



on the right track

ANNUAL REPORT 2004

group profile



wall and floor tiles

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

Benito Juárez Plant
Tlaxcala Plant
San Luis Potosí Plant

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

Lamosa USA Corp.

Products

- Floor tiles
- Wall tiles
- Skirting tiles
- Special pieces

adhesives

Crest, S.A. de C.V.

Santa Catarina Plant
Guadalajara Plant
Morelia Plant
Chihuahua Plant
Tizayuca Plant

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

Guadalajara Plant
León Plant
State of Mexico Plant

Industrias Niasa, S.A. de C.V.

Mexico City Plant
State of Mexico Plant
Guadalajara Plant
Chihuahua Plant
Navojoa Plant
Torreón Plant

Products

- Adhesives for installing wall and floor tiles
- Grouts
- Stuccos
- Texturized wall finishes

sanitaryware

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

Monterrey Plant
Benito Juárez Plant

Products

- Toilets
- Wall, pedestal, drop-in and hanging washbasins
- Luxury bidets
- Flushometer bowls
- Urinals
- Drinking fountains

real estate

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

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

Developments

In the Monterrey metropolitan area

Products

- Housing developments
- Commercial developments
- Office parks

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Grupo Lamosa's new corporate image – which will soon identify the Company and all its products – reflects the Company's commitment to quality and innovation and its vision of creating value through differentiation.

The Company's 2004 results validate and continue recent years' profitable and sustained growth.

The capital expenditure plan implemented in the different Lamosa businesses, combined with increased activity in the housing and remodeling sectors during the year, allowed us to capitalize on opportunities in our different markets, thereby improving Grupo Lamosa's competitive position.

markets



Grupo Lamosa has a long track record of leadership in the different markets and businesses in which it participates in Mexico. The Company also has a significant presence in the NAFTA region, having exported products such as bathroom fixtures and ceramic tiles to this region for more than 30 years, and serves markets in Central America and the Caribbean.

financial highlights

GRUPO LAMOSA, S.A. DE C.V. AND SUBSIDIARIES
(Millions of constant Mexican pesos as of December 31, 2004)

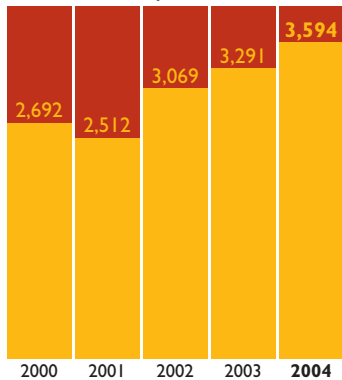
	2004	2003	CHANGE %
RESULTS			
Net sales	3,594	3,291	9
Export sales (millions of US\$)	51	50	2
Export sales / net sales	17%	18%	
Operating income	677	579	17
Operating income / net sales	19%	18%	
Comprehensive financing cost	29	144	-80
Consolidated net income ⁽¹⁾	425	212	101
FINANCIAL POSITION			
Total assets	4,950	4,823	3
Total liabilities	2,606	2,774	-6
Stockholders' equity	2,343	2,048	14
Book value per share ⁽²⁾	19.53	17.07	14
CASH FLOW			
Net operating cash flow ⁽³⁾	894	780	15
Capital expenditures	502	608	-17
NUMBER OF EMPLOYEES			
Total personnel	2,843	3,251	-13

⁽¹⁾Includes a charge for Ps 161.1 million, corresponding to a non-recurring item for technological updating and a benefit of Ps 84.6 million from deferred taxes.

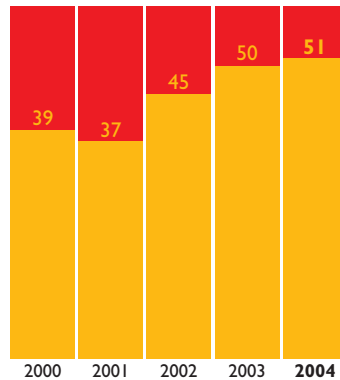
⁽²⁾On a total of 120 million shares.

⁽³⁾Operating income plus depreciation and amortization.

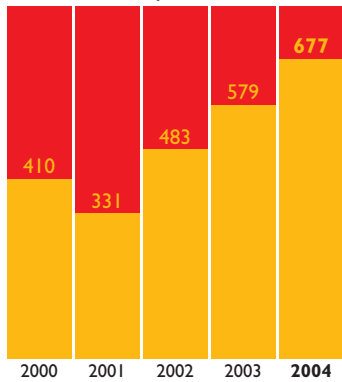
Net Sales
millions of Mexican pesos



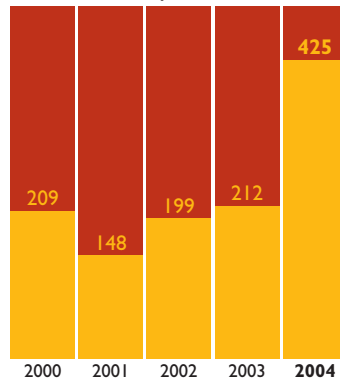
Export Sales
millions of U.S. dollars



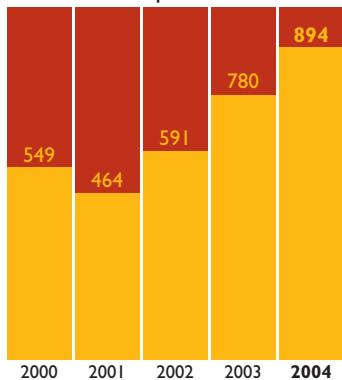
Operating Income
millions of Mexican pesos



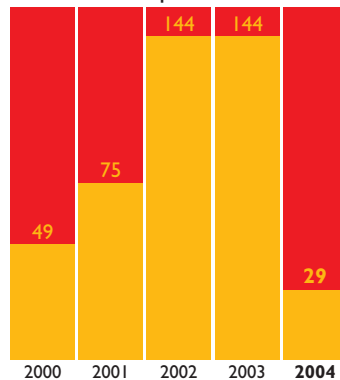
Consolidated Net Income
millions of Mexican pesos



Net Operating Cash Flow
millions of Mexican pesos



Comprehensive Financing Cost
millions of Mexican pesos



8%

(annual compound 2000-2004)
sustained and
profitable growth
in net sales

19%

operating income
over sales
at yearend 2004

15%

growth in net
operating cash flow

to our stockholders



Grupo Lamosa's 2004 results were driven by increased activity in the Mexican housing and remodeling sectors.

The recovery of economic activity in Mexico, driven by a more dynamic internal market and increased foreign demand for Mexican goods, allowed the nation to increase its growth expectations and post a 4.4% annual increase in GDP.

This economic context, combined with the capital expenditure programs implemented by Grupo Lamosa's different businesses, allowed the Company to capitalize on opportunities in the different markets in which it participates, consolidating its leadership position and the customer's preference.

As a result, Grupo Lamosa's 2004 annual sales totaled Ps 3,593.5 million, a figure that represents a real growth of 9% compared to 2003. Operating income for the year reached Ps 676.8 million, a real increase of 17% year-over-year and 19% of sales.

Grupo Lamosa's 2004 results were driven by increased activity in the Mexican housing and remodeling sectors and reflect the efforts that all Grupo Lamosa businesses have made over the past years.

During 2004, the Company continued its technological reconversion program, with the initiation of operations at a new tile plant in Benito Juárez in the state of Nuevo León, Mexico. This plant, which produces ceramic wall tiles, reflects Grupo Lamosa's ongoing commitment to enhance competitiveness by improving productivity, quality indices, and customer service and response.

Our efforts to ensure that Grupo Lamosa operates with the most modern and automated equipment in the market have enabled the Company to manufacture increasingly sophisticated and beautiful, highly innovative products and to access luxury segments where our presence had previously been limited.

Grupo Lamosa's financial structure and cash flow continued strong in 2004, allowing the Company to refinance a significant part of its debt at a lower cost and use internal resources to fund capital expenditures made during the year.

A symbolic but significant decision we took in 2004 was to stop brick production, the reason for the Company's birth 115 years ago. This step demonstrates just how Grupo Lamosa has changed over the past century and its current dynamism.

As part of our permanent commitment to innovation, in this report we are launching the new Grupo Lamosa image, which will soon identify the Company and all its products.

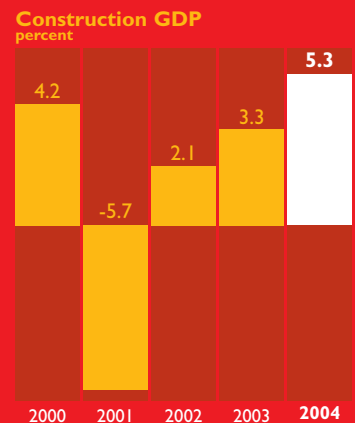
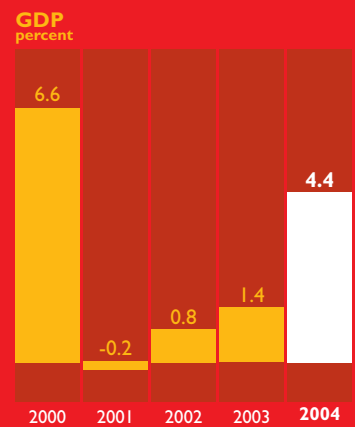
For Grupo Lamosa, having a clear vision of where we are going and operating with the best possible human resources are key factors that will ensure the ongoing generation of value for our stockholders and allow the Company to continue evolving and posting sustained and profitable growth.

On behalf of Grupo Lamosa, I would like to thank our stockholders for their continued trust, our personnel for their daily efforts, and our creditors, suppliers, distributors, customers and friends for their constant support.



Ing. Federico Toussaint Elosúa
Chairman of the Board of Directors

Grupo Lamosa's financial structure and cash flow remained strong in 2004

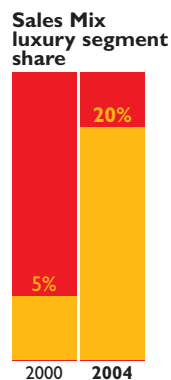


taking advantage of opportunities in high-growth markets



wall and floor tiles

The launch of high value added products has increased Grupo Lamosa's participation in the luxury segment.



adhesives

Through products such as Crestuoco Monocover, Grupo Lamosa has strengthened its leadership position and brand image.

leader in the launch of specialized products

Grupo Lamosa has positioned itself in the construction industry where it operates to capitalize on dynamic sectors with high growth potential, such as housing.

The growth of all Grupo Lamosa businesses exceeds the corresponding industry average, confirming the wisdom of the Company's business strategy.



sanitaryware

The Dual Flush toilet has been so well accepted that it represents an increasing proportion of our sanitaryware sales.

in 2004, 13%
of Grupo Lamosa toilets
sold included the
Dual Flush system

real estate

During the year, this business continued consolidating its commercial operations with the construction of a second "Plaza Cumbres" mall.

70% progress with
mall construction
at yearend 2004

capitalizing on investments



wall and floor tiles

Grupo Lamosa's technological reconversion program has enhanced this business's productivity and capacity to offer high-specification, high-design products for the luxury segment.

Units per Employee
thousands of square meters



adhesives

Over the past few years, US\$32 million has been invested in acquisitions, technology and new plants.

Units per Employee
tons



It is important to have the capacity to invest, but it is also necessary to know when to do it. Grupo Lamosa has made capital expenditures to ensure it operates

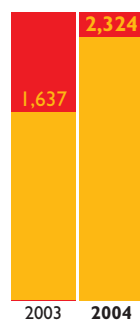
with world-class, state-of-the-art technology, increasing its competitiveness and giving it access to new markets at the right time to capitalize on new growth opportunities.



sanitaryware

Timely capital expenditures have enabled this business to enhance productivity and its participation in the international marketplace.

Benito Juárez Plant
Units per Employee
pieces



real estate

The margin on the sale of commercial land in the Cumbres subdivision underscores the potential for creating value in this business in the medium and long term.

88% profit on the
sale of land for
US\$10 million

staying close to the customer



wall and floor tiles

Grupo Lamosa's beauty- and durability-based advertising campaign has successfully positioned the Company's new product lines in the market.

87 new exhibition
floors in 2004



adhesives

Courses for installers have been a very important tool for bringing Grupo Lamosa closer to the customer.

during 2004, the Company
offered **192** workshops to more
than **5,000** participants

Being in contact with the consumers' tastes and needs, and having the capability to respond with innovative solutions have made Grupo Lamosa a fresh and different option in the international marketplace.

Offering quality products, a high level of specialization and world-class service, the Company seeks to enhance its leadership position and conserve customers' preference.



sanitaryware

Lines such as "Ambiance" offer something more than simply bathroom fixtures: they are a total concept in bathroom decoration.

during **2004**
One Piece Dual Flush
toilets were successfully launched

real estate

Easier access to mortgages for middle-range housing has been a driver for house and apartment sales.

distinctive characteristics:
safety and privacy

enhancing profitably and creating value



wall and floor tiles

The technological reconversion process that this business has implemented has given it the flexibility to satisfy the customer's needs.

+90% compliance
on-time delivery
program



adhesives

This business's unquestionable leadership and solid positioning in Mexico have allowed it to capitalize on new growth opportunities in foreign markets.

crest "piso sobre piso"
better adherence and
faster drying

Grupo Lamosa's results and improved cash flow have allowed it to continue the capital expenditure program in all businesses.

During 2004, Lamosa stock increased in value an attractive 113.6%, reflecting the market's positive view of the Company's results and future perspectives.



sanitaryware

This business has improved service by reducing lead times and increasing product availability and variety.

30% growth in sales to wholesale plumbers in the United States

real estate

Through its apartment developments in the Valle Oriente subdivision of the Monterrey metropolitan area, this business has been able to capitalize on the significant price increase in the region.

exclusive designs and excellent location

wall and floor tiles business



During 2004, the Wall and Floor Tiles Business continued to post positive results, with sales volume increasing 19% year-over-year, a growth which exceeded industry averages and expanded market share.

2004 was a year in which this business consolidated its technological reconversion initiatives, consolidated its image of innovation, and increased its credibility and the market's trust.

At the beginning of 2004, a new plant in Benito Juárez, Nuevo León began producing ceramic wall tiles. Operating with state-of-the-art technology, this totally modern plant has positively impacted productivity and profitability.

Also in 2004, this business implemented Phase I of the technological reconversion of the Tlaxcala tile plant, a revamping that has been structured in three phases to terminate in 2006. An expansion of the San Luis Potosí tile plant –planned to start operations during third quarter 2005– was also begun during the year. This expansion, which will duplicate current capacity, will manufacture high value added products, including enameled porcelanite.

During 2004, the Wall and Floor Tiles Business developed and launched a wide range of new products. For example, it introduced a specialized “Antislip” product to increase the safety of polished and wet tile surfaces without affecting the original appearance and beauty, as well as rectified products and the new “Firenze” top-of-the-range line.

The Wall and Floor Tiles Business offered the market a complete line of tile alternatives in 2004, enriching its product mix with high value added options. Another important achievement during the year was a growth in access to product exhibition space in highly prestigious tile and home fittings stores, underscoring the market's acceptance and confidence in this segment's tile products.

Total Sales
millions of Mexican pesos



1. Automated control of kiln operations at the Benito Juárez plant 2. Laser guided automatic movement of product through the manufacturing process 3. Exhibition of new product lines and settings

adhesives business

The Adhesive Business posted very promising results this year, with a growth of 10% in sales volume compared to 2003. This figure exceeds the industry average, thereby increasing the business's market share and reaffirming its leadership position in Mexico.

This positive performance reflects success with initiatives such as quality models, combined with an ongoing research and new product development program.

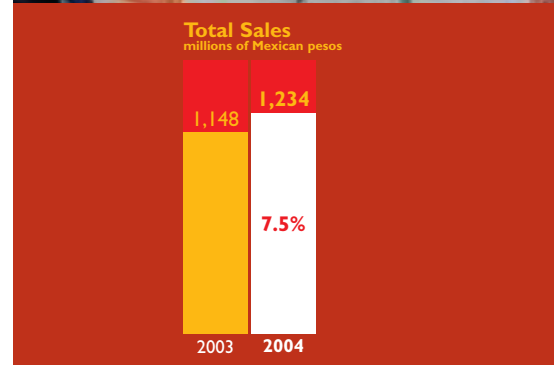
Five adhesives plants operated under ISO-9001-2000 quality assurance certification during the year. In addition, new, innovative products were launched, including: Junta Crest, with an integrated sealant; Crestuco Monocover, which covers imperfections in a single application, offering a decorative finish in less time; and Crest Piso sobre Piso with a new formulation that dries faster and binds more effectively.

The Adhesives Business continued consolidating initiatives and gaining market position during the year. The value of its different brands and the addition of new specialized products have given this business an image of strong technological leadership.

During 2004, the Adhesives Business continued its program for training installers, offering a total of 192 workshops to more than 5,000 participants, as well as specialized courses.

Market preference, attractive products, and initiatives to come closer to the customer through increased nationwide coverage and improved service have translated into an increased presence with key distributors.

The growth and solidity of Grupo Lamosa's Adhesives Business over the past few years have positioned the Company to begin seeking new opportunities in the international marketplace, which should positively impact results in the medium term.



1. Finished product warehouse at the Santa Catarina Plant 2. Sealant intensifier product for interior use only 3. Continuation of the program to come closer to the customer through training courses for installers

sanitaryware business



The Sanitaryware Business closed 2004 with a 22% growth in domestic sales volume compared to 2003, driven by the “Dual Flush” toilet system and the introduction of the “Ambiance” product line, among other initiatives. This expansion exceeded the industry average in Mexico, enhancing Grupo Lamosa’s leadership position and market share.



During 2004, the Sanitaryware Business consolidated its image as a comprehensive supplier, offering product lines tailored to the different market segments, including an extensive range of high value added luxury products.



Like the Wall and Floor Tiles Business, one of the Sanitaryware Business’s achievements for the year was the strengthening of its distribution network, with its incorporation into chains of home and bathroom fittings stores and large distributors, mainly in central and northern Mexico. These channels move large volumes and command a significant share of the luxury segment.

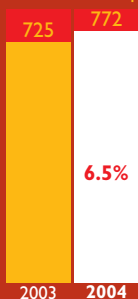
The Sanitary Business’s ongoing efforts to offer the highest quality, most innovative products with the best hydraulic performance resulted in the launch of a “One Piece Dual Flush” toilet line in 2004. The functioning of this new product reflects Grupo Lamosa’s state-of-the-art technological design and development capabilities.

The market’s recognition of the Sanitaryware Business as a supplier of innovative options to conserve natural resources, such as the Dual Flush water-saving system, drove this business’s 2004 sales of toilets with this system to 125,000 units or 13% of its total domestic sales.

Additionally, the Sanitaryware Business made important progress in foreign markets. During 2004, sales to wholesale plumbers grew 30%, improving the balance of the customer portfolio. The initiatives implemented to drive this growth resulted in improved service, with a reduction in lead times and enhanced product availability and variety. The business was able to manage the resulting increase in level of operating complexity without major difficulties.

The progress made during 2004 resulted in an improved sales mix for the Sanitaryware Business and progress in the positioning of its brands in the medium- and high-end segments.

Total Sales
millions of Mexican pesos



1. Comprehensive offer of new product lines for the bathroom, including washbasins, furniture and accessories
2. Exhibition floor with the new luxury “Ambiance” line
3. “One Piece Dual Flush” toilets

real estate business

2004 was a year of intense activity for Grupo Lamosa's Real Estate Business, with the development of new projects and consolidation of ones that were already under way.

The Galerías Valle Oriente mall made considerable progress during the year, consolidating its position and becoming a clear favorite with shoppers. In December, it received more than 640,000 visitors, 24% above the same month of the previous year.

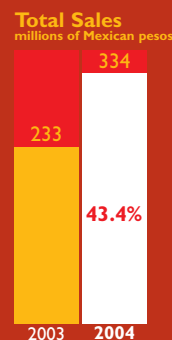
Another important achievement for the Real Estate Business was the 70% progress with the construction of the new Plaza Cumbres mall, which will open its doors to the public at the end of second quarter 2005.

Plaza Cumbres will serve the needs of more than 90 thousand homes in a neighborhood with one of the highest growth potentials in the western part of the Monterrey metropolitan area. The mall building will have more than 20,000 square meters of rentable floor space, which will be occupied by leading retail businesses, including specialty stores, restaurants and family entertainment centers.

During the fourth quarter of 2004, the Real Estate Business sold a plot of land in the commercial sector of the Cumbres subdivision. This transaction will consolidate the Plaza Cumbres development with the building of a Costco store and contribute to the Company's strategies of seeking financial self-sufficiency in project development, replacing real estate inventory and seeking a balanced portfolio for the short, medium and long term.

The availability of credits for middle-range housing in 2004 represented an area of opportunity for this business, which decided to focus on the construction of this kind of housing in the Cumbres Providencia subdivision. The development, which is differentiated by Grupo Lamosa's characteristic safety and privacy, was well accepted by the market.

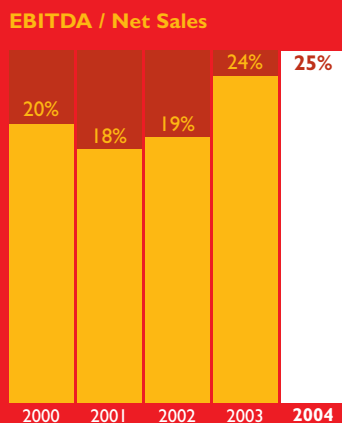
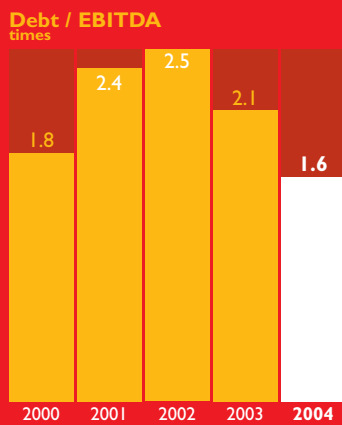
In the Privanzas development of the Valle Oriente area, the business continued its apartment-building activities, and also made further progress with the sixth and final residential area, thereby taking advantage of the increase in real estate prices in this region.



1. Inside the Galerías Valle Oriente Mall
2. Progress with the construction of the new Plaza Cumbres Mall, which should open in summer 2005
3. Forward-looking, state-of-the-art residential designs

financial performance

Lamosa closed the year with a solid financial structure and a 10.5% reduction in debt in real terms



During 2004, Grupo Lamosa continued the profitable and sustained growth of the past years, reflecting capital expenditure programs to assure the long-term profitability of its businesses and to capitalize on market opportunities.

Thus, the Company closed the year with a solid financial structure, and a debt of Ps 1,439 million, 10.5% below the Ps 1,608 million posted at the close of 2003. Moreover, the Debt/EBITDA ratio fell from 2.1 times at the close of 2003 to 1.6 times at yearend 2004.

During the third quarter of the year, Grupo Lamosa signed a syndicated loan agreement for a total of US\$65 million, which was used to refinance debt, significantly lowering interest expense and improving the Company's debt profile.

This loan represents a radical change in the way in which the Company finances its companies, with it passing from being asset financed to being flow financed. The modification gives Grupo Lamosa better conditions and flexibility to access financial markets when it needs resources for growth.

During the whole of 2004, Grupo Lamosa continued to show its capacity to generate resources, closing the year with an EBITDA of Ps 894 million, a figure which represents a growth of 15% over 2003 and 25% of sales, compared to an EBITDA of 24% of sales posted in 2003. Moreover, the ratio of EBITDA to Net Interest Expense grew from 6.7 at yearend 2003 to 7.6 at the close of 2004.

The Investor Relations Program was continued during 2004, mainly focusing on enhancing the trading volume of Grupo Lamosa shares. Through this program, the Company increased information available to the investing public through the publication of quarterly reports and a closer relationship with the financial community. These efforts will allow Grupo Lamosa to gradually increase the volume and liquidity of its shares on the Mexican Stock Market, to the benefit of current and potential stockholders.

During 2004, there were no sales or purchases of shares representing the stockholders' equity of Grupo Lamosa, S.A. de C.V.

corporate governance

Grupo Lamosa has made great efforts to ensure that it operates with top-quality corporate governance, institutionalizing Company management and offering stockholders a high level of transparency.

The incorporation of independent members of the Board of Directors, and the involvement of intermediary organisms made up of board members, such as the audit and compensations committees, are some of the initiatives that have been implemented to ensure that Grupo Lamosa operates with best corporate practices.

Members of the Auditing Committee:

Max Michel Suberville
José Manuel Valverde Valdes
Armando Garza Sada
Fracisco Javier Fernández Carbajal

Members of the Compensations Committee:

Eduardo Elizondo Barragán
Bernardo Elosúa Robles
Eugenio Garza Herrera

Grupo Lamosa adheres to the Code of Best Corporate Practices and the practices recommended by the Mexican Stock Exchange.

It is of vital importance for Grupo Lamosa to operate with good Corporate Governance in order to ensure that administrative practices are focused on maximizing the creation of value for the stockholder.



**Grupo Lamosa's
institutional
administration**

board of directors and company officers



board of directors

Federico Toussaint Elosúa CHAIRMAN	P
Max Michel Suberville BOARD MEMBER Audit Committee	I
Eduardo Elizondo Barragán BOARD MEMBER Compensations Committee	P
José Alfonso Rubio Elosúa BOARD MEMBER	P
Bernardo Elosúa Robles BOARD MEMBER Compensations Committee	P
Antonio Elosúa González BOARD MEMBER	P
Juan Miguel Rubio Elosúa BOARD MEMBER	P
Guillermo Barragán Elosúa BOARD MEMBER	P
Javier Saavedra Valdes BOARD MEMBER	P

José Manuel Valverde Valdes BOARD MEMBER Audit Committee	P
Eugenio Garza Herrera BOARD MEMBER Compensations Committee	I
Armando Garza Sada BOARD MEMBER Audit Committee	I
Francisco Javier Fernández Carbajal BOARD MEMBER Audit Committee	I
Eduardo Padilla Silva BOARD MEMBER	I
Luis Francisco González Parás SECRETARY	
Carlos Zambrano Plant EXAMINER	
P (PATRIMONIAL STOCKHOLDER) I (INDEPENDENT)	

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
Julio Rafael Vargas Quintanilla HUMAN RESOURCES VICE-PRESIDENT
Tomás Luis Garza de la Garza CHIEF FINANCIAL OFFICER

I. LEFT TO RIGHT: Julio Rafael Vargas Quintanilla, Tomás Luis Garza de la Garza, Enrique Álvarez-Tostado Ascorve, Federico Toussaint Elosúa, Arturo Martínez Martínez, Jorge Manuel Aldape Luengas and Sergio Narváez Garza

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 March 29, 2004, 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 2004:

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 all 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, 2004 – audited by the external auditors Galaz, Yamazaki, Ruiz Urquiza, S.C., a firm that is part of Deloitte Touche Tohmatsu – consolidate subsidiaries' financial statements that are 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 2004.

In my opinion, as Company Examiner, the consolidated financial statements of Grupo Lamosa, S.A. de C.V. and subsidiaries, audited by the aforementioned firm of public accountants, present fairly the financial position of the Company as of December thirty-first, 2004, 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 and Mexican Generally Accepted Accounting Principles.

In addition, I should like to affirm that the behavior of the Board of Directors has been 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 and the report of Company Management.



Carlos Zambrano Plant
COMPANY EXAMINER
Monterrey, N.L., March 1, 2005

independent auditors' report

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 (the "Company") as of December 31, 2004 and 2003, 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.

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, 2004 and 2003, 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.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu



C.P.C. Fernando Cerda Martinez

February 21, 2005

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consolidated balance sheets

As of December 31, 2004 And 2003

(In thousands of Mexican pesos of purchasing power of December 31, 2004)

ASSETS	2004	2003
Current assets:		
Cash and temporary investments	\$ 94,639	\$ 137,694
Trade accounts receivable (includes \$14,680 and \$15,754) of allowance for doubtful accounts in 2004 and 2003, respectively)	630,506	556,386
Other accounts receivable	185,929	116,528
Inventories, net	411,250	390,991
Current assets	1,322,324	1,201,599
Real state inventories	1,188,545	1,091,962
Property, plant and equipment, net	2,278,756	2,344,180
Excess of cost over book value of shares of subsidiaries	59,881	66,012
Other assets, net	100,269	119,233
TOTAL	\$ 4,949,775	\$ 4,822,986
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to financial institutions		\$ 115,754
Current portion of long-term debt	\$ 262,185	116,982
Trade accounts payable	411,964	370,080
Other payables and accrued expenses	253,467	218,175
Income tax and employee statutory profit sharing	70,905	38,558
Current liabilities	998,521	859,549
Long-term debt	1,177,148	1,376,150
Employee retirement obligations	86,791	87,424
Other long-term debt	14,487	13,786
Deferred income tax	329,470	437,578
Total liabilities	2,606,417	2,774,487
Stockholders' equity:		
Capital stock	299,768	299,768
Retained earnings	2,851,655	2,459,404
Insufficiency in restated stockholders' equity	(502,070)	(515,726)
Cumulative initial effect of deferred income tax	(336,806)	(336,806)
Majority stockholders' equity	2,312,547	1,906,640
Trustee rights of third parties	30,811	141,859
Total stockholders' equity	2,343,358	2,048,499
TOTAL	\$ 4,949,775	\$ 4,822,986

See accompanying notes to consolidated financial statements.

Ing. Federico Toussaint Elosúa
Chief Executive Officer

Ing. Tomás Garza de la Garza
Chief Financial Officer

consolidated statements of income

For the years ended December 31, 2004 and 2003

(In thousands of Mexican pesos of purchasing power of December 31, 2004, except per share amounts)

	2004	2003
Net sales	\$ 3,593,598	\$ 3,290,625
Costs and expenses:		
Cost of sales	2,130,212	2,069,745
Operating expenses	786,505	641,821
Total costs and expenses	2,916,717	2,711,566
Operating income	676,881	579,059
Net comprehensive financing cost:		
Interest expense	125,277	123,955
Interest income	(7,299)	(7,253)
Monetary position gain	(63,838)	(46,932)
Exchange fluctuations, net	(24,725)	74,516
Total net comprehensive financing cost	29,415	144,286
Income after net comprehensive financing cost	647,466	434,773
Other expenses, net	180,086	75,484
Income before income tax and employee statutory profit-sharing	467,380	359,289
Income tax	23,048	120,183
Employee statutory profit-sharing	19,385	27,538
Consolidated net income	\$ 424,947	\$ 211,568
Net income per share (based on weighted average 120,000,000 shares outstanding during 2004 and 2003)	3.54	1.76

See accompanying notes to consolidated financial statements.

consolidated statements of changes in stockholders' equity

For the years ended December 31, 2004 and 2003
(In thousands of Mexican pesos of purchasing power of December 31, 2004)

	CAPITAL STOCK	RETAINED EARNINGS	INSUFFICIENCY IN RESTATED STOCKHOLDERS' EQUITY	CUMULATIVE INITIAL EFFECT OF DEFERRED INCOME TAX	TRUSTEE RIGHTS OF THIRD PARTIES	TOTAL STOCKHOLDERS' EQUITY
Balances as of January 1, 2003	\$ 299,768	\$ 2,279,386	\$ (573,720)	\$ (336,806)	\$ 141,859	\$ 1,810,487
Net comprehensive income		211,568	57,994			269,562
Dividends paid		(31,550)				(31,550)
Balances as of December 31, 2003	299,768	2,459,404	(515,726)	(336,806)	141,859	2,048,499
Net comprehensive income		424,947	13,656			438,603
Dividends paid		(32,696)				(32,696)
Trustors' contributions					30,811	30,811
Transmission of rights to trustees					(141,859)	(141,859)
Balances as of December 31, 2004	\$ 299,768	\$ 2,851,655	\$ (502,070)	\$ (336,806)	\$ 30,811	\$ 2,343,358

See accompanying notes to consolidated financial statements.

consolidated statements of changes in financial position

For the years ended December 31, 2004 and 2003
(In thousands of Mexican pesos of purchasing power of December 31, 2004)

	2004	2003
Operating activities:		
Consolidated net income	\$ 424,947	\$ 211,568
Items that did not require (generate) resources:		
Depreciation and amortization	216,837	200,946
Employee retirement obligations - net	5,880	9,544
Allowance for doubtful accounts	12,880	4,140
Deferred income tax	(84,621)	24,443
Fixed assets impairment	161,080	29,070
Inventory impairment	9,606	2,047
	746,609	481,758
Changes in operating assets and liabilities:		
Trade accounts receivable	(87,000)	(24,668)
Other accounts receivable	(69,401)	33,588
Inventories	(143,130)	(291,554)
Trade accounts payable	41,884	35,691
Other	34,928	17,564
Resources generated by operating activities	523,890	252,379
Financing activities:		
Proceeds from notes payable to financial institutions and long – term debt	1,939,523	454,560
Repayment of notes payable to financial institutions and long – term debt	(2,024,169)	(273,462)
Effect of inflation on notes payable to financial institutions and long – term debt	(71,121)	(24,257)
Trustee rights of third parties	(111,048)	(3,880)
Dividends paid	(32,696)	(31,550)
Resources (used in) generated by financing activities	(299,511)	121,411
Investing activities:		
Acquisition of property, plant and equipment	(267,270)	(391,843)
Sale of property, plant and equipment	10,498	19,000
Investment in other assets	(10,662)	(1,764)
Resources used in investing activities	(267,434)	(374,607)
Cash and temporary investments:		
Decrease	(43,055)	(817)
Balance at beginning of year	137,694	138,511
Balance at end of year	\$ 94,639	\$ 137,694

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

For the years ended December 31, 2004 and 2003
(In thousands of Mexican pesos of purchasing power as of December 31, 2004)

1. NATURE OF OPERATIONS

Grupo Lamosa, S.A. de C.V. ("Glasa") and its subsidiaries (the "Company") is engaged in the manufacture of ceramic products for wall and floor coverings, bathroom fixtures, adhesives for ceramic tiles and development of real estate projects.

2. BASIS OF PRESENTATION

a) **Basis of consolidation** – The consolidated financial statements include those of Glasas and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Currently, Glasas owns approximately 100% of the capital stock of its subsidiaries. For consolidation purposes intercompanies balances and transactions have been eliminated.

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.
- Mercantil de Pisos y Baños, S.A. de C.V. (1)
- Lamosa USA, Inc.
- General de Minerales, S.A. de C.V.

Sanitary ware 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.
- Sanitarios Azteca, S.A. de C.V.
- Construmaquilas, S.A. de C.V.
- Tecnocreto, S.A.
- Servicios de Administración de Adhesivos, S.A. de C.V. (2)
- Servicios Industriales de Adhesivos, S.A. de C.V. (2)

Real estate segment:

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

Trusts for the urbanization, development and marketing of real estate

Corporate and other:

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

⁽¹⁾ The Company reactivated its operations in July 2004.

⁽²⁾ The Companies were incorporated in July 2004.

b) **Comprehensive income** - Comprehensive income 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 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 2004 and 2003, the other comprehensive income (loss) items consist of the insufficiency in restated stockholders' equity.

c) **Reclassifications** – Certain reclassifications have been made to the 2003 financial statements to conform them to the 2004 presentation.

3. 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) **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, 2004 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.

b) **Temporary investments** – Temporary investments are stated at the lower of acquisition cost plus accrued yields or estimated net realizable value.

c) **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.

- d) **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.

- e) **Property, plant and equipment** – Property, plant and equipment of domestic origin are initially recorded at acquisition cost and restated by applying factors derived from the 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:

	AVERAGE YEARS	
	2004	2003
Buildings	21	16
Machinery and equipment	8	10
Transportation equipment	4	3
Computer equipment	3	3
Furniture and fixtures	3	3

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

- f) **Impairment of long-lived assets in use** - The Company reviews the carrying amounts of long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the amounts mentioned above. The impairment indicators considered for these purposes are, among others, the operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than that of previous years, obsolescence, reduction in the demand for the products manufactured, competition, definitive plants closing and other legal and economic factors.
- 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. Accordingly, the liability is being accrued which, at present value, will cover the obligation from benefits projected to the estimated retirement date of the Company's employees. Severance is charged to results when the liability is determined to be 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 7).
- 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.

4. OTHER ACCOUNTS RECEIVABLE

	2004	2003
Recoverable taxes	\$ 90,181	\$ 56,526
Other	95,748	60,002
	\$ 185,929	\$ 116,528

5. INVENTORIES – NET

	2004	2003
Finished products	\$ 233,893	\$ 232,940
Work in process	37,335	31,689
Raw materials	78,510	55,021
Supplies and spare parts	62,628	62,307
Merchandise in transit	3,724	6,669
Advances to suppliers	1,575	3,690
Reserve for obsolescence	(6,415)	(1,325)
	\$ 411,250	\$ 390,991

6. REAL ESTATE INVENTORIES

	2004	2003
Land in development for sale	\$ 118,926	\$ 117,965
Undeveloped land	44,913	47,244
Urbanization in progress	128,358	119,896
Construction in progress	303,532	117,756
Commercial buildings for sale	592,816	689,101
	\$ 1,188,545	\$ 1,091,962

At December 31, 2004 and 2003, the land in urbanization includes the capitalized comprehensive financing cost, of \$582 and \$4,109, respectively.

7. PROPERTY, PLANT AND EQUIPMENT, NET

	2004	2003
Land	\$ 569,412	\$ 556,089
Buildings	695,302	633,706
Machinery and equipment	1,719,484	1,875,249
Transportation equipment	50,169	49,137
Furniture and fixtures	49,329	45,334
Computer equipment	39,252	38,693
Construction in progress	186,698	280,252
	3,309,646	3,478,460
Accumulated depreciation	(1,030,890)	(1,134,280)
	\$ 2,278,756	\$ 2,344,180

Unamortized capitalized net comprehensive financing cost was \$37,924 and \$34,727, at December 31, 2004 and 2003, respectively.

8. OTHER ASSETS

	2004	2003
Trademarks acquired	\$ 55,798	75,152
Preoperating expenses	21,607	31,768
Intangible pension asset (note 9)	3,404	3,516
Other	19,460	8,797
	\$ 100,269	\$ 119,233

9. LONG-TERM DEBT

a) Long-term debt is summarized as follows:

	2004	2003
Secured bank loan, denominated in U.S. Dollars, bearing interest at a floating rate based on LIBOR plus a spread between 2.6% and 4.25%, principal payable in various installments through 2009.		\$ 436,274
Unsecured bank loan, denominated in U.S. Dollars, bearing interest at a floating rate based on LIBOR plus a spread between 0.625% and 4.2%, principal payable in various installments through 2011.	\$ 1,208,979	492,652
Unsecured bank loan, denominated in U.S. dollar, bearing interest at a fixed rate of 4.51%, principal payable in various installments through 2009.	67,627	85,862
Secured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on interbank interest rate (TIIE) plus a spread between 2% and 4%, principal payable in various installments through 2009.		170,814
Unsecured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread of 3%, principal payable in various installments through 2008.		52,595
Unsecured bank loan, denominated in investment units (UDIS), bearing interest at a fixed rate of 9.25%, principal payable in 2006.	141,389	141,039
Unsecured notes payable, denominated in U.S. dollar, bearing interest at a fixed rate of 10%, principal payable in various installments through 2008.	14,426	20,441
Financial lease, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread between 3.25% and 5%, principal payable in various installments through 2008.	6,912	4,800
Financial lease, denominated in U.S. dollar, bearing interest at a floating rate based on LIBOR plus a spread between 2.06% and 2.7%, principal payable in various installments through 2010.		83,916
Others notes payables, denominated in U.S. dollars.		4,739
Total long-term debt	1,439,333	1,493,132
Current portion of long-term debt	(262,185)	(116,982)
Long-term debt	\$ 1,177,148	\$ 1,376,150

As of December 31, 2004, the interest rates of TIIE and LIBOR were 8.93% and 2.49%, respectively.

b) The schedule of contractual principal payments of long-term debt as December 31, 2004, is as follows:

YEAR ENDING DECEMBER, 31	AMOUNT
2006	\$ 351,813
2007	439,885
2008	207,088
2009 and thereafter	178,362
	\$ 1,177,148

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, 2004, except for one covenant, those related to one bank loan, however the Company obtained the corresponding bank waiver, for such covenant violation.

d) The Company primarily uses interest rate swaps ("interest swaps"), foreign currency forward contracts ("forward contracts"), and currency swaps ("currency swaps") to manage its exposure to fluctuations in interest and foreign currency exchange rates. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various derivative transactions. It is the Company's policy not to enter into derivative financial instruments for speculative purposes.

The Company's interest swaps effectively convert a portion of its variable rate debt to fixed rate debt and more beneficial variable rate. The forward contracts provide for the purchase of foreign currencies at specified future dates at specified exchange rates. Further, the Company's currency swaps effectively convert a portion of its Mexican pesos denominated debt to dollars.

The following table summarizes the derivative financial instruments in place as of December 31, 2004:

TYPE OF TRANSACTION	COMMENCEMENT DATE	TERMINATION DATE	COMPANY PAYS FIXED INTEREST RATE	COMPANY RECEIVES VARIABLE INTEREST RATE	NOTIONAL AMOUNT (THOUSANDS)	CONTRACT CURRENCY	FOREIGN EXCHANGE RATE
Interest and currency swaps	May 18, 2001	May 3, 2005	Libor 90 days plus 3.80%	Cetes 182 days plus 3.75%	\$ 85,000	Dollars	
Interest and currency swaps	May 18, 2001	May 3, 2005	Libor 90 days plus 3.80%	Cetes 182 days plus 3.75%	\$ 65,000	Dollars	
Interest and currency swaps	August 20, 2003	October 25, 2007	Libor 30 days plus 4.20%	Cetes 28 days plus 3.50%	\$ 70,000	Dollars	
Interest and currency swaps	August 7, 2003	May 30, 2007	Libor 30 days plus 3.85%	Cetes 182 days plus 3.50%	\$ 150,000	Dollars	
Forward contracts	December 8, 2004	January 31, 2005			US \$ 12,200	Pesos	11.4060
Interest swaps	September 23, 2004	September 3, 2009	3.29%	Libor reviewed each 3 months	US \$ 35,000		
Forward contracts	September 7, 2004	May 24, 2005			US \$ 4,724	Euros	1.2112
Forward contracts	September 7, 2004	April 24, 2005			US \$ 5,571	Euros	1.2111
Forward contracts	September 7, 2004	June 27, 2005			US \$ 1,211	Euros	1.2113
Interest swaps	September 23, 2004	September 3, 2009	3.29%	Libor reviewed each 3 months	US \$ 30,000		

The effects in the statements of income of the above-mentioned transactions were:

	INCOME (EXPENSE) FOR THE YEAR ENDING DECEMBER 31,	
	2004	2003
Interest swaps	\$ 13,051	\$ 11,198
Forward contracts	13,213	
Currency swaps	2,407	(32,690)
Net	\$ 28,671	\$ (21,492)

10. EMPLOYEE RETIREMENT OBLIGATIONS

The disclosures relating to the Company's pension plans and seniority premiums required by Bulletin D-3, issued by IMCP, calculated as described in note 3 l), together with certain actuarial assumptions utilized, are presented below as of December 31, 2004 and 2003:

	2004	2003
Accumulated benefit obligations	\$ 82,460	\$ 84,007
Projected benefit obligations	\$ 84,660	\$ 85,170
Unrecognized transition obligations	(8,039)	(11,341)
Variations in assumptions and adjustments for experience	6,766	10,079
Net projected liability	83,387	83,908
Additional liability	3,404	3,516
	\$ 86,791	\$ 87,424
Net periodic cost	\$ 4,182	\$ 9,307
Rates used (net of inflation)		
Discount rate	4.50%	4.50%
Wage increases	1.50%	1.50%

11. OTHER LONG-TERM LIABILITIES

Other long-term liabilities correspond to deposits in guarantee granted by the clients of the Company's malls, whose lease contracts establish periods of more than a year.

12. STOCKHOLDERS' EQUITY

- At December 31, 2004 and 2003, the minimum fixed capital stock is represented by 120 million Series "B" nominative common shares, with no par value and no ownership limitations.
- At the general stockholders' meetings held on March 29, 2004 and May 21, 2003, dividends were declared for \$32,696 (\$31,620 at nominal value) and \$31,550 (\$29,280 at nominal value), respectively.
- Retained earnings includes the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2004 and 2003, the legal reserve, in historical pesos, was \$480.
- Stockholders' equity, except restated paid-in capital and tax-retained earnings, will be subject to a tax at the rate in effect when a dividend is distributed. In 2004, the rate was 33%, the rate is reduced to 30% for the year 2005, and will be reduced by one percentage point each year until reaching 28% in 2007 and thereafter. 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.

e) Majority stockholders' equity as of December 31, 2004 is summarized as follows:

	NOMINAL VALUE	RESTATEMENT	RESTATED VALUE
Capital stock	\$ 2,400	\$ 297,368	\$ 299,768
Retained earnings	1,387,737	1,463,918	2,851,655
Insufficiency in restated stockholders' equity	66,935	(569,005)	(502,070)
Cumulative effect of deferred income tax	(241,340)	(95,466)	(336,806)
	\$ 1,215,732	\$ 1,096,815	\$ 2,312,547

f) The balances of the stockholders' equity tax accounts as of December 31, are:

	2004	2003
Contributed capital account	\$ 237,507	\$ 237,507
Net tax income account	732,488	620,865
Net reinvested tax income account	115,429	148,143
Total	\$ 1,085,424	\$ 1,006,515

13. TRUSTEE RIGHTS OF THIRD PARTIES

Trustee rights of third parties correspond to contributions made by third parties as trustees in an enterprise trust fund for the construction of a building. During 2004, the trustors received the possession and rights that correspond to them according to the percentage of undivided of the respective property, specified in the trusteeship. On the other hand, the balance at December 31, 2004, corresponds to the contributions of a trustor quality to the ownership of another business trust constituted in 2004.

14. 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.
- The Company's consumption of natural gas during 2004 was approximately 2,750,784 Millions of British Thermal Units ("MMBTUS"), of which, it had covered a total of 2,132,400 MMBTUS. The Company maintains hedges on the price of natural gas for approximately 4,314,800 MMBTUS for its 2005 and 2006 consumption with Gas Natural Mexico, S.A. de C.V., Compañía Mexicana de Gas, S.A. de C.V and Petróleos Mexicanos, at an average price of \$4.50 U.S. dollar per MMBTUS. As of February 21, 2005, the date of the issuance of these consolidated financial statements; the price of market of the natural gas is of \$5.70 U.S. dollars by MMBTUS.
- In August 27, 2004, the Company entered into a contract for the purchase of machinery, reserves and equipment, engineering, assembly services, and tests, of a plant in the ceramic business segment. The contract term expires on March 31, 2005 and the total price to pay is \$6,718,000 Euros.
- In October 29, 2004, the Company fulfilled a contract commitment to acquire a property, in which the purchaser and seller agreed to purchase and sell, the land mentioned in the contract, upon the fulfillment of certain conditions. The transaction price was set at \$12,201,754 US dollars. In February 10, 2005 the transaction was completed.

In order to guarantee the compliance of the obligations under contract, the Company at the moment of the contract was signed, made a deposit for \$30,000, which is presented in the Balance Sheet, in other accounts receivable.

15. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

a) The monetary position in foreign currency, expressed in thousands of U.S. dollars as of December 31, 2004, is as follows:

	FOREIGN CURRENCY BALANCES	MEXICAN PESO EQUIVALENT
Monetary assets	24,108	\$ 270,054
Monetary liabilities	(128,957)	(1,439,156)
Short position	(104,849)	\$ (1,169,102)

b) Non-monetary assets of foreign origin, valued in thousands of U.S. dollars as of December 31, 2004 are as follows:

	FOREIGN CURRENCY BALANCES	MEXICAN PESO EQUIVALENT
Inventories	4,031	\$ 44,986
Machinery and equipment	69,318	773,602

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

	2004	2003
Export sales	51,169	50,217
Imports	14,754	17,875
Interest expense, net	2,298	4,291

d) The exchange rate used to translate U.S. dollars to Mexican pesos as of December 31, 2004 was \$11.16 (nominal pesos) per one U.S. dollar; compared with \$11.22 (nominal pesos) per one U.S. dollar as of December 31, 2003. At February 21, 2005, date of issuance of these financial statements, the exchange rate was \$11.07 (nominal pesos) per one U.S. dollar.

16. OTHER EXPENSES, NET

	2004	2003
Severance payments due to reorganization	\$ 6,540	\$ 30,445
Minority interest in trust	18,438	19,965
Preoperating expenses	4,750	8,498
Fixed asset, impairment ⁽¹⁾	161,080	29,070
Inventory impairment	9,606	2,047
Other income, net	(20,328)	(14,541)
	\$ 180,086	\$ 75,484

⁽¹⁾ In April and October 2003, the Company's departments of gears and floors within their Monterrey plant temporarily stopped their operations. In October 2004, the Company decided not to continue with the operations of these departments, including the brick production and therefore the temporary closure became definitive. The machinery and equipment within these departments was valued at its net realizable value, by means of a technical study carried by the Company whereby a charge to results of \$161,080 recorded.

In August 2002, the plant located in the city of Guadalajara stopped its operations and was estimated to reopen in the third quarter 2003; however, the Company decided not to continue with the operations of this plant and, accordingly, the temporary closure became definitive. The assets within this plant were valued by an independent appraiser as of December 31, 2003, whereby a charge to results for \$29,070 was recorded.

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

- a) In accordance with Mexican tax law, the Company is subject to income tax (ISR) and tax on assets (IMPAC), which take into consideration the taxable and deductible effects of inflation. The ISR rate was 33% in 2004 and 34% in 2003. IMPAC is calculated by applying 1.8% on the net average of the majority of restated assets less certain liabilities and is payable only to the extent that it exceeds ISR payable for the same period; any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years.
- b) On December 1, 2004, certain amendments to the ISR and IMPAC Laws were published and are effective as of 2005. The primary amendments were as follows: a) the ISR rate was reduced to 30% in 2005, 29% in 2006 and 28% as of 2007 and thereafter; (b) for income tax purposes, cost of sales will be deducted instead of inventory purchases; c) in 2005, an option was established to amortize inventories at December 31, 2004 into taxable income over a period from 4 to 12 years determined in conformity with the respective tax rules; when electing to amortize inventories into taxable income, any unamortized balance of inventories under Rule 106 and unamortized tax loss carryforwards must be deducted from the inventory balance; inventories may be deducted as sold; d) as of 2006, the employee statutory profit sharing paid will be fully deductible; e) the deduction or accrual of the effect of inflation is now applicable to essentially all monetary assets and liabilities and f) bank liabilities and liabilities with foreign entities are included in the determination of the IMPAC taxable base.

The current ISR and IMPAC are determined on a tax-consolidated basis.

- c) The provision for ISR and PTU are analyzed as follows:

	2004	2003
ISR:		
Current	\$ 107,669	\$ 67,759
Deferred	(84,621)	52,424
Total	\$ 23,048	\$ 120,183
PTU:		
Current	\$ 17,828	\$ 27,538
Deferred	1,557	
Total	\$ 19,385	\$ 27,538

- d) To determine deferred ISR at December 31, 2004, the Company applied the different tax rates that will be in effect beginning in 2005 to temporary differences according to their estimated dates of reversal. In addition, in accordance with tax regulations in effect as of 2005, the Company's management elected to amortize the tax inventory of \$162,324 at December 31, 2004 into taxable income over between 4 and 12 year period beginning in 2005, based on inventory turnover. Accordingly, the initial effect of the new regulation of no longer deducting inventory purchases was deferred. The result derived from applying the different tax rates is shown in the table below under effect of reduction in statutory rate on deferred ISR.

The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before ISR is:

	%
	2004
Effective income tax rate	4.93
Effect for change in fiscal dispositions starting in 2005	14.52
Effect of reduction in statutory rate on deferred ISR	13.56
Effect of fixed asset impairment	1.51
Other	(1.52)
Statutory income tax rate	33.00

On 2003 the effective income tax rate differs from the statutory rate, due to non-deductible items, the effects of inflation and other permanent differences.

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

	2004	2003
Deferred income tax liabilities:		
Property, plant and equipment	\$ 171,035	\$ 234,810
Inventories	53,280	126,735
Real estate inventories	246,589	235,331
Trademarks acquired	17,771	24,679
	488,675	621,555
Deferred income tax assets:		
Tax inventory		8,601
Allowance for doubtful accounts	4,404	4,995
Effect of tax loss carryforwards	45,965	67,428
Employee retirement obligations	26,395	27,936
Employee statutory profit-sharing	3,124	
Other	20,091	21,158
	100,279	130,118
Tax on assets	58,926	53,859
Net liability	\$ 329,470	\$ 437,578

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, 2004 and expiration dates are as follows:

YEAR OF EXPIRATION	TAX ON ASSETS	TAX LOSS CARRYFORWARDS
2008	\$ 10,837	\$ 1,304
2009	1,513	925
2010	3,369	
2011	10,094	12,790
2012	8,536	100,582
2013	12,880	43,777
2014	11,697	4,782
	\$ 58,926	\$ 164,160

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 \$10,711 in 2004 and \$23,656 in 2003.

18. TRANSACTIONS WITH RELATED PARTIES

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

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 agreement as trustee with a credit institution (Depositary), as the trustor. The purpose of the trust was to build a property with other companies who act as trustors and trustees in first lien. The Business Trust contributed a property and cash and the other companies contributed cash. In 2004, this trust was partially extinguished (see note 13).

c) In October 29, 2004, the Business Trust mentioned above entered into another trust agreement as trustee with a credit institution (Depositary), as the trustor. The purpose of the trust was to build a property with other companies who act as trustors and trustees in first lien. The Business Trust contributed a property and cash and the other companies contributed cash.

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

	2004	2003
Grupo Inmobiliario Viber, S.A. de C.V.	\$ 158,605	\$ 100,498
U-Calli Desarrollos Inmobiliarios, S.A. de C.V.	18,799	20,017
	\$ 177,404	\$ 120,515

19. INFORMATION BY INDUSTRY SEGMENT AND GEOGRAPHICAL AREA

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:

	CERAMIC	NON CERAMIC	REAL ESTATE	CORPORATE AND OTHER	TOTAL
DECEMBER 31, 2004:					
Net sales	\$ 2,117,441	\$ 1,233,502	\$ 333,500	\$ 125,975	\$ 3,810,418
Intersegment sales	(44,093)	(47,135)		(125,592)	(216,820)
	2,073,348	1,186,367	333,500	383	3,593,598
Operating income	256,187	284,922	172,916	(37,144)	676,881
Assets	2,561,829	499,174	1,338,371	550,401	4,949,775
Liabilities	1,246,726	230,103	197,707	931,881	2,606,417
Acquisitions of fixed assets	231,901	21,736	1,295	12,338	267,270
Depreciation and amortization	138,660	19,903	23,728	34,546	216,837
Asset impairment	161,080				161,080
DECEMBER 31, 2003:					
Net sales	\$ 1,943,986	\$ 1,147,963	\$ 232,580	\$ 122,911	\$ 3,447,440
Intersegment sales	(18,525)	(15,946)		(122,344)	(156,815)
	1,925,461	1,132,017	232,580	567	3,290,625
Operating income	211,566	277,177	123,318	(33,002)	579,059
Assets	2,533,404	439,626	1,221,641	628,315	4,822,986
Liabilities	1,031,477	206,612	286,535	1,249,863	2,774,787
Acquisitions of fixed assets	352,322	18,912	16,665	3,944	391,843
Depreciation and amortization	132,366	19,864	16,012	32,704	200,946
Asset impairment	29,070				29,070

Export sales represent 16.6% and 17.8% of total sales in 2004 and 2003, respectively, and they are made mainly to the United States of America.

20. NEW ACCOUNTING PRINCIPLES

In May 2004, the IMCP issued Bulletin B-7, "Business Acquisitions" ("B-7"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. B-7 provides updated rules for the accounting treatment of business acquisitions and investments in associated entities. It establishes, among others; the adoption of the purchase method as the only accounting method for business combinations; it eliminates the amortization of goodwill, which is now subject to the impairment rules; it establishes rules for the accounting treatment of asset transfers or share exchange among entities under common control as well as for the acquisition of minority interest based on the provisions of Bulletin B-8, "Consolidated and combined financial statements and valuation of permanent investments in shares". Management believes that the adoption of this new Bulletin as of January 1, 2005, will not have significant effects on the Company's financial position or results of operations.

In April 2004, the IMCP issued Bulletin C-10, "Derivative instruments and hedging activities" ("C-10"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. In general, C-10 establishes that for fair value hedges, any variances in the fair value, both of the derivative and the underlying, must be reflected in current earnings when such variances occur; for cash flow hedges, the effective portion of fair value variances must be recognized in other comprehensive income in stockholders' equity, while the ineffective portion must affect current earnings.

With respect to derivative financial instruments, the C-10 establishes the conditions that must be met for an instrument to be considered as such, and revises and adds definitions. It also includes rules regarding the elements involved in hedging activities, including the formal documentation at the inception of each hedge and measurement of its effectiveness during its term, among others; C-10 classifies hedges into three categories: a) fair value hedges, b) cash flow hedges and c) foreign currency hedges, and provides specific rules by type of hedge, for their valuation, recognition, presentation and disclosure.

In April 2004, the IMCP issued Amendments to Bulletin C-2, "Financial instruments" ("C-2"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. Revised C-2 basically establishes that any variances in the fair value of financial instruments classified as available for sale must be recognized in other comprehensive income and reclassified to current earnings upon sale of such instruments; revised C-2 includes the possibility of making transfers among some of the categories under which financial instruments are classified, provided that conditions and rules for their accounting recognition are met. It also extends the applicability of impairment rules to financial instruments available for sale and provides more precise rules for their recognition.

In January 2004, the IMCP issued revised Bulletin D-3, "Labor obligations" ("D-3"), which replaces the concept of unforeseen severance payments that are recognized in earnings of the period in which the payment decision is made, with that of "Severance payments at the end of the work relationship", defined as payments granted to employees when they conclude their labor relationship before reaching retirement age, for which the valuation and disclosure rules applicable to pension and seniority premium payments must be followed.

Revised D-3 is mandatory as of January 1, 2005, but grants the option to immediately recognize in earnings the resulting transition asset or liability, or to amortize it over the average remaining labor life of employees. The liability as of January 1, 2005, calculated by independent actuaries is \$9,630, which the Company chose to record as a transition liability and will amortize using the straight-line method over the average labor life of employees expected to receive such benefits that is between 0.48 and 10.81 years.

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