

goals Setting higher



ANNUAL REPORT 2005

As a result of the investments made in all divisions, Grupo Lamosa now operates with a state-of-the-art, world-class technological platform. This has given the Company a more competitive cost structure, and enabled it to develop new and innovative products and enrich its product mix with an increased proportion of high value added luxury products.

Grupo Lamosa has more than a century of experience in the construction industry, concrete experience that supports the market leadership of its products.

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BUSINESS

COMPANY



Wall and floor tiles

Lamosa Revestimientos, S.A. de C.V.
 Plants: Benito Juárez
 Tlaxcala
 San Luis Potosí
 General de Minerales, S.A. de C.V.
 Lamosa USA Corp.



Adhesives

Crest, S.A. de C.V.
 Plants: Santa Catarina
 Guadalajara
 Morelia
 Chihuahua
 Tizayuca
 Adhesivos de Jalisco, S.A. de C.V.
 Plants: Guadalajara
 León
 State of Mexico
 Industrias Niasa, S.A. de C.V.
 Plants: Mexico City
 State of Mexico
 Guadalajara
 Chihuahua
 Navojoa
 Tijuana
 Torreón



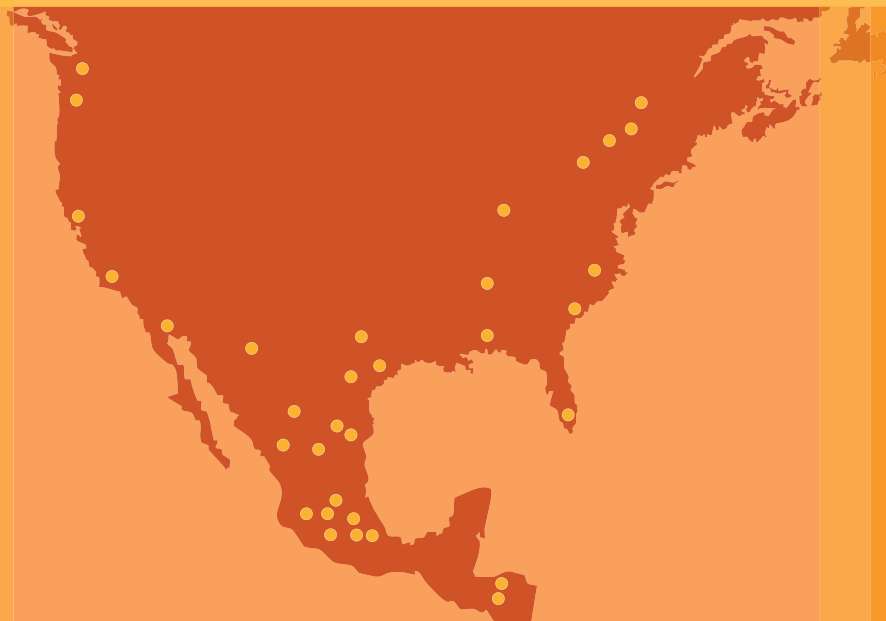
Sanitaryware

Sanitarios Lamosa, S.A. de C.V.
 Plants: Monterrey
 Benito Juárez



Real estate

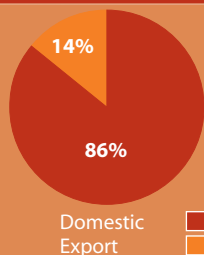
Grupo Inmobiliario Viber, S.A. de C.V.
 Ladrillera Monterrey, S.A. de C.V.
 Desarrollos Inmobiliarios Lamosa, S.A. de C.V.
 Inmobiliaria GVO, S.A. de C.V.
 Inmobiliaria PC, S.A. de C.V.
 Servicios de Operadora de Centros Comerciales, S.A. de C.V.



PRODUCTS

Floor tiles
Wall tiles
Skirting tiles
Special pieces

SALES
BREAKDOWN



COMPETITIVE
ADVANTAGES

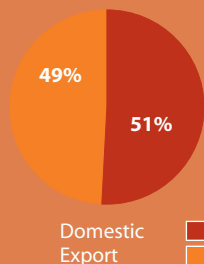
- > Strategically located to serve the NAFTA region
- > State-of-the-art technological platform
- > Extensive nationwide leadership and geographic coverage
- > Continuous design of high-quality products in line with market trends

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



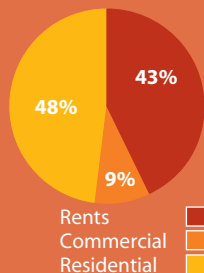
- > Products with outstanding characteristics produced with the highest quality standards
- > Extensive product availability through a large number of distributors offering timely delivery
- > Customer-oriented organization
- > Ongoing new product research and development

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



- > Product warranty
- > Design and innovation of high-performance products
- > Development of intelligent, water-efficient, Dual Flush toilet
- > Focus on customer service throughout the NAFTA region

Developments in the Monterrey metropolitan area
Housing developments
Commercial developments
Office parks



- > More than 20 years of experience in the Monterrey metropolitan area
- > Real estate developments that offer privacy, safety and attractive communal areas
- > Strategic locations
- > Project diversity, always seeking to maximize land value

Grupo Lamosa continues to maintain its leadership in the Mexican market, implementing initiatives and capital expenditure projects to strengthen the competitive position of all its business segments.

During 2005, the Company continued to introduce strategies to increase its presence throughout the NAFTA region, offering an increasing range of innovative products and forward-looking designs.

Grupo Lamosa has been exporting its products for more than 35 years, serving markets in both the United States and Canada. In 2005, export sales represented 16% of total sales.

financial highlights

GRUPO LAMOSA, S.A. DE C.V. AND SUBSIDIARIES
(Millions of constant Mexican pesos as of December 31, 2005)

| | 2005 | 2004 | Growth % |
|--|-------|-------|----------|
| RESULTS | | | |
| Net sales ⁽¹⁾ | 3,778 | 3,713 | 2 |
| Export sales (millions of US\$) | 55 | 51 | 7 |
| Export sales / net sales | 16% | 17% | |
| Operating income ⁽²⁾ | 658 | 699 | (6) |
| Operating income / net sales | 17% | 19% | |
| Comprehensive financing cost | 48 | 30 | 58 |
| Consolidated net income | 511 | 439 | 16 |
| FINANCIAL POSITION | | | |
| Total assets | 5,540 | 5,114 | 8 |
| Total liabilities | 2,665 | 2,693 | (1) |
| Stockholders' equity | 2,875 | 2,421 | 19 |
| Book value per share ⁽³⁾ | 23.73 | 19.98 | 19 |
| CASH FLOW | | | |
| Net operating cash flow ⁽⁴⁾ | 916 | 943 | (3) |
| Capital expenditures | 676 | 518 | 30 |
| NUMBER OF EMPLOYEES | | | |
| Total personnel | 3,001 | 2,843 | 6 |

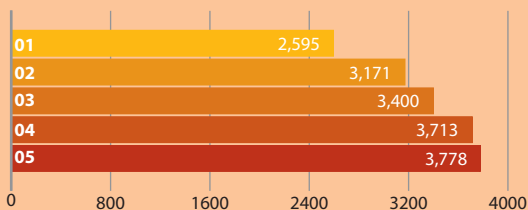
⁽¹⁾ In 2004, the Company's Real Estate Division posted non-recurrent sales of Ps 147.2 million. Eliminating the effect of these sales, growth in 2005 was 6%.

⁽²⁾ The Real Estate Division's 2004 non-recurrent sales resulted in an operating income of Ps 126.9 million. Eliminating the effect of these sales, growth in 2005 was 15%.

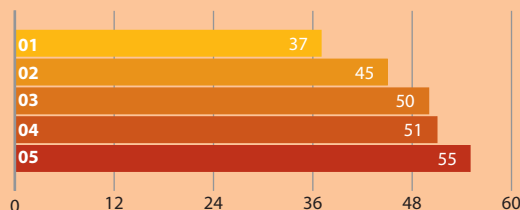
⁽³⁾ On a total of 121.2 million shares.

⁽⁴⁾ Operating income plus depreciation, amortization and other virtual items.

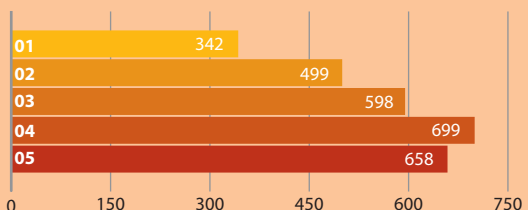
NET SALES
millions of Mexican pesos



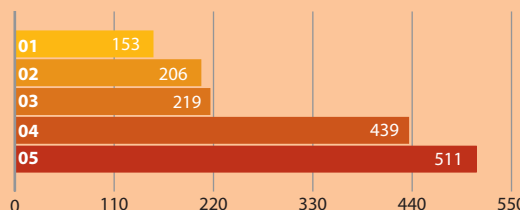
EXPORT SALES
millions of U.S. dollars



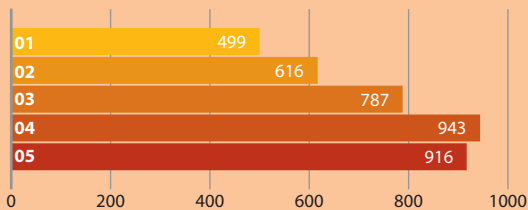
OPERATING INCOME
millions of Mexican pesos



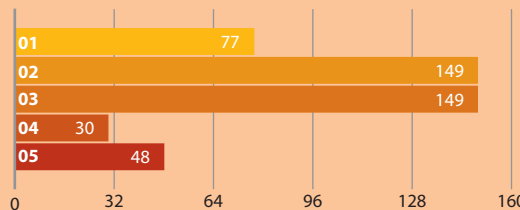
CONSOLIDATED NET INCOME
millions of Mexican pesos



NET OPERATING CASH FLOW
millions of Mexican pesos



COMPREHENSIVE FINANCING COST
millions of Mexican pesos



10%

(compound annual 2001-2005)
sustained and profitable
growth in net sales

16%

growth in net income
at yearend 2005

16%

(compound annual 2001-2005)
growth in net operating
cash flow



to our **stockholders**

For Grupo Lamosa, 2005 was a year of considerable challenges. However, the Company's different businesses posted positive results and reported progress towards their particular objectives.

Despite Mexico's modest economic expansion of 3.0% in 2005, activity in the construction industry, particularly the housing segment, continued to represent an important driver of Grupo Lamosa's growth.

During 2005, the Company consolidated its efforts to totally upgrade operations, investing approximately US\$64 million in its different businesses. In fact, capital expenditures over the past five years have totaled US\$281 million, an amount very similar to the Company's capitalization value at yearend 2005; and more than 90% of 2005 capital expenditures were financed with operating cash flow.

The strong capital expenditure plan implemented in all divisions has given Grupo Lamosa state-of-the-art, world-class technology, enhanced productivity, and an enriched product mix with an increased proportion of high value added options.

As a result, the Company reported favorable results in 2005, despite the impact of extraordinary, non-recurrent revenues of almost Ps 147 million posted by the Real Estate Division in 2004.

Grupo Lamosa's 2005 consolidated annual sales reached Ps 3,777.8 million, a growth of 2% compared to 2004, while operating income for the year totaled Ps 657.7 million, a decrease of 6% year-over-year and 17% of sales.

Without the effect of the Real Estate Division's previously mentioned non-recurrent extraordinary revenues in 2004, revenue growth in 2005 amounted to 6% and operating income increased 15% year-over-year.

An important achievement during the first half of 2005 was Fitch Ratings improving Grupo Lamosa's risk rating from A+ to AA-, generating value for our stockholders and confirming the strategies that have been implemented in all the Company's divisions.

We will continue to seek new growth opportunities in both domestic and international markets to allow the Company's different business units to diversify their markets and strengthen their competitive position in the medium and long term.

In order to inform the different publics of Grupo Lamosa's total transformation, at the beginning of 2005 we launched a new corporate image that reflects our latest product offering and the enhanced services provided by our different businesses.

Another important initiative in 2005 was the implementation of a Human Resources Planning and Development Model throughout the Company. This model, which focuses on evaluating and developing executives' potential, will ensure that our people have the talent and skills necessary to ensure Grupo Lamosa's successful future growth.

The perspectives for Grupo Lamosa's businesses continue to be very positive, despite the increasing challenges of today's market environment. The housing sector, as well as the finishing off of major works, have been drivers of the Company's evolution, and the growth trend in these sectors is expected to continue to keep pace with Mexico's population expansion, accumulated housing deficit and the growing availability of credit with increasingly attractive and flexible financing terms.

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



Federico Toussaint Elosúa
Chairman of the Board of Directors



transforma



tion

30%

growth at yearend 2005

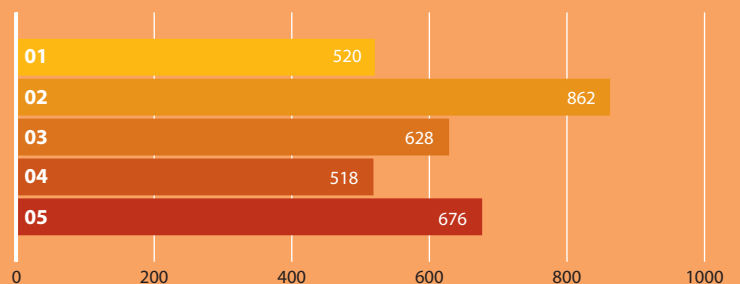
TRANSFORMATION

Over the past few years, Grupo Lamosa has focused on totally transforming its technology, processes and commercial activities.

Today, the Company operates with a world-class technological platform, which allows it to offer its customers new and innovative products and high value added services.

As a result, Grupo Lamosa represents a highly competitive option in the marketplace, commanding a growing share of the luxury segment and partnering with an increasing number of high-end distributors.

CAPITAL EXPENDITURES
millions of Mexican pesos



A photograph of a modern bathroom sink. The sink is white and round, with a chrome faucet that has a curved spout. A mirror is mounted on the wall above the sink, reflecting the faucet and a vase of white orchids with yellow centers. The wall is a light, textured color. In the foreground, there is a folded orange towel.

consolidati



CONSOLIDATION

2005 was an important year in which Grupo Lamosa finalized the process of consolidating its operations with the launch of a new corporate image. Today, customers and other interest groups see the image of a company that has been totally renewed, a company with a promising future and great growth potential.

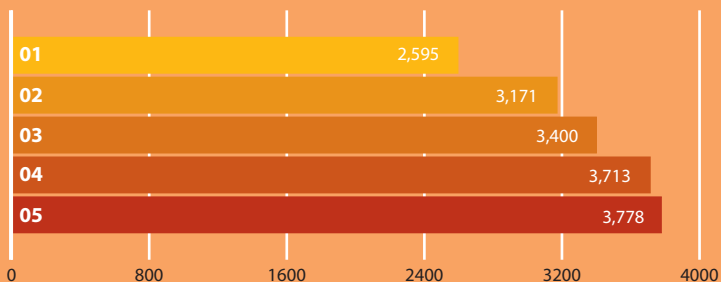
This achievement, which has been driven to a large extent by the past years' capital expenditures, together with favorable operating and financial results, has positively impacted the community's perception of Grupo Lamosa's current risk.

on

10%

compound annual growth

TOTAL SALES
millions of Mexican pesos





capacity



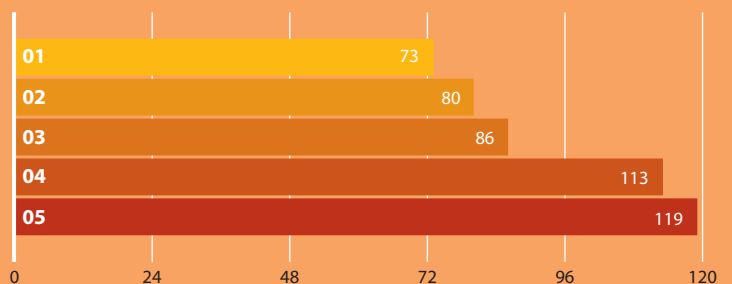
CAPACITY

Today, Grupo Lamosa operates with the human, material and financial resources required to capitalize on future growth opportunities in domestic and foreign markets.

The Company's increased productivity, combined with a more competitive product mix with a higher proportion of high value added options and services, has substantially improved Grupo Lamosa's prospects for reaching its sustained growth and profitability objectives.

130%
compound annual growth

TOTAL SALES / PERSONNEL
thousands of U.S. dollars





opportunity



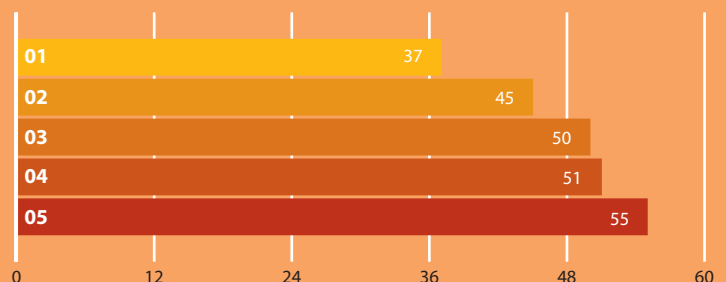
10%
compound annual growth

OPPORTUNITY

Grupo Lamosa participates in a sector with exceptional future perspectives. The Mexican housing segment in particular and construction sector in general are expected to continue growing in the years to come, largely driven by the current housing deficit and the increasingly accessible financing schemes being offered.

The other nations of the NAFTA bloc are the main focus of the Company's export initiatives, especially in light of the region's great growth potential in the sectors served by Grupo Lamosa's different businesses. Today, the Company is positioned to successfully capitalize on future opportunities in this market.

EXPORT SALES
millions of U.S. dollars



wall and floor tiles business

The Wall and Floor Tiles Business posted satisfactory results in 2005, despite a complicated business environment in the ceramic industry in general.

Sales volume grew 10% year-over-year, driven to a large extent by export sales, with the export of ceramic products representing 14% of total wall and floor tile sales, compared to 10% in 2004.

During the year, this business continued its growth and technological reconversion initiatives, making significant progress in the commercial and service areas. The second phase of the updating of the Tlaxcala plant was concluded, and the third and last phase of the reconversion process begun. This final phase will be completed in 2006, giving the plant the same technology and quality standards as the division's new plants.

Another important achievement of this business was the start up of the San Luis Potosí plant expansion, after an investment of almost US\$24 million. The expansion duplicates plant capacity and gives Grupo Lamosa the capability to manufacture porcelain enamel products.

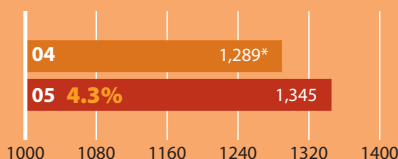
One of this year's most outstanding events was the launch of the new high value added porcelain enamel line at the Expo CIHAC exhibition during the fourth quarter of the year. The line, with technical and design characteristics that are superior to traditional ceramic tiles, was very well accepted by the event's participants and the market in general and will enhance Grupo Lamosa's share of the institutional and residential markets. The new super-luxury Firenze Tecnoarte porcelain enamel line includes such products as Dolomina, Pertra del Sole and Modus.

During the year, this business segment introduced initiatives to make its product mix more profitable and enhance service quality, consolidating its market leadership and image, and expanding its presence with high-end distributors.

At the end of 2005, the Wall and Floor Tile Business established new strategies to consolidate its presence in the United States, in order to capitalize on growth opportunities in that market.

TOTAL SALES millions of Mexican pesos

* corresponding only to the sale of ceramic tiles



2005 was a year in which the Adhesives Business faced and overcame significant challenges, posting positive results and market share growth. Sales volume increased 7% year-over-year, despite the industry expanding less than expected and a highly competitive environment.

This division offers a portfolio of brands adapted to the needs of the different market segments, combined with high quality products reflecting its focus on research and development, and as a result its share of the domestic market continued to grow in 2005.

During the year, the Adhesives Business continued to follow the strategy of leading the domestic market, increasing its presence in northwestern Mexico with the start up of a new plant in Baja California Norte.

The technological updating initiative was continued, with the reconversion of plants in the cities of Navojoa, León, Chihuahua and Guadalajara, which improved process technology, production capacity and efficiency.

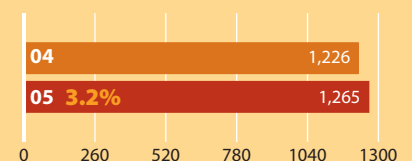
Additionally, this business unit made important progress with its lines of products other than traditional adhesives and grouts, posting significant market share gains with its stucco line.

In 2005, it continued to implement the strategy of coming closer to installers and offering them training programs, reaching new installers with courses and workshops in different Mexican cities.

At the end of 2005, the Adhesives Business was evaluating growth alternatives outside Mexico, in order to take advantage of its acquired capabilities and extensive knowledge of the industry to capitalize on growth opportunities in foreign markets.



TOTAL SALES
millions of Mexican pesos



sanitaryware business

The Sanitaryware Business posted positive results in 2005, closing the year with an increased share of the domestic market and an enriched product mix in the export market.

The domestic sales volume grew 5% and the division reported important progress in a number of different areas, including enhanced profitability of its product mix, the strengthening of its distribution network and the partnering with a greater number of leading high-end distributors in Mexico. This enabled the Sanitaryware Business to continue increasing the penetration of its luxury Ambiance line, a line that offers innovative, forward-looking designs that create beautiful bathroom environments according to the needs of the most demanding customers.

During the year, this business implemented important initiatives which resulted in a significant improvement in service, lead times and on-time delivery.

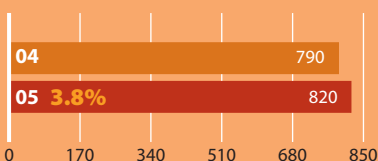
The marketing of intelligent, water-saving, Dual Flush toilets continued successfully in 2005. Of the total number of toilets Grupo Lamosa sold during the year, 18% were fitted with this system, compared to 14% in 2004. Additionally, the Dual Flush toilet system was promoted in water saving programs in Hermosillo, Querétaro and Puebla.

The Sanitaryware Business continued its efforts to develop and launch new products. During the year, it strengthened its institutional product portfolio with the pressure-assisted Tornado toilet and the Atenas, a toilet that can be set into the wall. Also, the One-Piece Dual Flush toilet was launched and well accepted by the market, resulting in the posting of significant sales volumes for this product during the year.

In the export market, this business unit continued to work to continue increasing sales through wholesale plumber channels, with the Company commanding a 20% share of this segment. It also continued to participate in retrofit programs to promote water savings in the United States and Canada.

The dynamism of this industry continues to represent an area of opportunity both in Mexico and the other nations of the NAFTA region, so Grupo Lamosa will continue investing and taking all the steps necessary to capitalize on growth with a significantly enhanced probability of success.

TOTAL SALES
millions of Mexican pesos



2005 was a year of positive results for Grupo Lamosa's Real Estate Business, with the consolidation of commercial, residential and service projects.

In the Valle Oriente subdivision, the marketing and sale of the sixth sector of the Privanzas residential development continued, with the business capitalizing on the significant increase in price of the area which is one of the most exclusive parts of the Monterrey metropolitan district. Sales of luxury apartments in the fourth sector of the development also went well. The design, safety and privacy characteristics that distinguish this business unit's projects have been key factors in making them very attractive to the market and satisfying the needs of highly demanding customers.

Also in the Valle Oriente subdivision, during the year the Real Estate Business, in conjunction with a group of other investors, began the construction of the Torre 1 intelligent building, which will increase the attractiveness of the office park in which it is located and to which Grupo Lamosa's headquarters will be moved. The Galerías Valle Oriente mall made considerable progress during the year, presenting consistent growth in traffic flow, despite the opening of other commercial centers in the region.

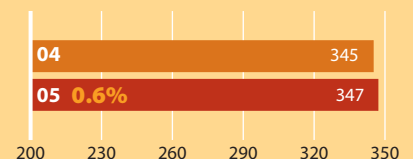
One of the most important achievements of the Real Estate Business in 2005 was the opening of the new Plaza Cumbres mall in the western part of the city of Monterrey, significantly expanding family-wide entertainment options in the region. Grupo Lamosa invested approximately US\$65 million in the different phases of this development. Also in Monterrey's Cumbres subdivision, Grupo Lamosa continued to successfully market the Cumbres Providencia housing development, doubling sales year-over-year.

In the fourth quarter of 2005, this business launched the Contry Sur housing development in the southern part of Monterrey. The Company expects to consolidate the operation of this new development in 2006.

One of the Real Estate Business's most important challenges is to continue generating opportunities to ensure that it grows at the same pace as Grupo Lamosa's other divisions. This implies being proactive in starting up new projects, having a balanced inventory maturing at stepwise intervals in time, and ensuring that the business operates with the organization required to face the challenges of future growth.



TOTAL SALES*
millions of Mexican pesos
* Without the effect of 2004's non-recurrent sales, the growth was 75%



financial performance

Grupo Lamosa closed the year with a solid financial structure and an increased capacity to generate operating cash flow. This situation enabled the Company to finance most of its investments during 2005. Capital expenditures for the year totaled Ps 676 million, while the Company's consolidated debt only rose by Ps 46.2 million to Ps 1,533.5 million. The Debt/EBITDA ratio at the close of 2005 was 1.7 times, compared to 1.6 times at yearend 2004.

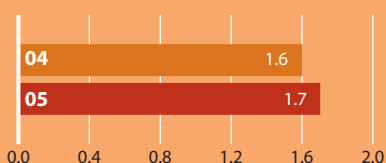
One of the Company's most important achievements during 2005 was Fitch Ratings increasing the Company's rating from A+ to AA- in the first quarter of the year. This improvement in risk rating reflects Grupo Lamosa's operating and financial strength, gained principally from the US\$281 million capital expenditure plan implemented over the past five years.

During 2005, Grupo Lamosa evaluated the option of refinancing the debt corresponding to a syndicated loan of \$65 million dollars in order to obtain more competitive maturity and cost conditions in accordance with the Company's current risk rating. The refinancing was finalized at the beginning of 2006, significantly improving the debt's repayment profile and average life, which increased from 1.9 to 2.5 years.

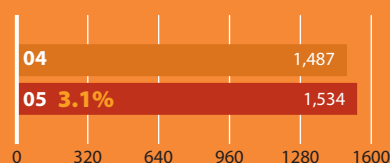
Additionally, in accordance with the Company's risk management program and the current trend in both peso- and dollar-related interest rates, Grupo Lamosa decided to change its debt profile. As a result, the percent of total debt denominated in dollars was reduced from 64% to 26% through currency swaps equivalent to US\$56.7 million, significantly reducing Grupo Lamosa's exposure to foreign exchange and other financial risks, and fixing competitive interest rates in pesos close to 8.15%. Meanwhile, the interest rate on a debt of US\$25 million was fixed at 4.77% through interest-rate swaps.

Grupo Lamosa makes an ongoing effort to increase the liquidity and trading volume of its shares and in January 2005 made a share distribution which enhanced the stockholder base and expanded the share float in the market from 15% to 20%. In 2005, in addition to a cash dividend, the Annual Stockholders' Assembly agreed to pay a share dividend of 1%, thereby increasing the number of shares in circulation. During the year, Grupo Lamosa used its repurchase fund in an orderly manner in accordance with the Company's trading volume increasing plan. At yearend 2005, treasury shares represented 1% of total shares.

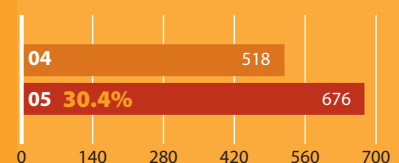
DEBT / EBITDA times



DEBT millions of Mexican pesos



CAPITAL EXPENDITURES millions of Mexican pesos



For Grupo Lamosa, operating with an institutional management team that implements the practices of good corporate governance is an important way of creating value for the stockholder.

The Company's close adherence to the Mexican Code of Best Corporate Practices and to the practices recommended by the Mexican Stock Exchange has resulted in many benefits, such as:

- > Added value from the members of the Board of Directors in the making of strategic decisions.
- > Increased transparency for the stockholder.
- > Better alignment of the interests of Company management with those of the stockholder.

Members of the Audit Committee:

Max Michel Suberville
Armando Garza Sada
José Manuel Valverde Valdés
Francisco Javier Fernández Carbajal

Members of the Compensations Committee:

Eduardo Elizondo Barragán
Bernardo Elosúa Robles
Eugenio Garza Herrera



board of directors and company officers

BOARD OF DIRECTORS

Federico Toussaint Elosúa

Chairman of the Board and Chief Executive Officer

MEMBER SINCE 1989

P

Max Michel Suberville

Honorary Chairman of El Puerto de Liverpool, S.A. de C.V.

MEMBER SINCE 1959

AUDIT COMMITTEE

P

Eduardo Elizondo Barragán

CEO of CRIOTEC

MEMBER SINCE 1992

COMPENSATIONS COMMITTEE

P

José Alfonso Rubio Elosúa

Independent Consultant

MEMBER SINCE 1989

P

Bernardo Elosúa Robles

Independent Consultant

MEMBER SINCE 1993

COMPENSATIONS COMMITTEE

P

Antonio Elosúa González

CEO Grupo UCALLI

MEMBER SINCE 1998

P

Juan Miguel Rubio Elosúa

CEO of Productos Alimenticios XICO

MEMBER SINCE 1996

P

Guillermo Barragán Elosúa

CEO of Hidrobart

MEMBER SINCE 1993

P

Javier Saavedra Valdes

Professional Artist

MEMBER SINCE 1998

P

José Manuel Valverde Valdes

Risk Management Director, Consumer Bank, Grupo Financiero BANORTE

MEMBER SINCE 1998

AUDIT COMMITTEE

P

Eugenio Garza Herrera

Chairman of the Board and CEO of Xignux

MEMBER SINCE 1997

COMPENSATIONS COMMITTEE

I

Armando Garza Sada

Senior Vice-President, Development, Grupo ALFA

MEMBER SINCE 1997

AUDIT COMMITTEE

I

Francisco Javier Fernández Carbajal

Independent Consultant

MEMBER SINCE 2002

AUDIT COMMITTEE

I

Eduardo Padilla Silva

Chief Executive Officer, FEMSA Comercio

MEMBER SINCE 2004

I

Luis Francisco González Parás

Partner of the law firm Despacho Santos Elizondo Cantú-Rivera-González-de la Garza Mendoza, S.C.

MEMBER SINCE 1995

SECRETARY

Carlos Zambrano Plant

Consultant

MEMBER SINCE 1991

EXAMINER

P (Representing stock interest)

I (Independent)

In accordance with the Code of Best Corporate Practices

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

Photo Left to Right:

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

financial statements

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examiner's report

As of December 31, 2005 and 2004
(In thousands of Mexican pesos as of December 31, 2005)

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

On March 16, 2005, The General Ordinary Stockholders' Assembly of Grupo Lamosa, S.A. de C.V. appointed me Company Examiner.

In fulfilling my obligations as Company Examiner and in compliance with the statutes of the aforementioned Company and Mexican Corporate Law, I would like to inform you, as set out below, about the Company's activities and operations, and Management's report for fiscal 2005. To do this, I have received monthly accounting information from the Company and attended and participated in the majority of the Board Meetings.

1. 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 on a monthly basis.
2. I have also attended and participated in all the meetings of the Auditing Committee of the Board of Directors which were held regularly during the year. At these meetings, the Committee is informed of the results of internal and external audits carried out on the Company and, as a result of the analysis of these, policies, programs and plans have been suggested to ensure that the Company's accounting practices and policies improve continuously and corrective actions suggested in previous periods have been analyzed and implemented.
3. The financial statements of the companies making up Grupo Lamosa, S.A. de C.V. as of December 31, 2005 have been audited by the external auditors Galaz, Yamazaki, Ruiz Urquiza, S.C., a firm that is part of Deloitte Touche Tohmatsu. 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 2005.

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 31, 2005, 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, 2006

independent auditors' report

As of December 31, 2005 and 2004
(In thousands of Mexican pesos of purchasing power of December 31, 2005)

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, 2005 and 2004, 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 of purchasing power of December 31, 2005. 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.

As mentioned in Note 3, effective January 1, 2005, the Company adopted provisions of Bulletin C-10 "Derivative Financial Instruments and Hedging Activities" ("C-10"), thereby recognizing the fair value of interest rate swaps, foreign currency forwards and natural gas price contracts, designated as hedging. The initial effect implied the recording of an asset for derivative financial instruments of \$126,492, debiting the following accounts: deferred income tax liability for \$36,683, and comprehensive income within stockholders' equity for \$89,809. At the 2005 closing, the swap's fair value increased by \$10,366, with an offsetting credit to comprehensive income of \$7,360, net of deferred income tax.

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, 2005 and 2004, 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 for the convenience of users.

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu



C.P.C. Fernando Cerda Martínez

February 20, 2006

consolidated balance sheets

As of December 31, 2005 and 2004
(In thousands of Mexican pesos of purchasing power of December 31, 2005)

| ASSETS | 2005 | 2004 |
|--|---------------------|---------------------|
| Current assets: | | |
| Cash and temporary investments | \$ 38,592 | \$ 97,790 |
| Trade accounts receivable (net of \$29,784 and \$15,169 of allowance for doubtful accounts in 2005 and 2004, respectively) | 722,349 | 651,502 |
| Other accounts receivable | 163,291 | 192,120 |
| Inventories, net | 403,017 | 424,945 |
| Current assets | 1,327,249 | 1,366,357 |
| Real estate inventories | 526,723 | 615,567 |
| Commercial centers (includes \$247,095 of construction in progress in 2004) | 886,733 | 612,557 |
| Property, plant and equipment, net | 2,494,658 | 2,354,639 |
| Excess of cost over book value of shares of subsidiaries | 67,092 | 61,875 |
| Other assets, net | 237,901 | 103,608 |
| TOTAL | \$ 5,540,356 | \$ 5,114,603 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 194,507 | \$ 270,916 |
| Trade accounts payable | 451,106 | 425,682 |
| Other payables and accrued expenses | 270,958 | 261,908 |
| Income tax and employee statutory profit sharing | 72,527 | 73,266 |
| Current liabilities | 989,098 | 1,031,772 |
| Long-term debt | 1,339,015 | 1,216,347 |
| Employee retirement obligations | 108,548 | 89,681 |
| Other long-term debt | 14,132 | 14,970 |
| Deferred income tax | 214,082 | 340,441 |
| Total liabilities | 2,664,875 | 2,693,211 |
| Stockholders' equity: | | |
| Capital stock | 309,774 | 309,750 |
| Additional paid-in capital | 66,596 | |
| Retained earnings | 3,411,890 | 2,946,615 |
| Insufficiency in restated stockholders' equity | (710,986) | (520,049) |
| Cumulative initial effect of deferred income tax | (348,022) | (348,022) |
| Derivative financial instruments | 97,169 | |
| Majority stockholders' equity | 2,826,421 | 2,388,294 |
| Minority interest in consolidated subsidiaries | 3,988 | 1,261 |
| Trustee rights of third parties | 45,072 | 31,837 |
| Total stockholders' equity | 2,875,481 | 2,421,392 |
| TOTAL | \$ 5,540,356 | \$ 5,114,603 |

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, 2005 and 2004

(In thousands of Mexican pesos of purchasing power of December 31, 2005, except per share amounts)

| | 2005 | 2004 |
|---|-------------------|-------------------|
| Net sales | \$ 3,777,897 | \$ 3,713,265 |
| Costs and expenses: | | |
| Cost of sales | 2,270,803 | 2,201,148 |
| Operating expenses | 849,386 | 812,696 |
| | <u>3,120,189</u> | <u>3,013,844</u> |
| Operating income | 657,708 | 699,421 |
| Net comprehensive financing cost: | | |
| Interest expense | 138,983 | 129,449 |
| Interest income | (3,499) | (7,542) |
| Monetary position gain | (50,443) | (65,964) |
| Exchange fluctuations, net | (36,872) | (25,548) |
| | <u>48,169</u> | <u>30,395</u> |
| Income after net comprehensive financing cost | 609,539 | 669,027 |
| Other expenses, net | 76,382 | 186,083 |
| Income before income tax and employee statutory profit-sharing | 533,157 | 482,944 |
| Income tax | 11,457 | 23,815 |
| Employee statutory profit-sharing | 11,039 | 20,031 |
| Consolidated net income | \$ 510,661 | \$ 439,098 |
| Net income per share (based on 120,503,014 and 120,000,000 of weighted average common shares outstanding during 2005 and 2004, respectively) | \$ 4.24 | \$ 3.66 |

See accompanying notes to consolidated financial statements.

consolidated statements of changes in stockholders' equity

For the years ended December 31, 2005 and 2004

(In thousands of Mexican pesos of purchasing power of December 31, 2005)

| | Capital stock | Additional paid-in capital | Retained earnings | Insufficiency in restated stockholders' equity | Cumulative initial effect of deferred income tax | Derivate financial instruments | Trusteerights of third parties and minority interest | Total stockholders' equity |
|--|---------------|----------------------------|-------------------|--|--|--------------------------------|--|----------------------------|
| Balances as of January 1, 2004 | \$ 309,750 | | \$2,541,302 | \$ (532,900) | \$ (348,022) | | \$ 146,583 | \$2,116,713 |
| Comprehensive income | | | 439,098 | 12,851 | | | 1,261 | 453,210 |
| Dividends paid | | | (33,785) | | | | | (33,785) |
| Trustors' contributions | | | | | | | 31,837 | 31,837 |
| Transmission of rights to trustees | | | | | | | (146,583) | (146,583) |
| Balances as of December 31, 2004 | 309,750 | | 2,946,615 | (520,049) | (348,022) | | 33,098 | 2,421,392 |
| Issuance of common stock | 24 | \$ 66,596 | (24) | | | | 55 | 66,651 |
| Comprehensive income | | | 510,661 | (190,937) | | | 2,672 | 322,396 |
| Dividends paid | | | (45,362) | | | | | (45,362) |
| Cumulative initial effect of valuation of derivative financial instruments | | | | | | \$ 89,809 | | 89,809 |
| Effect of valuation of derivatives | | | | | | 7,360 | | 7,360 |
| Trustors' contributions | | | | | | | 13,235 | 13,235 |
| Balances as of December 31, 2005 | \$ 309,774 | \$ 66,596 | \$3,411,890 | \$(710,986) | \$(348,022) | \$ 97,169 | \$ 49,060 | \$2,875,481 |

See accompanying notes to consolidated financial statements.

consolidated statements of changes in financial position

For the years ended December 31, 2005 and 2004
(In thousands of Mexican pesos of purchasing power of December 31, 2005)

| | 2005 | 2004 |
|--|------------------|------------------|
| Operating activities: | | |
| Consolidated net income | \$ 510,661 | \$ 439,098 |
| Items that did not require (generate) resources: | | |
| Depreciation and amortization | 214,797 | 224,058 |
| Employee retirement obligations - net | 11,643 | 6,076 |
| Bad debt expense | 14,615 | 13,309 |
| Deferred income tax and employee statutory profit sharing | (105,758) | (87,439) |
| Fixed asset impairment | 10,295 | 166,444 |
| Inventory impairment | 14,279 | 9,926 |
| Other | 12,091 | |
| | 682,623 | 771,471 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (85,462) | (89,897) |
| Other accounts receivable | 28,829 | (71,712) |
| Inventories | (264,562) | (147,896) |
| Trade accounts payable | 25,424 | 43,279 |
| Other | (26,438) | 36,091 |
| Net resources generated by operating activities | 360,414 | 541,336 |
| Financing activities: | | |
| Proceeds from notes payable to financial institutions and others | 2,684,826 | 2,004,109 |
| Repayment of notes payable to financial institutions | (2,584,219) | (2,091,574) |
| Effect of inflation on notes payable to financial institutions | (54,348) | (73,489) |
| Derivate financial instruments | 136,858 | |
| Trustee rights of third parties | 13,235 | (114,746) |
| Proceeds from issuance of common stock | 66,651 | |
| Dividends paid | (45,362) | (33,785) |
| Net resources generated by (used in) financing activities | 217,641 | (309,485) |
| Investing activities: | | |
| Acquisition of property, plant and equipment | (491,837) | (276,170) |
| Sale of property, plant and equipment | | 10,848 |
| Derivate financial instruments | (136,858) | |
| Investments in other assets | (8,558) | (11,018) |
| Net resources used in investing activities | (637,253) | (276,340) |
| Cash and temporary investments: | | |
| Decrease | (59,198) | (44,489) |
| Balance at beginning of year | 97,790 | 142,279 |
| Balance at end of year | \$ 38,592 | \$ 97,790 |

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

For the years ended December 31, 2005 and 2004

(In thousands of Mexican pesos of purchasing power as of December 31, 2005)

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 for sale and rent.

2. BASIS OF PRESENTATION

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

Desarrollos Inmobiliarios Lamosa S.A. de C.V. ⁽³⁾

Inmobiliaria Galerías Valle Oriente, S. A. de C. V. ⁽⁴⁾

Inmobiliaria Plaza Cumbres, S. A. de C. V. ⁽⁴⁾

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.

⁽³⁾ The Company was incorporated in 2005 from a split of another of the Company's subsidiaries.

⁽⁴⁾ The Companies were incorporated in December 2005.

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 2005 and 2004, the other comprehensive income (loss) items consist of the insufficiency in restated stockholders' equity and the fair value of derivate financial instruments designated as hedging.

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) **New accounting policies** – Effective January 1, 2005, the Company adopted the revised provisions to Bulletin D-3, "Labor Obligations" ("D-3") related to recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring, which is recorded using the projected unit credit method, based on calculations by independent actuaries. D-3 grants the option to immediately recognize, in current earnings, the resulting transition asset or liability, or to amortize it over the average remaining labor life of employees. Through December 31, 2004, severance payments were charged to results when the liability was determined to be payable. The accrued liability as of January 1, 2005 calculated by independent actuaries is \$9,951. The Company chose to record such amount as a transition liability to be amortized using the straight-line method over approximately 6.96 and 12.29 years, which represents the average labor life of employees expected to receive such benefits.

As of January 1, 2005, the Company adopted the provisions of Bulletin B-7, "Business Acquisitions" ("B-7"). Bulletin B-7 provides rules for the accounting treatment of business acquisitions and investments in associated entities. It establishes, among others, that a) the adoption of the purchase method as the sole valuation rule for these transactions; b) goodwill arising from an acquired entity should not be amortized, but should be subject to impairment tests, at least on an annual basis in conformity with Bulletin C-15, "Accounting for Impairment and Disposal of Long-lived Assets"; and c) any unamortized excess of recorded value over cost of subsidiaries and associated companies should be immediately considered in the year's results. It also provides rules for the accounting treatment of asset transfers or share exchanges between entities under common control and for the acquisition of minority interest, the effects of which are recorded in stockholders' equity. The effect of adopting this principle beginning January 1, 2005 was an additional \$5,217 income recorded in results of the year.

Effective January 1, 2005, the Company adopted provisions of Bulletin C-10 "Derivative Financial Instruments and Hedging Activities" ("C-10"), which requires that all derivative instruments be recognized at fair value, sets the rules to recognize hedging activities and requires separation, if practical, of embedded derivative instruments. With respect to cash flow hedging, C-10 establishes that the effective portion be recognized temporarily under comprehensive income within stockholders' equity, with subsequent reclassification to current earnings at the time it is affected by the hedged item. The ineffective portion should be immediately recognized in current earnings. Until December 31, 2004, according to prior accounting standards (Bulletin C-2, "Financial Instruments"), the Company did not recognize the effect of hedging derivatives under financial expenses until the flow exchanges mentioned in the swap contract were actually executed. At January 1, 2005, the effect of initial adoption of C-10 resulted in the recognition of an asset for derivative financial instruments of \$126,492, with a corresponding debit to the following accounts: deferred income tax liability for \$36,683, and comprehensive income within stockholders' equity for \$89,809. At December 31, 2005, the swap's fair value increased by \$10,366, with an offsetting credit to comprehensive income of \$7,360, net of deferred income tax.

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, 2005 and, therefore, differ from those originally reported in the prior year. However, 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 fair 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) **Commercial centers** – Commercial centers are valued at acquisition cost of the lands and the construction thereon, and are restated using factors derived from the NCPI.

Comprehensive financing cost incurred from loans related to commercial centers 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.

- g) **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 | |
|--------------------------|----------------------|-------------|
| | 2005 | 2004 |
| Buildings | 21 | 21 |
| Machinery and equipment | 9 | 8 |
| Transportation equipment | 3 | 4 |
| Computer equipment | 3 | 3 |
| Furniture and mixtures | 7 | 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.

Maintenance and repair expenses are recorded as expense in the period in which they are incurred.

- h) **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.

- i) **Derivative financial instruments** – The Company states all derivatives at fair value in the balance sheet, regardless of the purpose for holding them. When derivatives are designated as hedging, fair value is recognized depending on whether it is a fair value hedge or a cash flow hedge.

Changes in the fair value of derivative instruments designated as hedging are recognized as follows; (1) for fair value hedges, changes in both the derivative instrument and the hedged item are recognized in current earnings, (2) for cash flow hedges, changes are temporarily recognized as a component of comprehensive income and then reclassified to current earnings when affected by the hedged item. The ineffective portion of the change in fair value is immediately recognized in current earnings, within comprehensive financing cost, regardless of whether the derivative instrument is designated as a fair value hedge or a cash flow hedge.

The Company uses interest rate swaps, foreign currency forward contracts and natural gas contracts to manage its exposure to fluctuations of interest rates, foreign currency and the market price of natural gas. The Company formally documents all hedging relationships, including their objectives and risk management strategies to carry out derivative transactions. As a policy, the Company does not carry out derivative transactions of a speculative nature.

- j) **Other assets** – Other assets are restated using the NCPI and are amortized based on the respective expected life.
- k) **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 at least once a year, is subject to impairment tests. Through December 31, 2004, it was amortized using the straight-line method over 20 years. Amortization in 2004 was \$4,624.
- l) **Excess of book value over cost of subsidiaries** – Through December 31, 2004, it was restated using the NCPI and was amortized using the straight-line method during the period the acquired companies were integrated into the Company's operations not exceeding five years.

- m) Employee retirement obligations** – Seniority premiums and pension plans, and beginning in 2005, severance payments at the end of the work relationship 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. Through December 31, 2004, severance was charged to results when the liability was determined to be payable.
- n) 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.
- o) 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).
- p) Insufficiency in restated stockholders’ equity** – 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.
- q) 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.
- r) 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.
- s) Earnings per share** – Earnings per share are computed by dividing consolidated net income by the weighted average number of shares outstanding during each period.
- t) Reclassifications** – Certain reclassifications have been made to the 2004 consolidated financial statements to conform them to the 2005 presentation.

4. OTHER ACCOUNTS RECEIVABLE

| | 2005 | 2004 |
|-------------------|------------|------------|
| Recoverable taxes | \$ 115,549 | \$ 93,184 |
| Other | 47,742 | 98,936 |
| | \$ 163,291 | \$ 192,120 |

5. INVENTORIES - NET

| | 2005 | 2004 |
|--------------------------|-------------------|-------------------|
| Finished products | \$ 225,678 | \$ 241,683 |
| Work in process | 47,677 | 38,578 |
| Raw materials | 84,042 | 81,124 |
| Supplies and spare parts | 54,220 | 64,714 |
| Merchandise in transit | 1,784 | 3,848 |
| Advances to suppliers | 1,545 | 1,627 |
| Reserve for obsolescence | (11,929) | (6,629) |
| | <u>\$ 403,017</u> | <u>\$ 424,945</u> |

6. REAL ESTATE INVENTORIES

| | 2005 | 2004 |
|------------------------------|-------------------|-------------------|
| Land in development for sale | \$ 144,322 | \$ 122,886 |
| Undeveloped land | 175,151 | 46,409 |
| Urbanization in progress | 110,242 | 132,632 |
| Construction in progress | 97,008 | 313,640 |
| | <u>\$ 526,723</u> | <u>\$ 615,567</u> |

At December 31, 2004, land in urbanization includes capitalized comprehensive financing cost, of \$601.

7. PROPERTY, PLANT AND EQUIPMENT, NET

| | 2005 | 2004 |
|--------------------------|---------------------|---------------------|
| Land | \$ 620,894 | \$ 588,373 |
| Buildings | 872,897 | 718,456 |
| Machinery and equipment | 1,817,630 | 1,776,743 |
| Transportation equipment | 54,737 | 51,840 |
| Furniture and mixtures | 59,236 | 50,972 |
| Computer equipment | 45,259 | 40,559 |
| Construction in progress | 43,845 | 192,915 |
| | <u>3,514,498</u> | <u>3,419,857</u> |
| Accumulated depreciation | (1,019,840) | (1,065,219) |
| | <u>\$ 2,494,658</u> | <u>\$ 2,354,639</u> |

Unamortized capitalized net comprehensive financing cost was \$43,115 and \$39,187 at December 31, 2005 and 2004, respectively.

8. OTHER ASSETS

| | 2005 | 2004 |
|------------------------------------|-------------------|-------------------|
| Trademarks acquired | \$ 41,984 | \$ 57,656 |
| Preoperating expenses | 13,304 | 22,327 |
| Intangible pension asset (note 10) | 17,076 | 3,517 |
| Derivate financial instruments | 136,858 | |
| Other | 28,679 | 20,108 |
| | <u>\$ 237,901</u> | <u>\$ 103,608</u> |

9. LONG-TERM DEBT

a) Long-term debt is summarized as follows:

| | 2005 | 2004 |
|---|---------------------|---------------------|
| Unsecured medium-term notes, denominated in Mexican pesos, bearing interest at a floating rate based on 28 and 182 day treasury bonds (CETES), plus a spread of 3.5%, principal matures in 2007. | \$ 220,000 | |
| Unsecured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a spread between 0.625% and 1.5%, principal payable in various installments through 2011. | 781,666 | \$ 1,249,238 |
| Unsecured bank loan, denominated in U.S. dollars, bearing interest at a fixed rate between 4.35% and 4.51%, principal payable in various installments through 2012. | 187,127 | 69,879 |
| Unsecured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread 1.5%, principal matures in 2008. | 40,000 | |
| Unsecured bank loan, denominated in Mexican pesos, bearing interest at a fixed rate between 9.9% and 10.55%, principal matures in 2008. | 140,000 | |
| Unsecured bank loan, denominated in investment units (UDIS), bearing interest at a fixed rate of 9.25%, principal matures in 2006. | 145,501 | 146,097 |
| Unsecured notes payable, denominated in U.S. dollars, bearing interest at a fixed rate of 10%, principal payable in various installments through 2008. | 11,087 | 14,906 |
| Capital 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. | 8,141 | 7,143 |
| Total long-term debt | 1,533,522 | 1,487,263 |
| Current portion of long-term debt | (194,507) | (270,916) |
| Long-term debt | \$ 1,339,015 | \$ 1,216,347 |

As of December 31, 2005, the interest rates of TIIE and LIBOR were 8.72% and 4.49%, respectively.

b) The schedule of contractual principal payments of long-term debt as of December 31, 2005, is as follows:

| Year ending December, 31 | Amount |
|-----------------------------|---------------------|
| 2007 | \$ 372,377 |
| 2008 | 477,226 |
| 2009 | 249,047 |
| 2010 | 192,467 |
| 2011 and thereafter | 47,898 |
| | \$ 1,339,015 |

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, 2005.

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. 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 peso denominated debt to dollars, and viceversa.

The following table summarizes the derivative financial instruments in place as of December 31, 2005:

| Type of transaction | Commencement date | Termination date | Company pays fixed interest rate | Company receives variable interest rate | Notional amount (Thousands) | Contract currency |
|---------------------|-------------------|------------------|----------------------------------|---|-----------------------------|-------------------|
| Interest swaps | September 23,2004 | September 3,2009 | 3.29% | Libor reviewed each 3 months | US \$35,000 | Dollars |
| Interest swaps | September 23,2004 | September 3,2009 | 3.29% | Libor reviewed each 3 months | US \$30,000 | Dollars |

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

| | Income (expense) for the year ending December 31, | |
|-------------------|---|-----------|
| | 2005 | 2004 |
| Interest swaps | \$ 2,894 | \$ 13,486 |
| Forward contracts | (8,269) | 13,653 |
| Currency swaps | (36) | 2,487 |
| Net | \$ (5,411) | \$ 29,626 |

On January 23, 2006, Lamosa Revestimientos, S.A. de C.V. ("LARESA") and Sanitarios Lamosa, S.A. de C.V. ("SASA"), subsidiaries of the Company, renegotiated their unsecured bank loans, denominated in U.S. dollars from US\$35,000,000 and US\$30,000,000 to US\$40,000,000 and US\$25,000,000, respectively. The Company recorded such new maturities in its consolidated balance sheet as of December 31, 2005, in conformity with accounting principles generally accepted in Mexico. Additionally, the interest rates and maturities were negotiated from a floating interest rate based on LIBOR plus a spread between 1.35% and 2.4%, principal payable in various installments through 2009, to floating interest rate based on LIBOR plus a spread between 0.75 and 1.1%, principal payable in various installments through 2010.

Additionally, LARESA and SASA hold currency and interest rate swaps to manage their exposure to interest rate and exchange fluctuations arising from the loans mentioned in the paragraph above. Below is a summary of these derivative financial instruments:

| Type of transaction | Commencement date | Termination date | Company pays fixed interest rate | Company receives fixed interest rate | Company receives variable interest rate | Notional amount (Thousands) | Contract currency | Foreign exchange rate |
|-----------------------------|-------------------|------------------|----------------------------------|--------------------------------------|---|-----------------------------|-------------------|-----------------------|
| Interest and currency swaps | January 26, 2006 | January 26, 2010 | 8.27% | 4.65% | | \$ 40,000 | Dollars | 10.5140 |
| Interest swaps | January 26, 2006 | January 26, 2010 | 3.9% | | Libor reviewed each 3 months | \$ 40,000 | Dollars | |
| Interest swaps | January 26, 2006 | January 26, 2010 | 3.9% | | Libor reviewed each 3 months | \$ 25,000 | Dollars | |

In addition, LARESA held interest rate swaps as follows:

| Type of transaction | Commencement date | Termination date | Company pays fixed interest rate | Company receives fixed interest rate | Notional amount (Thousands) | Contract currency | Foreign exchange rate |
|---------------------|-------------------|------------------|----------------------------------|--------------------------------------|-----------------------------|-------------------|-----------------------|
| Interest swaps | January 20, 2006 | July 20,2012 | 7.98% | 4.35% | \$ 11,860 | Dollars | 10.5350 |
| Interest swaps | October 1, 2005 | October 1,2009 | 7.57% | 4.51% | \$ 4,848 | Dollars | 10.5410 |

10. EMPLOYEE RETIREMENT OBLIGATIONS

The disclosures relating to the Company's pension plans, seniority premiums and severance payments at the end of the work relationship, required by Bulletin D-3, issued by the IMCP, calculated as described in note 3 m), together with certain actuarial assumptions utilized, are presented below as of December 31, 2005 and 2004:

| | 2005 | 2004 |
|--|------------|-----------|
| Accumulated benefit obligations | \$ 95,384 | \$ 85,206 |
| Projected benefit obligations | \$ 110,843 | \$ 87,479 |
| Unrecognized transition obligations | (22,895) | (8,307) |
| Variations in assumptions and adjustments for experience | (1,005) | 6,991 |
| Net projected liability | 86,943 | 86,164 |
| Additional liability | 21,605 | 3,517 |
| | \$ 108,548 | \$ 89,681 |
| Net periodic cost | \$ 11,643 | \$ 4,321 |
| 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

- a) As of December 31, 2005, the minimum fixed capital stock consists of 120 million ordinary non-par value shares without voting rights, and variable capital consists of 1.2 million ordinary shares, without par value. All the shares are unrestricted as to ownership.
- b) At the general stockholders' meetings held on March 16, 2005 and March 29, 2004, dividends were declared for \$45,362 (\$44,400 at nominal value) and \$33,785 (\$31,620 at nominal value), respectively.
- c) Pursuant to a general ordinary stockholders' meeting held March 16, 2005, variable capital was increased by \$24, capitalizing retained earnings for the same amount and issuing 1,200,000 ordinary shares without par value, effective August 1, 2005.
- d) Pursuant to a general ordinary stockholders' meeting of one of the Company's subsidiaries held June 8, 2005, variable capital was increased by \$66,651 (\$65,000 at nominal value), which consisted of 130 shares without par value, paid in cash. The issuance resulted in an increase to additional paid-in capital of \$66,596.
- e) 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, 2005 and 2004, the legal reserve, in historical pesos, was \$480.
- f) 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 2005 and 2004, the ISR rate was 30% and 33%, respectively; it will decrease to 29% in 2006 and 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.
- g) Majority stockholders' equity as of December 31, 2005 is summarized as follows:

| | Nominal value | Restatement | Restated value |
|--|---------------|-------------|----------------|
| Capital stock | \$ 2,424 | \$ 307,350 | \$ 309,774 |
| Additional paid-in capital | 64,987 | 1,609 | 66,596 |
| Retained earnings | 1,847,396 | 1,564,494 | 3,411,890 |
| Insufficiency in restated stockholders' equity | 116,801 | (827,787) | (710,986) |
| Cumulative effect of deferred income tax | (241,340) | (106,682) | (348,022) |
| Derivate financial instruments | 97,169 | | 97,169 |
| | \$ 1,887,437 | \$ 938,984 | \$ 2,826,421 |

- h) The balances of the stockholders' equity tax accounts as of December 31, 2005 are:

| | 2005 | 2004 |
|-----------------------------------|--------------|--------------|
| Contributed capital account | \$ 245,422 | \$ 245,422 |
| Net tax income account | 1,381,646 | 1,114,968 |
| Net reinvested tax income account | 73,908 | 119,273 |
| Total | \$ 1,700,976 | \$ 1,479,663 |

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 trustees received the possession and rights that correspond to them according to the undivided percentage of the respective property, specified in the trusteeship agreement. The balance at December 31, 2005, corresponds to the contributions of a third party as trustee to the capital of another business trust created in 2004.

14. CONTINGENCIES

- a) 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 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.
- b) The Company's consumption of natural gas during 2005 was approximately 2,764,357 Millions of British Thermal Units ("MMBTUS"), of which, it had hedged a total of 2,299,600 MMBTUS. The Company maintains hedges on the price of natural gas for approximately 2,259,600 MMBTUS related to its 2006 consumption with Gas Natural Mexico, S.A. de C.V., at a fixed price of \$4.50 U.S. dollar per MMBTUS. This agreement was designated by management as hedging the natural gas market price variations and resulted in a derivative asset of \$119,083 as of December 31, 2005. Accordingly, stockholders' equity was affected by \$84,549, net of deferred income tax, as the hedge was considered to be highly effective for accounting purposes (no ineffectiveness). As of February 20, 2006, the issuance date of these consolidated financial statements, the market price of natural gas is \$6.97 U.S. dollars per MMBTUS.

15. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

- a) The monetary position in foreign currency, expressed in thousands of U.S. dollars as of December 31, 2005, is as follows:

| | Foreign currency balances | Mexican peso equivalent |
|------------------------|---------------------------------|----------------------------|
| Monetary assets | 15,746 | \$ 169,738 |
| Monetary liabilities | (115,538) | (1,226,832) |
| Net liability position | (99,792) | \$ (1,059,494) |

- b) Non-monetary assets of foreign origin, valued in thousands of U.S. dollars as of December 31, 2005 are as follows:

| | Foreign currency balances | Mexican peso equivalent |
|-------------------------|---------------------------------|----------------------------|
| Inventories | 5,067 | \$ 53,791 |
| Machinery and equipment | 81,738 | 868,051 |

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

| | 2005 | 2004 |
|-----------------------|--------|--------|
| Export sales | 54,557 | 51,169 |
| Interest expense, net | 4,110 | 2,298 |
| Import purchases | 29,948 | 14,754 |

- d) The exchange rate used to translate U.S. dollars to Mexican pesos as of December 31, 2005 was \$10.62 (nominal pesos) per one U.S. dollar, compared with \$11.16 (nominal pesos) per one U.S. dollar as of December 31, 2004. At February 20, 2006, the issuance date of these financial statements, the exchange rate was \$10.45 (nominal pesos) per one U.S. dollar.

16. OTHER EXPENSES, NET

| | 2005 | 2004 |
|--|-----------|------------|
| Severance payments due to reorganization | \$ 3,707 | \$ 6,758 |
| Minority interest in trusts | 36,963 | 19,052 |
| Preoperating expenses | 28,888 | 4,908 |
| Fixed asset impairment ⁽¹⁾ | 10,295 | 166,444 |
| Inventory impairment | 14,279 | 9,926 |
| Other income, net | (17,749) | (21,005) |
| | \$ 76,382 | \$ 186,083 |

- ⁽¹⁾ In April and October 2003, the Company's gears and floors departments within their Monterrey plant temporarily stopped their operations. In October 2004, the Company decided not to continue with the operations of these departments, including brick production and therefore the temporary closure became definitive. As a result, the machinery and equipment within these departments was valued at its net realizable value, by means of a technical study performed by the Company whereby an impairment charge to results of \$166,444 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). ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component, which is similar to the gain or loss from monetary position. On December 1, 2004 certain amendments to the ISR and IMPAC laws were enacted and were effective in 2005. The most significant amendments were as follows: a) the ISR rate was reduced to 30% in 2005 and will be further reduced to 29% in 2006 and 28% in 2007 and thereafter (the rate in 2004 was 33%); b) for income tax purposes, cost of sales is deducted instead of inventory purchases and related conversion costs; c) taxpayers had the ability to elect, in 2005, to ratably increase taxable income over a period from 4 to 12 years by the tax basis of inventories as of December 31, 2004 determined in conformity with the respective tax rules; when electing to amortize the tax basis of inventories into taxable income, any remaining tax balance of inventories that had not been deducted and any unamortized tax loss carryforwards were deducted from the tax basis of the December 31, 2004 inventory balance; as a consequence, cost of sales of such inventories were deducted; d) as of 2006, employee statutory profit sharing paid will be fully deductible; and e) bank liabilities and liabilities with foreign entities are included to determine the IMPAC taxable base.
- b) 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.
- c) The current ISR and IMPAC are determined on a tax-consolidated basis.
- d) The provision for ISR and PTU are analyzed as follows:

| | 2005 | 2004 |
|----------|------------|------------|
| ISR: | | |
| Current | \$ 115,248 | \$ 111,254 |
| Deferred | (103,791) | (87,439) |
| Total | \$ 11,457 | \$ 23,815 |
| PTU: | | |
| Current | \$ 13,006 | \$ 18,422 |
| Deferred | (1,967) | 1,609 |
| Total | \$ 11,039 | \$ 20,031 |

- e) To determine deferred ISR at December 31, 2005, the Company applied the different tax rates that will be in effect beginning in 2006 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 \$65,167 at December 31, 2004 into taxable income over 4 and 12 year periods 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:

| | 2005 | 2004 |
|--|--------|--------|
| | % | % |
| Effective income tax rate | 2.15 | 4.93 |
| Effect of temporary items being converted into permanent differences | 29.53 | |
| Effect for change in taxable dispositions starting in 2005 | | 14.52 |
| Effect of reduction in statutory rate on deferred ISR | 1.40 | 13.56 |
| Effect of fixed asset impairment | | 1.51 |
| Other | (3.08) | (1.52) |
| Statutory income tax rate | 30.00 | 33.00 |

f) At December 31, 2005 the main items comprising the balance of deferred income tax are as follows:

| | 2005 | 2004 |
|---|-------------------|-------------------|
| Deferred income tax liabilities: | | |
| Property, plant and equipment | \$ 143,855 | \$ 176,730 |
| Inventories | 45,744 | 55,054 |
| Real estate inventories | 98,327 | 254,800 |
| Derivate financial instruments | 39,689 | |
| Trademarks acquired | 12,175 | 18,363 |
| | 339,790 | 504,948 |
| Deferred income tax assets: | | |
| Allowance for doubtful accounts | 8,637 | 4,551 |
| Tax loss carryforwards | 37,957 | 47,496 |
| Employee retirement obligations | 31,479 | 27,584 |
| Employee statutory profit-sharing | | 3,228 |
| Other | 2,300 | 20,760 |
| | 80,373 | 103,618 |
| Tax on assets | 45,335 | 60,888 |
| Net liability | \$ 214,082 | \$ 340,441 |

g) 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, 2005 and expiration dates are as follows:

| Year of expiration | Tax on assets | Tax loss carryforwards |
|---------------------------|----------------------|-------------------------------|
| 2009 | \$ 1,563 | \$ 2,501 |
| 2010 | 3,482 | 228 |
| 2011 | 10,431 | 13,386 |
| 2012 | 8,820 | 64,041 |
| 2013 | 13,187 | 46,269 |
| 2014 | 7,852 | 4,460 |
| | \$ 45,335 | \$ 130,885 |

h) 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 \$50,021 in 2005 and \$11,068 in 2004.

18. TRANSACTIONS WITH RELATED PARTIES

a) On December 30, 1998, a subsidiary within the Company's real estate segment, entered into a contract as trustor "A" and trustee (No. 851-00103) with a trust institution (Banco Regional de Monterrey, S.A.), and into an irrevocable business activity trust ("Business Trust" or "Fidudisa") as trustor "B" and trustee with another entity (U-Calli Desarrollos Inmobiliarios, S.A. de C.V.), a related party acting. 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 plots of land, cash, accounts receivable, equipment and liabilities, for which it carried out negotiations related to the rights and obligations for loan transfers.

- The property contributions by the trustors were carried out with limited ownership rights, conserving the rights on the property.
- The trustee will primarily manage the trust's funds.
- The net income from the trust operations will be completely distributed among the trustees in accordance with the trust contract.

On December 13, 2005, the partial enforcement for the return of trust property was executed to Grupo Inmobiliario Viber, S. A. de C. V. ("Viber" or "trustor"). Such return consists of transferring the property and ownership over Viber's entire trust property, and having Fidudisa acquire the real state properties free of encumbrance without any reservation of title, with all its uses, customs, easements, and whatever else they may have a right to as a matter of fact and law.

b) On August 29, 2001, the Business Trust mentioned above entered into another trust agreement as trustor with a credit institution (Depositary), as the trustee. 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.

On December 13, 2005, the partial enforcement of the return of trust property was executed on behalf of Fideicomiso Empresarial.

c) In October 29, 2004, the Business Trust mentioned above entered into another trust agreement as trustor with a credit institution (Depositary), as the trustee. 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.

On December 14, 2005, the partial enforcement of the trust property reversal was executed on behalf of Fideicomiso Empresarial.

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

| | 2005 | 2004 |
|---|-------------------|-------------------|
| Grupo Inmobiliario Viber, S.A. de C.V. | \$ 95,959 | \$ 163,887 |
| U-Calli Desarrollos Inmobiliarios, S.A. de C.V. | 36,795 | 19,425 |
| | \$ 132,754 | \$ 183,312 |

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:

| December 31, 2005: | Ceramic | Non ceramic | Real estate | Corporate and other | Total |
|-------------------------------|----------------|--------------------|--------------------|----------------------------|--------------|
| Total net sales | \$ 2,223,157 | \$ 1,347,474 | \$ 361,339 | \$ 148,789 | \$ 4,080,759 |
| Intersegment sales | (57,671) | (82,925) | (14,785) | (147,481) | (302,862) |
| Net sales to third parties | 2,165,486 | 1,264,549 | 346,554 | 1,308 | 3,777,897 |
| Operating income (loss) | 286,077 | 299,237 | 100,580 | (28,186) | 657,708 |
| Total assets | 2,837,787 | 555,885 | 1,575,175 | 571,509 | 5,540,356 |
| Total liabilities | 1,377,753 | 278,121 | 69,893 | 939,108 | 2,664,875 |
| Capital expenditures | 391,246 | 48,573 | 6,905 | 45,113 | 491,837 |
| Depreciation and amortization | 141,306 | 20,515 | 27,066 | 25,910 | 214,797 |
| Fixed asset impairment | 10,295 | | | | 10,295 |
| | | | | | |
| December 31, 2004: | Ceramic | Non ceramic | Real estate | Corporate and other | Total |
| Total net sales | \$ 2,187,952 | \$ 1,274,578 | \$ 344,606 | \$ 130,170 | \$ 3,937,305 |
| Intersegment sales | (45,561) | (48,705) | | (129,774) | (224,040) |
| Net sales to third parties | 2,142,390 | 1,225,873 | 344,606 | 396 | 3,713,265 |
| Operating income (loss) | 264,718 | 294,410 | 178,674 | (38,381) | 699,421 |
| Total assets | 2,647,138 | 515,796 | 1,382,939 | 568,729 | 5,114,603 |
| Total liabilities | 1,288,242 | 237,765 | 204,291 | 962,913 | 2,693,211 |
| Capital expenditures | 239,623 | 22,460 | 1,338 | 12,749 | 276,170 |
| Depreciation and amortization | 143,277 | 20,566 | 24,518 | 35,696 | 224,058 |
| Fixed asset impairment | 166,444 | | | | 166,444 |

Export sales represent 16.2% and 16.6% of total sales in 2005 and 2004, respectively, and they are made mainly to the United States of America.

20. NEW ACCOUNTING PRINCIPLES

As of May 31, 2004, the Mexican Institute of Public Accountants (“IMCP”) formally transferred the function of establishing and issuing financial reporting standards to the Mexican Board for Research and Development of Financial Reporting Standards (“CINIF”), consistent with the international trend of requiring this function be performed by an independent entity.

Accordingly, the task of establishing bulletins of MEX GAAP and circulars issued by the IMCP was transferred to CINIF, who subsequently renamed standards of MEX GAAP as “Normas de Información Financiera” (Financial Reporting Standards, or “NIFs”), and determined that NIFs encompass (i) new bulletins established under the new function; (ii) any interpretations issued thereon; (iii) any MEX GAAP bulletins that have not been amended, replaced or revoked by the new NIFs; and (iv) International Financial Reporting Standards (“IFRS”) that are supplementary guidance to be used when MEX GAAP does not provide primary guidance.

One of the main objectives of CINIF is to achieve greater concurrence with IFRS. To this end, it started by reviewing the theoretical concepts contained in MEX GAAP and establishing a Conceptual Framework (“CF”) to support the development of financial reporting standards and to serve as a reference in solving issues arising in the accounting practice. The CF is formed by eight financial reporting standards, which comprise the NIF-A series. The NIF-A series, together with NIF B-1, were issued on October 31, 2005. Their provisions are effective for years beginning January 1, 2006, superseding all existing MEX GAAP series “A” bulletins.

The new NIFs are as follows:

- NIF A-1 Structure of Financial Reporting Standards
- NIF A-2 Fundamental Principles
- NIF A-3 Users’ Needs and Financial Statement Objectives
- NIF A-4 Qualitative Characteristics of Financial Statements
- NIF A-5 Basic Elements of Financial Statements
- NIF A-6 Recognition and Valuation
- NIF A-7 Presentation and Disclosure
- NIF A-8 Supplementary Standards to MEX GAAP
- NIF B-1 Accounting Changes

The most significant changes established by these standards are as follows:

- In addition to the statement of changes in financial position, NIF A-3 includes the statement of cash flows, which should be issued when required by a particular standard.
- NIF A-5 includes a new classification for revenues and expenses: ordinary and extraordinary. Ordinary revenues and expenses are derived from transactions or events that are within the normal course of business or that are inherent in the entity’s activities, whether frequent or not; extraordinary revenues and expenses refer to unusual transactions and events, whether frequent or not.
- NIF A-7 requires the presentation of comparative financial statements for at least the preceding period. Through December 31, 2004, the presentation of prior years’ financial statements was optional. The financial statements must disclose the authorized date for their issuance, and the name(s) of the officer(s) or administrative body(ies) authorizing the related issuance.
- NIF B-1 establishes that changes in particular standards, reclassifications and correction of errors must be recognized retroactively. Consequently, basic financial statements presented on a comparative basis with the current year that might be affected by the change, must be adjusted as of the beginning of the earliest period presented.

At the date of issuance of these financial statements, the Company has not fully assessed the effects of adopting these new standards on its financial information.

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