SECOND QUARTER

# 2011

# Interceramic releases Second Quarter 2011 Results

The second quarter of 2011 finds Interceramic maintaining its forward momentum with another good quarter of financial results. Although overall consolidated sales for the quarter of US $116.1 million were a modest 3.0 percent better than consolidated sales for the second quarter of 2010 of US $112.7 million, the greatest achievement for the period can be found in operating income, which swelled to US $8.6 million for the second quarter of 2011 over operating income for the same period of 2010 of US $5.9 million, a 45.7 percent increase. Feeling the full effect of our massive operating cost reductions in the United States over the past year, Interceramic expects these reductions to carry on to following periods, providing an excellent base from which to consolidate our gains in future quarters. At 7.4 percent of sales, operating margin for the second quarter of 2011 was almost 2.2 points higher than the operating margin of 5.3 percent in the same quarter last year, which at the time represented a marked improvement for the Company from then-recent prior periods. Interceramic's EBITDA for the second quarter of this year reached levels not seen for quite some time, hitting US $15.5 million, 21.0 percent better than the EBITDA of US $12.8 million posted in the second quarter of 2010. The second quarter's EBITDA is the highest quarterly EBITDA we have had in the past four years. Key financial ratios were also boosted considerably for the period, with our debt service coverage ratio standing at 6.3 times, compared to just 3.7 times at the end of the second quarter last year. The other important indicator, that of debt to EBITDA, decreased to 2.6 times at the end of the second quarter from 3.7 times at the end of the second quarter of 2010. Altogether, very encouraging results for our Company.

Year-to-year, the comparisons between 2011 and 2010 are perhaps even better. Consolidated sales for the first half of 2011 of US $229.0 million represent a 6.1 percent gain over sales of US $215.9 million in the first half of 2010. While gross income posted a modest gain of 4.4 percent in the first half of 2011 compared to the first half of 2010 (US $80.2 million over US $76.8 million), operating income expanded a full 83.1 percent over the two periods, hitting US $14.0 million for the first two quarters of 2011 as opposed to our operating income of US $7.7 million over the same two quarters last year. For the first semester of 2011, Interceramic's EBITDA was US $27.4 million, up 28.5 percent from the US $21.3 million on the books for the first half of last year.

In Mexico, sales were US $78.0 million for the second quarter of 2011 and showed a 10.2 percent gain over Mexican sales of US $70.8 million for the second quarter of 2010. Mexican sales for the first half of 2011 were some 12.4 percent higher than those in the first half of 2010, at US $154.8 million compared to US $137.7 million, respectively. Expressed in Pesos, the currency in which substantially all Mexican sales are denominated, were more or less flat over the periods, and at Ps 907.8 million for the quarter were just about 1.4 percent higher than Peso sales for the second quarter of 2010 of Ps 895.7 million. For the semester, sales in Mexico of Ps 1,833.8 million bested sales in the first half of 2010 of Ps 1,746.8 million by an even five percent.

In the International arena, the second quarter of 2011 begins to present a clearer picture of our situation in these often vexing markets, with most of the Company-owned stores that were identified by us for closure either having been sold or indeed closed. While at US $38.1 million for the second quarter of 2011, our consolidated International sales did not lag too far behind the US $41.9 million recorded in the second quarter last year (a 9.0 percent decrease), this result is skewed somewhat by our agreement to continue selling Interceramic products to the purchaser of several of our United States company-owned stores, at least through the end of the current year. Once these sales start dropping off in the fourth quarter, our International sales will clearly reflect the end of this arrangement, however, as our agreement with the purchaser is to sell these projects on a "no-margin" basis, neither the inclusion of these sales currently nor their cessation over the coming months has or will have any impact on the Company's consolidated operating income. On a half year basis, International sales were US $74.1 million, a 5.1 percent reduction from the US $78.1 million in consolidated International sales in the first half of 2010.

Our consolidated results continue to be dominated by Interceramic's performance in the Mexican markets. We continue to adapt and update our strategies as changing circumstances warrant, but we have also maintained our focus on what has been working for us in Mexico in recent prior quarters and ensuring that our efforts do not lessen. Distinct hallmarks of our unique presence in Mexico through a network of over 238 boutique Interceramic stores, we have been pushing innovation in product offerings and the absolute highest standard in customer service to consolidate our hard-fought position at the top-end of the floor and wall tile markets in the country. Regarding innovation for example, the past quarter has seen the effect of the recent introduction by the Company of completely new, digitally designed products that are without peer in the current marketplace. We don't expect sudden and dramatic gains in Mexico, but we do have every reason to think that our progress will move inexorably forward.

The International markets, of course primarily the United States, are of necessity becoming less of a factor in our overall operations. Having made huge adjustments in our operations and strategies in the United States over the course of the past few quarters, primarily with an aim at reducing unsustainable operations responsible for generating operating losses, it remains to be seen whether a fresh approach at the American markets can help us achieve the objectives that we have long-held for these markets. Without the distraction of the unprofitable stores, the Company is focussing on further development of our better performing locations, primarily in Texas, Oklahoma, New Mexico and Atlanta, Georgia. In addition, considerable energy is being applied to our new relationships in the burgeoning "do-it-yourself" space in the United States, particularly with Lowe's Home Centres. We have also recently undergone a major readjustment of senior management personnel and structure, and while there is plenty more work that likely can be done to make our International operations profitable, we do think we are at a point now where coming quarters can establish how realistic our expectations might be in this regard, and much will depend on how and when the American markets can recover from the steep downturn in the building and construction industry that materialised in the second half of 2008.

Juxtaposing these two main markets underscores the differences. While not so long ago our sales were mixed almost evenly between Mexico and the United States, this has changed radically over recent periods, to where in the first half of 2011, Mexican sales of US $154.8 million accounted for almost 68 percent of consolidated sales.  Albeit a rough and unaudited internal calculation, we estimate that our first semester 2011 EBITDA was split as a positive US $32.6 million allocable to Mexico and a loss of US $5.2 falling on our United States operations.

All told, we are pleased with our progress over these very difficult times, and look forward to continued gains going forward. Further efforts will be made to turn around operations in the United States and we have some exciting, innovative projects on tap for Mexico in the latter part of the year.  We are also continuing development of our new distribution initiative in China with our joint venture partner, and look forward to seeing if we can capitalise on the incredible potential we would expect from that as-yet untested market.  As has always been the case for all of us here at Interceramic, we thank our investors, our customers and our employees for their continued support.

**Oscar E. Almeida**
Honorary  Chairman

**Víctor D. Almeida**
Chairman of the Board & CEO

## RELEVANT FINANCIAL INFORMATION

| INCOME STATEMENT (Thousands of Nominal US Dollars, except per Share data) | Apr-Jun'11 | Apr-Jun'11 Vs. Apr-Jun'10 | Jan-Jun '11 | Jan-Jun '11 Vs. Jan-Jun '10 |
|---|---|---|---|---|
| Net Sales | 116,104 | 3.0% | 228,980 | 6.1% |
| Cost of goods sold | (74,501) | 3.8% | (148,816) | 7.0% |
| Gross Income | 41,602 | 1.7% | 80,164 | 4.4% |
| Operating Expenses | (32,643) | (5.4%) | (65,474) | (4.3%) |
| Other Expenses, Net | (312) | (32.3%) | (663) | (11.7%) |
| Operating Income | 8,648 | 45.7% | 14,027 | 83.1% |
| Integral Cost of Financing | 163 | N.A. | 3,730 | N.A. |
| Interest Expense | (1,803) | (21.2%) | (3,593) | (24.1%) |
| Interest Income | 238 | (25.7%) | 570 | (11.6%) |
| Foreign Exchange Gain (Loss) | 1,729 | (137.6%) | 6,753 | 146.3% |
| Income Tax | (4,009) | 57.2% | (7,879) | 54.7% |
| Deferred Income Tax | 72 | (256.0%) | 39 | (141.8%) |
| Net Majority Income | 3,321 | N.A. | 7,550 | N.A. |
| Minority Income | 854 | (15.2%) | 1,666 | (4.9%) |
| Weighted Average Number of Shares Outstanding (Thousands) | 162,664 | 0.0% | 162,664 | 0.0% |
| EPS | 0.02 | N.A. | 0.05 | N.A. |

| BALANCE SHEET (Thousands of Nominal US Dollars) | June 2011 | Jun'11 Vs. Jun'10 |
|---|---|---|
| Current Assets | 196,168 | (0.3%) |
| Cash Equivalents | 16,777 | (33.6%) |
| Fixed Assets | 199,849 | (0.6%) |
| Other non-current Assets | 13,816 | (25.3%) |
| TOTAL ASSETS | 409,834 | (1.6%) |
| Short-term Bank Debt | 25,163 | 64.7% |
| Other short-term Liabilities | 37,464 | (19.5%) |
| Long-term Bank Debt | 110,125 | (20.7%) |
| Deferred Taxes | 32,529 | (4.4%) |
| Other long-term Liabilities | 8,912 | 36.4% |
| TOTAL LIABILITIES | 214,193 | (11.2%) |
| Majority Shareholders' Equity | 173,466 | 13.1% |
| Minority Interest | 22,175 | 2.0% |
| TOTAL SHAREHOLDERS' EQUITY | 195,641 | 11.7% |

Note: "Unless otherwise indicated, all financial information are in accordance with International Financial Reporting Standards as determined by the International Accounting Standard Board ("IASB") and for purposes of clarity, information is also presented in nominal US Dollars dividing the nominal pesos for each month by the applicable average exchange rate for that month."

## RELEVANT FINANCIAL INFORMATION

| INCOME STATEMENT (Thousands of Pesos except per Share data) | Apr-Jun'11 | Apr-Jun'11 Vs. Apr-Jun'10 | Jan-Jun '11 | Jan-Jun '11 Vs. Jan-Jun '10 |
|---|---|---|---|---|
| Net Sales | 1,351,575 | (5.2%) | 2,711,397 | (1.0%) |
| Cost of goods sold | (867,197) | (4.5%) | (1,762,464) | (0.1%) |
| Gross Income | 484,378 | (6.4%) | 948,934 | (2.6%) |
| Operating Expenses | (379,817) | (13.0%) | (775,552) | (10.6%) |
| Other Expenses, Net | (3,645) | (37.7%) | (7,880) | (17.8%) |
| Operating Income | 100,915 | 34.1% | 165,501 | 71.4% |
| Integral Cost of Financing | 1,237 | N.A. | 44,124 | N.A. |
| Interest Expense | (20,982) | (27.6%) | (42,563) | (29.3%) |
| Interest Income | 2,770 | (31.8%) | 6,773 | (17.2%) |
| Foreign Exchange Gain (Loss) | 19,449 | (132.3%) | 79,913 | 149.2% |
| Income Tax | (46,645) | 44.6% | (93,292) | 44.4% |
| Deferred Income Tax | 850 | (244.8%) | 444 | (137.8%) |
| Net Majority Income | 38,193 | N.A. | 88,834 | N.A. |
| Minority Income | 9,958 | (22.0%) | 19,736 | (11.3%) |
| Weighted Average Number of Shares Outstanding (Thousands) | 162,664 | 0.0% | 162,664 | 0.0% |
| EPS | 0.23 | N.A. | 0.55 | N.A. |

| BALANCE SHEET (Thousands of Pesos) | June 2011 | Jun'11 Vs. Jun'10 |
|---|---|---|
| Current Assets | 2,308,897 | (8.6%) |
| Cash Equivalents | 197,468 | (39.1%) |
| Fixed Assets | 2,352,227 | (8.9%) |
| Other non-current Assets | 162,617 | (31.6%) |
| TOTAL ASSETS | 4,823,740 | (9.8%) |
| Short-term Bank Debt | 296,166 | 51.0% |
| Other short-term Liabilities | 440,950 | (26.2%) |
| Long-term Bank Debt | 1,296,171 | (27.3%) |
| Deferred Taxes | 382,863 | (12.4%) |
| Other long-term Liabilities | 104,900 | 25.1% |
| TOTAL LIABILITIES | 1,783,934 | (22.6%) |
| Majority Shareholders' Equity | 2,041,695 | 3.7% |
| Minority Interest | 260,994 | (6.5%) |
| TOTAL SHAREHOLDERS' EQUITY | 2,302,690 | 2.4% |