current portion:				
Prepaid expenses	**Ps.**	**32,738**	Ps.	23,496
Guaranty deposits		**12,668**		10,901
Recoverable taxes		**8,300**		8,546
Other		**9,549**		9,905
Total	**Ps.**	**63,255**	Ps.	52,848

10. Property, Plant and Equipment

An analysis of property, plant and equipment at December 31, 2012 and 2011 is as follows:

	2012		2011	
Buildings	**Ps.**	**1,553,524**	Ps.	1,528,713
Industrial machinery and equipment		**3,201,313**		3,155,559
Office furniture and equipment		**544,234**		502,039
Automotive equipment		**208,202**		182,522
		5,507,273		5,368,833
Less: Accumulated depreciation	**(**	**3,805,897)**	(	3,643,429)
		1,701,376		1,725,404
Land		**458,845**		458,831
Construction in progress		**242,288**		88,118
	Ps.	**2,402,509**	Ps.	2,272,353

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

10. Property, Plant and Equipment (continued)

An analysis of property, plant and equipment at December 31, 2012 and 2011 is as follows:

Cost	Land	Buildings	Industrial machinery and equipment	Office furniture and equipment	Automotive equipment	Work in process	Total
At December 31, 2010	Ps. 464,257	Ps. 1,514,639	Ps. 3,078,930	Ps. 518,940	Ps. 170,905	Ps. 17,889	Ps. 5,765,560
Additions	-	5,530	20,240	17,114	10,363	88,118	141,365
Retirements	(5,426)	(8,783)	(11,692)	(68,059)	(18,226)	(17,889)	(130,075)
Translation effect	-	17,327	68,081	34,044	19,480	-	138,932
At December 31, 2011	Ps. 458,831	Ps. 1,528,713	Ps. 3,155,559	Ps. 502,039	Ps. 182,522	Ps. 88,118	Ps. 5,915,782
Additions	1,228	34,799	107,267	75,781	43,925	242,288	505,288
Retirements	-	(2,584)	(16,129)	(17,841)	(17,275)	(88,118)	(141,947)
Translation effect	(1,214)	(7,404)	(45,384)	(15,745)	(970)	-	(70,717)
At December 31, 2012	Ps. 458,845	Ps. 1,553,524	Ps. 3,201,313	Ps. 544,234	Ps. 208,202	Ps. 242,288	Ps. 6,208,406
Depreciation							
At December 31, 2010		Ps.(546,396)	Ps.(2,257,573)	Ps.(446,272)	Ps.(112,910)		Ps.(3,363,151)
Depreciation for the year		(83,780)	(147,340)	(22,745)	(18,444)		(272,309)
Retirements		51,689	40,557	19,116	15,796		127,158
Translation effect		(23,675)	(86,750)	(23,550)	(1,152)		(135,127)
At December 31, 2011		Ps.(602,162)	Ps.(2,451,106)	Ps.(473,451)	Ps.(116,710)		Ps.(3,643,429)
Depreciation for the year		(85,741)	(138,739)	(20,677)	(20,989)		(266,146)
Retirements		-	13,938	3,545	12,851		30,334
Translation effect		10,806	45,568	15,221	1,749		73,344
At December 31, 2012		Ps.(677,097)	Ps.(2,530,339)	Ps.(475,362)	Ps.(123,099)		Ps.(3,805,897)
Carrying value							
At December 31, 2011	Ps. 458,831	Ps. 926,551	Ps. 704,453	Ps. 28,588	Ps. 65,812	Ps. 88,118	Ps. 2,272,353
At December 31, 2012	Ps. 458,845	Ps. 876,427	Ps. 670,974	Ps. 68,872	Ps. 85,103	Ps. 242,288	Ps. 2,402,509

Investment Projects

Approximately Ps. 6,214 and Ps. 126,767 of the Group's investment projects at December 31, 2012 correspond to prepaid expenses for construction work and the acquisition of machinery, respectively, related to the construction of a new ceramic tile plant that is expected to start operating during the second half of 2013. The rest of the Group's investment projects correspond to contract work for its existing plants and commercial facilities, and this work is expected to conclude during the first half of 2013. The estimated remaining investment that will be needed in 2013 to conclude the Group's current projects is approximately Ps. 43,253.

At December 31, 2011, the Group's investment projects consist mainly of work being done at its manufacturing plants and commercial facilities. These projects have been concluded and in 2012 the assets related to the projects have been reclassified to their respective balance sheet captions.

Assets pledged in guarantee

The Group has pledged machinery and equipment in the amount of Ps. 123,993 to guarantee its payment of tax interest and to suspend the tax authority's administrative law enforcement proceeding related to the lawsuit filed by the Group in respect of the official document issued by the General Office for Large Taxpayers, through which the tax authority levied a tax liability against the Group for unpaid asset tax of Ps. 86,524 (See Note 27).

11. Investments in Associated Companies

An analysis of investments in associates at December 31, 2012 and 2011 is as follows:

		2012		2011
ICC Guangdong Xinfengjiing Ceramics Co, Ltd	Ps.	25,570	Ps.	5,939
	Ps.	25,570	Ps.	5,939

An analysis of changes in investments in associates for the years ended December 31, 2012 and 2011 is as follows:

		2012		2011
Opening balance in associates	Ps.	5,939	$	-
Increase in investments		31,113		26,693
Equity interest in net loss of associated company	(	11,482)	(	20,754)
	Ps.	25,570	$	5,939

The investment in associated company corresponds to ICC Guangdong Xinfengjiing Ceramics Co, Ltd., a company engaged in selling ceramic tiles and by-products. The condensed financial information of the associated company at and for the years ended December 31, 2012 and 2011 is as follows:

Year	% equity interest		Total assets		Total liabilities		Equity			Net loss for the year
2012	**50.00**	**$**	**102,146**	**$**	**51,006**	**$**	**51,140**	**$**	**(**	**22,964)**
2011	50.00	$	55,403	$	43,525	$	11,878	$	(	41,509)

12. Intangible Assets

An analysis of intangible assets at December 31, 2012 and 2011 is as follows:

At December 31, 2012

		Net balance at beginning of year		Acquisitions (1)		Amortization for the year		Impairment		Translation effect of subsidiaries		Balance at end of year
Licenses and usage rights	Ps.	151,310	Ps.	22,957	Ps.	-	Ps.	-	Ps.(	138)	Ps.	174,129
Non-competition agreement (2)		2,092		-		-	(	1,949)	(	143)		-
Accumulated amortization		(126,108)		-	(	12,899)		-		-	(	139,007)
Net		27,294		22,957	(	12,899)	(	1,949)	(	281)		35,122
Goodwill (2)		25,240		-		-	(	20,191)				5,049
Net		Ps.52,534	Ps.	22,957	Ps.(	12,899)	Ps.(	22,140)	Ps.(	281)	Ps.	40,171

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

12. Intangible Assets (continued)

	At December 31, 2011					
	Net balance at beginning of year	Acquisitions (1)	Amortization for the year	Impairment	Translation effect of subsidiaries	Balance at end of year
Licenses and usage rights	Ps. 136,426	Ps. 14,659	Ps. -	Ps. -	Ps. 225	Ps. 151,310
Non-competition agreement (2)	4,333	-	-	(2,790)	549	2,092
Accumulated amortization	(112,657)	-	(13,451)	-	-	(126,108)
Net	28,102	14,659	(13,451)	(2,790)	774	27,294
Goodwill (2)	65,399	-	-	(42,693)	2,534	25,240
Net	Ps. 93,501	Ps. 14,659	Ps.(13,451)	Ps.(45,483)	Ps. 3,308	Ps. 52,534

(1) During 2012, the Group purchased strategic software, which included a sales planning project. This investment also includes expenditure for renewals of existing licenses incurred in 2011, in addition to the Group's acquisition of strategic software and its investment in comprehensive digital communication projects.

(2) At December 31, 2012 and 2011, the Group's goodwill and non-competition agreement were tested for impairment since there were circumstances that indicated that the carrying amount of these assets may have been impaired. Impairment was tested by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill and the non-competition agreement relates. Since the recoverable amount calculated for the cash-generating unit was less than its carrying amount, the Group recognized an impairment loss of Ps. 22,140 and Ps. 45,483, respectively.

13. Accounts Payable and Accrued Liabilities

An analysis of the accounts payable and accrued liabilities caption is as follows:

	2012	2011
Commercial suppliers	**Ps. 466,274**	Ps. 253,558
Related parties (Note 20)	**18,119**	8,802
Accrued liabilities	**44,278**	40,687
Trade advances	**39,242**	29,538
Provisions	**11,667**	13,060
	Ps. 579,580	Ps. 345,645

The terms and conditions of the aforementioned liabilities are as follows:

- Commercial accounts payable and accrued liabilities are non-interest bearing and are usually settled in 30- to 60-day terms.
- For terms and conditions relating to liabilities with related parties, refer to Note 20.
- Trade advances are non-interest bearing and are settled on different dates based on the conditions agreed on for the sales and merchandise delivery dates.
- Provisions are non-interest bearing. See below for more detailed explanations of each provision.

13. Accounts Payable and Accrued Liabilities (continued)

An analysis of this caption at December 31, 2012 and 2011 is as follows:

	Balance at December 31, 2011	Translation effect	Increase for the year	Charges: Payments	Charges: Reversals	Balance at December 31, 2012
Provision for advertising fund (1)	**Ps. 5,100**	**Ps. -**	**Ps. 6,099**	**Ps. (6,699)**	**Ps. (500)**	**Ps. 4,000**
Provision for rebates (2)	**2,980**	**(225)**	**7,787**	**(10,404)**	**-**	**138**
Other provisions (3)	**4,980**	**(265)**	**137,803**	**(132,044)**	**(2,945)**	**7,529**
	Ps. 13,060	**Ps. (490)**	**Ps. 151,689**	**Ps. (149,147)**	**Ps. (3,445)**	**Ps. 11,667**

	Balance at December 31, 2010	Translation effect	Increase for the year	Charges: Payments	Charges: Reversals	Balance at December 31, 2011
Provision for advertising fund (1)	Ps. 4,000	Ps. -	Ps. 8,039	Ps. (6,939)	Ps -	Ps. 5,100
Provision for rebates (2)	4,368	408	10,716	(12,512)	-	2,980
Other provisions (3)	24,427	878	118,041	(107,942)	(30,424)	4,980
	Ps. 32,795	Ps. 1,286	Ps. 136,796	Ps. (127,393)	Ps. (30,424)	Ps. 13,060

(1) The Group has entered into an agreement under which it is bound to provide its franchisees with the necessary financial support for advertising and marketing. Such support is determined based on the performance of each franchise, which is evaluated every six months.

(2) The Group recognizes a provision for rebates and discounts based on its past experience. Such provision is adjusted periodically to reflect current market conditions.

(3) This caption includes provisions to cover expected warranty claims and other liabilities for which there is uncertainty as to their amount or expiration date.

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

14. Long-term Debt

a) The Group's financial debt includes the following loans payable in U.S. dollars:

	2012		2011	
Syndicated loan	**USD**	**123,668**	USD	133,252
Less:				
Current maturity		**14,506**		9,492
Non-current debt denominated in U.S. dollars	**USD**	**109,162**	USD	123,760
Equivalent in Mexican pesos	**Ps.**	**1,418,025**	Ps.	1,726,451

Loan in U.S. dollars was extended to Internacional de Cerámica, S.A.B. de C.V. on October 31, 2011 by a syndicate of 5 Mexican and foreign banks for an amount of USD 135,000 (Ps. 1,883,250). The original maturity date was October 31, 2016. The loan bears quarterly interest at the prevailing London Interbank Offered Rate (LIBOR), plus a premium from 1.40 to 2.40 base points. Principal was repayable as of March 2012 in quarterly installments through maturity. The premiums vary based on the ratio of its total debt to consolidated income before taxes and depreciation for the last four quarters. This loan is backed by an agreement and promissory notes guaranteed by eleven subsidiaries of Internacional de Cerámica.

b) An analysis of long-term debt maturities at December 31, 2012 is as follows:

Maturities	Amount	
2014	USD	19,582
2015		39,704
2016		49,876
	USD	109,162
Equivalent in Mexican pesos	Ps.	1,418,025

c) The syndicated loan and other loan agreements stipulate certain covenant restrictions with respect to significant transactions, dividend payments, mergers and joint ventures, asset disposals, and financial reporting requirements, among others. The Group must also maintain certain financial ratios. At December 31, 2012, the Group is in compliance with all the restrictive covenants established in the agreements.

d) A reconciliation of the nominal amount of the debt to the value recognized in the statement of financial position is as follows:

	2012		2011	
Syndicated loan at nominal value	**USD**	**125,000**	USD	135,000
Less:				
Transaction costs		**(1,332)**		(1,748)
Total debt at book value		**123,668**		133,252
Nominal value of current maturity		**15,000**		10,000
Current portion of transaction costs		**(494)**		(508)
Current maturity		**14,506**		9,492
Non-current debt at nominal value		**110,000**		125,000
Non-current portion of transaction costs		**(838)**		(1,240)
Non-current debt denominated in U.S. dollars	**USD**	**109,162**	USD	123,760
Equivalent in Mexican pesos	**Ps.**	**1,418,025**	Ps.	1,726,451

15. Employee Benefits

An analysis of current employee benefit obligations is as follows:

	2012		2011	
Employee profit sharing	Ps.	4,126	Ps.	3,121
Wages and salaries payable		43,798		33,323
Vacation and vacation premiums payable		31,465		32,154
Social security contributions and other provisions		20,005		18,302
	Ps.	99,394	Ps.	86,900

Employee profit sharing was determined based on each subsidiary's taxable income, excluding the effects of inflation and the adjustment for restatement of depreciation expense.

Retirement benefits

a) The Group has a pension plan complementing the pension plan provided by the Mexican Social Security Institute andgrants defined benefits to all employees who reach the age of 65, provided they have a permanent work contract and work full time. The benefits of such plan consist of a payment equal to three months' salary plus 20 days for each year worked (based on the employee's last monthly salary base) from the employee's hiring date through the retirement date. The plan also establishes early retirement conditions for those workers who reach 55 years of age and have 15 years' service. The seniority premium consists of a one-time payment of 12-days' salary for each year worked based on the employee's final monthly salary (capped at twice the legal minimum daily wage).

b) An analysis of the actuarial present value of these obligations is as follows:

	2012		2011	
Funded defined benefit obligation	Ps.	140,649	Ps.	116,773
Unfunded defined benefit obligation		-		-
		140,649		116,773
Fair value of plan assets		-		-
Provision for employee benefits	Ps.	140,649	Ps.	116,773

c) Analysis of changes in the defined benefit obligation::

	December 31, 2012				December 31, 2011			
	Pension plan		Seniority premiums		Pension plan		Seniority premiums	
Defined benefit obligation at beginning of year	Ps.	97,043	Ps.	19,730	Ps.	81,713	Ps.	17,035
Labor cost		4,463		1,997		3,989		1,901
Finance cost on defined benefit obligation		7,468		1,261		6,731		1,360
Actuarial loss		14,759		2,055		5,206		328
Benefits paid to employees	(	6,859)	(	1,268)	(	596)	(	894)
Defined benefit obligation at end of year	Ps.	116,874	Ps.	23,775	Ps.	97,043	Ps.	19,730

d) An analysis of pension and seniority premium charged to the income statement for the years ended December 31, 2012 and 2011 is as follows:

	2012				2011			
	Pension plan		Seniority premiums		Pension plan		Seniority premiums	
Current year service cost	Ps.	4,463	Ps.	1,997	Ps.	3,989	Ps.	1,901
Interest cost		7,468		1,261		6,731		1,360
Total	Ps.	11,931	Ps.	3,258	Ps.	10,720	Ps.	3,261

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

15. Employee Benefits (continued)

e) The most significant assumptions used in calculating the defined benefit obligation and the net benefit cost of the period are as follows:

	2012	2011
Average discount rate to reflect present value	7.00%	8.25%
Projected salary increase	4.75%	4.75%
Working lifetime average (years)	10	11

16. Income Tax and Flat-rate Business Tax (FRBT)

a) Internacional de Cerámica, S.A.B. de C.V. and each of its Mexican subsidiaries are subject to payment of the higher of either corporate income tax or flat-rate business tax on an individual basis. Such taxes are not calculated over consolidated figures, but rather computed individually at the company level and each company files its tax return separately.

The tax reform published on December 7, 2009 established an income tax rate of 30% for 2010 through 2012, which was to be decreased to 29% for 2013 and to 28% in 2014. However, the Mexican Federal Internal Revenue Act for fiscal year 2013 published on December 17, 2012 establishes that the corporate income tax rate for 2013 will be 30%.

The Flat-rate Business Tax (FRBT) Law was published on October 1, 2007. This Law became effective as of January 1, 2008 and abolished the Asset Tax Law. Current-year FRBT is computed by applying the 17.5% rate to income determined on the basis of cash flows, net of authorized credits. FRBT credits result mainly from the negative FRBT base to be amortized (deductions that exceed revenues), salary and social security contribution credits, and credits arising from the deduction of certain assets, such as inventories and fixed assets, during the transition period as of the date on which the FRBT became effective. FRBT is payable only to the extent it exceeds income tax for the same period. To determine FRBT payable, income tax paid in a given period is first subtracted from the FRBT of the same period.

b) As of December 31, 2012 and 2011 there are temporary differences that give rise to deferred income tax. An analysis is as follows:

		2012		2011
Deferred tax liabilities				
Property, plant and equipment	**Ps.**	**414,999**	Ps.	359,926
Effect of translation of foreign subsidiaries		**-**		11,161
Other items		**7,298**		8,284
		422,297		379,371
Deferred tax assets				
Inventories		**85,576**		121,163
Allowance for impairment of accounts receivable		**29,942**		39,244
Translation effect of foreign subsidiaries		**1,355**		-
Accrued liabilities		**67,201**		49,665
Available tax loss carryforward		**359,572**		418,012
Other items		**66,200**		55,050
	(	**609,846)**	(	683,134)
Valuation allowance for available tax loss carryforwards		**359,572**		418,012
Valuation allowance		**179,876**		238,853
Deferred income tax	**Ps.**	**351,899**	Ps.	353,102

16. Income Tax and Flat-rate Business Tax (FRBT) (continued)

c) An analysis of the U.S. deferred taxes included in the table above is as follows:

	2012		2011	
Deferred tax assets				
Inventories	**Ps.**	**57,142**	Ps.	94,389
Allowance for impairment in accounts receivable		**25,149**		35,189
Property, plant and equipment		**30,024**		41,418
Prepaid expenses		**14,156**		14,218
Available tax loss carryforward		**191,356**		172,396
Valuation allowance for available tax loss carryforwards	**(**	**191,356)**	(	172,396)
Valuation allowance	**(**	**126,471)**	(	185,214)
	Ps.	**-**	Ps.	-

d) An analysis of changes in the deferred tax liability for the years ended December 31, 2012 and 2011 is as follows:

	2012		2011	
Balance at the beginning of the period	**Ps.**	**353,102**	Ps.	380,742
Charged to earnings		**11,313**	(	50,592)
Recognized in other comprehensive (loss) income items	**(**	**12,516)**		22,952
Balance at the end of the period	**Ps.**	**351,899**	Ps.	353,102

e) An analysis of income tax charged to the income statement for the years ended December 31, 2012 and 2011 is as follows:

	2012		2011	
Income tax:				
Current-year	**Ps. (**	**93,702)**	Ps. (	90,183)
Contingent	**(**	**113,802)**		-
Deferred	**(**	**11,313)**		50,592
FRBT:				
Current-year	**(**	**13,508)**	(	14,650)
Total taxes on profits	**Ps. (**	**232,325)**	Ps. (	54,241)

The contingent income tax represents the reserve created by the Group for unpaid taxes that it will have to pay if it loses the motion for relief to recognize the effect originated from the appeal for legal protection that it filed against the unconstitutionality of Article 32, section XVII of the Income Tax Law. A negative ruling in this case would give rise to income tax payable by the Group of Ps. 21,171 for 2011 and Ps. 92,631 for 2012.

f) A reconciliation of the statutory corporate income tax rate to the effective income tax rate recognized by the Group for financial reporting purposes is as follows:

	2012		2011	
Income tax at the statutory rate (30% in 2012 and 2011)	**Ps. (**	**172,779)**	Ps. (	34,064)
Effects of inflation for tax purposes		**6,680**		1,843
Non-deductible costs and expenses	**(**	**5,837)**	(	4,548)
Change in valuation allowance for available tax loss carryforwards		**58,440**		192,420
Change in valuation allowance		**58,977**	(	416,937)
FRBT	**(**	**13,508)**	(	14,650)
Other items	**(**	**50,496)**		221,695
Taxes before contingent income tax provision	**(**	**118,523)**	(	54,241)
Provision for contingent income tax	**(**	**113,802)**		-
Income tax	**Ps. (**	**232,325)**	Ps. (	54,241)

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

16. Income Tax and Flat-rate Business Tax (FRBT) (continued)

g) The Group has tax losses from prior years that may be carried forward against taxable income generated in the next ten years. Such losses may be restated following certain procedures established in the Income Tax law. An analysis of the Group's available tax loss carryforward at December 31, 2012 is as follows:

Year of expiration		Available tax loss carryforward		Deferred tax effect
2019	Ps.	5,361	Ps.	1,608
2020		260,400		78,120
2021		297,067		89,120
2022		3,378		1,013
	Ps.	566,206	Ps.	169,861

h) The subsidiaries in the U.S. have an available tax loss carryforward that, if not offset against taxable income in subsequent years, will expire on the dates shown below:

Year of expiration		Available tax loss carryforward		Deferred tax effect
2018	Ps.	1,263	Ps.	442
2019		20,184		7,065
2020		78,536		27,487
2021		35,858		12,550
2024		167		59
2025		257		90
2026		1,475		517
2027		613		214
2028		45,493		15,923
2029		177,480		62,118
2030		110,519		38,682
2031		58,743		20,560
2032		11,440		4,004
	Ps.	542,028	Ps.	189,711

i) The Group has asset tax paid in prior years, restated for inflation at December 31, 2012, for which a favorable balance has already been recognized and which may be recovered in future years provided that certain requirements are met. An analysis is as follows:

Year of tax payment		Recoverable asset tax
2002	Ps.	4,878
2003		2,985
2004		909
2005		940
2006		514
2007		3,708
	Ps.	13,934
Valuation allowance	(	5,969)
	Ps.	7,965

17. Equity and Other Capital Reserves

a) a) Capital stock

At December 31, 2012, the Group's capital stock is variable, with an authorized fixed minimum of Ps. 251,883 (Ps. 8,000 nominal amount). Variable capital cannot exceed ten times the amount of fixed minimum capital.

The Group's capital stock is divided into two series of shares: Series "B" and Series "D". Series "B" shares (publicly traded as "Ceramic B") are common and registered, with no par value and may be freely subscribed. Series "D" shares (publicly traded as "Ceramic D") are common, preferred shares with limited voting rights and no par value, and which may be freely subscribed.

Series "D" shareholders are entitled to payment of a minimum preferred dividend of $ 0.025 pesos per share. Whenever a minimum preferred dividend is not declared in any period or it is only partially paid, the unpaid amount accrues into future periods. At December 31, 2012 and 2011, the accumulated minimum preferred dividend is Ps. 3,288 and Ps. 2,466, respectively.

An analysis of authorized and subscribed capital stock at December 31, 2012 and 2011 is as follows:

	No. of Shares		Nominal amount			
	2012	2011	**2012**		2011	
Series "B" shares	**129,785,378**	129,785,378	**Ps.**	**3,348**	Ps.	2,518
Series "D" shares	**32,878,746**	32,878,746		**848**		628
Total shares issued and outstanding	**162,664,124**	162,664,124	**Ps.**	**4,196**	Ps.	3,146
Total authorized shares	**162,800,072**	162,800,072				

b) Undistributed earnings

The Group will not have to pay income tax on the dividends it pays from the consolidated Net taxed profits account (CUFIN).

c) Legal reserve

The Group is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of the value of capital stock. This reserve may not be distributed, except in the form of stock dividends.

d) Reserve for repurchase of shares

This reserve was created by the shareholders to include treasury shares acquired by Internacional de Cerámica, S.A.B. de C.V. on the stock market. The values of acquired shares are deducted from this amount of the reserve. At ordinary shareholders' meetings held in April 2012 and 2011, the shareholders agreed to establish Ps. 180,600 as the maximum amount to be used for the repurchase of the Groups own shares.

At December 31, 2012 and 2011, the Group's treasury shares aggregate Ps. 135,948.

17. Equity and Other Capital Reserves (continued)

e) Other capital reserves

Reserve for unrealized gain or loss on valuation of hedges

This reserve includes the effective portion of the gain or loss on valuation of financial instruments classified as cash flow hedges, net of deferred income tax. The unrealized gain or loss is transfered to profit or loss at the time the hedged transaction occurs.

Provision for translation adjustment

The provision records the translation effects of financial statements from the functional currency to the reporting currency (Mexican peso).

An analysis of the Group's other capital reserves at December 31, 2012 and 2011 is as follows:

	Reserva por valuación de coberturas	Reserva por conversión	Impuesto sobre la renta diferido	Total
Balance at December 31, 2010	Ps. (3,850)	Ps. (35,453)	Ps. 11,791	Ps. (27,512)
Comprehensive income	3,850	72,658	(22,952)	53,556
Balance at December 31, 2011	Ps. -	37,205	(11,161)	26,044
Balance at December 31, 2011	Ps. -	Ps. 37,205	Ps. (11,161)	Ps. 26,044
Comprehensive loss	**-**	**(41,720)**	**12,516**	**(29,204)**
Balance at December 31, 2012	**Ps. -**	**Ps. (4,515)**	**Ps. 1,355**	**Ps. (3,160)**

18. Earnings per Share

Earnings per share amounts are calculated by dividing the net income for the year attributable to the Group's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

An analysis of earnings per share at December 31, 2012 and 2011 is as follows:

	2012	2011
Net income (in thousands of Mexican pesos):		
Attributable to equity holders of Internacional de Cerámica	**Ps. 287,991**	Ps. 3,379
Shares (number of shares in thousands):		
Weighted average number of outstanding shares	**162,664**	162,664
Earnings per share:		
Basic and diluted earnings per share (in Mexican pesos)	**Ps. 1.77**	Ps. 0.02

19. Dividends

At ordinary partners' meetings of the subsidiary Adhesivos y Boquillas Interceramic, S. de R.L. de C.V. that were held in April and October 2012, the partners agreed to pay cash dividends of Ps. 29,400 and Ps. 32,340, respectively, to the minority holders of the subsidiary's series "B" partnership interests. The dividend declared by the shareholders in October 2012 was paid in two installments - the first one in October 2012 and the second one in November 2012. The dividend declared in April was paid in full in one installment in April 2012.

At ordinary partners' meetings of the subsidiary Adhesivos y Boquillas Interceramic, S. de R.L. de C.V. held in April and September 2011, the partners agreed to pay cash dividends of Ps. 26,950 and Ps. 19,600, respectively, to the minority holders of the subsidiary's series "B" partnership interests. Both cash dividends were paid in single installments in 2011.

At an ordinary shareholders' meeting of the subsidiary Recubrimientos Interceramic, S.A. de C.V. that was held in June 2011, a cash dividend of Ps. 3,500 (0.9943 pesos per share) was declared and paid to the minority holders of the subsidiary's series "B-1" partnership interests. The dividend was paid in a single installment in 2011.

20. Related Parties

An analysis of balances due from and to unconsolidated related parties is as follows:

		2012		2011
Receivables:				
Sales:				
Daltile Corporation	**Ps.**	**21,046**	Ps.	18,976
Kohler, Co.		**271**		2,633
		21,317		21,609
Loans:				
Officers and employees		**2,588**		5,596
		2,588		5,596
Total	**Ps.**	**23,905**	Ps.	27,205

		2012		2011
Payables:				
Current accounts:				
Custom Building Products, Inc	**Ps.**	**3,153**	Ps.	1,805
Kohler, Co.		**14,749**		6,555
Daltile Corporation		**217**		442
Total	**Ps.**	**18,119**	Ps.	8,802

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

20. Related Parties (continued)

Transactions with unconsolidated related entities during the periods ended December 31, 2012 and 2011 were as follows:

		2012		2011
Revenues:				
Sales of ceramic tile:				
Daltile Corporation	Ps.	130,289	Ps.	63,783
	Ps.	130,289	Ps.	63,783
Sales of by-products:				
Kohler, Co.	Ps.	636	Ps.	1,686
	Ps.	636	Ps.	1,686
Services collected:				
Kohler, Co.	Ps.	1,006	Ps.	2,649
	Ps.	1,006	Ps.	2,649
Inventory purchases:				
Custom Building Products, Inc.	Ps.	26,875	Ps.	23,364
Kohler, Co.		146,750		131,282
Daltile Corporation		363		870
	Ps.	173,988	Ps.	155,516
Acquisition of fixed assets:				
Purchase of automotive equipment:				
Autocamiones de Chihuahua, S.A. de C.V.	Ps.	1,729	Ps.	2,160
Autos Internacionales de Chihuahua, S.A. de C.V.		1,192		921
Vehículos Toy, S. de R.L. de C.V.		967		492
Central Corporativa de Servicios, S.A. de C.V.		-		300
Construction of real estate				
Arquitectura Habitacional e Industrial, S.A. de C.V.		23,375		-
	Ps.	27,263	Ps.	3,873
Expenses:				
Fees and administrative services:				
Corporación Aérea Cencor, S.A. de C.V.	Ps.	14,266	Ps.	14,066
Corporación Administrativa y Técnica, S.A. de C.V.		42,842		40,522
Arquitectura Habitacional e Industrial, S.A. de C.V.		29		-
	Ps.	57,137	Ps.	54,588
Other:				
Diablos Rojos de México, S.A. de C.V. – sponsorships	Ps.	3,000	Ps.	1,200
Promotora de Espectáculos Deportivos de Oaxaca, S.A. de C.V. – sponsorships		3,121		1,201
Inmobiliaria Chihuahuense, S.A. de C.V.		1,367		1,284
Autocamiones de Chihuahua, S.A. de C.V.		501		691
Autos Internacionales de Chihuahua, S.A. de C.V.		13		4
	Ps.	8,002	Ps.	4,380
Total	Ps.	65,139	Ps.	58,968

20. Related Parties (continued)

For the years ended December 31, 2012 and 2011, employee benefits granted to the Group's key managers, which include its Steering Committee and the members of its Board of Directors who receive remuneration, totaled Ps. 72,269 and Ps. 76,570, respectively.

Sales made to joint ventures consist of sales of ceramic tiles to the U.S. Purchases from shareholders and the joint venture consist respectively of purchases of bathroom furniture and related adhesive products for sale in Mexico.

Fees paid for administrative services and other costs correspond to system security and advisory services, expenses incurred by the office of the president of the Board, air taxi services, and payments for the leasing of offices and other real estate, among others.

The Group charges no interest on the loans granted to its officers and employees.

21. Product Sales

An analysis of sales by product type is as follows:

		2012		2011
Ceramic tile	**Ps.**	**4,808,143**	Ps.	4,348,716
Grouts and adhesive materials		**631,380**		567,671
Bathroom furniture		**262,688**		218,523
By-products		**662,797**		591,370
	Ps.	**6,365,008**	Ps.	5,726,280

22. Cost of Sales

An analysis of cost of sales for the years ended December 31, 2012 and 2011 is as follows:

		2012		2011
Staff costs	**Ps.**	**375,911**	Ps.	359,313
Maintenance and repairs		**310,309**		280,983
Depreciation and amortization		**194,228**		207,684
Cost of inventories and other (1)		**3,241,485**		2,875,829
	Ps.	**4,121,933**	Ps.	3,723,809

(1) Includes effects of inventory valuation adjustments.

23. General and Administrative Expenses

An analysis of general and administrative expenses for the years ended December 31, 2012 and 2011 is as follows:

		2012		2011
Staff costs	**Ps.**	**761,540**	Ps.	707,925
Rent		**212,998**		213,685
Advertising and marketing		**101,515**		89,066
Distribution and sales		**94,616**		97,606
Depreciation and amortization		**87,446**		80,723
Other		**416,122**		380,971
	Ps.	**1,674,237**	Ps.	1,569,976

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

24. Personnel Expenses

An analysis of personnel expenses for the years ended December 31, 2012 and 2011 is as follows:

		2012		2011
Wages and salaries	**Ps.**	**937,704**	Ps.	879,272
Employee profit sharing		**3,600**		2,864
Employee benefits at retirement		**22,010**		21,016
Social security (IMSS) dues		**100,208**		93,958
Social welfare and other benefits		**73,929**		70,128
Total personnel expenses	**Ps.**	**1,137,451**	Ps.	1,067,238

An analysis of personnel expenses based on their function is as follows:

		2012		2011
Cost of sales	**Ps.**	**375,911**	Ps.	359,313
General and administrative expenses		**761,540**		707,925
	Ps.	**1,137,451**	Ps.	1,067,238

25. Other Income and Expenses

An analysis of other operating income is as follows:

		2012		2011
Income from restatement of recoverable taxes	**Ps.**	**4,304**	$	-
Sales of materials and scrap		**5,896**		2,097
Gain on sale of fixed assets		**-**		387
Sundry		**3,184**		716
Other income	**Ps.**	**13,384**	$	3,200

An analysis of other operating expenses is as follows:

		2012		2011
Impairment loss	**Ps.**	**22,283**	Ps.	45,483
Loss on the sale of property, plant and equipment		**676**		-
Other expenses	**Ps.**	**22,959**	Ps.	45,483
Net	**Ps.(**	**9,575)**	Ps.(	42,283)

26. Financial Income and Expense

An analysis of accrued interest receivable is as follows:

		2012		2011
Interest income on cash equivalents	**Ps.**	**9,717**	Ps.	16,853
Interest income from trade receivables and other		**993**		835
	Ps.	**10,710**	Ps.	17,688

26. Financial Income and Expense (continued)

An analysis of accrued interest payable is as follows:

	2012		2011	
Debt interest	**Ps.**	**51,836**	Ps.	60,044
Credit card fees		**30,741**		19,620
Bank commissions		**7,194**		7,562
Prompt payment discounts		**2,486**		1,877
	Ps.	**92,257**	Ps.	89,103

27. Contingencies

At December 31, 2012 and 2011, the Group had the following contingencies:

The Group is party to a number of lawsuits, litigations and legal proceedings resulting from the normal course of its operations. In the opinion of the Group's management and its legal advisors, no unfavorable rulings in the cases will adversely affect the Group's financial position or operating results, except for the case mentioned below:

Asset Tax of 2007

On July 13, 2012, through an official document issued by the General Office for Large Taxpayers, the Group was notified a tax liability levied against it in the amount of Ps. 86,524, which includes fines and surcharges, in respect of unpaid asset tax from 2007.

On October 1, 2012, the Group filed administrative dispute against such decision. The case is currently in process and pending resolution.

For this purpose, the Group provided a guarantee against the tax liability in order to halt the tax authority's administrative proceeding. The guarantee is in the form of machinery and equipment that is valued at Ps. 123,993 and is subject to no legal encumbrances other than those of a routine nature related to its normal business.

Based on the opinion of its legal advisors, the Group estimates that it stands a good chance of prevailing in the case.

28. Commitments

a) At December 31, 2012 and 2011, the Group has entered into several operating leases contracts, mainly for the properties where its offices and stores are located. These leases have average lifetimes of between one and fifteen years.

An analysis of minimum compulsory rental payments under operating leases for the next five years is as follows. In some cases, the amount of rent is adjusted for inflation each year based on the NCPI.

	Amount	
2013	Ps.	146,399
2014		116,780
2015		95,512
2016		67,036
2017 and thereafter		109,136
Total minimum future rent	Ps.	534,863

b) Rental expense during 2012 and 2011 totaled Ps. 181,714 and Ps. 210,884, respectively.

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

29. Other Financial Liabilities

An analysis of the Group's financial instruments fair value at December 31, 2012 and 2011 is as follows:

	December 31, 2012				December 31, 2011			
	Carrying amount		Fair value		Carrying amount		Fair value	
Financial assets:								
Cash and cash equivalents	Ps.	139,770	Ps.	139,770	Ps.	244,019	Ps.	244,019
Trade and other accounts receivable		452,936		452,936		449,244		449,244
Recoverable income tax		19,009		19,009		106,317		106,317
	Ps.	611,715	Ps.	611,715	Ps.	799,580	Ps.	799,580
Financial liabilities:								
Financial debt	Ps.	1,623,755	Ps.	1,606,452	Ps.	1,883,250	Ps.	1,858,866
Suppliers and other accounts payable		579,580		579,580		345,645		345,645
	Ps.	2,203,335	Ps.	2,186,032	Ps.	2,228,895	Ps.	2,204,511

30. Impairment Testing of Goodwill and Other Intangibles with Market Multiples

For the purpose of impairment testing, the goodwill related to a business combination and the acquired assets with indefinite useful lives were allocated to the Group's cash-generating units in Holding de Franquicias, S.A. de C.V.:

The Group has performed its annual impairment test at December 31, 2012 and 2011. The Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

As of December 31, 2012 and 2011, the Group's market capitalization was below the book value of its equity, indicating a potential impairment of goodwill and impairment of the assets of the operating segment.

The recoverable amount of the Group's cash-generating unit has been calculated based on a value in use calculation using cash flows generated by the cash-generating units and a multiple of similar companies in the market.

Key assumptions used in value in use calculations

The calculation of value in use may be most sensitive to the following assumptions:

- Historical EBIDTA for the last 12 months
- EV / EBITDA Multiple
- Discounts for lack of marketability
- Control premium
- Selling expenses

Historical EBIDTA - is based on the EBIDTA of both business units for the last twelve months prior to the impairment calculation date.

30. Impairment Testing of Goodwill and Other Intangibles with Market Multiples (continued)

EV / EBITDA multiple - represents the market multiple through which entities listed on the Mexican Stock Exchange are valued. EV / EBITDA is calculated by dividing market capitalization plus net debt by EBITDA of the last twelve months. In this specific case, the Group's multiple at December 31, 2012 and 2011 was used.

Discounts for lack of marketability - this discount are an amount or percentage deducted to reflect the fact that the two cash-generating units are non-marketable. This percentage was obtained from market publications and may vary based on new estimates that become available.

Control premium - is an amount over the market value of shares in a company that a buyer is willing to pay in order to gain control of the company. This amount was obtained from market publications and may vary based on new estimates that become available.

Selling expenses - estimated at five percent of the Group's selling expenses. Actual expenses incurred from the sale of the cash-generating unit may vary from this percentage.

31. Financial Risk Management

The Group's principal financial instruments consist of financial assets and financial liabilities. The Group has various financial assets, such as accounts receivable and short-term cash deposits and investments, which arise directly from its operations.

The Group is exposed to the following risks associated with its financial instruments:

a) Market risks, which consist of foreign currency risks, commodity price risks (natural gas used in the production process), financial instrument price risks and interest rate risks.

b) Liquidity risks

c) Credit risks

The Group manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are market, liquidity and credit risks. Management reviews and agrees policies for managing each of these risks which are summarized below.

31. Financial Risk Management (continued)

The Group's senior management oversees the management of financial risks. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: natural gas price risk, interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, accounts receivable, accounts payable, accrued liabilities, and derivative financial instruments.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates on the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant.

The analyses exclude the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions.

The following assumptions have been made in calculating the sensitivity analyses

- The statement of financial position sensitivity relates to derivatives;

- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2012 and 2011.

- The impact on equity is the same as the impact on profit before tax.

Commodity price risk

Due to the nature of its business and economic environment, the Group uses derivative financial instruments acquired for hedging purposes to reduce the variability in its cash flows and operating margins from a number of different factors, such as changes in the prices of the raw materials and goods, such as natural gas, that the Group uses in its production.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to the Group's financial assets and liabilities with floating interest rates.

31. Financial Risk Management (continued)

The Group's has variable rate debt based on the LIBOR. The following table shows the sensitivity of the Group's financial assets and liabilities to a reasonably possible change in the interest rates applied on a complete year basis as of the statement of financial position date, with all other variables held constant.

	December 31, 2012		December 31, 2011	
	Net income	**Equity**	Net income	Equity
25 basis point increase	**Ps.(4,189)**	**Ps. -**	Ps.(5,137)	Ps. -
10 basis point decrease	**Ps. 1,676**	**Ps. -**	Ps. 1,979	Ps. -

Foreign currency risk

The main foreign currency to which the Group is exposed is the U.S. dollar, which is the currency in which a significant portion of the Group's operating expenses are incurred and a portion of the Group's equity investments are made. The Group also maintains certain equity investments in Euros.

At December 31, 2012, the sensitivity of the Group's financial assets and liabilities denominated in foreign currencies, expressed in the reporting currency, is as follows:

	Denominated in U.S. dollars	Other currencies	Total
Financial assets:			
Cash and cash equivalents	**Ps. 45,317**	**Ps. -**	**Ps. 45,317**
Trade and other accounts receivable	**205,251**	**-**	**205,251**
Financial liabilities:			
Financial debt	**(1,606,452)**	**-**	**(1,606,452)**
Suppliers and other accounts payable	**(146,339)**	**(22,980)**	**(169,319)**
	Ps. (1,502,223)	**Ps. (22,980)**	**Ps. (1,525,203)**

At December 31, 2011, the sensitivity of the Group's financial assets and liabilities denominated in foreign currencies, expressed in the reporting currency, is as follows:

	Denominated in U.S. dollars	Euros	Total
Financial assets:			
Cash and cash equivalents	Ps. 72,514	Ps. -	Ps. 72,514
Trade and other accounts receivable	200,135	-	200,135
Financial liabilities:			
Financial debt	(1,883,250)	-	(1,883,250)
Suppliers and other accounts payable	(87,922)	(48,849)	(136,771)
	Ps. (1,698,523)	Ps. (48,849)	Ps. (1,747,372)

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

31. Financial Risk Management (continued)

The following table shows the sensitivity of the Group's financial assets and liabilities to a reasonably possible change in the Mexican peso / U.S. dollar exchange rate and the effect on the Group's profit before taxes, based on the foreign currency risk exposure maintained at December 31, 2012 and 2011 (assuming that all other variable are held constant):

	December 31, 2012				December 31, 2011			
	Net income		**Equity**		Net income		Equity	
15% increase – Mexican peso	Ps.(	228,781)	Ps.(	297,340)	Ps.(	262,106)	Ps.(	356,408)
15% decrease – Mexican peso	Ps.	228,781	Ps.	297,340	Ps.	262,106	Ps.	356,408

b) Liquidity risk

Liquidity risk is the risk of not being able to meet its financial liabilities and obligations when they come due.

The Group has established a treasury policy to manage its liquidity risk, which primarily includes maintaining a balance between short-, medium- and long-term funds, borrowing facilities available and access to other financing. The Group conducts on-going debt maturity profile analyses of its financial assets and liabilities and constantly monitors its projected cash flows.

On June 29, 2012, the Group entered into a revolving credit line agreement with Capital One for financing up to USD 20,000 that matures on June 29, 2015. The amount available for drawdown is determined based on, and is guaranteed by 50% of the Group's eligible inventories and 80% of its eligible accounts receivable. Interest on loans is payable quarterly on the first business day after the end of each quarter. Interest is computed at an annual rate equal to the daily London Interbank Offered Rate (LIBOR) plus 2%. The Group is required to pay a commission of 0.375% of the unused of line of credit whenever its average utilization, computed quarterly, is less than 25%. At December 31, 2012, the Group has made no drawdowns against this line of credit.

The table below summarizes the maturity profile of the Group's financial liabilities based on its undiscounted contractual payments.

			Maturities							
	Amount		1 year		2 years		3 years		Thereafter	
AA	Ps.	594,982	Ps.	69,788	Ps.	94,212	Ps.	191,021	Ps.	239,961
BBB		594,982		69,788		94,212		191,021		239,961
AAA		315,341		36,988		49,932		101,241		127,180
A		101,147		11,864		16,016		32,474		40,793
Total	Ps.	1,606,452	Ps.	188,428	Ps.	254,372	Ps.	515,757	Ps.	647,895

31. Financial Risk Management (continued)

c) Credit risk

The Group's exposure to credit risk is a normal feature of its business and it exists in all of its financial assets, including cash and cash equivalents, trade receivables and debtors, as well as available-for-sale securities and rights to agreed-on derivatives.

The Group only carries out transactions with well-known and solvent financial counterparties. It is the Group's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity and financial position.

The Group obtains collateral as security from its customers to mitigate the risk of financial losses due to default. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Regarding the credit risk related to other financial assets, primarily cash and investments and derivative assets, the Group's exposure relates to potential counterparty default. The Group's maximum exposure is equal to the book value of these instruments, securities or transactions.

The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with strong credit ratings.

Cash and cash equivalents

An analysis of the credit ratings of financial institutions with which the Group maintain cash and cash equivalents is as follows:

		2012		2011
Domestic financial institutions:				
AAA	**Ps.**	**97,478**	Ps.	168,009
Foreign financial institutions:				
AA		**42,292**		76,010
	Ps.	**139,770**	Ps.	244,019

Trade and other accounts receivable

An analysis of trade receivable aging at December 31, 2012 is as follows:

			Past-due					
		Not yet payable		From 1 to 30 days		From 31 to 60 days		More than 61 days
Trade receivables	Ps.	339,319	Ps.	24,358	Ps.	30,341	Ps.	51,736
Related parties		23,905		-		-		-
Other accounts receivable		69,788		-		-		-
	Ps.	433,012	Ps.	24,358	Ps.	30,341	Ps.	51,736

The amounts shown in the analysis do not consider the allowance for bad debts.

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

31. Financial Risk Management (continued)

Capital management

The Group manages its capital structure in a way that ensures its survival as a going concern, maintains investor confidence and the confidence of the financial markets, and sustains the future development of its medium- and long-term projects in order to maximize shareholder return.

To ensure that it maintains a strong credit rating and healthy capital ratios, the Group aims to maintain a capital structure with an adequate debt to capital ratio. Management believes that such optimum capital structure is reflected in the equity shown in the consolidated statement of financial position, excluding non-controlling interest.

The Group has no capital requirements or restrictions that might affect its capital management capacity. The Group has met its legal obligation to create a legal reserve equal to 20% of the value of its capital stock. The Group's legal reserve at December 31, 2012 and 2011 is Ps. 72,751. (See Note 17).

Capital management

The Group's capital stock is represented by preferred shares and ordinary shares. The main objective of the Group's capital management strategy is to ensure that the Group maintains an adequate level of solvency and capital financial ratios that best support the business, and to ultimately maximize shareholder value. The Group manages its capital structure and makes the necessary adjustments in view of changes that occur in the economic and market conditions that most affect it. In order to maintain or adjust its capital structure, the Group may adjust the amount of dividends it pays to shareholders, the amount of its capital reimbursements or its plans to issue new shares, subject to the applicable laws. For the years ended December 31, 2012 and 2011, there have been no changes to the Group's capital management objectives, policies or processes.

The Group periodically reviews its capital level based on its leverage ratio, which is equal to its net cost-bearing debt, divided by its total capital plus net debt. The Group's policy is to take steps to maintain a leverage ratio with the most appropriate balance for its business.

The Group's net debt is equal to it cost-bearing loans and credit, minus its cash and cash equivalents. The Group's remaining trade payables and other accounts payable are managed within normal working capital terms.

	2012	2011
Loans and credits	Ps. 1,606,452	Ps. 1,858,866
Less: Cash and cash equivalents	139,770	244,019
Net debt	**1,466,682**	**1,614,847**
Preferred shares	473,396	401,484
Ordinary shares	1,868,680	1,584,817
Total capital	**2,342,076**	**1,986,301**
Capital and net debt	**3,808,758**	**3,601,148**
Leverage ratio	**39%**	**45%**

32. Segment Information

The Group's segment information is prepared based on a managerial approach and general information is also presented by geographical zone and type of products. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and financial performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

a) An analysis of financial information by country at and for the year ended December 31, 2012 is as follows:

	Mexico	United States	Eliminations and other adjustments	Consolidated
Sales to third parties	Ps. 4,301,391	Ps. 2,063,617	Ps. -	Ps. 6,365,008
Intra-group sales	3,494,718	36,660	(3,531,378)	-
Total sales	7,796,109	2,100,277	(3,531,378)	6,365,008
Cost of sales	(2,717,882)	(1,404,051)	-	(4,121,933)
Gross profit	5,078,227	696,226	(3,531,378)	2,243,075
General expenses	(988,636)	(685,601)	-	(1,674,237)
Other expenses, net	(6,789)	(2,786)	-	(9,575)
Operating income	Ps. 4,082,802	Ps. 7,839	Ps. (3,531,378)	Ps. 559,263
Financial income	9,121	1,589	-	10,710
Financial expenses	(78,569)	(13,688)	-	(92,257)
Exchange loss, net	81,330	28,366	-	109,696
Equity interest in associated companies	(11,482)	-	-	(11,482)
	400	16,267	-	16,667
Income before taxes on profits	4,083,202	24,106	(3,531,378)	575,930
Income tax	(227,851)	(4,474)	-	(232,325)
Net income	Ps. 3,855,351	Ps. 19,632	Ps. (3,531,378)	Ps. 343,605
Segment assets	Ps. 6,747,013	Ps. 1,920,156	Ps. (3,321,845)	Ps. 5,345,324
Segment liabilities	Ps. 3,516,932	Ps. 682,925	Ps. (1,339,349)	Ps. 2,860,508
Depreciation and amortization	Ps. 267,281	Ps. 14,392	Ps. -	Ps. 281,673
Fixed assets investments	Ps. 486,720	Ps. 18,568	Ps. -	Ps. 505,288
Equity investments in associated companies	Ps. 31,113	Ps. -	Ps. -	Ps. 31,113

(Amounts in thousands of Mexican pesos and U.S. dollars, unless otherwise indicated)

32. Segment Information (continued)

b) An analysis of financial information by country at and for the year ended December 31, 2011 is as follows:

	Mexico	United States	Eliminations and other adjustments	Consolidated
Sales to third parties	Ps. 3,936,623	Ps. 1,789,657	Ps. -	Ps. 5,726,280
Intra-group sales	3,093,072	40,834	(3,133,906)	-
Total sales	7,029,695	1,830,491	(3,133,906)	5,726,280
Cost of sales	(2,445,986)	(1,277,823)	-	(3,723,809)
Gross profit	4,583,709	552,668	(3,133,906)	2,002,471
General expenses	(907,582)	(662,394)	-	(1,569,976)
Other expenses, net	(15,486)	(26,797)	-	(42,283)
Operating income	Ps. 3,660,641	Ps. (136,523)	Ps. (3,133,906)	Ps. 390,212
Financial income	15,251	2,437	-	17,688
Financial expenses	(76,823)	(12,280)	-	(89,103)
Exchange loss, net	(136,919)	(47,578)	-	(184,497)
Equity interest in associated companies	(20,754)	-	-	(20,754)
	(219,245)	(57,421)	-	(276,666)
Income before taxes on profits	3,441,396	(193,944)	(3,133,906)	113,546
Income tax	(53,435)	(806)	-	(54,241)
Net income	Ps. 3,387,961	Ps. (194,750)	Ps. (3,133,906)	Ps. 59,305
Segment assets	Ps. 6,409,736	Ps. 1,929,649	Ps. (3,267,935)	Ps. 5,071,450
Segment liabilities	Ps. 3,504,424	Ps. 536,509	Ps. (1,218,452)	Ps. 2,822,481
Depreciation and amortization	Ps. 275,625	Ps. 12,782	Ps. -	Ps. 288,407
Fixed assets investments	Ps. 135,143	Ps. 6,222	Ps. -	Ps. 141,365
Equity investments in associated companies	Ps. 26,693	Ps. -	Ps. -	Ps. 26,693

c) An analysis of sales by geographical zone is as follows:

	Mexico	Sales in the United States				
	Total sales in Mexico	Own stores	Independent dealers	Other(*)	Total U.S. sales	Total sales
Net sales 2012	**Ps. 4,301,391**	**Ps.1,357,200**	**Ps. 234,369**	**Ps. 472,048**	**Ps.2,063,617**	**Ps.6,365,008**
Net sales 2011	Ps. 3,936,623	Ps.1,208,744	Ps. 222,227	Ps. 358,686	Ps.1,789,657	Ps.5,726,280

(*) A small portion of these sales are made in Central America.

d) An analysis of sales by type of product is as follows:

	Ceramic tiles	Grouts and adhesive materials	Bathroom, natural stone and other furniture	Total sales
Net sales in 2012	**Ps. 4,808,143**	**Ps. 631,380**	**Ps. 925,485**	**Ps. 6,365,008**
Net sales in 2011	Ps. 4,348,716	Ps. 567,671	Ps. 809,893	Ps. 5,726,280

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