2004
Annual Report

Interceramic®

Simplemente lo Mejor

For Interceramic, 2004 was a momentous year. Along with significant improvement in our financial results over the prior year, the year saw a number of other positive achievements. Perhaps first among them was the celebration of Interceramic's 25 year anniversary. The long journey from a modest brick plant in Chihuahua, Mexico to four massive, state-of-the-art manufacturing facilities and distribution covering all of North America has been both astonishing and rewarding. In Mexico Interceramic has unparalleled name recognition as a very well respected, top-of-the-market brand, and our reputation has been steadily growing in the United States and Canada as well. During 2004, we closed another successful stock offering, resulting in US $43.7 million in new equity for the company. Most of this we have invested in a new floor tile manufacturing facility in Mexico which should start production in the second quarter of this year. The new facility will employ the absolute latest in ceramic tile manufacturing technology, and allow us to produce about 25 percent more of our highest quality floor tile at lower costs and with more flexibility.

The year also saw Interceramic invest further in distribution infrastructure. In the United States, we opened a brand-new "Interceramic Tile and Stone Gallery" store in the fast growing San Diego, California market. We also moved to new, larger and more prominent facilities in Houston, Texas, Atlanta, Georgia and Oklahoma City, Oklahoma as well as started work on projects for additional company-owned stores in rapidly growing areas such as Denver, Colorado and Sacramento, California. Company-owned distribution in important markets makes sense in Mexico as well, and during 2004 we acquired our franchisees in a number of key cities, including Monterrey, Saltillo, San Luis Potosi, Mexicali, Tampico and Chihuahua.

With net sales of US $341.2 million, we set yet another company record, growing by 11.3 percent over sales of US $306.4 million in 2003. Our gross margin improved as well, up to 35.7 percent for the year compared to 2003, when it was almost a full percentage point lower. Operating expenses as a percentage of sales increased slightly and at 6.7 percent, our operating margin was identical to that of last year. On the back of higher overall sales, operating income still was up nicely over 2003, increasing by 11.3 percent to US $22.8 million from US $20.5 million. Earnings before interest, taxes, depreciation and amortization ("EBITDA") for 2004 posted a substantial increase over 2003, and at US $41.0 million was 13.3 percent greater than EBITDA of US $36.2 million recorded last year. As our borrowing costs have decreased over the past few years and our results have improved, we have been much less pinched by debt, and our debt service coverage ratio at the end of 2004 was 7.2 times, compared to 5.7 at the end of 2003. Late in 2004 we started work on a refinancing of our long-term debt in order to take advantage of our improving financial condition and lower available rates. This transaction was completed in early January 2005, and not only stretched out our maturities to amortize the debt over five years, but also further reduced our borrowing cost.

In Mexico, sales for 2004 were up by 10.8 percent over 2003 on 5.8 percent more product sold. As we completed the acquisition of a number of our most important franchise stores over the course of the year, a much larger percentage of our sales in Mexico are coming through the subsidiaries. During 2005 we should feel the full effect of these acquisitions, and expect our Mexican sales to show good growth over the year. In the United States market the company achieved excellent sales growth, up 12.0 percent in 2004 over 2003. We also moved more product in the United States over the course of the year, selling 10.4 percent more tile than we did in 2003. Overall, we maintained the same basic split of sales between Mexico and the U.S. market that we have had for the past few years, with about 56 percent of all group sales taking place in Mexico.

Letter to Shareholders

Our results from the fourth quarter of 2004 present a sharply positive contrast in almost every respect against the fourth quarter of 2003. Fourth quarter 2004 sales of US $90.4 million were 18 percent greater than sales of US $76.6 million in the fourth quarter of 2003 and, boding well for 2005, operating income was up a whopping 47.6 percent in the fourth quarter of 2004 over the fourth quarter of last year-from US $3.1 million to US $4.5 million. EBITDA showed a healthy increase as well, up 29.5 percent to US $9.3 million from US $7.2 million in the same period last year.

While 2004 was a good year here at Interceramic, we are expecting even better things for 2005. With a new plant coming on line, burgeoning company-owned distribution and US $182 million of equity behind us, we begin the year with the infrastructure and financial strength to move us even further forward. As always, we thank our investors, our customers and our employees for their continued support.

Oscar E. Almeida Chabre
Chairman of the Board

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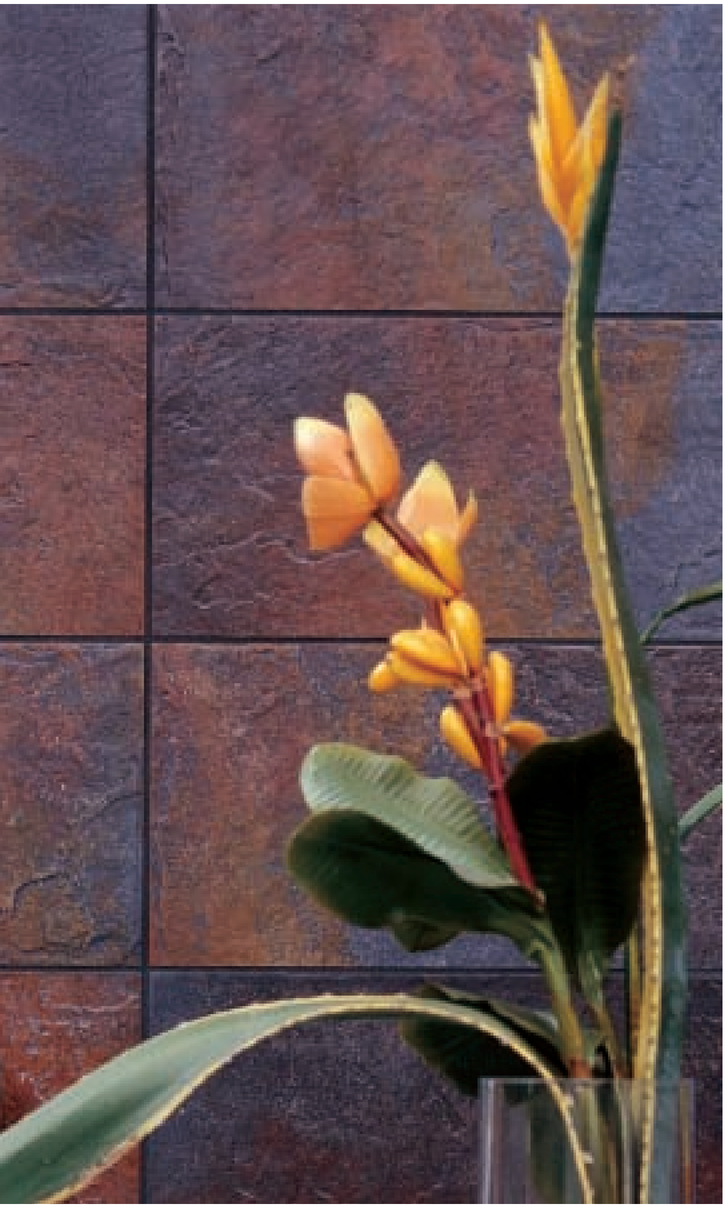
Socially Responsible Company



In today's world, Companies which are committed to the development of society must go beyond the economic realm and the creation of jobs. Companies today are facing the enormous task of integration into the global market place, not only by facing competition, but also by striving to be socially responsible companies.

Promoting and generating better living conditions and providing growth opportunities are part of our corporate culture as carried out by each and every member of our company.

At Interceramic we have focused our efforts on four major areas:

- Improving the quality of life of our partners and collaborators,
- Preserving and improving the environment,
- Conducting all of our actions, decisions and relationships in an ethical manner, and,
- Making concrete contributions towards the sustainable development of the communities where we operate.

Obtaining the 2005 Distinction as an “Empresa Socialmente Responsable” (Socially Responsible Company) implies not only that at Interceramic we are aware of the importance of actively participating in the communities where we operate, but that we further tailor our support with plans and programs which produce sustainable development without creating a dependancy.

Social responsibility is a central characteristic of each and every one of the members of the Interceramic Family and we are convinced that by working responsibly and living by our distinctive core values of quality, innovation and service, we can positively impact our partners and collaboratos as well as our communities.

ESR EMPRESA SOCIALMENTE RESPONSABLE

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Report of the Audit Committee

for the year ended December 31, 2004

The Management of Internacional de Cerámica, S.A. de C.V. is responsible for the internal controls of all of the internal processes of the company, including the preparation and finalization of all of the company's financial information. Mancera, S.C. (Member of Ernst & Young Global), as the external auditors of Internacional de Cerámica, S.A. de C.V., is responsible for the examination of the annual consolidated financial statements, in accordance with generally accepted accounting principles, and further must prepare a report as to said financial statements detailing the financial situation of the company, also in compliance with generally accepted accounting principles in Mexico, and, also, through a reconciliation note, with the generally accepted accounting principles in the Unites States. The Audit Committee watches over and supervises these processes and also recommends to the Board of Directors, for its approval, the office of independent accountants to be used as the external auditors for the Company.

As part of this vigilance process, the Committee meets with the company's Management and with the external independent auditors, for the purpose of discussing the effectiveness of the internal controls which are applied to the operations and financial processes of the company, as well as to evaluate the accounting policies and practices and the results derived from the annual audits.

Apart from meeting with Management and with the external, independent auditors, the Audit Committee undertook the following activities:

- It was in agreement with and ratified the selection of Mancera, S.C., as the external auditor for Internacional de Cerámica, S.A. de C.V., so it could examine the Company's consolidated financial statements and subsequently prepare and finalize a report, same which shall be presented for approval at the Annual Shareholders Meeting to take place on April 26, 2005.
- The consolidated financial statements for the year ended December 31, 2004 were reviewed and discussed with the Board of Directors and with the external auditors.
- Discussions were held with the independent auditors regarding the auditing of the consolidated financial statements of Internacional de Cerámica, S.A. de C.V., specifically as to the depth and reach of the audit, any observations to be made, and the results derived from the auditing process.
- The economic independence and related criteria for the independent auditors was reviewed and evaluated.
- All transactions which the company undertook with related parties were reviewed and evaluated, and a determination was made that said transactions were no more or less favorable to the company as if those transactions would have taken place with any other supplier or party.

Based on the discussions which took place between Management and the independent auditors, the disclosures made on the financial statements report, the statements made by Management to this Auditors Committee, and the report of the independent auditors, this Audit Committee recommended to the Board of Directors that the consolidated financial statements for the year ended December 31, 2004 be presented for approval at the Annual Shareholders Meeting to take place on April 26, 2005.

C.P. HUMBERTO VALLES HERNANDEZ
PRESIDENT

Board of Directors

Chairman of the Board
OSCAR E. ALMEIDA CHABRE

Chief Executive Officer
VICTOR D. ALMEIDA GARCIA

Secretary
NORMA ALMEIDA DE CHAMPION

Directors

ALFREDO HARP CALDERONI	Vicepresident of Foundation Alfredo Harp Helú, A.C.
DAVID KOHLER	Group President, Kitchen and Bath Group, Kohler Co.
FEDERICO TERRAZAS TORRES	Chairman, Grupo Cementos de Chihuahua, S.A. de C.V.
SYLVIA ALMEIDA	President, Corporación Administrativa y Técnica, S.A. de C.V.
DIANA E. ALMEIDA	Director
PATRICIA ALMEIDA	Director
MARK BLAUGRUND	President, RECON Real Estate Consultants, Inc.
HUMBERTO VALLES HERNANDEZ	Retired Member of Mancera S.C., member of Ernst & Young Global
CARLOS ELIAS TERRAZAS	Chairman, Comercial Corporativa del Norte, S.A. de C.V.

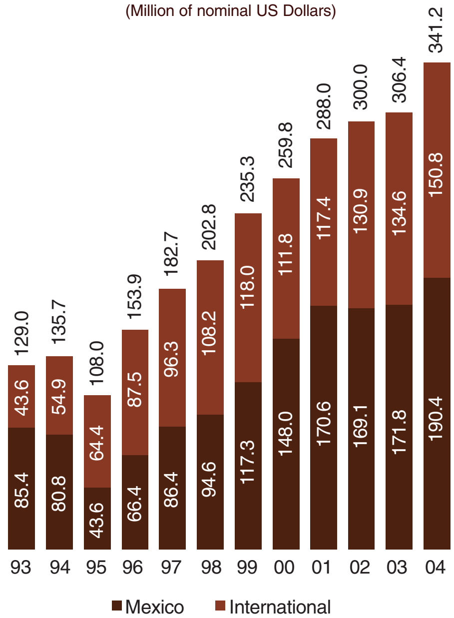
Directors elected by Series D Shareholders

AUGUSTO O. CHAMPION	Chairman, Arquitectura Habitacional e Industrial, S.A. de C.V.
SERGIO MARES DELGADO	President, Grupo Futurama

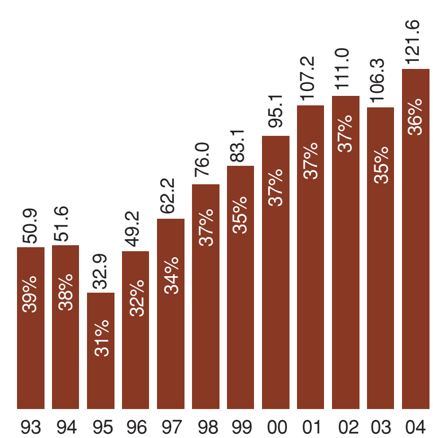
Statutory Auditor

AMERICO DE LA PAZ DE LA GARZA	Partner of Mancera, S.C. member of Ernst & Young Global

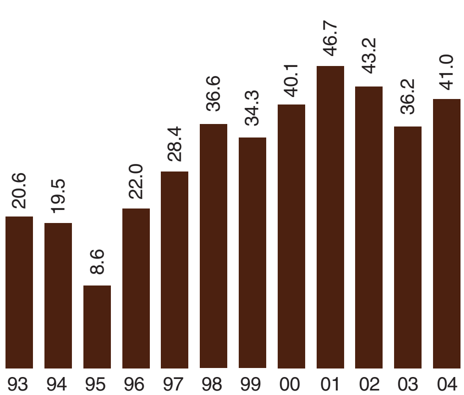
Net Sales
(Million of nominal US Dollars)



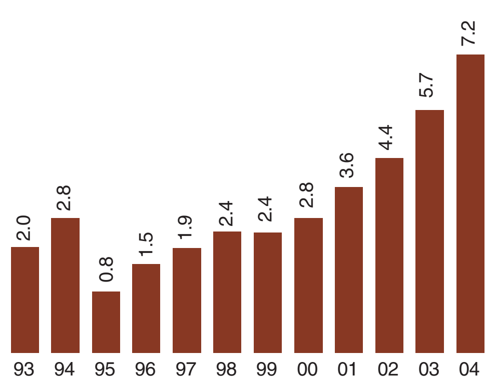
Gross Profit and Margin
(Million of nominal US Dollars)



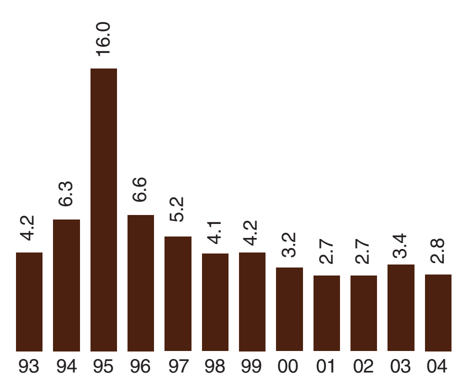
EBITDA
(Million of nominal US Dollars)



Debt Service
(Times)



Net Debt to EBITDA
(Times)



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INTERNACIONAL DE CERÁMICA, S.A. DE C.V. AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2003 and 2004
and For the years ended
December 31, 2002, 2003 and 2004
with report of Independent Auditors

Contents

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MANCERA
ERNST & YOUNG

Centro Ejecutivo Punto Alto 3er Piso
Ave. Valle Escondido Nº 5500
Fracc. Desarrollo El Saucito
C.P. 31125 Chihuahua, Chih.

Tel. (614) 425 35 70
Fax (614) 425 35 80

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of
Internacional de Ceramica, S.A. de C.V.

We have audited the accompanying consolidated balance sheets of Internacional de Ceramica, S.A. de C.V. and Subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Internacional de Ceramica, S.A. de C.V. and subsidiaries at December 31, 2003 and 2004, and the consolidated results of operations, and changes in financial position for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Mexico.

As mentioned in Note 1n in the Financial Statements, beginning year 2004, the Company implemented a pension plan for its employees and it has anticipated the new effects of Bulletin D-3 regarding compensation for retirement described in reference Note.

These financial statements have been translated into English for the convenience of readers outside of Mexico.

C.P.C. Jose Antonio Reyes Cedeño
Mancera, S.C.
A Member Practice of Ernst & Young Global

Chihuahua, Chih., Mexico
February 14, 2005

INTERNACIONAL DE CERÁMICA, S.A. DE C.V. AND SUBSIDIARIES

Consolidated Balance Statements

(Thousands of Constant Mexican pesos (Ps.) as of December 31, 2004)

	December 31,		
	2003	**2004**	2004 Thousands of U.S. dollars
Assets			
Current assets:			
Cash and cash equivalents	Ps. 53,420	**Ps. 196,271**	**$ 17,477**
Accounts receivable:			
Trade	325,276	**369,370**	**32,891**
Related parties	49,922	**42,786**	**3,810**
Other accounts receivable	34,817	**21,701**	**1,932**
Less: allowance for doubtful accounts	(22,615)	**(18,039)**	**(1,606)**
	387,400	**415,818**	**37,027**
Inventories, net	985,744	**1,101,594**	**98,094**
Prepaid expenses	23,733	**26,047**	**2,319**
Total current assets	1,450,297	**1,739,730**	**154,917**
Investment in affiliated companies	8,051	**7,616**	**678**
Property, plant and equipment	3,726,781	**4,292,710**	**382,254**
Accumulated depreciation	(1,669,278)	**(1,814,333)**	**(161,561)**
	2,057,503	**2,478,377**	**220,693**
Goodwill	-	**51,282**	**4,567**
Other assets	93,010	**102,423**	**9,121**
Total assets	Ps. 3,608,861	**Ps. 4,379,428**	**$ 389,976**

See accompanying notes to consolidated financial statements.

	December 31,		
	2003	**2004**	2004
			Thousands of U.S. dollars
Liabilities			
Current liabilities:			
Notes payable to banks	Ps. 188,512	**Ps. 269,521**	**$ 24,000**
Current portion of long-term debt	215,385	**232,180**	**20,675**
Accounts payable to suppliers	269,436	**259,472**	**23,105**
Due to related parties	8,596	**21,642**	**1,927**
Accrued expenses	136,285	**157,549**	**14,029**
Income tax and employee profit sharing	4,925	**6,529**	**582**
Total current liabilities	823,139	**946,893**	**84,318**
Long-term debt	1,017,588	**808,806**	**72,022**
Labor obligations	5,889	**47,487**	**4,229**
Deferred income tax	463,183	**528,241**	**47,038**
Total liabilities	2,309,799	**2,331,427**	**207,607**
Stockholders' equity			
Common stock	753,643	**787,508**	**70,125**
Premium on common stock	1,318,405	**1,788,170**	**159,232**
Stock repurchase reserve	139,966	**188,989**	**16,829**
Retained earnings	340,563	**457,491**	**40,738**
Cumulative comprehensive income (loss)	(1,508,471)	**(1,463,687)**	**(130,337)**
Majority stockholders' equity	1,044,106	**1,758,471**	**156,587**
Minority stockholders' equity	254,956	**289,530**	**25,782**
Total stockholders' equity	1,299,062	**2,048,001**	**182,369**
Total liabilities and stockholders' equity	Ps. 3,608,861	**Ps. 4,379,428**	**$ 389,976**

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INTERNACIONAL DE CERÁMICA, S.A. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Income

(Thousands of Constant Mexican pesos (Ps.) as of December 31, 2004, except for per unit amounts)

	years ended December 31,			
	2002	2003	2004	2004 Thousands of U.S. dollars
Net sales	Ps. 3,419,157	Ps. 3,584,015	**Ps. 3,935,108**	**$ 350,410**
Cost of sales	(2,154,617)	(2,340,257)	**(2,531,672)**	**(225,438)**
Gross profit	1,264,540	1,243,758	**1,403,436**	**124,972**
Selling and administrative expenses	(940,309)	(1,003,952)	**(1,139,780)**	**(101,494)**
Operating income	324,231	239,806	**263,656**	**23,478**
Comprehensive financing cost:				
Interest income	8,357	8,671	**13,539**	**1,206**
Interest expense	(120,135)	(83,563)	**(79,388)**	**(7,069)**
Foreign exchange (loss) gain, net	(121,147)	(95,778)	**19,580**	**1,744**
Gain on net monetary position	56,843	53,548	**59,547**	**5,302**
	(176,082)	(117,122)	**13,278**	**1,183**
Other expense, net	(13,897)	(8,583)	**(399)**	**(36)**
Income before provision for income tax and employee profit sharing	134,252	114,101	**276,535**	**24,625**
Income and asset tax	(12,377)	(49,006)	**(55,843)**	**(4,973)**
Employee profit sharing	(3,974)	-	**(1,148)**	**(102)**
Net income	117,901	65,095	**219,544**	**19,550**
Minority net income	20,573	31,382	**38,930**	**3,467**
Net income of majority stockholders	Ps. 97,328	Ps. 33,713	**Ps. 180,614**	**$ 16,083**
Weighted average number of Units outstanding (“Ceramic UB” and “Ceramic ULD" outstanding) (in thousands)	57,184	49,555	**73,373**	**73,373**
Net income per unit	Ps. 1.70	Ps. 0.68	**Ps. 2.46**	**$ 0.22**

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders´ Equity

(Thousands of Constant Mexican pesos(Ps.) as of December 31, 2004)

	Common stock	Premium on common stock	Stock repurchase reserve	Retained earnings	Cumulative comprehensive income (loss) (Note 8)	Comprehensive income	Majority stockholders' equity	Minority stockholders' equity	Total stockholders' equity
Balance at December 31, 2001	**Ps. 764,017**	**Ps. 1,318,405**	**Ps. 29,301**	**Ps. 431,235**	**Ps. (1,618,642)**		**Ps. 924,316**	**Ps. 218,817**	**Ps. 1,143,133**
Increase of stock repurchase reserve	-	-	227,712	(227,712)	-		-	-	-
Repurchase of common stock	(5,539)	-	(60,113)	-	-	-	(65,652)	-	(65,652)
Minority cash dividend	-	-	-	-	-	-	-	(16,765)	(16,765)
Comprehensive income (loss):	-	-	-	-	-	-	-	-	-
Net income	-	-	-	97,327	-	97,327	97,327	20,573	117,900
Result from holding nonmonetary assets	-	-	-	-	9,394	9,394	9,394	1,743	11,137
Result from translation of foreign subsidiaries	-	-	-	-	27,551	27,551	27,551	-	27,551
Comprehensive income	-	-	-	-	-	Ps. 134,272	-	-	-
Balance at December 31, 2002	**Ps. 758,478**	**Ps. 1,318,405**	**Ps. 190,900**	**Ps. 306,850**	**Ps. 1,581,697)**		**Ps. 992,936**	**Ps. 224,368**	**Ps. 1,217,304**
Repurchase of common stock	(4,835)	-	(50,934)	-	-	-	(55,769)	-	(55,769)
Minority cash dividend	-	-	-	-	-	-	-	(16,901)	(16,901)
Comprehensive income (loss):	-	-	-	-	-	-	-	-	-
Net income	-	-	-	33,713	-	33,713	33,713	31,382	65,095
Minimum pension liability	-	-	-	-	(1,072)	(1,072)	(1,072)	-	(1,072)
Result from holding nonmonetary assets	-	-	-	-	54,631	54,631	54,631	16,107	70,738
Result from translation of foreign subsidiaries	-	-	-	-	19,667	19,667	19,667	-	19,667
Comprehensive income	-	-	-	-	-	Ps. 106,939	-	-	-
Balance at December 31, 2003	**Ps. 753,643**	**Ps. 1,318,405**	**Ps. 139,966**	**Ps. 340,563**	**Ps. (1,508,471)**		**Ps. 1,044,106**	**Ps. 254,956**	**Ps. 1,299,062**
Increase of stock repurchase Reserve	-	-	49,023	(49,023)	-	-	-	-	-
Paid in capital	33,865	469,765	-	-	-	-	503,630	-	503,630
Unrealized profits by the acquisition of subsidiaries	-	-	-	(14,663)	-	-	(14,663)	-	(14,663)
Minority cash dividend	-	-	-	-	-	-	-	(17,297)	(17,297)
Comprehensive income (loss):	-	-	-	-	-	-	-	-	-
Net income	-	-	-	180,614	-	180,614	180,614	38,930	219,544
Minimum pension liability	-	-	-	-	(434)	(434)	(434)	-	(434)
Result from holding nonmonetary assets	-	-	-	-	42,795	42,795	42,795	12,941	55,736
Result from translation of foreign subsidiaries	-	-	-	-	2,423	2,423	2,423	-	2,423
Comprehensive income	-	-	-	-	-	Ps. 225,398	-	-	-
Balance at December 31,2004	**Ps. 787,508**	**Ps. 1,788,170**	**Ps. 188,989**	**Ps. 457,491**	**Ps. (1,463,687)**		**Ps. 1,758,471**	**Ps. 289,530**	**Ps. 2,048,001**
Thousands of U.S. dollars	**$ 70,125**	**$ 159,232**	**$ 16,829**	**$ 40,738**	**$ (130,337)**	**$ 20,071**	**$ 156,587**	**$ 25,782**	**$ 182,369**

See accompanying notes to consolidated financial statements.

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INTERNACIONAL DE CERÁMICA, S.A. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position
(Thousands of Constant Mexican pesos (Ps.) as of December 31, 2004)

	Years ended December 31,			
	2002	2003	2004	2004 Thousands of U.S. dollars
Operating activities:				
Net income of majority stockholders	Ps. 97,328	Ps. 33,713	**Ps. 180,614**	**$ 16,083**
Adjustments to reconcile net income to net resources provided by operating activities:				
Depreciation	167,489	183,804	**209,944**	**18,695**
Goodwill amortization	-	-	**1,938**	**172**
Deferred income tax	(9,443)	26,921	**26,397**	**2,351**
Minority net income	20,573	31,382	**38,930**	**3,467**
	275,947	275,820	**457,823**	**40,768**
Variations in operating assets and liabilities:				
Accounts receivable	(35,822)	36,922	**(38,254)**	**(3,407)**
Inventories	(188,155)	(112,268)	**(77,847)**	**(6,932)**
Other assets	(17,072)	(22,126)	**68,954**	**6,140**
Accounts payable to suppliers	155,733	(47,757)	**(1,080)**	**(96)**
Other accounts payable	(13,475)	(21,950)	**17,425**	**1,552**
Resources provided by operating Activities	177,156	108,641	**427,021**	**38,025**
Financing activities:				
Repurchase of capital stock	(65,652)	(55,769)	**-**	**-**
Minority stockholders' refund	(6,709)	(26,958)	**(17,297)**	**(1,540)**
Paid in capital	-	-	**503,630**	**44,847**
Proceeds from long-term debt and bank loans	1,424,668	536,054	**417,728**	**37,197**
Repayment of long-term debt and bank loans	(1,531,704)	(490,692)	**(462,878)**	**(41,218)**
Monetary gain from financing activities	(126,772)	(86,262)	**(63,097)**	**(5,619)**
Exchange (gains) losses generated by financing activities	168,560	110,788	**(2,731)**	**(243)**
Resources used in financing activities	(137,609)	(12,839)	**375,355**	**33,424**
Investing activities				
Acquisition of shares on a permanent basis	-	-	**(190,167)**	**(16,934)**
Increase of property, plant and equipment, net	(190,237)	(140,157)	**(469,358)**	**(41,795)**
Resources used in investing Activities	(190,237)	(140,157)	**(659,525)**	**(58,729)**
Net (decrease) increase in cash and cash equivalents	(150,690)	(44,355)	**142,851**	**12,720**
Cash and cash equivalents at beginning of year	248,465	97,775	**53,420**	**4,757**
Cash and cash equivalents at end of year	Ps. 97,775	Ps. 53,420	**Ps. 196,271**	**$ 17,477**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

1. Description of the business and significant accounting policies

Description of the business

Internacional de Ceramica, S.A. de C.V. ("Interceramic"), its subsidiaries, Recubrimientos Interceramic, S.A. de C.V. ("Recubrimientos") and Interceramic, Inc., which is located in Garland, Texas, are all engaged in the manufacture and marketing of ceramic floor and wall tiles, the extraction of clay for the manufacture of ceramic tiles and marketing of bathroom furniture. The other subsidiaries, which are listed below in the " Basis of consolidation", are engaged primarily in the marketing of ceramic tiles and in the manufacture and marketing of adhesives in the Mexico City and Guadalajara metropolitan areas and in the United States. Interceramic and its subsidiaries are hereinafter referred to collectively as the "Company."

Significant accounting policies

The consolidated financial statements of the Company have been prepared in Mexican pesos ("Ps.") in accordance with accounting principles generally accepted in Mexico ("Mexican GAAP").

The significant accounting policies and practices followed in the preparation of the consolidated financial statements are described below:

a) Basis of consolidation

The consolidated financial statements include the accounts of Interceramic and all of its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. The subsidiaries included in the consolidated financial statements are as follows, along with corresponding ownership:

	Ownership interest at December 31,	
	2003	**2004**
Adhesivos y Boquillas Interceramic, S. de R.L. de C.V.	51.00	**51.00**
Distribución Interceramic, S.A. de C.V.	100.00	**(*)**
Holding de Franquicias Interceramic, S.A. de C.V.	-	**100.00**
Holding de Servicios Interceramic, S.A. de C.V.		
(antes Interacabados del Centro, S.A. de C.V.)	100.00	**100.00**
Interacabados de Occidente, S.A. de C.V.	100.00	**(*)**
Interceramic Holding, Inc.	100.00	**100.00**
Interceramic de Occidente, S.A. de C.V.	100.00	**100.00**
Interceramic Trading Co.	100.00	**100.00**
Materiales en Proceso, S.A. de C.V.	100.00	**(**)**
Operadora Interceramic de México, S.A. de C.V.	100.00	**100.00**
Recubrimientos Interceramic, S.A. de C.V.	50.01	**50.01**
Servicios Administrativos Interceramic, S.A. de C.V.	100.00	**(**)**

(*) In March 2004, Holding de Franquicias Interceramic, S.A. de C.V., acquired stock of Distribucion Interceramic, S.A. de C.V., and of Interacabados de Occidente, S.A. de C.V., at book value.

(**) In March 2004, Interacabados del Centro, S.A. de C.V., changes its name to Holding de Servicios Interceramic S.A. de C.V., and it currently owns 100% of the capital of Materiales en Proceso, S.A. de C.V., and Servicios Administrativos Interceramic, S.A. de C.V.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

1. Description of the business and significant accounting policies (continued)

a) Basis of consolidation (continued)

In Stockholders Extraordinary Meeting held on January 14, 2004, the acquisition of Grupo Comercial Interceramic, S.A. de C.V., and Materiales Arquitectonicos y Decorativos, S.A. de C.V., was approved, by acquiring 100% of the shares of Holding de Franquicias Interceramic, S.A. de C.V.

In March 2004, the company acquired 100% of the shares of Holding de Franquicias Interceramic, S.A. de C.V., which currently owns 100% of the capital of Interacabados de Occidente, S.A. de C.V., Distribucion Interceramic, S.A. de C.V., Grupo Comercial Interceramic, S.A. de C. V. and Materiales Arquitectonicos y Decorativos, S.A. de C.V. The cost of acquisition of the shares totaled Ps. 182,530, amount that included paid goodwill for Ps. 53,220. Main assets and liabilities are as follows:

Cash and short-term investment	Ps. 7,026
Accounts receivable	23,042
Inventory	69,898
Other assets	46,020
Fixed asset	62,978
Suppliers	(37,039)
Other liabilities	(42,615)
Total	Ps. 129,310

In March 2004, Interacabados del Centro, S.A. de C.V., changes its name to Holding de Servicios Interceramic, S.A. de C.V. and it currently owns 100% of the capital of Materiales en Proceso, S.A. de C.V., Servicios Administrativos Interceramic, S.A. de C.V., Servicios Tecnicos Interceramic, S.A. de C.V., Servicios Tecnicos Recubrimientos, S.A. de C.V., Servicios Operativos Franquicias Interceramic, S.A. de C.V., and Servicios Comerciales Franquicias Interceramic, S.A. de C.V

The caption “Minority interest” refers to the interest of the minority stockholders in the Company's subsidiaries.

In conformity with Mexican Accounting Principles Bulletin B-15, “Transactions in Foreign Currency and Translation of Financial Statements of Foreign Operations,” the Company translated the financial statements of its foreign subsidiaries as follows:

The financial information reported by the foreign subsidiaries was first adjusted to conform to Mexican GAAP.

The financial statements were restated at December 31, 2002 and 2003, based on the Consumer Price Index (“CPI”) of the United States. The monetary effects for the years ended December 31, 2002, 2003 and 2004 were determined based on the annual inflation factor derived from the CPI for the respective year.

Balance sheets were translated into Mexican Pesos at the prevailing exchange rate at the end of the year and income statement accounts were translated at the weighted average exchange rate for the year. Translation adjustments are reflected in a separate component of stockholders' equity entitled “Effect of translation of foreign subsidiaries.”

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

1. Description of the business and significant accounting policies (continued)

Consolidated financial statements as of December 31, 2002 and 2003 are presented in constant currency at December 31, 2004, using a common restatement factor determined based on the weighted average net sales. Such factors were 1.0682 and 1.0465, respectively.

b) Estimates in financial statements

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

c) Concentration of risk

The Company distributes its products through Company-owned and independent franchise locations in Mexico. The Company distributes its products in the United States and Canada mainly through its network of wholly-owned Interceramic Tile and Stone Galleries (ITS) stores and a network of 79 independent distributors with a combined total of 180 locations. On a regular basis, the Company assesses the credit worthiness of its customers and distributors and typically obtains personal guarantees or liens to secure amounts due from its customers and distributors. No single customer represented more than 5% of the Company's consolidated net sales.

d) Recognition of the effects of inflation

The Company recognizes the effects of inflation on financial information as required by Mexican Accounting Principles Bulletin B-10, "Accounting Recognition of the Effects of Inflation on Financial Information." Consequently, the amounts shown in the accompanying financial statements and in these notes are expressed in thousands of constant pesos as of December 31, 2004.

Certain concepts and procedures required by the application of Bulletin B-10 are explained below:

- The Company follows the specific-cost method to restate its inventories.

-Imported machinery and equipment was restated based on the rate of inflation in the country of origin and the prevailing exchange rate at the balance sheet date. Machinery and equipment of domestic origin was restated based on the Mexican National Consumer Price Index (NCPI).

-At December 31, 2003 and 2004 stockholder's equity accounts were restated by using a common restatement factor, which was determined based on NCPI.

-The gain or loss on net monetary position represents the effects of inflation, as measured by the NCPI, on the Company's monetary assets and liabilities. During inflationary periods, losses are incurred by holding monetary assets, whereas gains are realized by holding monetary liabilities. The net monetary effect is included in the consolidated statements of income as part of the "comprehensive financing cost."

-The deficit from restatement of stockholders' equity consists principally of the initial cumulative monetary position result and the cumulative deficit from holding non-monetary assets. The (loss) gain from holding non-monetary assets represents the amount by which the (decrease) increase in the specific value of assets was (lower) higher than the rate of inflation.

e) Cash and short-term investments

Cash and short-term investments are mainly represented by bank deposits on immediately available cash instruments with maturities not exceeding 90 days, and they are presented valued at their acquisition cost plus outstanding accrued interest. Their total is similar to their market value.

f) Estimate for doubtful accounts

The estimate of doubtful accounts is determined based on a seniority assessment and a qualitative review of accounts receivable. Total estimate also contemplates assessment of historic losses for bad credits, as well as the review of the economic environment in which the company operates. In Mexico, a part of Company sales are made though a network of independent dealers where recovery of accounts receivable is assured and another part of sales is carried out though subsidiary franchises where most of the sales are in cash and, therefore, not giving way to significant doubtful accounts.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

1. Description of the business and significant accounting policies (continued)

f) Estimate for doubtful accounts (continued)

In the U.S.A., the estimate for doubtful accounts is based on a number of factors that include, among others, the assessment of losses due to unrecoverable credits that occurred in prior years, experience, the review of specific balances of certain accounts and the economic conditions of the environment in which the company operates.

g) Inventories and cost of sales

Inventories are recorded initially at acquisition or production cost and then restated to reflect replacement cost, which is not in excess of market value.

Cost of sales represents the estimated replacement cost at the time sales were realized, expressed in constant pesos at the end of the year.

The reserve for obsolete and slow-moving inventories is determined based on an evaluation of the Company's inventories, an historical loss rate and a number of qualitative factors such as aging, discontinued lines of products and slow moving inventories.

h) Investment in shares of affiliated companies

Investments in companies in which the Company has an ownership interest of between 10% and 50% and for which the Company exercises significant influence, are accounted for using the equity method. Investments in companies in which the Company has an ownership interest of less than 10% are recorded at cost and restated for changes in the NCPI.

i) Property, plant and equipment

Machinery coming from abroad, as well as the amount of acquisitions of the year were restated based on inflation of the country of origin on assets and translated into pesos by applying the rate of exchange in force as of the date of the financial statements.

-At December 31, 2003 and 2004, approximately 93% and 91% of machinery and equipment were restated based on specific factors and 7% and 9% were restated based on the NCPI.

-Depreciation is computed on the restated values, using the straight-line method based on the estimated useful lives of the assets as determined periodically by management based on technical studies.

j) Impairment of long-lived assets

Beginning January 1st., 2004, the Company adopted the dispositions of Bulletin C-15 “Impairment of long -lived assets and their disposition,” issued by the Mexican Institute of Public Accountants on March 2003.

Said Bulletin establishes that when impairment signs in the value of long-standing assets exist, recovery value of these assets should be determined by obtaining the sales price of said assets and the use value. When recovery value is lower than net book value , the difference is recognized as a loss due to impairment. The adoption of this rule had no significant effects either on the results or on the financial position of the Company.

k) Intangible assets

Beginning January 1st., 2003, the Company adopted the dispositions of Bulletin C-8 “Intangible Assets” issued by the Mexican Institute of Public Accountants. This Bulletin establishes, among other aspects, that only development costs of a project should be capitalized if they comply with the criteria defined for recognition as assets; pre-operating costs not identified as development should be recorded as an expense of the year y intangible assets considered with an indefinite life are not amortized, but rather its fair value is subject to impairment tests. The effects of applying this Bulletin were not significant for the Company.

l) Goodwill

Goodwill represents the difference between acquisition cost and fair value of net assets acquired at the date of acquisition. It is restated by applying the NCPI and it is amortized by the straight-line method, over a 20-year period.

Beginning 2005, this goodwill is no longer amortized and it will be subject only to impairment tests.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

1. Description of the business and significant accounting policies (continued)

m) Exchange differences

Transactions in foreign currency are recorded at the exchange rate at the time of the transactions. Exchange differences are determined from the date of the transactions to the time of settlement or valuation at the balance sheet date and are charged or credited to income.

n) Labor obligations

Beginning January 2004, the Company implemented a pension plan in addition to that granted by the Mexican Social Security Institute. The Company decided to anticipate the effects of bulletin D-3 referring to the new subject "Remuneration at the end of the labor relationship." The effects of both the new pension plan and the effect of recognizing compensations are shown in Note 7.

The costs of pensions, compensations, and seniority premiums are recognized periodically based on calculation performed by independent actuaries by means of the projected unit credit method, using net financial hypothesis net of inflation, in conformity with guidelines established in Bulletin D-3 "Labor Obligations," issued by the Mexican Institute of Public Accountants.

The Federal Labor Law establishes the obligation to make certain payments to personnel who no longer works for the Company under certain circumstances. At December 31, 2003, compensations to personnel are recorded under income of the year when payment occurs.

o) Income taxes and employee profit sharing

Deferred income taxes are recognized for all temporary differences between balance sheet components for financial and tax reporting purposes, using enacted income tax rates.

The Company periodically evaluates the possibility of recovering deferred tax assets and if necessary, adjusts the related valuation reserve.

Employee profit sharing is a statutory obligation payable to employees that is determined in accordance with the provisions of both Mexican labor and income tax laws.

In conformity with Bulletin D-4, deferred employee profit sharing is recognized only on temporary differences determined in the reconciliation of current year net income for financial and tax reporting purposes, provided there is no indication that the related liability or asset will not be realized in the future.

Current year employee profit sharing is charged to results of operations and represents a current liability due and payable in a period of less than one year.

Current year income tax is charged to results of operations and represents the tax liability due and payable in less than one year.

p) Revenue recognition

The Company recognizes revenue when goods are shipped and invoiced. Revenue from retail operations is recognized, generally, at the point of sale. Returns and allowances are estimated and accrued based on historical results.

q) Net income per unit

Net income per unit is determined on the basis of the weighted average number of units issued and outstanding. Units are comprised of two common shares that are traded together as one unit. A "UB" unit is comprised of two Series "B" Shares and a "ULD" unit is comprised of one Series "L" Share and one Series "D" Share. After December 2004, units were separated remaining only series "B" and series "D" shares.

r) Comprehensive income (loss)

Comprehensive income consists of net income or loss for the year plus those items that are reflected directly in stockholders' equity and that do not constitute capital contributions, reductions or distributions such as deficit from restatement of stockholders' equity, effect of translation of foreign subsidiaries and deferred taxes allocated to stockholders' equity.

s) Reclassifications

Certain amounts in the 2002 and 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

2. Related parties

In the normal course of business, the Company has transactions with related parties and affiliated companies. Affiliated companies are those in which the Company's principal stockholders have significant equity interests or control of management. The main transactions with these companies consist of ceramic tile purchases for resale in Mexico and in the United States. Such transactions are negotiated on terms and prices that management believes are comparable to similar transactions with non-related customers.

During the years ended December 31, 2002, 2003 and 2004, the Company had the following transactions with related parties:

		2002		2003		2004
Sales of ceramic tile:						
Affiliated companies						
Grupo Comercial Interceramic, S.A. de C.V.	Ps.	193,869	Ps.	182,113	**Ps.**	**-**
Materiales Arquitectónicos y Decorativos, S.A. de C.V.		81,316		87,110		**-**
Joint venture:						
Dal-Tile International, Inc.		108,342		88,758		**108,333**
	Ps.	383,527	Ps.	357,981	**Ps.**	**108,333**
Inventory purchases:						
Stockholders						
Kohler, Co.	Ps.	91,785	Ps.	101,414	**Ps.**	**91,550**
Joint venture						
Custom Building Products, Inc.		7,526		17,365		**6,187**
	Ps.	99,311	Ps.	118,779	**Ps.**	**97,737**
Fees paid for administrative services and other items:						
Affiliated companies:						
Arquitectura Habitacional e Industrial, S.A. de C.V.	Ps.	-	Ps.	-	**Ps.**	**57,484**
Corporacion Administrativa y Tecnica, S.A. de C.V.		37,648		36,599		**37,555**
Corporacion Aerea Cencor, S.A. de C.V.		10,544		10,196		**10,495**
	Ps.	48,192	Ps.	46,795	**Ps.**	**105,534**

Sales to join venture partners consist of ceramic tiles sold in the United States.

Purchases from stockholders and Joint ventures consist of bathroom fixtures and adhesives related products to be resold in Mexico.

Fees paid for administrative services relate to management consulting, use of computer systems, maintenance of equipment, air taxi services and construction of a new plant provided by related companies.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

2. Related parties (continued)

An analysis of amounts due to and from related parties at December 31, 2003 and 2004 is as follows:

		2003		2004
Trade receivables:				
Grupo Comercial Interceramic, S.A. de C.V.	Ps.	21,927	**Ps.**	**-**
Materiales Arquitectónicos y Decorativos, S.A. de C.V.		9,462		**-**
Dal-Tile International, Inc.		18,333		**27,925**
Executives		-		**14,479**
Others		200		**382**
	Ps.	49,922	**Ps.**	**42,786**
Accounts payable:				
Custom Building Products, Inc	Ps.	423	**Ps.**	**1,419**
Kohler, Co.		7,404		**20,024**
Others		769		**199**
	Ps.	8,596	**Ps.**	**21,642**

3. Inventories

Inventories at December 31, 2003 and 2004 consisted of the following:

		2003		2004
Finished goods	Ps.	825,078	**Ps.**	**898,197**
Work in process		34,622		**41,511**
Raw materials and supplies		93,646		**96,579**
Merchandise in transit		32,398		**65,307**
	Ps.	985,744	**Ps.**	**1,101,594**

The reserve for obsolete and slow-moving inventories is Ps. 68,426 and Ps. 90,054 at December 31, 2003 and 2004, respectively, and has been deducted from finished goods and raw materials and supplies.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

4. Property, plant and equipment

Details of property, plant and equipment at December 31, 2003 and 2004 was as follows:

	2003				2004			
		Investment		Accumulated depreciation		**Investment**		**Accumulated depreciation**
Buildings	Ps.	819,562	Ps.	287,288	**Ps.**	**944,424**	**Ps.**	**339,792**
Machinery and equipment		2,360,875		1,145,479		**2,501,921**		**1,199,922**
Furniture and fixtures		243,216		173,067		**278,001**		**199,924**
Automotive equipment		82,832		63,444		**110,773**		**74,695**
		3,506,485	Ps.	1,669,278		**3,835,119**	**Ps.**	**1,814,333**
Land		147,605				**169,866**		
Projects in progress		72,691				**287,725**		
Net carrying value	Ps.	3,726,781			**Ps.**	**4,292,710**		

Investment projects correspond to investment made on construction and acquisition of machinery for a new plant that will produce ceramic tile.

Depreciation expense for the years ended December 31, 2002, 2003 and 2004 was Ps. 167,489, Ps. 183,804 and Ps. 209,944, respectively.

Estimated useful lives at December 31, 2004 were as follows:

Buildings	20 years
Machinery and equipment	8 years
Furniture and fixtures	2 years
Automotive equipment	2 years

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

5. Banks loans and notes payable

Notes payable to banks and outstanding long-term debt at December 31, 2003 and 2004 were as follows:

December 31, 2003
Maturities

Type of loan		Total		Current portion		Long - term	Interest rates
Unsecured	Ps.	225,554	Ps.	1,554	Ps.	224,000	2.94% - 7.52%
Syndicated loan		1,005,388		211,800		793,588	3.43%
Total bank loans		1,230,942		213,354		1,017,588	
Notes due to supplier		2,031		2,031		-	5.00%
	Ps.	1,232,973	Ps.	215,385	Ps.	1,017,588	

December 31, 2004
Maturities

Type of loan		Total		Current portion		Long - term	Interest rates
Unsecured	Ps.	276,968	Ps.	1,587	Ps.	275,381	4.24%-7.15%
Syndicated loan		764,018		230,593		533,425	4.52%
Total bank loans	Ps.	1,040,986	Ps.	232,180	Ps.	808,806	

At December 31, 2003 and 2004, all bank loans were denominated in U.S. dollars. All secured and syndicated bank loans are collateralized by property, plant and equipment, accounts receivable and inventory amounting to Ps. 2,086,519 and Ps. 2,197,194 at December 31, 2003 and 2004, respectively.

During 2003, the Company entered into a $ 25,000 (Ps. 280,875) secured revolving line of credit with Wells Fargo available through May 2006. At December 31, 2004, the Company had $ 24,500 (Ps. 275,135) outstanding under this agreement.

In August 2001, the Company obtained long term supplier financing from Oracle to purchase software in the amount of Ps.8,722 ($ 888). The agreement requires monthly payments of principal and interest through July 2004.

In June 2002, the Company entered into a syndicated loan agreement with several financial institutions and Scotiabank Inverlat, S.A., as administrative agent, for $ 100,000. The loan is divided into two branches: “Term A Loans” for $ 40,000 with a three-year maturity and interest at LIBOR plus from 1.70% to 2.20%, respectively, based upon certain ratios and "Term B Loans" for $ 60,000 with a five-year maturity and interest at LIBOR plus from 2.30% to 2.80% based upon certain ratios . This loan is collateralized by land, buildings and equipment, accounts receivable, inventory and shares owned by the Company in a joint venture. The Company's subsidiaries Distribucion Interceramic, S.A. de C.V., Interacabados del Occidente, S.A. de C.V., and Interceramic, Inc., also provided certain guarantees. On January 20, 2005 the credit was prepaid. (See subsequent events in note 12)

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

5. Bank loans and notes payable (continued)

During 2004, the Company contracted four revolving credit lines with Bancomer, Banorte, Banamex and Scotiabank Inverlat for the amount of $ 7,000, $ 8,000, $ 6,000 and $ 5,000, respectively. Maturity dates are January 31, 2005, January 14, 2005, January 13, 2005 and January 14, 2005 respectively. At December 31, 2004, lines for $ 24,000 (Ps. 269,521) have been exercised.

At December 31, 2004, future maturities of long-term debt were as follows:

Maturities	Before prepayment		Maturities	With new syndicated credit amount	
2006	Ps.	527,952	2006	Ps.	67,380
2007		280,854	2007		202,140
			2008		336,900
			2009		539,040
			2010		202,140
	Ps.	808,806		Ps.	1,347,600

The Syndicated loan and outstanding bank loan agreements establish certain obligations and restrictive covenants with respect to certain transactions including, the payment of cash dividends, mergers and combinations, the disposal of fixed assets, information reporting requirements and others. In addition, the Company is required to maintain certain financial ratios. At December 31, 2004, the Company was in compliance with all of its obligations and restrictions established by these agreements.

6. Foreign currency position

The Company had the following U.S. dollar denominated assets and liabilities at December 31, 2003 and 2004:

	December 31, 2003		December 31, 2004	
Current assets	$	50,464	$	41,158
Current liabilities		48,734		65,758
Long-term liabilities		86,553		72,022
Total liabilities	$	135,287	$	137,780
Net short position	$	(84,823)	$	(96,622)

Dollar denominated assets and liabilities were translated to Mexican pesos using the interbank rates at December 31, 2003 and 2004 of Ps. 11.235 and Ps. 11.230 per U.S. dollar, respectively. The exchange rate at February 14, 2005 was Ps. 11.162 per U.S. dollar.

Foreign currency denominated sales during the years ended December 31, 2002, 2003 and 2004 were Ps. 1,491,637 ($130,781), Ps. 1,574,280 ($ 134,647) and Ps. 1,740,786 ($ 150,844), respectively (calculated using the Interbank Rate at the end of each month), and represented 43.63%, 43.93% and 44.24 % of total net sales, respectively.

Most of the Company's machinery and equipment is imported, primarily from Italy and Spain.

During the years ended December 31, 2002, 2003 and 2004, the Company imported inventory and machinery and equipment into Mexico totaling $ 29,690, $ 47,788, and $52,429 respectively.

Notes to Consolidated Financial Statements

(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

7. Labor obligations

The Company records liabilities for seniority premium as it is earned according to computation performed by independent actuaries by means of the projected unit credit method.

Beginning January 1st., 2004, the Company established a pension plan with defined benefits covering all employees upon their 65th. anniversary, provided they are still working at the plant and whose working shift is full time. Benefits of said plan consist in granting them a compensation equivalent to a one-time only payment of three months' salary plus twenty days of their last monthly base salary for each one of the years of service, counted from the date the worker joined the Company to the date he/she stopped working for the Company.

Following is a summary including consolidated data showing actuarial studies at December 31, 2003 and 2004:

	2003		2004							
	Seniority premium obligations		Seniority premium obligations		Compensation obligations		Pension obligations		Total	
Accumulated benefit obligation (ABO)	Ps.	5,458	Ps.	7,484	Ps.	13,349	Ps.	26,266	Ps.	47,009
Projected benefit obligation (PBO)	Ps.	5,458	Ps.	7,490	Ps.	13,848	Ps.	30,294	Ps.	51,632
Unrecognized transition obligations	(	1,626)	(	1,894)	(	12,223)	(	24,300)	(	38,417)
Unrecognized net gain (loss)	(	533)	(	1,065)		1,261	(	1,656)	(	1,460)
Net projected liability		3,299		4,531		2,886		4,338		11,755
Additional liability		2,590		3,341		10,464		21,927		35,732
Accrued liability	Ps.	5,889	Ps.	7,872	Ps.	13,350	Ps.	26,265	Ps.	47,487
Intangible asset	Ps.	1,518	Ps.	1,835	Ps.	10,464	Ps.	21,927	Ps.	34,226
Minimum pension liability	Ps.	1,072	Ps.	1,506	Ps.	-	Ps.	-	Ps.	1,506

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

7. Labor obligations (continued)

The components of the net periodic pension cost during the years ended December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004			
	Seniority premium obligations	Seniority premium obligations	**Seniority premium obligations**	**Compensation obligations**	**Pension Plan obligations**	**Total**
Change in benefit obligation:						
Net liabilities projected to January 1st 2004	Ps. 3,690	Ps. 3,612	**Ps. 3,299**	**Ps. -**	**Ps. -**	**Ps. 3,299**
Liabilitites at January 1st 2004 subsidiary franchises acquired:	-	-	**549**	**-**	**-**	**549**
Cost of pension:						
Service cost	725	730	**844**	**1,739**	**2,005**	**4,588**
Interest cost	263	293	**323**	**536**	**1,174**	**2,033**
Expected fund return	-	-	**(6)**	**-**	**-**	**(6)**
Amortization of transition liability	80	97	**94**	**499**	**992**	**1,585**
Amortization of actuarial losses	(10)	(9)	**5**	**-**	**-**	**5**
Curtailment losses	332	-	**-**	**-**	**-**	**-**
Inflation effects	(48)	(133)	**195**	**112**	**167**	**474**
Net periodic pension cost	1,342	978	**1,455**	**2,886**	**4,338**	**8,679**
Benefits paid by the Company	(1,420)	(1,323)	**(602)**	**-**	**-**	**(602)**
Adjustment for actual amount expensed	-	32	**(170)**	**-**	**-**	**(170)**
Net liabilities projected to December 31st. 2004	Ps. 3,612	Ps. 3,299	**Ps. 4,531**	**Ps. 2,886**	**Ps. 4,338**	**Ps. 11,755**

The transition liability is being amortized over a period of 21 years.

The significant assumptions considered in determining the net periodic pension cost during the years ended December 2002, 2003 and 2004 were:

	2002	**2003**	**2004**
Discount rate	5.50%	5.50%	**5.50%**
Rate of pay increases	2.50%	2.50%	**1.50%**
Effect of inflation	5.00%	5.00%	**4.00%**

The Company's subsidiary located in the United States has a defined contribution savings plan covering substantially all its employees. Total contributions for the years ended December 31, 2002, 2003 and 2004 were approximately Ps. 3,034 ($279), Ps. 2,927 ($249) and Ps. 3,099 ($ 276), respectively.

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

8. Stockholders´ equity

The Company's capital stock is variable with a fixed minimum of Ps. 227,955 (Ps. 8,000 nominal).

The Company's capital stock consists of two series of shares (B and D).

Series “B” shares are common registered shares with no par value and full voting rights. They may be freely subscribed, and for a period of ten years, ending in December 7, 2004, they will be represented by common units, each consisting of two series “B” shares (traded as “Ceramic UB”).

Series “L” registered shares have limited voting rights with no par value and they may be freely subscribed. They are represented for a period of ten years by common units, each consisting of a series “D” share and a series “L” share. During this ten-year period, ending in December 2004, each series “L” share may only be traded together with a series “D” share (traded as “Ceramic ULD”).

Series “D” shares are preferred registered shares with limited voting rights, without par value and until December 31, 2004 they are represented by limited voting units, each consisting of one Series “D” share and one Series “L” Share and may only be traded together as a unit (traded as “Ceramic ULD”). The Series “D” shares are entitled to a minimum annual preferred dividend of Ps. 0.025 per share. In any given period in which no minimum preferred dividend is declared or it is paid only partially, such dividend or the unpaid amount shall accumulate for future periods. The accumulated minimum preferred dividends at December 31, 2003 and 2004 is Ps. 6,298 and Ps. 7,040.

In December 2004, the Series “L” shares were convert to Series “B” shares, and thereafter, the Series “L” shares will cease to exist as a class of Company's capital stock, and all voting and other rights previously applicable to holders of Series “L” shares will no longer exist, other than to the extent rights may be available under the Bylaws to holders of Series “B” shares. After December 2004 the Series “D” shares will retain their minimum preferred dividend and limited voting rights.

An analysis of the authorized and outstanding capital stock as of December 31, 2003 and 2004 is as follows:

		2003		**2004**	
		Number of		**Number of**	
Series	Units	Shares	Units	**Shares**	**Units**
"B"	"Ceramic UB"	57,906,632	28,953,316	**129,785,378**	**-**
"D"	"Ceramic ULD"	19,646,720	19,646,720	**32,878,746**	**-**
"L"		19,646,720	-	**-**	**-**
Number of outstanding shares		97,200,072	48,600,036	**162,664,124**	**-**
Number of authorized shares		124,571,150	62,285,575	**162,800,072**	**-**

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

8. Stockholders´ equity (continued)

b) Until before December 2004, the company had established a Stock Option Plan, according to which hundreds of Company employees and executives could receive options from time to time during their term to buy a number of Limited Vote Units for the eligible employee as established by the Board Committee.

All shares distributed under this plan were issued and acquired by a trust expressly established for that purpose. Acquisitions made by the Trust were funded by contributions made by the Company.

During 2004, all employees and executives decided to buy from the Trust all the units to which they were entitled, according to the plan. At the time of the acquisition, all employees had earned said right. At December 31, 2004, therefore, the Trust was cancelled, the total amount of acquisitions made from the Trust totaled 1,154,700 Series "B" shares and 1,154,700 Series "D" shares, limited vote units, for the amount of $14,473. At December 31, 2003, the Trust balance amounted to 1,203,000 limited vote units, totaling $14,579.

c) During 2004, the Company increased the reserve for repurchase of share for $ 49,023 and during 2003, it repurchased the following shares:

		2003		**2004**	
		Number of		**Number of**	
Series	Units	Shares	Units	**Shares**	**Units**
"B"	"Ceramic UB"	5,272,398	2,636,199	-	-
"L"	"Ceramic ULD"	1,785,140	1,785,140	-	-
"D"		1,785,140	-	-	-
		8,842,678	4,421,339	-	-

d) In conformity with the Mexican Corporations Act, at least 5% of net income of each year must be allocated to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of capital stock issued and outstanding. As of December 31, 2004, the Company has a legal reserve of Ps. 37,682 that is included in retained earnings.

e) An analysis of cumulative comprehensive income (loss) at December 31, 2002, 2003 and 2004 is as follows:

	2002	2003	**2004**	**2004 Thousands of U.S. dollars**
Cumulative effect of deferred income taxes	Ps.(334,850)	Ps. (334,850)	**Ps. (334,850)**	**$ (29,817)**
Minimum pension liability	-	(1,072)	**(1,506)**	**(134)**
Deficit from restatement of stockholders' equity	(1,327,961)	(1,273,360)	**(1,230,565)**	**(109,578)**
Effect of translation of foreign Subsidiaries	81,114	100,811	**103,234**	**9,192**
Cumulative comprehensive income (loss)	Ps.(1,581,697)	Ps. (1,508,471)	**Ps. (1,463,687)**	**$ (130,337)**

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

9. Income taxes, asset tax and employee profit sharing

a) Interceramic and its subsidiaries in Mexico are each subject to the payment of income and asset tax. The Company's U.S. subsidiaries are subject to state and federal taxes income. These taxes are computed by Interceramic and each subsidiary separately and each files its own tax return.

An analysis of income and asset tax expense for the years ended December 31, 2002, 2003 and 2004 is as follows:

		2002		2003		**2004**
Current income tax and asset tax	Ps.	21,821	Ps.	22,082	**Ps.**	**29,446**
Deferred income tax expense (benefit)	(	9,444)		26,924		**26,397**
	Ps.	12,377	Ps.	49,006	**Ps.**	**55,843**

b) An analysis of the deferred tax liabilities (assets) at December 31, 2003 and 2004 is as follows:

		2003		**2004**
Deferred tax liabilities				
Inventories	Ps.	183,578	**Ps.**	**187,373**
Fixed assets		367,562		**385,248**
Foreign subsidiaries deferred tax liabilities and effect of translation		43,577		**21,751**
		594,717		**594,372**
Deferred tax assets		896		**1,080**
Allowance for doubtful accounts		10,563		**21,654**
Provisions		370,571		**293,294**
Tax loss carryforwards		52,452		**41,602**
Asset tax paid in prior years	(	434,482)	**(**	**357,630)**
Less: valuation allowance		302,948		**291,499**
Net deferred income tax liabilities	Ps.	463,183	**Ps.**	**528,241**

A valuation allowance has been recorded due to the uncertainly of realizing a portion of the Company's tax loss and assets carryforwards, primarily from its operations in the United States.

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

9. Income taxes, asset tax and employee profit sharing (continued)

c) The portion of deferred income taxes attributable to the excess of indexed costs over replacement cost and the effect of translation of foreign subsidiaries have an effect on deferred income taxes charged to income for the years ended December 31, 2002, 2003 and 2004 as analyzed below:

	2002	2003	**2004**
Change in deferred income tax liabilities	Ps. 11,318	Ps. 100,929	**Ps. 65,058**
Less:			
Effect of inflation, net monetary effect (1)	21,162	18,843	**29,923**
Opening balance of deferred tax by adquired franchises	-	-	**(29,978)**
Change in deferred income taxes recorded in deficit from restatement of stockholders' equity	(30,925)	(69,879)	**(16,654)**
Change in deferred income taxes recorded in effect of translation of foreign subsidiaries	(10,998)	(22,972)	**(21,952)**
Deferred income tax expense (benefit) included in statements of income	Ps. (9,443)	Ps. 26,921	**Ps. 26,397**

(1) Since current tax legislation recognizes partially the effects of inflation on certain items that give rise to deferred taxes, the current year net monetary effect on such items has been reclassified in the statement of income from result from the monetary position result to deferred income tax expense of the year.

d) A review of the main items that in 2002, 2003, and 2004 originated a difference between income tax computed at the current tax rate of 35%, 34%, and 33%, respectively, and the provision recorded by the Company for income tax and asset tax is as follows:

	2002	2003	**2004**
Income before provision for income tax and employee profit sharing	$ 134,252	$ 114,101	**$ 276,535**
Tax computed over income before income tax and employees profit sharing (35%, 34% and 33%, respectively)	$ 46,990	$ 38,795	**$ 91,256**
Inflationary effects	(185)	(595)	**(3,220)**
Non-deductible expenses	14,022	3,808	**8,663**
Other	42	1,710	**14,983**
Change in valuation allowance	(32,983)	5,876	**5,023**
Cost of income tax at current rate	27,886	49,594	**116,705**
Effect of change in income tax rates	(15,509)	(588)	**(60,862)**
Net income tax expense	$ 12,377	$ 49,006	**$ 55,843**
Effective rate	20%	43%	**42%**

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

9. Income taxes, asset tax and employee profit sharing (continued)

Beginning on January 1, 2002, gradual decrease of one percentage point for each year beginning from 2003 was approved, until the 32% rate is reached in 2005. However, in December 2004, a gradual decrease has been approved again to lower the Income Tax rate. During 2005, the rate will be 30%, 29% for 2006, and 28% from 2007and thereafter. The effects of this change represented a benefit in income of the year for Ps. 60,862.

e) The company has fiscal losses that according to the income tax law effective in Mexico may be amortized against fiscal income generated over the first ten years. Fiscal losses may be restated following certain procedures established by law.

The Company has in excess Asset Tax in prior years over Income Tax due, which according to the applicable law may be recovered through income generated over the next ten years. Receivable Asset Tax may be restated through certain procedures established in said law. In 2002, 2003, and 2004, Interceramic did not make any payment for Asset Tax since it exercised the immediate deduction option of investments on fixed assets. Some subsidiaries paid Asset Tax for $ 5,955, $ 5,244 and $ 1,558, for years 2002, 2003, and 2004, respectively.

An analysis of the available tax loss carryforwards and recoverable asset tax for the Company's Mexican subsidiaries at December 31, 2004, restated for inflation, is as follows:

Year of tax loss or payment of asset tax	Year of expiration	Tax loss carryforwards	Recoverable asset tax
1997	2007	Ps. -	Ps. 7,764
1998	2008	7,172	3,946
1999	2009	34,911	5,793
2000	2010	9,747	5,664
2001	2011	211	6,264
2002	2012	7,584	5,515
2003	2013	551,413	5,098
2004	2014	18,695	1,558
		Ps. 629,733	Ps. 41,602

Interceramic, Inc., the Company's US subsidiary, has net operating loss carryforwards for federal income tax purposes, which if not utilized to offset future taxable income, will expire at various dates as summarized below:

Year of tax loss	Year of expiration	Tax loss carryforwards
1996	2011	Ps. 25,171
1997	2017	140,218
1998	2018	25,248
1999	2019	17,450
2000	2020	67,895
2001	2021	31,000
		Ps. 306,982

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9. Income taxes, asset tax and employee profit sharing (continued)

At December 31, 2002, 2003 and 2004, the Company had the following equity account balances for income tax purposes:

	Balance of Restated Contribute Capital Account ("CUCA")		Balance of Net Tax Profit Account ("CUFIN")		Reinvested Net Fiscal Account ("CUFINRE")	
2002	Ps.	2,045,279	Ps.	100,810	Ps.	20,784
2003	Ps.	1,849,312	Ps.	120,418	Ps.	1,824
2004	Ps.	1,944,717	Ps.	229,229	Ps.	2,102

Beginning in 1999 and through 2001, the Income Tax law allowed the option of deferring payments of part of income taxes due during those years. Deferred of said tax and related income is controlled through the Reinvested Net Fiscal Account ("CUFINRE"). Earnings distributed in excess of fiscal balances from CUFINRE and CUFIN, will be subject to enacted corporative income tax rate. Effective January 1st., 2002, the above-mentioned option of deferring a portion of income tax, was eliminated.

10. Industry segment information

Financial information by geographical area is as follows:

	As of for the year ended December 31, 2002							
	Mexico		United States		Eliminations and other adjustments		Consolidated	
Net sales:								
General customers	Ps.	2,036,875	Ps.	1,382,282	Ps.	-	Ps.	3,419,157
Inter-area transfers		920,164		9,963		(930,127)		-
	Ps.	2,975,039	Ps.	1,392,245	Ps.	(930,127)	Ps.	3,419,157
Interest expense, net of monetary effect	Ps.	(68,635)	Ps.	5,343	Ps.	-	Ps.	(63,291)
Net income	Ps.	22,530	Ps.	93,605	Ps.	(18,807)	Ps.	97,328
Depreciation	Ps.	117,516	Ps.	49,973	Ps.	-	Ps.	167,489
Capital expenditures	Ps.	159,570	Ps.	30,667	Ps.	-	Ps.	190,237
Total assets	Ps.	4,160,709	Ps.	900,637	Ps.	(1,637,943)	Ps.	3,423,403
Long-lived assets:								
Property, plant and equipment	Ps.	1,615,645	Ps.	318,169	Ps.	-	Ps.	1,933,814
Other assets		721,789		5,160		(649,711)		77,238
	Ps.	2,337,434	Ps.	323,329	Ps.	(649,711)	Ps.	2,011,052

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

10. Industry segment information (continued)

As of for the year ended December 31, 2003

	Mexico	United States	Eliminations and other adjustments	Consolidated
Net sales:				
General customers	Ps. 2,099,349	Ps. 1,484,666	Ps. -	Ps. 3,584,015
Inter-area transfers	850,753	47,373	(898,126)	-
	Ps. 2,950,102	Ps. 1,532,039	Ps. (898,126)	Ps. 3,584,015
Interest expense, net of monetary effect	Ps. (27,029)	Ps. (2,987)	Ps. -	Ps. (30,016)
Net income	Ps. 23,894	Ps. 7,620	Ps. 2,199	Ps. 33,713
Depreciation	Ps. 133,796	Ps. 50,008	Ps. -	Ps. 183,804
Capital expenditures	Ps. 122,208	Ps. 17,949	Ps. -	Ps. 140,157
Total assets	Ps. 4,249,407	Ps. 887,422	Ps. (1,527,967)	Ps. 3,608,862
Long-lived assets:				
Property, plant and equipment	Ps. 1,754,229	Ps. 303,274	Ps. -	Ps. 2,057,503
Other assets	768,332	11,618	(680,407)	99,543
	Ps. 2,522,561	Ps. 314,892	Ps. (680,407)	Ps. 2,157,046

As of for the year ended December 31, 2004

	Mexico	**United States**	**Eliminations and other adjustments**	**Consolidated**
Net sales:				
General customers	**Ps. 2,294,046**	**Ps. 1,641,062**	**Ps. -**	**Ps. 3,935,108**
Inter-area transfers	**1,578,873**	**-**	**(1,578,873)**	**-**
	Ps. 3,872,919	**Ps. 1,641,062**	**Ps. (1,578,873)**	**Ps. 3,935,108**
Interest expense, net of monetary effect	**Ps. (19,579)**	**Ps. (262)**	**Ps. -**	**Ps. (19,484)**
Net income	**Ps. 177,807**	**Ps. 20,805**	**Ps. (17,998)**	**Ps. 180,614**
Depreciation	**Ps. 158,653**	**Ps. 51,291**	**Ps. -**	**Ps. 209,944**
Capital expenditures	**Ps. 380,358**	**Ps. 22,738**	**Ps. -**	**Ps. 403,096**
Total assets	**Ps. 4,999,243**	**Ps. 904,856**	**Ps. (1,524,671)**	**Ps. 4,379,428**
Long-lived assets:				
Property, plant and equipment	**Ps. 2,197,581**	**Ps. 280,796**	**Ps. -**	**Ps. 2,478,377**
Other assets	**955,720**	**5,020**	**(850,701)**	**110,039**
	Ps. 3,153,301	**Ps. 285,816**	**Ps. (850,701)**	**Ps. 2,588,416**

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10. Industry segment information (continued)

Geographical sales by customer location is as follows:

	Mexico	United States				
	Total Domestic Sales	Wholly owned distributors	Independent distributors	Others (*)	Total U.S. Sales	Total Sales
Net sales 2002	Ps. 1,927,520	Ps. 964,158	Ps. 418,125	Ps. 109,354	Ps. 1,491,637	Ps. 3,419,157
Net sales 2003	Ps. 2,009,735	Ps. 1,080,205	Ps. 404,461	Ps. 89,614	Ps. 1,574,280	Ps. 3,584,015
Net sales 2004	**Ps. 2,194,322**	**Ps. 1,205,342**	**Ps. 426,295**	**Ps. 109,149**	**Ps. 1,740,786**	**Ps. 3,935,108**

(*) A small part of these sales did not occur in the United States.

11. Commitments and contingencies

The Company has entered into rental agreements for office space, manufacturing facilities, and equipment used in its operations under non-cancelable operating leases. A summary of future minimum lease payments under these agreements at December 31, 2004 is as follows:

2005	Ps.	112,068
2006		93,086
2007		88,194
2008		76,311
2009		64,000
Thereafter		293,256
Total future minimum rental payments	**Ps.**	**726,915**

Rental expense incurred under operating leases for the years ended December 31, 2002, 2003 and 2004 was Ps.57,527, Ps. 97,983 and Ps. 110,353, respectively.

Under certain lease agreements the respective monthly lease payments will increase annually in accordance with the NCPI.

b) The Company is party to various claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of management and the Company's independent lawyers, all such matters are without merit or are of such nature, or involve such amounts, that an unfavorable disposition would not have a material effect on the financial position or results of operations of the Company.

c) Derived from the construction of the new plant, which will be used to manufacture ceramic tile, operations are expected to start in May 2005, the company has entered into contracts with Arquitectura Habitacional e Industrial, S.A. de C.V., to invest approximately Ps.84,217 on the construction work, of which the amount of Ps. 52,155 had been invested at December 31, 2004. This amount has already been recorded as investment projects under fixed assets.

d) Furthermore, the Company has entered into contracts with machinery and equipment suppliers for approximately 14.4 million Euros, of which $13.2 million Euros had been invested at December 31, 2004.

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(Thousands of Constant Mexican pesos as of December 31, 2004 and thousands of U.S. dollars ($), except for number of shares and units, minimum dividend per share, market value per unit and exchange rates, which are stated in pesos (Ps.))

12. Subsequent events

a) New Syndicated Loan

On January 20, 2005, the company obtained a new syndicated loan, whose administrative agent is BBVA Bancomer for the amount of US$120,000. The principal will be payable until January 20, 2010, on a quarterly basis beginning on July 31, 2006. Said loan was used mainly to prepay the previous syndicated loan.

b) New accounting pronouncements

- Business acquisitions

In May 2004, the MIPA issued Mexican Accounting Bulletin B-7, Business Acquisitions. The observance of Bulletin B-7 is compulsory for fiscal years beginning on or after January 1, 2005, although earlier observance is recommended. Bulletin B-7 addresses the financial accounting and reporting for business and entity acquisitions and requires that all business combinations be accounted for using the purchase method. Bulletin B-7 also eliminates the option of amortizing goodwill and provides specific rules related to the acquisition of minority interest and to the transfer of net assets or exchange of equity interests between entities under common control. The adoption of this new Bulletin is expected to increase Company income by $1,938, thus eliminating goodwill amortization.

- Financial instruments

In April 2004, the Mexican Institute of Public Accountants amended Mexican Accounting Bulletin C-2, Financial Instruments. The amendments establish changes in the rules for valuing instruments classified as available-for-sale at their fair value and, unlike the previous Bulletin C-2, require the disclosure of such instruments at fair value in shareholders' equity. The amended Bulletin C-2 also provide the requirements and rules for the accounting treatment of transfers between financial instrument categories. The amendments are also more precise in establishing the guidelines for the accounting treatment to be given to impairment in the fair value of financial instruments. Furthermore, the amended Bulletin requires that such instruments be classified as either short-term or long-term and clarifies the rules for presenting in the statement of changes in financial position changes associated with the purchase, sale and maturity of financial instruments. Finally, the amendments broaden the disclosure rules established under Bulletin C-2. This Bulletin is effective on January 1st., 2005, allowing for its application in advance. Adoption of this document is expected to not significantly affect operation results nor the financial position of the Company.

- Financial instruments derived from hedging activities

In April 2004, the MIPA issued Bulletin C-10, Accounting for Derivative Instruments and Hedging Activities. Bulletin C-10 establishes the defining characteristics that financial instruments must have to be considered derivatives, as well as the conditions that must be met for specifically designating derivatives as hedges. Bulletin C-10 also provides guidelines for assessing the effectiveness of hedging derivatives and the rules for their valuation and the accounting for changes in their fair value. Finally, this Bulletin provides guidelines for disclosing and presenting derivatives and hedging activities in the financial statements. Adoption of this document is expected to not significantly affect operation results nor the financial position of the Company.

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