



A
different
STORY



LAMOS A

ANNUAL REPORT 2003

company PROFILE



Lamosa Revestimientos, S.A. de C.V.
 Juárez
 Tlaxcala
 San Luis Potosí

General de Minerales, S.A. de C.V.

Lamosa USA Corp.

products

- Wall, floor and skirting tiles, special pieces

Crest, S.A. de C.V.
 Santa Catarina
 Guadalajara
 Morelia
 Chihuahua
 Tizayuca

Adhesivos de Jalisco, S.A. de C.V.
 Guadalajara
 León
 State of Mexico

Industrias Niasa, S.A. de C.V.
 Mexico City
 State of Mexico
 Guadalajara
 Chihuahua
 Navojoa
 Torreón

Proyeso, S.A. de C.V.
 Cuatro Ciénegas

products

- Adhesives for installing wall and floor tiles
- Grouts
- Stuccos
- Plaster for the ceramic industry
- Plaster for the construction industry

Sanitarios Lamosa, S.A. de C.V.
 Monterrey
 Juárez

products

- Toilets
- Wall, pedestal, over-mounting and under-mounting washbasins
- Luxury bidets
- Flushometer bowls
- Urinals
- Drinking fountains

Grupo Inmobiliario Viber, S.A. de C.V.

Ladrillera Monterrey, S.A. de C.V.

developments

In the metropolitan area of Monterrey

products

- Housing and commercial developments
- Office parks

administrative and financial services

Servicios Administrativos Lamosa S.A., de C.V.

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Despite the difficult business environment in 2003, Grupo Lamosa was able to capitalize on Mexico's dynamic housing sector, modernizing its production and marketing activities and concentrating initiatives on **creating value through differentiation.**

2003 was a year of very positive achievements and results, laying the foundations for our consolidation and continuing future growth.



Grupo Lamosa is a key player in the **NAFTA** market, with more than 30 years of experience **exporting** sanitaryware and ceramic tiles. Today, the Company offers a **wide range** of products for the **medium and high-end** segments.

financial HIGHLIGHTS

GRUPO LAMOSA, S.A. DE C.V. AND SUBSIDIARIES
(Millions of constant Mexican pesos as of December 31, 2003)

	2003	2002	VAR %
results			
Net sales	3,128	2,918	7
Export sales (millions of US\$)	50	45	11
Export sales / net sales	18%	16%	
Operating income	550	459	20
Operating income / net sales	18%	16%	
Comprehensive financing cost	137	137	
Consolidated net income	201 ⁽¹⁾	189	6

financial position

Total assets	4,585	4,112	12
Total liabilities	2,638	2,387	11
Stockholders' equity	1,947	1,725	13
Book value per share ⁽²⁾	16.23	14.37	13

cash flow

Net operating cash flow ⁽³⁾	719	561	28
Capital expenditures	578	793	-27

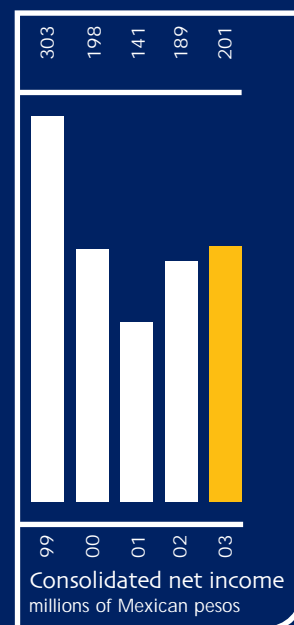
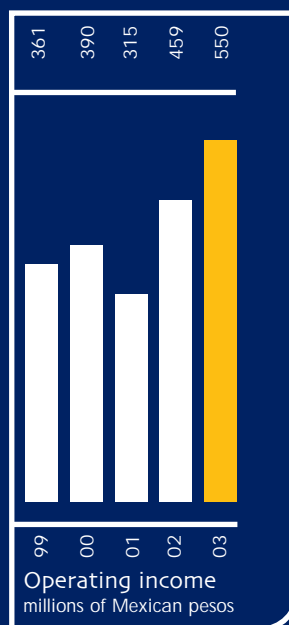
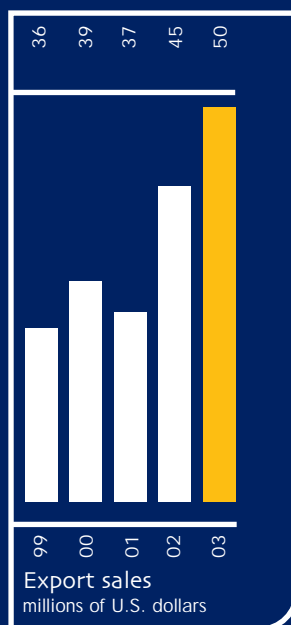
number of employees

Total personnel	3,251	3,371	-4
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⁽¹⁾ Includes a charge of Ps 55.8 million corresponding to a non-recurring item for technological updating.

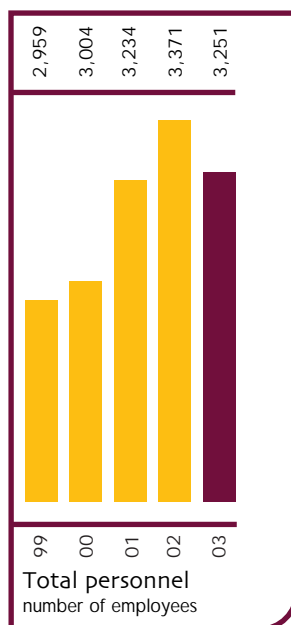
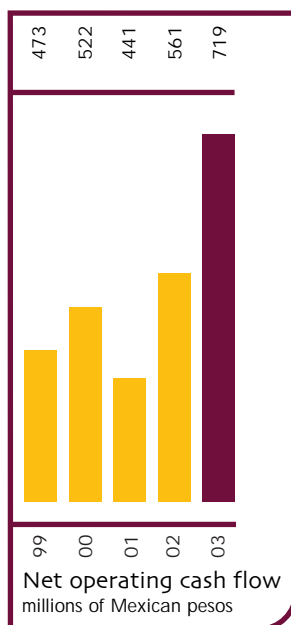
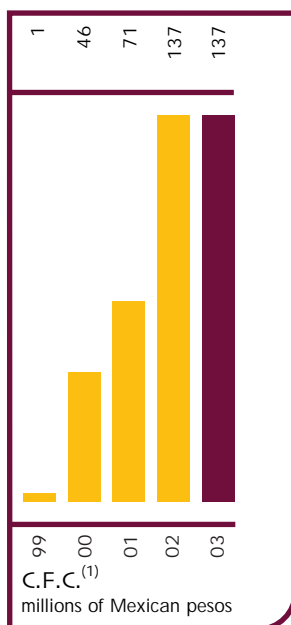
⁽²⁾ On a total of 120 million shares.

⁽³⁾ Operating income plus depreciation and amortization.



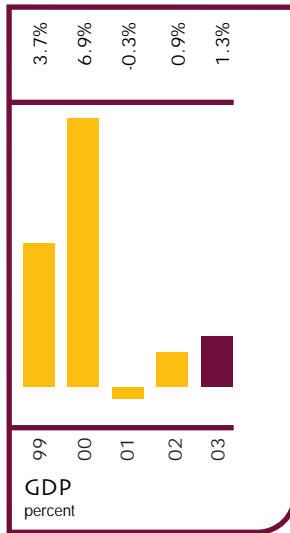
RELEVANT events during 2003

JANUARY	Wall and Floor Tiles	Initiation of the construction of a new plant to produce ceramic wall tiles in Benito Juárez, Nuevo León.
MARCH	Adhesives	Achievement of ISO 9001-2000 certification for four plants.
APRIL	Real Estate	Inauguration of Galerías Valle Oriente, one of the most important and modern shopping centers in northern Mexico.
MAY	Wall and Floor Tiles	Inauguration of the San Luis Potosí plant, a state-of-the-art production facility strategically located to cover the markets of central and western Mexico more efficiently.
OCTOBER	Real Estate	Marketing of the Cumbres Providencia residential development located in the western part of Monterrey in one of the city's fastest growing areas.
NOVEMBER	Sanitaryware	Launch of the Intelligent Toilet, with the dual-flush system which considerably reduces water consumption.
NOVEMBER	Adhesives	Inauguration of the Santa Catarina Crest plant, one of the most modern facilities of its kind in Latin America.
DECEMBER	Sanitaryware	Receipt of the Mexican National Export Prize, awarded by the Office of the President for export activities.



⁽¹⁾ Comprehensive Financing Cost

to our STOCKHOLDERS



2003 WAS A YEAR OF CONSOLIDATION FOR GRUPO LAMOSA. SIGNIFICANT GROWTH IN THE MEXICAN HOUSING SECTOR, COMBINED WITH INCREASED PRODUCTIVITY AS A RESULT OF OUR TECHNOLOGICAL RECONVERSION AND NEW PLANTS BEGINNING OPERATIONS, ALLOWED US TO POST OUTSTANDING OPERATING RESULTS AND IMPROVE THE COMPANY'S PROFITABILITY.

Despite the difficult economic environment experienced throughout the year, with the Mexican GDP growing only 1.3%, we continued to transform operations, both technologically and commercially, positioning the Company to capitalize on opportunities in the sectors in which we participate and translate them into growth.

2003 OPERATING INCOME
TOTALED

550 MILLION MEXICAN PESOS

As a result, Grupo Lamosa posted 2003 sales of Ps 3,128.2 million, an increase of 7% year-over-year. Similarly, operating income totaled Ps 550.4 million, 20% above the previous year and resulting in an operating margin of 18%.

The recent capital expenditures made by all the Company's business units have given us one of the world's most modern technological platforms. As a result, we now operate with a more competitive cost structure and have developed innovative products and enriched our product mix with higher value-added, middle and high-end products.

These initiatives have increased Grupo Lamosa's presence in the domestic market as well as abroad, resulting in a 19% growth in the Company's exports in 2003.

Grupo Lamosa's growth strategy is based on differentiation: differentiation in offering innovative products that respond to the increasingly demanding needs of our customers, differentiation in our world-class quality and service. This strategy will allow us to continue strengthening and improving the competitive position of all Grupo Lamosa businesses.

Because of the importance that our Real Estate Business has acquired over the past few years, in 2003 we decided to create an independent business unit to operate this segment. The decision seeks to give this line of business long-term stability within our



operating portfolio and to ensure that it contributes to Grupo Lamosa's sustained growth in the short, medium and long term.

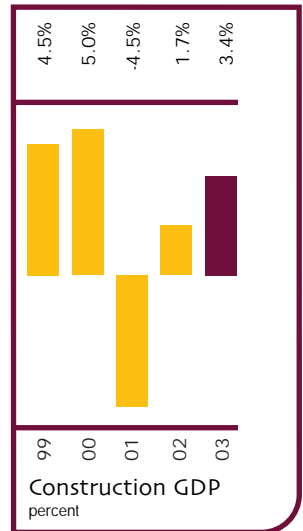
During 2003, Grupo Lamosa maintained a solid financial structure by handling its finances prudently. During the year, we achieved our objective of satisfying most of the growth needs of our different businesses with internal resources. This ongoing strategy will allow us to reduce financial risk gradually and capitalize on new growth opportunities.

The perspectives for Grupo Lamosa in 2004 are better than they were a year ago. The continued dynamism of the housing sector and the probability that Mexico's economic stability will translate into enhanced growth are just two factors that will enable us to continue laying the foundations for greater sustained expansion in the future.

On behalf of Grupo Lamosa, I would like to thank our stockholders for their continued trust in the Company, reiterating our commitment to continue creating value. I would also like to thank our people for their ongoing efforts and all our creditors, suppliers, distributors, customers and friends for their continued support.

Federico Toussaint Elosúa
CHAIRMAN OF THE BOARD

GRUPO LAMOSA'S GROWTH STRATEGY IS BASED ON DIFFERENTIATION THROUGH OFFERING INNOVATIVE PRODUCTS THAT RESPOND TO THE INCREASINGLY DEMANDING NEEDS OF OUR CUSTOMERS.



Grupo Lamosa is continuously developing new products in a constant search for better solutions to satisfy the needs of its consumers. The Intelligent Toilet launched this year is a product of these efforts; with its dual-flush system, this innovative lavatory reduces water consumption significantly. Another example of our innovation is the Adhesives Business's launch of a series of specialized products, such as Crest Aisla Sonnic, Crest Boquiflex and Crest Boquifom, which are real solutions for constructors who need to protect their buildings from either structural movements or from the forces of contraction and expansion that ceramic coverings experience with temperature changes.

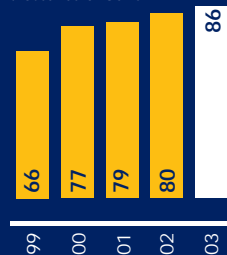
Grupo Lamosa's innovation clearly differentiates the Company from the competition, strengthening its position as market leader and enabling it to offer new and better products for every market in which it operates.

CAPITAL EXPENDITURES HAVE
POSITIVELY IMPACTED THE
COMPANY'S PRODUCTIVITY

+7%

ANNUAL
GROWTH
1999-2003

Sales / Personnel
thousands of USDs



BUILDING VALUE THROUGH



innovation

Over the past three years, Grupo Lamosa has made capital expenditures of 162 million dollars, largely to expand and modernize production facilities. Today, all Grupo Lamosa's business units operate with world-class production processes and state-of-the-art technology.

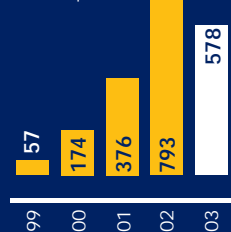
Grupo Lamosa's use of technology allows it to generate value by producing a wider range of higher quality products, increasing efficiency and thereby profitability, and providing the capacity to continue investing in the future.

INVESTMENT IN INDUSTRIAL AND REAL ESTATE PROJECTS

+79%

ANNUAL GROWTH 1999-2003

Capital Expenditures
millions of Mexican pesos



BUILDING VALUE THROUGH



technology

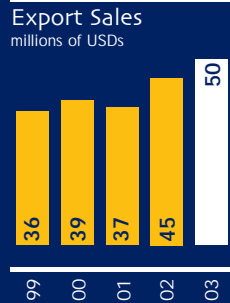
Grupo Lamosa offers a wide selection of products to cover the needs of different market segments, with a focus on medium and high-end segments.

The Company has extended its range of highly innovative, top quality products, allowing it to enter sophisticated, high value-added market niches which in the past were difficult to reach.

Today, Grupo Lamosa products are not only recognized for their excellence in Mexico but also in foreign markets such as the United States and Canada, countries that account for approximately 20% of the Company's sales.

GROWTH IN EXPORT SALES,
MAINLY TO THE U.S.A. AND
CANADA

+11%



BUILDING VALUE THROUGH



diversification

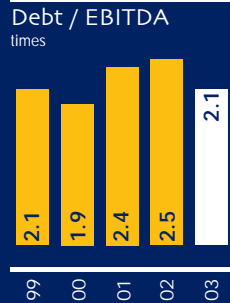
Another characteristic that sets Grupo Lamosa apart and gives it access to extensive credit is its financial stability. This strength has been a key factor in meeting the growth needs of the Company's different businesses, even in difficult economic and business environments like those of the past few years.

Our growing capacity to generate resources will allow us to continue strengthening the Company's financial structure, reducing risk and positioning us to capitalize on future opportunities.

Because of our prudent financial strategy and generation of value, we will continue to offer our stockholders attractive returns, thereby justifying their trust and support for Grupo Lamosa.

STRENGTHENING OF THE
COMPANY'S FINANCIAL
POSITION

2.1 TIMES



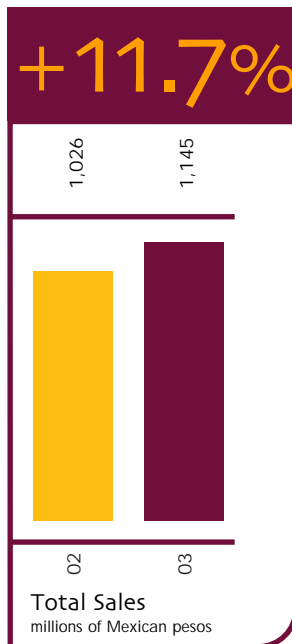
BUILDING VALUE THROUGH



stability

wall and floor tiles BUSINESS

DURING 2003, THIS BUSINESS UNIT BEGAN THE CONSTRUCTION OF A SECOND PLANT TO PRODUCE CERAMIC WALL TILES, WITH AN INVESTMENT OF APPROXIMATELY 23 MILLION DOLLARS.



Grupo Lamosa's Wall and Floor Tiles Business posted satisfactory results in 2003, with sales volume growing 10% year-over-year. The business significantly outperformed the industry in which it operates, increasing market share and strengthening its market leadership position.

In line with its growth and technological reconversion strategy, in May 2003 the Wall and Floor Tiles Business inaugurated one of the market's most modern ceramic floor tile producing facilities in San Luis Potosí, taking advantage of the event to launch its new image and commercial strategy with the distributors who were present. It also capitalized on the opportunity to discuss their needs and expectations so as to establish commitments and translate them into better service for the benefit of all parties.

In 2003, the Wall and Floor Tile Business unveiled a new strategy, not only in the technological and operating area, but also commercially. Commercial initiatives to strengthen the distribution network through the launch of new product lines were implemented, and a new, aggressive advertising campaign emphasizing the beauty and resilience of Grupo Lamosa tiles was put into effect.

During the year, this business unit began the construction of a second plant to produce ceramic wall tiles, with an investment of approximately 23 million dollars. The new facility, located in Benito Juárez in the state of Nuevo León, will position the business to make further progress with its technological updating strategy and completely substitute tile production at the Monterrey plant.

Going forward, the Wall and Floor Tile Business will continue to modernize its technology, in order to enter new high value-added market niches with a better product mix and increase the business's margins.



adhesives BUSINESS

Grupo Lamosa's Adhesives Business posted positive results in 2003, despite the competitive environment. Sales volume grew 7%, outperforming the market and further strengthening the business's competitive position.

The Adhesives Business's performance enhanced its leadership position in the Mexican market. Factors such as a continuous increase in market share, the manufacture of products that significantly outclass those of the competition and the development of new products have been key elements for meeting its goals.

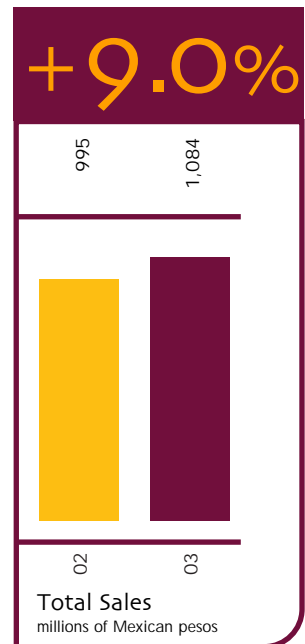
During 2003, this business made ongoing efforts to continue being the leading producer in the domestic market, focusing on total quality and continuous improvement. This important strategy, carried out through Quality Models, resulted in four of the business's plants receiving ISO 9001-2000 certification in 2003.

In November, the business inaugurated a new plant, one of Latin America's most modern ceramic adhesives production facilities. It is located in Santa Catarina, Nuevo León, and operates with state-of-the-art technology which will translate into significant improvements in the business's productivity.

The Adhesives Business continued to implement its strategy of continuously developing new, innovative, specialized products to satisfy the particular needs of its customers and increase value added. Products launched by this business in 2003 include Crest Aisla Sonnic, that acts as an acoustic insulator between floors, and Crest Anti Slip, a non-slip treatment for floors that are always wet.

Another of the Adhesives Business's achievements during the year was the expansion of its presence to a greater number of distributors, with a wider range of brands and an attractive product mix to cover the different market segments.

IN 2003 FOUR GRUPO LAMOSA ADHESIVES PLANTS RECEIVED ISO 9001-2000 CERTIFICATION.



sanitaryware BUSINESS

THE HIGH-END AMBIANCE BRAND WAS LAUNCHED DURING THE YEAR.

The Sanitaryware business performed satisfactorily in 2003, posting a 20% increase in sales volume, growth that was driven by a significant 34% rise in foreign sales compared to the previous year.

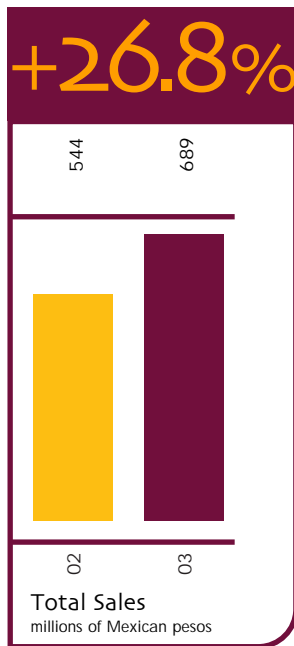
Increased production capacity resulting from the Company having one of the most modern sanitaryware plants allowed this business to export 60% of its total production to countries such as the United States and Canada.

The business's efforts in foreign markets over the past few years were recognized when it received the 2003 Mexican National Export Prize from the Office of the Mexican President. This award encourages us to continue contributing to the competitive development of Mexico's export sector.

None of this would have been possible were it not for the Sanitaryware Business's design and development of innovative, high value-added products and offering of world-class service, which have enabled the business to increase its sales to different segments such as wholesale plumbers in the United States and home centers in Mexico and abroad.

In 2003, the Sanitaryware Business implemented important initiatives to position it as a world-class sanitaryware producer focused on medium and high-end markets. Actions taken during the year included the launch of the Ambiance brand which offers designs and sophistication to satisfy the most demanding customer.

Another important event in 2003 was the launch in October of one of the market's most innovative products, the Intelligent Toilet. This product is offered in a variety of different models, all of which are equipped with the dual-flush system which significantly reduces water consumption.



real estate BUSINESS

For Grupo Lamosa's Real Estate Business, 2003 was a year of major achievements and challenges. In April, Galerías Valle Oriente, one of Mexico's most modern and attractive shopping centers, was successfully inaugurated. This mall received a successful customer response and is today one of the most attractive retail outlets of its kind. For the Real Estate Business, it represents an important source of revenues that will make a significant contribution to stabilizing cash flows. Moreover, the consolidation of the center's management will enable the business to capitalize on experience gained as it executes similar projects in the near future.

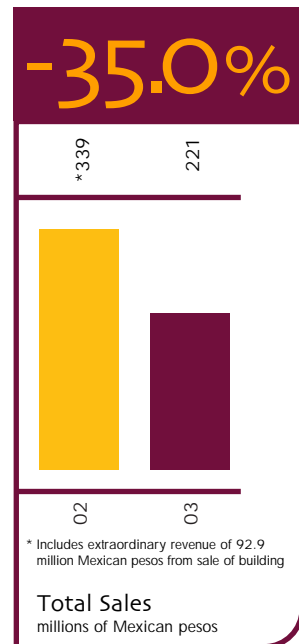
Another of the Real Estate Business's important achievements in the Valle Oriente area of Monterrey was the promotion and sale of apartments in the fourth sector of the Privanzas development. The Company's apartments offer a series of advantages in design, location and services that make them one of the most attractive options in the region.

Over the past few years, the Real Estate Business has channeled considerable efforts and resources into the Cumbres subdivision in the western part of the metropolitan area of Monterrey, one of the fastest growing in the city. During 2003, the business successfully launched Cumbres Providencia, a new residential development that offers unique advantages in security and exclusiveness.

During the year, the business completed a study to evaluate the feasibility of developing a second phase in a commercial area it owns in Cumbres. The construction of what will be one of the area's most important malls will begin during the first quarter of 2004, consolidating Grupo Lamosa's leadership in the region.

The Real Estate Business has posted positive results in recent years, gaining importance within Grupo Lamosa's portfolio of businesses. We will continue to develop high quality real estate with state-of-the-art technology in order to maintain the image and reputation this business has already earned.

THE GALERÍAS VALLE ORIENTE MALL WAS SUCCESSFULLY LAUNCHED IN APRIL.



financial PERFORMANCE

LAMOSA SERIES B SHARES PERFORMED VERY WELL IN 2003, PRODUCING A YIELD OF 104%.

Grupo Lamosa's 2003 financial results were favorably impacted by the improved operational efficiency of all business units, driven by a more effective and productive technological platform.

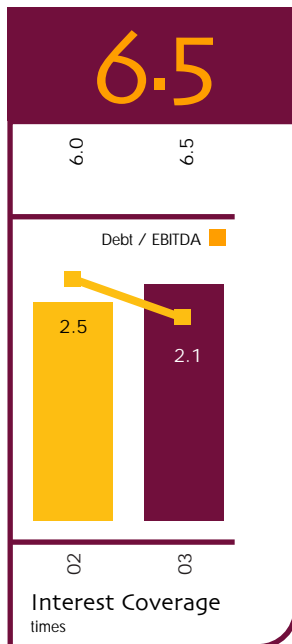
Higher margins and increased cash flows were key factors in supporting the Company's capital expenditures in 2003.

Consequently, the EBITDA to sales ratio for 2003 was 22%, compared to 19% for the previous year. The Company's financial structure was also strengthened during the year, with Grupo Lamosa posting a debt to EBITDA ratio of 2.1 times, an EBITDA to net interest expense ratio of 6.5 times, and financial leverage, excluding the effects of Bulletin D-4, of 0.97 times for 2003.

During the year, Grupo Lamosa's solid financial position and the general reduction in interest rates enabled the Company to continue optimizing the cost of its debt.

Lamosa Series B shares preformed very well in 2003, producing a yield of 104% and outperforming the Mexican Stock Market Index. This achievement shows that the Company's strategies are producing good results; consequently, future perspectives continue to be favorable and will reflect positively on Grupo Lamosa's credit rating.

The Company traded a total number of 366,600 of the shares that represent Grupo Lamosa's capital stock in 2003. This amount represents 15% of the total volume traded during the year, compared to 40% in 2002.



social RESPONSIBILITY

During the past few years, Grupo Lamosa has implemented a strategy of growth and investment in all its business units, building plants and carrying out real estate projects. These activities have contributed to the creation of jobs in Mexico. In fact, during 2003 Grupo Lamosa carried out industrial and real estate projects that led to the creation of 4,068 jobs, of which 1,758 were permanent in nature.

The Company has extensive operations throughout Mexico and participates actively in the development and economic growth of the states in which it participates, bringing resources and investment, as well as development through the manufacturing and commercializing of its products.

Grupo Lamosa is committed to environmental protection and invests in state-of-the-art technology and specialized, environmentally friendly production systems.

The Company has been a pioneer in Mexico in the development of innovative ecological products, such as the Intelligent Toilet, which helps to optimize water utilization, reducing the consumption of this vital natural resource by 50%.

Grupo Lamosa's capital expenditures, strategies and initiatives during 2003 have demonstrated the strength and differentiation of the Company's products; we are committed to continue working to maintain our sustained and profitable growth in the short, medium and long term.

THE DUAL-FLUSH INTELLIGENT TOILET REDUCES WATER CONSUMPTION BY UP TO 50%.



corporate GOVERNANCE



Grupo Lamosa's transparency and good corporate governance are a result of a philosophy based on ethical behavior in all business activities and a commitment to the principles that have guided the Company for more than a century. Grupo Lamosa adheres to the Code of Best Corporate Practices.

LEFT TO RIGHT STANDING: Sergio Narváez Garza, Jorge Manuel Aldape Luengas, Arturo Martínez Martínez, Alejandro Novoa Camino. LEFT TO RIGHT SEATED: Federico Toussaint Elosúa, Tomás Luis Garza de la Garza, Enrique Álvarez-Tostado Ascorve

BOARD OF DIRECTORS

Federico Toussaint Elosúa	CHAIRMAN	
Max Michel Suberville	DIRECTOR	
	Auditing Committee	P
Eduardo Elizondo Barragán	DIRECTOR	
	Human Resources Committee	P
José Alfonso Rubio Elosúa	DIRECTOR	P
Bernardo Elosúa Robles	DIRECTOR	
	Human Resources Committee	P
Antonio Elosúa González	DIRECTOR	P
Juan Miguel Rubio Elosúa	DIRECTOR	P
Guillermo Barragán Elosúa	DIRECTOR	P
José Manuel Valverde Valdes	DIRECTOR	
	Auditing Committee	P
Javier Saavedra Valdes	DIRECTOR	P
Eugenio Garza Herrera	DIRECTOR	
	Human Resources Committee	I
Armando Garza Sada	DIRECTOR	
	Auditing Committee	I
Francisco Javier Fernández Carbajal	DIRECTOR	
	Auditing Committee	I
Luis Francisco González Parás	SECRETARY	
Carlos Zambrano Plant	EXAMINER	

COMPANY OFFICERS

Federico Toussaint Elosúa	CHIEF EXECUTIVE OFFICER
Sergio Narváez Garza	WALL AND FLOOR TILES VICE-PRESIDENT
Jorge Manuel Aldape Luengas	ADHESIVES VICE-PRESIDENT
Arturo Martínez Martínez	SANITARYWARE VICE-PRESIDENT
Enrique Álvarez-Tostado Ascorve	REAL ESTATE VICE-PRESIDENT
Alejandro Novoa Camino	HUMAN RESOURCES VICE-PRESIDENT
Tomás Luis Garza de la Garza	CHIEF FINANCIAL OFFICER

P (Major Stockholder)
I (Independent)

financial STATEMENTS

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EXAMINER'S report

To the General Stockholders' Assembly of Grupo Lamosa, S.A. de C.V.

In fulfilling my obligations as Company Examiner, a position bestowed upon me by the Grupo Lamosa, S.A. de C.V. Stockholders' Assembly of April 7, 2003, and in compliance with the statutes of the aforementioned Company and Mexican Corporate Law, I am obliged to inform you, as set out below, about the Company's activities, with regard to its operations and Management's report for fiscal 2003:

1. Using the monthly accounting information supplied by the Company and by attending and participating in the majority of the Board Meetings, I have kept informed about the Company's performance and activities.
2. During the course of the year, I examined and analyzed Grupo Lamosa, S.A. de C.V.'s financial statements as prepared by the Company.
3. I have also attended and participated in the meetings of the Auditing Committee of the Board of Directors, where policies, programs and plans, as well as the results of internal and external audits carried out on the Company, and the corrective actions that have been considered necessary have been informed, analyzed and suggested.
4. The Company's financial statements as of December 31, 2003 audited by the external auditors Galaz, Yamazaki, Ruiz Urquiza, S.C. consolidate subsidiaries' financial statements that are mainly audited by the aforementioned firm of public accountants. I have reviewed and analyzed these financial statements, as well as the Report on Activities prepared by Company Management for the period of January first to December thirty-first of 2003.

In my opinion, as Company Examiner, Grupo Lamosa, S.A. de C.V.'s individual and consolidated financial statements, audited by the aforementioned firm of public accountants, present fairly the financial position of the Company as of December thirty-first, 2003, through the balance sheet, and statements of income, changes in financial position and changes in stockholders' equity for the year then ended.

The accounting and information criteria and policies followed by the Company are in accordance with the bulletins published by the Mexican Institute of Public Accountants. In addition, I should like to affirm that the behavior of the Board of Directors has been totally in accordance with the Company's statutes and the provisions of the Law.

Because of the above, I recommend that this Stockholders' Assembly approve the said Financial Statements.



Carlos Zambrano Plant

EXAMINER

Monterrey, N. L., March 29, 2004

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

We have audited the accompanying consolidated balance sheets of Grupo Lamosa, S.A. de C.V. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended, all expressed in thousands of Mexican pesos. 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. The financial statements of the Company's consolidated subsidiaries mentioned in Note 1-b, which statements reflect net sales constituting 0.9% of consolidated net sales for the year ended December 31, 2002, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Lamosa, S.A. de C.V. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

The accompanying consolidated financial statements have been translated into English language for the convenience of users.



Fernando Cerda Martínez

GALAZ, YAMAZAKI, RUIZ URQUIZA, S.C.

MEMBER FIRM OF DELOITTE TOUCHE TOHMATSU

March 1, 2004

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CONSOLIDATED balance sheets

As of December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

ASSETS	2003	2002
Current assets:		
Cash and temporary investments	\$ 130,900	\$ 131,677
Accounts receivable – net	639,713	652,128
Inventories – net	371,700	322,635
Total current assets	1,142,313	1,106,440
Real estate inventories	588,281	830,820
Property, plant and equipment – net	2,678,324	1,962,829
Excess of cost over book value of shares of subsidiaries	62,755	67,310
Other assets, net	113,350	144,431
Total	\$ 4,585,023	\$ 4,111,830
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to financial institutions	\$ 110,043	\$ 10
Current portion of long-term debt	111,210	152,812
Trade accounts payable	351,819	317,889
Other payables and accrued expenses	220,516	201,445
Income tax and employee statutory profit sharing	36,656	36,178
Total current liabilities	830,244	708,334
Long-term debt and other	1,391,362	1,308,385
Deferred income tax	415,988	370,262
Total liabilities	2,637,594	2,386,981
STOCKHOLDERS' EQUITY		
Capital stock	284,978	284,978
Retained earnings	2,338,059	2,166,923
Insufficiency in restated stockholders' equity	(490,280)	(545,413)
Cumulative effect of deferred income tax	(320,188)	(320,188)
Majority stockholders' equity	1,812,569	1,586,300
Third party trustee rights	134,860	138,549
Total stockholders' equity	1,947,429	1,724,849
TOTAL	\$ 4,585,023	\$ 4,111,830

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS of income

For the years ended December 31, 2003 and 2002

(In thousands of Mexican pesos of purchasing power of December 31, 2003, except per share amounts)

	2003	2002
Net sales	\$ 3,128,268	\$ 2,917,688
Costs and expenses:		
Cost of sales	1,967,625	1,847,508
Operating expenses	610,154	611,476
Total costs and expenses	2,577,779	2,458,984
Operating income	550,489	458,704
Net comprehensive financing cost:		
Interest expense	117,839	101,817
Interest income	(6,895)	(8,479)
Monetary position gain	(44,616)	(42,142)
Exchange fluctuations – net	70,839	86,155
Total net comprehensive financing cost	137,167	137,351
Income after net comprehensive financing cost	413,322	321,353
Other expenses – net	71,760	20,834
Income before income tax and employee statutory profit-sharing	341,562	300,519
Income tax	114,253	88,746
Employee statutory profit-sharing – current	26,180	22,462
Consolidated net income	\$ 201,129	\$ 189,311
NET INCOME PER SHARE (BASED ON WEIGHTED AVERAGE 120,000,000 SHARES OUTSTANDING DURING 2003 AND 2002)	1.68	1.58

See accompanying notes to consolidated financial statements.

GRUPO LAMOSA, S.A. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES in stockholders' equity

For the years ended December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

	CAPITAL STOCK	RETAINED EARNINGS	INSUFFICIENCY IN RESTATE STOCKHOLDERS' EQUITY	CUMULATIVE EFFECT OF DEFERRED INCOME TAX	MAJORITY STOCKHOLDERS' EQUITY
Balances as of January 1, 2002	\$ 284,978	\$ 2,007,369	\$ (604,368)	\$ (320,188)	\$ 1,367,791
Net comprehensive income		189,311	58,955		248,266
Dividends paid		(29,757)			(29,757)
Balances as of December 31, 2002	284,978	2,166,923	(545,413)	(320,188)	1,586,300
Net comprehensive income		201,129	55,133		256,262
Dividends paid		(29,993)			(29,993)
Balances as of December 31, 2003	\$ 284,978	\$ 2,338,059	\$ (490,280)	\$ (320,188)	\$ 1,812,569

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES in financial position

For the years ended December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

	2003	2002
OPERATING ACTIVITIES:		
Consolidated net income	\$ 201,129	\$ 189,311
Items that did not require (generate) resources:		
Depreciation and amortization	168,601	102,708
Employee retirement obligations - net	6,221	4,174
Allowance for doubtful accounts	(914)	1,466
Deferred income tax	23,237	43,441
Write-down in value of fixed assets	27,636	
Amortization of excess of cost over book value of shares of subsidiaries	4,555	4,732
	430,465	345,832
Changes in operating assets and liabilities:		
Accounts receivable	13,329	(96,075)
Inventories	(275,223)	(338,462)
Trade accounts payable	33,930	36,259
Other	19,549	(1,880)
Resources generated by (used in) operating activities	222,050	(54,326)
FINANCING ACTIVITIES:		
Proceeds from notes payable to financial institutions and long - term debt	432,132	883,972
Repayment of notes payable to financial institutions and long - term debt	(259,970)	(504,550)
Effect of inflation on notes payable to financial institutions and long - term debt	(23,060)	(65,422)
Third party trustee rights	(3,689)	71,928
Dividends paid	(29,993)	(29,757)
Resources generated by financing activities	115,420	356,171
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(372,510)	(367,284)
Sale of property, plant and equipment	18,063	4,163
Investment in trust		82,714
Investment in other assets	16,200	(20,244)
Resources used in investing activities	(338,247)	(300,651)
CASH AND TEMPORARY INVESTMENTS:		
(Decrease) increase	(777)	1,194
Balance at beginning of year	131,677	130,483
BALANCE AT END OF YEAR	\$ 130,900	\$ 131,677

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED financial statements

For the years ended December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power as of December 31, 2003)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

- a) **Operations** – Grupo Lamosa, S. A. de C. V. (“Glasa”) and its subsidiaries (the “Company”) are engaged in the manufacture of ceramic products for wall and floor coverings, bathroom fixtures, adhesives for ceramic tiles and development of real estate projects.
- b) **Basis of consolidation** – The consolidated financial statements include those of Glasa and its subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. Currently, Glasa owns approximately 99.99% of the capital stock of its subsidiaries.

The consolidated subsidiaries, classified according to their activities, are shown below:

Ceramic segment:

Wall and floor tile business:

Lamosa Revestimientos, S. A. de C. V.

Lamosa USA, Inc.

Sanitaryware business:

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

Non-ceramic segment:

Adhesive business:

Crest, S. A. de C.V.

Proyeso, S. A. de C.V.

Adhesivos de Jalisco, S. A. De C. V.

Industrias Niasa, S.A. de C.V.(*)

Margreen de México, S.A. de C.V.(*)

Construmaquilas, S.A. de C.V.(*)

Tecnocreto, S.A.

Real estate business:

Grupo Inmobiliario Viber, S.A. de C.V.

Real estate urbanization, development and marketing trusts

Corporate and other:

Servicios Administrativos Lamosa, S. A. de C. V.

General de Minerales, S. A. de C.V.

(*) Companies were audited by other auditor than principal in 2002.

- c) **Comprehensive income** – Comprehensive income (loss) presented in the accompanying statements of changes in stockholders’ equity represents the Company’s total activity during each year, and is comprised of the net income (loss) of the year, plus other comprehensive income (loss) items of the same period which, in accordance with accounting principles generally accepted in Mexico (MEX GAAP), are presented directly in stockholders’ equity without affecting the consolidated statements of income. In 2003 and 2002, the other comprehensive income (loss) items consist of the insufficiency in restated stockholders’ equity.
- d) **Reclassifications** – Certain reclassifications have been made to the 2002 financial statements to conform them to the 2003 presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are in conformity with MEX GAAP, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Although these estimates are based on management’s best knowledge of current events, actual results may differ. The significant accounting policies of the Company are as follows:

- a) **New accounting policies** – Beginning January 1, 2003, the Company adopted the provisions of new Bulletin C-8, “Intangible Assets” (“C-8”), which establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets; preoperating costs that are not considered development costs should be recorded as a period expense; and intangible assets considered to have indefinite useful lives are not amortized, but instead are subject to impairment tests. The unamortized balance of capitalized preoperating costs up to December 31, 2002, under the former Bulletin C-8 will continue to be amortized according to the provisions of that Bulletin. The adoption of C-8 resulted in the Company directly expensing certain preoperating expenses of \$ 5,332, net of income tax incurred during 2003 to increase the Company’s production capacity.
- b) **Recognition of the effects of inflation** – The Company restates its consolidated financial statements to Mexican pesos purchasing power of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior year have been restated to Mexican pesos of purchasing power of December 31, 2003 and, therefore, differ from those originally reported in the prior year. Therefore the amounts in the financial statements are comparable, because they are expressed in constant pesos.
- c) **Temporary investments** – Temporary investments are stated at the lower of acquisition cost plus accrued yields or estimated net realizable value.
- d) **Inventories and cost of sales** – Inventories are stated at the latest purchase price or production cost, without exceeding the net realizable value. Cost of sales is restated using replacement cost at the time of sale.
- e) **Real estate inventories** – Real estate inventories consist of the cost of land, licenses, taxes, direct and indirect materials and costs incurred in the Company’s real estate business. These costs are restated for inflation using the National Consumer Price Index (NCPI) without exceeding their market value.

Comprehensive financing cost incurred from loans related to real estate construction is capitalized. Comprehensive financing cost, expressly agreed to or implicit, in the debt, for the acquisition of land, is capitalized only during the development stage.

- f) **Property, plant and equipment** – Property, plant and equipment of domestic origin are initially recorded at acquisition cost and restated by applying factors derived from NCPI. For fixed assets of foreign origin, restated acquisition cost expressed in the currency of the country of origin is converted into Mexican pesos at the market exchange rate in effect at the balance sheet date.

Depreciation is computed using the straight-line method, based on the estimated useful lives of the related assets as follows:

	YEARS
Buildings	24
Machinery and equipment	12
Vehicles	1
Computers	1
Office furniture and equipment	7

Net comprehensive financing cost incurred during the period of construction and installation of property, plant and equipment is capitalized and restated using the NCPI.

- g) **Financial instruments** – Financial assets and liabilities resulting from any type of financial instrument, except for investments in financial instruments held to maturity, are presented in the balance sheet at fair value. The effects of the valuation of a financial asset or financial liability are recognized in results of operations of the respective period. Investments in financial instruments held to maturity are valued at acquisition cost. The costs and returns from investments in financial instruments are recognized in results of the year in which they occur. Expenses, premiums and discounts on the issue of debt financial instruments are amortized based on the effective interest method.

Derivative financial instruments identified as hedges are valued using the same valuation criteria used for the assets or liabilities hedged, and the effects of their valuation are recognized in results of operations, net of costs, expenses, or revenue from the assets or liabilities whose risks are being hedged. The financial assets or liabilities generated by these instruments are presented in the balance sheet as a reduction of the liabilities or assets whose risks are being hedged.

- h) Other assets** – Other assets are restated using the NCPI and are amortized based on the respective expected life.
- i) Excess of cost over book value of shares of subsidiaries** – Excess of cost over book value of shares of subsidiaries is restated using the NCPI and is amortized using the straight-line method over 20 years.
- j) Excess of book value over cost of subsidiaries** – Excess of book value over cost of subsidiaries is restated using the NCPI and is amortized using the straight-line method during the period the acquired companies are integrated into the Company's operations not exceeding five years.
- k) Maintenance expenses** – Maintenance and repair expenses are recorded as expense in the period in which they are incurred.
- l) Employee retirement obligations** – Seniority premiums and pension plans are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates. Severance payments are charged to operations when they become payable.
- m) Income tax, tax on assets and employee statutory profit sharing** – Income tax (ISR) and employee statutory profit sharing (PTU) are recorded in results of the year in which they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred ISR assets are reduced by any benefits about which there is uncertainty as to their realizability. Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that they will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.
- The tax on assets paid that is expected to be recoverable is recorded as an advance payment of ISR and is presented in the balance sheet decreasing the deferred ISR liability.
- n) Foreign currency transactions** – Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the date of the financial statements. Exchange fluctuations are recorded in results of operations, except those amounts capitalized as a component of construction cost (see note 6).
- o) Excess (insufficiency) in restated stockholders' equity** – Excess (insufficiency) in restated stockholders' equity represents the accumulated monetary position result through the initial restatement of the financial statements and the increase in the restated value of non monetary assets above (below) inflation.
- p) Revenue recognition** – Revenues are recognized in the period in which the risks and rewards of ownership are transferred to customers, which generally coincides with the shipment of products to customers in satisfaction of orders and the transfer of the rights to possession of real estate inventories.
- q) Monetary position (gain) loss** – Monetary position result, which represents the (increase) erosion of purchasing power of monetary items caused by inflation, is calculated by applying NCPI factors to monthly net monetary position. (Gains) losses result from maintaining a net monetary (liability) asset position.
- r) Earnings per share** – Earnings per share are computed by dividing consolidated net income by the weighted average number of shares outstanding during each period.

3. ACCOUNTS RECEIVABLE - NET

	2003	2002
Trade accounts receivable	\$ 543,911	\$ 523,482
Recoverable taxes	53,737	100,061
Other	57,042	42,648
Allowance for doubtful accounts	(14,977)	(14,063)
	<u>\$ 639,713</u>	<u>\$ 652,128</u>

4. INVENTORIES

	2003	2002
Finished products	\$ 221,447	\$ 192,223
Work in process	30,126	26,078
Raw materials	52,306	42,227
Supplies and spare parts	59,233	62,101
Merchandise in transit	6,340	1,926
Advances to suppliers	3,508	1,303
Reserve for obsolescence	(1,260)	(3,223)
	<u>\$ 371,700</u>	<u>\$ 322,635</u>

5. REAL ESTATE INVENTORIES

	2003	2002
Land in development for sale	\$ 112,145	\$ 262,742
Undeveloped land	25,837	85,417
Urbanization in progress	137,757	127,405
Construction in progress	312,542	355,256
	<u>\$ 588,281</u>	<u>\$ 830,820</u>

6. PROPERTY, PLANT AND EQUIPMENT

	2003	2002
Land	\$ 658,380	\$ 512,053
Buildings	935,982	585,596
Machinery and equipment	1,781,865	1,510,202
Vehicles	46,716	43,397
Office furniture and equipment	47,916	43,757
Computers	32,775	31,703
Construction in progress	266,475	232,373
Advances to suppliers		2,933
	<u>3,770,109</u>	<u>2,962,014</u>
Accumulated depreciation	<u>(1,091,785)</u>	<u>(999,185)</u>
	<u>\$ 2,768,324</u>	<u>\$ 1,962,829</u>

Unamortized capitalized net comprehensive financing cost was \$33,014 and \$25,298, at December 31, 2003 and 2002, respectively.

7. OTHER ASSETS

	2003	2002
Trademarks acquired	\$ 71,444	\$ 89,528
Preoperating expenses	30,201	39,159
Intangible pension asset (Note 9)	3,342	8,626
License for use of computer equipment		1,654
Other	8,363	5,464
	<u>\$ 113,350</u>	<u>\$ 144,431</u>

Preoperating expenses arise from the construction of two new facilities in the ceramic business segment. One of them started its operations in October 2002 and the other in March 2003.

8. LONG-TERM DEBT AND OTHER

a) Long-term debt and other is summarized as follows:

	2003	2002
Bank loans, denominated in Mexican pesos, bearing interest at variable rates (at December 31, 2003 and 2002, the weighted average interest rates were 10.71% and 12.39%, respectively).	\$ 217,777	\$ 307,858
Account payable to Central Parking System México, S.A. de C.V., denominated in Mexican pesos, at a fixed interest rate of 10% annual.	17,982	
Bank loans, denominated in U.S. dollars, bearing interest at variable rates (at December 31, 2003 and 2002, the weighted average interest rates were 4.85% and 5.30%, respectively).	548,992	619,832
Bank loans, denominated in U.S. dollars amounting to 37,035,945 in 2003 and 28,063,500 in 2002 bearing interest at LIBOR plus 3.89% and LIBOR plus 4.4%, respectively. ⁽¹⁾	415,728	303,156
Medium-term promissory notes denominated in investment units (UDIS) (at December 31, 2003 and 2002, the fixed interest rate was 9.25%).	134,080	134,153
Capital leases payable in U.S. dollars, bearing interest at LIBOR plus 2.70%	83,452	11,791
Other payables in U.S. dollars.	1,450	3,602
Total long-term debt	1,419,461	1,380,392
Current portion of long-term debt	(111,210)	(152,812)
Long-term debt	1,308,251	1,227,580
Employee retirement obligations (Note 9)	83,111	80,805
	\$ 1,391,362	\$ 1,308,385

⁽¹⁾ Glasa had Mexican peso denominated Medium Term Notes of \$70,000 and \$150,000, bearing an interest rate of 28 and 182 days CETES plus 3.5%, respectively, whose proceeds through a currency swap operation, were converted into U.S. dollar loans with the description and conditions disclosed in this note.

b) Long-term debt at December 31, 2003, excluding employee retirement obligations matures as follows:

YEAR ENDING DECEMBER, 31	TOTAL
2005	\$ 388,464
2006	382,837
2007	396,480
2008 and thereafter	140,470
	\$ 1,308,251

c) Certain of the Company's long-term debt agreements contain restrictions and covenants that require maintaining of various financial ratios. The Company has complied with the restrictions and covenants at December 31, 2003.

d) At December 31, 2003, the Company had assigned fixed assets, with a book value of \$676,589, as collateral for outstanding loans totaling \$974,009.

9. EMPLOYEE RETIREMENT OBLIGATIONS

In accordance with the policy described in note 2-I), the actuarial valuation summary of the seniority premium obligations from the Company's unfunded plan at December 31, is as follows :

	2003	2002
Accumulated benefit obligations	\$ 79,862	\$ 74,164
Projected benefit obligations	\$ 80,968	\$ 82,740
Unrecognized transition obligations	(10,781)	(14,072)
Variations in assumptions and adjustments for experience	9,582	3,511
Net projected liability	79,769	72,179
Additional liability	3,342	8,626
	\$ 83,111	\$ 80,805
Net periodic cost	\$ 8,848	\$ 8,729
Rates used (net of inflation)		
Discount rate	4.50%	4.50%
Wage increases	1.50%	1.50%

10. STOCKHOLDERS' EQUITY

- a) Minimum fixed capital stock is represented by 120 million Series "B" nominative common shares, with no par value and no ownership limitations.
- b) At the general stockholders' meetings held on May 21, 2003 and April 28, 2002, dividends were declared for \$ 29,993 (\$29,280 at nominal value) and \$ 29,757 (\$27,600 at nominal value), respectively.
- c) Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax at the rate in effect when the dividend is distributed. In 2003, the rate was 34% and will be reduced by one percentage point each year until reaching 32% in 2005. Any tax paid on such distribution, may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.
- d) Stockholders' equity as of December 31, 2003 is analyzed as follows:

	NOMINAL VALUE	RESTATEMENT	RESTATED VALUE
Capital stock	\$ 2,400	\$ 282,578	\$ 284,978
Retained earnings	1,029,291	1,308,768	2,338,059
Insufficiency in restated stockholders' equity	53,674	(543,954)	(490,280)
Cumulative effect of deferred income tax	(241,340)	(78,848)	(320,188)
	\$ 844,025	\$ 968,544	\$ 1,812,569

11. THIRD PARTY TRUSTEE RIGHTS

Correspond to contributions made by third parties as trustees in an enterprise trust fund for the construction of a building. The trustee rights are estimated to be executed in 2004.

12. CONTINGENCIES

The Company is not a party to, and none of its assets is subject to, any pending legal proceedings nor is the Company subject to any contingent liabilities, and legal proceeding and contingent liabilities arising in the normal course of business and against which the Company is adequately insured or indemnified or which the Company believes are not material in the aggregate.

13. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

- a) The monetary position in foreign currency, expressed in thousands of U.S. dollars as of December 31, 2003, is as follows:

	FOREIGN CURRENCY BALANCES	MEXICAN PESO EQUIVALENT
Monetary assets	8,826	\$ 99,028
Monetary liabilities	(66,914)	(750,775)
Short position	(58,088)	\$ (651,747)

- b) Non-monetary assets of foreign origin, valued in thousands of U.S. dollars as of December 31, 2003 are as follows:

	FOREIGN CURRENCY BALANCES	MEXICAN PESO EQUIVALENT
Inventories	2,757	\$ 30,934
Machinery and equipment	48,450	543,609

- c) Transactions in foreign currency, expressed in thousands of U.S. dollars, were as follows:

	2003	2002
Export sales	50,217	45,537
Imports	4,291	2,445
Interest expense-net	17,875	15,926

- d) The exchange rate used to translate U.S. dollars to Mexican pesos as of December 31, 2003 was \$11.22 (nominal pesos) per one U.S. dollar, compared with \$10.39 (nominal pesos) per one U.S. dollar as of December 31, 2002. At March 1, 2004, date of issuance of these financial statements, the exchange rate was \$11.06 (nominal pesos) per one U.S. dollar.

14. OTHER EXPENSES, NET

	2003	2002
Severance payments due to reorganization	\$ 28,943	\$ 3,637
Minority interest in trust	18,980	21,540
Preoperating expenses	8,079	
Write-down in value of fixed assets	27,636	
Other expenses	1,946	
Other income – net	(13,824)	(4,343)
	<u>\$ 71,760</u>	<u>\$ 20,834</u>

In August 2002, the plant located in the city of Guadalajara stopped operations and was estimated to reopen in the third quarter 2003; however, the Company decided not to continue operations in this plant and, accordingly, the temporary closure became permanent, adjusting its assets at net realizable value according to the appraisal practiced by an independent appraisers as of December 31, 2003.

15. INCOME TAX, TAX ON ASSETS AND EMPLOYEE STATUTORY PROFIT-SHARING

- a) Glasa and its subsidiaries file consolidated income tax and tax on assets returns in the proportion in which Glasa owns the voting stock of the subsidiaries. The tax results of the subsidiaries are consolidated at 60% of such proportion. Provisional payments of income tax and tax on assets of both the Company and its subsidiaries are made as if the Company did not file a consolidated tax return.
- b) The Mexican income tax rate was 35% in 2002 and 34% in 2003 and will be reduced by one percentage point each year until reaching 32% in 2005. The effects of the reduction of the income tax rate was recorded in the results of 2003 and 2002. The effects were a decrease in the income tax liability and an increase in net income of \$6,779 and \$ 18,036 in 2003 and 2002, respectively.
- c) The provision for income tax is analyzed as follows:

	2003	2002
Income tax:		
Current	\$ 64,416	\$ 27,948
Deferred	49,837	60,798
Total	<u>\$ 114,253</u>	<u>\$ 88,746</u>

- d) At December 31, the main items that originated the balance of deferred income tax are as follows:

	2003	2002
Deferred income tax liabilities:		
Property, plant and equipment	\$ 223,225	\$ 196,311
Inventories	120,482	105,698
Real estate inventories	223,720	179,731
Trademarks acquired	23,461	29,122
	<u>590,888</u>	<u>510,862</u>
Deferred income tax assets:		
Tax inventory	8,177	6,326
Allowance for doubtful accounts	4,748	4,962
Effect of tax loss carryforwards	64,101	54,641
Employee retirement obligations	26,558	23,097
Other	20,114	11,583
	<u>123,698</u>	<u>100,609</u>
Tax on assets	51,202	39,991
Net liability	<u>\$ 415,988</u>	<u>\$ 370,262</u>

- e) The effective income tax rate differs from the statutory rate, due to non-deductible items, the effects of inflation and other permanent differences for 2003 and 2002; additionally due to the benefit from the gradual reduction in the income tax rate explained in b).
- f) Tax loss carryforwards and recoverable tax on assets for which the deferred income tax asset and prepaid income tax, respectively, have been recognized, can be recovered subject to certain conditions. Restated amounts as of December 31, 2003 and expiration dates are as follows:

YEAR OF EXPIRATION	TAX ON ASSETS	TAX LOSS CARRYFORWARDS
2004	\$ 6,905	\$ 48,893
2008	10,235	
2009	1,577	1,236
2010	3,348	
2011	9,717	12,124
2012	8,209	94,942
2013	11,211	41,592
	\$ 51,202	\$ 198,787

- g) The gain (loss) from holding non-monetary assets as shown in the statement of changes in stockholders' equity, is presented net of the related deferred income tax effect of \$22,489 in 2003 and \$23,103 in 2002.

16. TRANSACTIONS WITH RELATED PARTIES

- a) On December 30, 1998, the subsidiary, part of the real estate business segment, entered into a contract (No. 851-00103) with a trust institution (Banco Regional de Monterrey, S.A.) as Trustor "A" and Trustee, and into an irrevocable business activity trust (Business Trust) with another entity (U-Calli Desarrollos Inmobiliarios, S.A. de C.V.), a related party acting as Trustor "B" and Trustee. The purpose of such trust is to operate and develop a mercantile real estate business developer.

The main features of the Business Trust contract are:

- The Trustor contributions to the trust consisted of land plots, cash, accounts receivable, equipment and liabilities, for which it carried out negotiations related to the rights and obligations for loan transfers.
 - The property contribution by the Trustors was carried out with limited ownership rights, holding the rights on the property.
 - The trust will primarily manage the trust funds.
 - The net income from the trust operations will be completely distributed among the trustees in accordance with the trust contract.
- b) On August 29, 2001, the Business Trust mentioned above entered into another Trust with a credit institution (Depositary), as the trustor and trustee in second instance. The purpose of the Trust was to build a property with other companies who act as trustors and trustees in first instance. The Business Trust contributed a property and cash, and the other companies, cash.

The interest in the Business Trust earnings for the trustees was as follows:

	2003	2002
Grupo Inmobiliario Viber, S.A. de C.V.	\$ 95,151	\$ 99,018
U-Calli Desarrollos Inmobiliarios, S.A. de C.V.	18,980	21,540
	\$ 114,131	\$ 120,558

17. BUSINESS SEGMENT INFORMATION

Glasa's reportable segments are strategic business units that offer a variety of products. The segments are managed separately; each requires different manufacturing operations, technology and marketing strategies; and each segment primarily serves a distinct customer base.

Information by industry segment follows:

DECEMBER 31, 2003:	CERAMIC	NON CERAMIC	REAL ESTATE	CORPORATE AND OTHER	TOTAL
Net sales	\$ 1,843,339	\$ 1,091,323	\$ 221,105	\$ 121,579	\$ 3,277,346
Intersegment sales	(12,875)	(15,159)		(121,044)	(149,078)
	1,830,464	1,076,164	221,105	535	3,128,268
Operating income	296,057	268,045	117,234	(148,847)	550,489
Assets	2,408,408	417,935	1,161,366	597,314	4,585,023
Liabilities	980,585	196,418	272,398	1,188,193	2,637,594
Fixed asset acquisitions	334,939	17,979	15,843	3,749	372,510
Depreciation and amortization	125,835	18,884	15,222	8,660	168,601

DECEMBER 31, 2002:	CERAMIC	NON CERAMIC	REAL ESTATE	CORPORATE AND OTHER	TOTAL
Net sales	\$ 1,591,498	\$ 1,036,455	\$ 339,166	\$ 210,072	\$ 3,177,191
Intersegment sales	(31,158)	(18,273)		(210,072)	(259,503)
	1,560,340	1,018,182	339,166		2,917,688
Operating income	186,557	261,893	148,914	(138,660)	458,704
Assets	2,085,556	402,232	962,345	661,697	4,111,830
Liabilities	882,316	173,736	140,216	1,190,713	2,386,981
Fixed asset acquisitions	308,637	49,901	3,084	5,662	367,284
Depreciation and amortization	82,653	15,695	292	4,068	102,708

Export sales represent 17.8% and 16.0% of total sales in 2003 and 2002, respectively, and they are made mainly to the United States of America.

18. NEW ACCOUNTING PRINCIPLES

In March 2003, the IMCP issued Bulletin C-15, "Impairment in the Value of Long-Lived Assets and Their Disposal" (C-15), whose adoption is mandatory for fiscal years beginning on or after January 1, 2004, although early adoption is encouraged. C-15 establishes, among other things, new rules for the calculation and recognition of impairment losses for long-lived assets and their reversal. It also provides guidance as to indicators of potential impairment in the carrying amount of tangible and intangible long-lived assets in use, including goodwill. Companies must test for impairment unless there is conclusive evidence that the indicators of impairment are temporary. The calculation of such loss requires the determination of the recoverable value, which is defined as the greater of the net selling price of a cash-generating unit and its value in use, which is the net present value of discounted future net cash flows. Management believes that the adoption of this new Bulletin as of January 1, 2004, will not have significant effects on the Company's consolidated financial position or results of operations.

In May 2003, the IMCP issued Bulletin C-12, "Financial Instruments of a Debt or Equity Nature or a Combination of Both" (C-12), whose application is mandatory for financial statements of periods beginning on or after January 1, 2004, although early adoption is encouraged. C-12 is the compilation of the standards issued by the IMCP with respect to the issue of debt or equity financial instruments, or a combination of both, and includes additional standards on the accounting recognition for these instruments. Consequently, C-12 indicates the basic differences between liabilities and stockholders' equity and establishes the rules for classifying and valuing the components of debt and equity of combined financial instruments in the initial recognition. Subsequent recognition and valuation of liabilities and stockholders' equity of the financial instruments is subject to the standards issued previously in the applicable bulletins. Since the Company has not issued financial instruments of a debt or equity nature, management believes this new accounting principle will not have significant effects on its financial situation and results of operations.

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