

multipliering experiences,
expanding opportunities



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Company's vision	6
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2007 was a landmark year for Grupo Lamosa. The Company posted favorable operating results and formalized two important transactions that positioned it to capitalize on unique business opportunities and move significantly forward towards its vision.



integrating operations

The achievements of the year have consolidated a solid platform for future growth outside Mexico and positioned Grupo Lamosa to become a truly multinational company.

companies

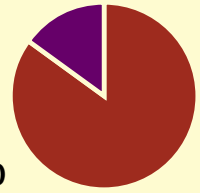
- + Revestimientos Lamosa, S.A. de C.V.
Plants: Benito Juárez, Tlaxcala, San Luis Potosí
- + Porcelanite Holding, S.A. de C.V.
Plants: Tlaxcala (4), Sonora, Querétaro, Guanajuato
- + General de Minerales, S.A. de C.V.
- + Lamosa USA Corp.

- + Crest, S.A. de C.V.
Plants: Santa Catarina, Guadalajara, Morelia, Chihuahua, Tizayuca
- + Adhesivos de Jalisco, S.A. de C.V.
Plants: Guadalajara, León, Mérida, State of Mexico
- + Industrias Niasa, S.A. de C.V.
Plants: Mexico City, State of Mexico, Guadalajara, Chihuahua, Navojoa, Tijuana
- + Soluciones Técnicas para la Construcción, S.A. de C.V.
Plant: Tizayuca



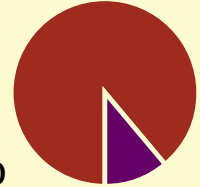
sales breakdown

15%
■ export



85%
■ domestic

11%
■ stuccos and other

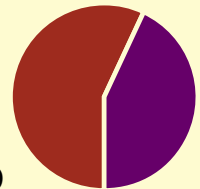


89%
■ adhesives



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

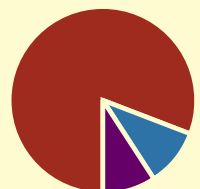
43%
■ export



57%
■ domestic

- + Grupo Inmobiliario Viber, S.A. de C.V.
- + Ladrillera Monterrey, S.A. de C.V.
- + Servicios Inmobiliarios Viber, S.A. de C.V.
- + Lamosa Desarrollos Inmobiliarios, S.A. de C.V.

10%
■ commercial



9%
■ residential

81%
■ rents

competitive advantages

wall and floor tiles

- + Strategically located to serve the NAFTA region
- + State-of-the-art technological platform
- + Extensive nationwide leadership and geographic coverage, with operations in the United States and Latin America
- + Continuous design of high-quality products in line with market trends

adhesives

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

products

- + Floor tiles
- + Wall tiles
- + Skirting tiles
- + Porcelain enamel tiles
- + Special pieces

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



sanitaryware

- + 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

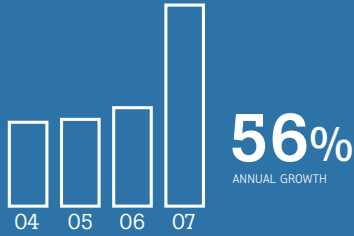
- + Toilets
- + Wall, pedestal, drop-in and hanging washbasins
- + Luxury bidets
- + Flushometer bowls
- + Urinals
- + Drinking fountains

real estate

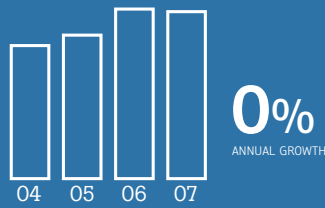
- + More than 20 years of experience in the Monterrey metropolitan area
- + Real estate developments that offer privacy, safety and attractive communal areas
- + Strategic locations
- + Project diversity, always seeking to maximize land value

- + Developments in the Monterrey metropolitan area
- + Housing developments
- + Commercial developments
- + Office park

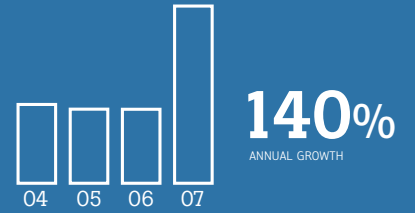
net sales
MILLIONS OF MEXICAN PESOS



export sales
MILLIONS OF U.S. DOLLARS

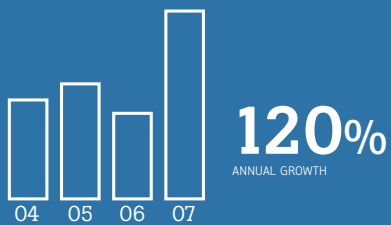


operating income
MILLIONS OF MEXICAN PESOS

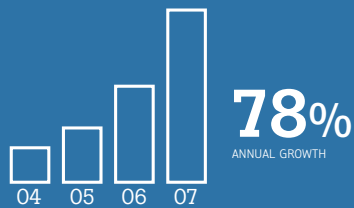


+ financial [highlights]

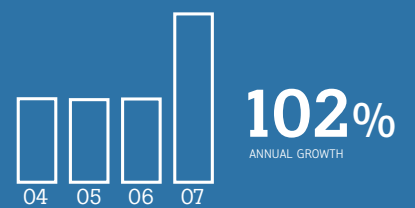
consolidated net income
MILLIONS OF MEXICAN PESOS



comprehensive financing cost
MILLIONS OF MEXICAN PESOS



net operating cash flow
MILLIONS OF MEXICAN PESOS



(Figures expressed in millions of constant Mexican pesos as of December 31, 2007)

	2007	2006	Var %
Results			
Net Sales ⁽¹⁾	6,817	4,358	56
Export sales (millions of U.S. \$)	64	65	(0)
Export sales / net sales	10%	16%	
Operating income ⁽²⁾	1,698	709	140
Operating income / net sales	25%	16%	
Comprehensive financing cost	165	92	78
Consolidated net income	900	410	120
Financial Position			
Total assets	15,950	6,111	161
Total liabilities	11,689	2,674	337
Stockholders' equity	4,260	3,438	24
Book value per share ⁽³⁾	11.49	9.27	24
Cash Flow			
Net operating cash flow ⁽⁴⁾	2,016	998	102
Capital expenditures ⁽⁵⁾	9,165	323	2,741
Number of Employees			
Total personnel	5,634	3,068	84

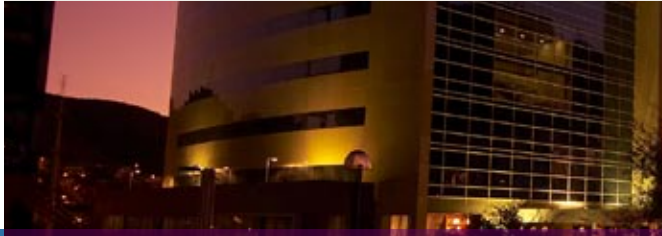
⁽¹⁾ In 2007, the Company's Real Estate Division posted revenues of Ps 1,826.9 million corresponding to the sale of the *Galerías Valle Oriente* and *Plaza Cumbres* shopping centers.

⁽²⁾ In 2007, the Company's Real Estate Division posted an operating income of Ps 828.4 million corresponding to the sale of the *Galerías Valle Oriente* and *Plaza Cumbres* shopping centers.

⁽³⁾ On a total of 370.9 million shares.

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

⁽⁵⁾ Includes the acquisition of Porcelanite Holding, S.A. de C.V. in 2007.



\$1,827

million Mexican pesos from the sale of shopping centers



\$ 810

million U.S. dollars for the acquisition of Porcelanite



2007 was a landmark year for Grupo Lamosa. The Company posted favorable operating results and formalized two important transactions that positioned it to capitalize on unique business opportunities and move significantly forward towards its vision.

The first transaction involved the Real Estate Business which, in accordance with its strategy to maximize the value of its land reserves, decided to spin off the operations of the "Galerías Valle Oriente" and "Plaza Cumbres" shopping malls. These centers have shown very acceptable levels of occupancy and traffic, positioning them as two of the most important shopping and entertainment destinations in the metropolitan area of Monterrey.

The sale of these two centers was successfully completed during the second quarter of the year for a total amount of 1,827 million pesos, positively impacting the Company's consolidated results by providing an operating income of 828 million pesos.

The second important event of the year was the approval of the acquisition of Porcelanite Holding, S.A. de C.V., a subsidiary of Grupo Carso and the main producer of ceramic tiles in Mexico and Latin America. The acquisition, free of net debt, was finalized during the fourth quarter of the year for an amount of US\$809.7 million, making Lamosa the world's largest ceramic tile producer.

to our [stockholders]

The purchase of Porcelanite Holding, S.A. de C.V. doubles the size of Grupo Lamosa's business, implying an intensive process of consolidation in which both entities will learn from each other's best practices.

The purchase of Porcelanite Holding, S.A. de C.V. doubles the size of Grupo Lamosa's business, implying an intensive process of consolidation in which both entities will learn from each other's best practices to ensure that the Company takes full advantage of the resulting synergies.

It is important to note that even before the process of acquiring Porcelanite Holding, S.A. de C.V., Grupo Lamosa had different teams working in an organized and focused manner to identify synergies and plan how to capitalize on them. These teams are currently operating systematically to ensure the achievement of the consolidation plans.

The decisions taken in these two cases have moved Grupo Lamosa significantly forward towards reaching its vision in advance of projections. As the Company has progressed, it has never lost sight of its central objective of being a key player in the ceramic tile industry and commanding a leadership position in the markets it serves.

The achievements of 2007 have consolidated a solid platform for the Company's future growth outside Mexico and positioned Grupo Lamosa to become a truly multinational company.

Without doubt, Grupo Lamosa's achievements, particularly during 2007, reflect the ongoing trust of its stockholders, the continuous efforts of its personnel and the constant support of creditors, suppliers, distributors, customers and friends. I would like to express my deepest thanks to each and every one.

Sincerely,



Federico Toussaint Elosúa

CHAIRMAN OF THE BOARD OF DIRECTORS

MONTERREY, N.L. MARCH 11TH, 2008



capitalization
on synergies



\$ 64 million
U.S. dollars in export sales



the world's largest
tile manufacturer

in line with the Company's [vision]

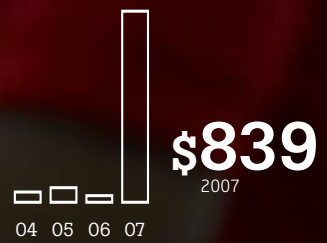
Grupo Lamosa's words and actions have always been congruent: the Company has spelled out the objective of gaining a leadership position in all the markets it serves and taken every step to achieve it.

4.8 liters
to flush the high efficiency
Huracán toilet

Sanitarios Benito Juárez Plant,
Nuevo León



capital expenditures
MILLIONS OF U.S. DOLLARS





29

production centers
in Mexico



continuous

launch of new products



14%

exports to total sales excluding sale
of shopping centers

multiplying [experience]

The consolidation resulting from the acquisition of Porcelanite represents a unique opportunity to combine the best practices of each business and to maximize synergies so that the two entities when added together produce a result that is bigger and better than the sum of the parts.

extensive
distribution network

Porcel Tile Plant,
Tlaxcala



total sales / personnel
THOUSANDS OF U.S. DOLLARS
(EXCLUDING SALE OF SHOPPING CENTERS
AND ACQUISITION OF PORCELANITE)



\$151
2007



\$ 9,165

million Mexican pesos of
capital expenditures



+ than 120 million m²
of ceramic tile production capacity



5,634

total personnel

[size] is important

The size that Grupo Lamosa's businesses have reached in their respective markets as a result of the successful implementation of a focused expansion strategy, has positioned the Company to implement growth initiatives that would previously have been very difficult.

positioning
of our brands in the market

Cumbres Providencia Residential
Development in Monterrey,
Nuevo León



presence in more **+20**
than 20 countries
with the incorporation
of Porcelanite



+ than \$ 620
million U.S. dollars
in annual sales

\$ 828 million
Mexican pesos in operating income
from the sale of shopping centers

leadership
in all business units

facing challenges to create

The challenge to create value is very great and carries with it enormous responsibility. However, Lamosa has shown that it is prepared and that it has the capacity to overcome important obstacles and capitalize on opportunities, translating them into value for its customers, employees and stockholders.

2nd consecutive year
with zero accidents

Texmelucan Tile Plant,
Tlaxcala

[value]



percent of export
sales volume
(FOR THE WHOLESALE PLUMBING CHANNEL IN
THE UNITED STATES AND CANADA) %



42.3%
2007



15%
export sales / total
(value)



presence in +20
countries in the Americas



10 plants
in Mexico

wall and floor tiles

The year's most important event for the Wall and Floor Tile Business was the incorporation on December 1, 2007 of the operations of Porcelanite Holding, S.A. de C.V., making this business segment one of the world's most important tile producers. During 2007, sales volume grew 6% compared to the previous year, driven by domestic sales whose volume, excluding Porcelanite's December operations, grew 10%. The results of the Wall and Floor Tile Business were affected by the rise in price of natural gas, one of its main inputs, and by explosions in the PEMEX gas lines which cut off energy supply to the Tlaxcala and San Luis Potosí plants for more than 10 days.

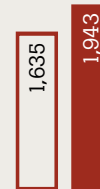
The acquisition of Porcelanite Holding, S.A. de C.V. gives this business the capacity to offer its customers a very extensive range of high quality products and a wider variety of designs for the different market segments. The Company now has ten tile production plants throughout Mexico which provide geographical, logistic and capacity advantages over domestic and foreign competitors. These facilities make Grupo Lamosa an important business option with greater coverage and better service for customers in Mexico and abroad.

The consolidation of the operations of Lamosa and Porcelanite significantly strengthens the business's growth strategy outside Mexico, increasing the presence of its products in the United States, Central and South America, and the Caribbean. During the year, the Wall and Floor Tile Business continued its strategy of offering the market leading-edge, innovative, high value added products, such as the Maya Collection. The range, conceived by a team of geologists, designers and technical personnel, is based on different types of Mexican natural stone from the Yucatan peninsula, distinguishing it from other products that are designed through the generally accepted practice of following European trends. Its launch at the *Expo CIHAC* exhibition in Mexico City exceeded expectations, with the range being very well accepted and recognized by the market.

This business also took part in important exhibitions outside Mexico, such as *Expo Coverings* in Chicago, where it presented new porcelain enamel products from the *Firenze Tecnoarte* line, such as *Farges*, *Yurastone* and *Woodland*, largely for the non-Hispanic market. The business continues to move forward with its initiatives for optimizing operations and growing. It is building a new floor tile plant in the municipality of Benito Juárez, Nuevo León, which will operate with state-of-the-art technology and come on line during the first quarter of 2008.

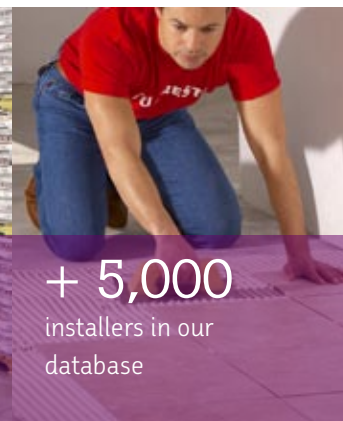
The achievements that this business segment made in 2007 present important challenges to be overcome in the coming years, but position it to capitalize on market opportunities and offer customers increased value added products and services.

total sales
MILLIONS OF MEXICAN PESOS



06 07

19%



50% growth in
ImperCrest waterproofing
line

50 years
in the Mexican market

+ 5,000
installers in our
database

adhesives

The Adhesives Business's 2007 results were very satisfactory, despite the environment of competition and a market growth below expectations. Excluding Porcelanite's December operations, sales volume grew 9%, driven by the implementation of new commercial strategies, increased market coverage resulting from the new facilities in Mérida and Tijuana, and the high performance of the business's products and therefore installer preference.

During the year, the Adhesives Business made significant progress with its strategy to grow in the domestic market with new products and expand its operations geographically, capitalizing on the knowledge and experience of 50 years of successful participation in the Mexican market.

An example of this strategy is the line of waterproofing materials launched in October 2006 which, in 2007, posted a growth in excess of 50% year-over-year, and the progress made with adhesive sales in the U.S. market, giving the business the opportunity to get to know one of the markets with greatest growth potential for its products.

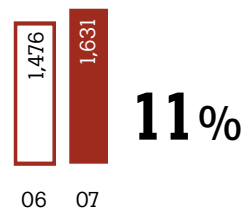
The acquisition of Porcelanite Holding, S.A. de C.V. also had a favorable impact on the Adhesives Business, with the incorporation of Soluteq, Porcelanite's ceramic adhesives segment. This transaction has positioned the business to capitalize on areas of opportunity, largely in the area of operations, and reaffirm its undisputable leadership position in Mexico by offering a wider selection of products for the different market segments.

In September, the business took part in the *Expo Ferretera* in Guadalajara, taking advantage of the opportunity to launch new products, such as *Sanicrest*, an anti-fungal adhesive designed especially for toilet installation. In the Company's efforts to continue innovating in order to offer products designed to satisfy customers specific needs, new specialized products were launched during 2007, such as *Crest Adhesivo*

Veneciano, an adhesive especially colored for the installation of Venetian-type tile for swimming pools and fountains, and *Crest Pega Teja*, a rust-colored adhesive for installing roof tiles.

Today, the Adhesive Business's long track record of dedication and hard work has positioned it favorably in the market. As it moves forward, it will face important challenges but already has a clear strategy to overcome them and expand its operations both in the domestic market-place and abroad.

total sales
MILLIONS OF MEXICAN PESOS





17%
toilets sold
with Dual Flush



increased participation
in water conservation programs
in Texas and California



49%
export sales / total
(volume)

sanitaryware

During 2007, the Sanitaryware Business performed well in the domestic market, posting a 6% growth in sales volume, a figure that is above the industry average and therefore resulted in an increase in market share and leadership. Despite favorable results in the domestic market, total sales were affected by a 15% reduction in export sales volume, reflecting the business's decision to improve the product mix in more profitable channels.

Throughout the year, the business continued to focus on developing and launching new, high value added products to satisfy customers' preferences and needs, and on reducing the time to market.

The *Huracán* high efficiency, innovative toilet is an example of such a product. It operates with only 4.8 liters of water, below the required official standard of 6.0 liters, and has been well accepted by water conservation programs in such U.S. states as California and Texas. This line was successfully presented at the *Kitchen and Bath Show* in the United States during the second quarter of 2007.

During the year, the business significantly increased its presence in the wholesale plumbing channel, with the gain helping to offset some of the effects of the slowdown in the U.S. housing market where construction permissions were at a historical low and perspectives continue to be complicated.

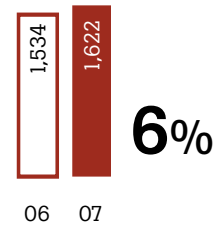
The positive result in this channel was largely a consequence of the excellent hydraulic performance of the business's products and its high level of service, key factors that are recognized by wholesale plumbers.

In the domestic market, the Sanitaryware Business continued consolidating its leadership, offering a wide range of products and an extensive distribution network through the leading distributors in its different areas of influence. All of this translates into increased geographic coverage and superior customer service.

The business was also present at fairs and exhibitions in Mexico, such as *Expo CIHAC* in Mexico City and *Expo Ferretera* in Guadalajara, presenting its different product lines.

The slowdown of the U.S. economy is one of the main challenges for the Sanitaryware Business. To face this challenge, actions are being taken that will impact results favorably. In Mexico, the business will continue to focus on increasing its presence with high-end distributors through the development and launch of high value added products.

domestic sales volume
THOUSANDS OF ITEMS





68%
growth in sales excluding shopping centers



+ 500
hectares of land reserves



1,827 million
Mexican pesos from the sale of shopping centers

real estate

2007 was a very significant year for the Real Estate Business. Not only did it present favorable operating results, but also successfully sold the *Galerías Valle Oriente* and *Plaza Cumbres* shopping centers during the second quarter of the year in accordance with its business strategy.

During the year, the business made considerable progress with its different real estate projects. *Cumbres Providencia* was consolidated as one of the main residential developments in the western part of the Monterrey metropolitan area. The Company expects to conclude operations there during 2008.

The business continued to consolidate the *Contry Sur* residential development, posting results that exceeded 2007 projections. This project launched a new, innovative, multimedia house with all the infrastructure specifically designed to connect the different multimedia modules common to houses today.

In the Valle Oriente area, the Company sold commercial plots of land during the fourth quarter of the year, favorably affecting Grupo Lamosa's consolidated results. The Company still has land reserves in the area, particularly in the office park and the fourth sector of *Privanzas*, which has plots for multifamily structures.

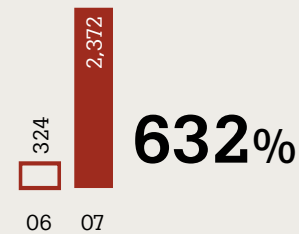
The Real Estate Business has a clear long-term strategy, focused on the generation of consistently positive results. It operates in the Monterrey metropolitan area, as well as in other high-growth regions of Mexico, such as Puerto Peñasco, in the state of Sonora. At the latter location, the Company is evaluating real estate projects that could contribute to its growth and continuous generation of value.

Also during 2007, the Real Estate Business signed an agreement to develop housing projects in the Monterrey metropolitan area with Grupo Lar, an important real estate consortium of Spanish origin that operates in Mexico. The first project carried out during the year was *Horizontes*

Obispado, a mixed development of 26 apartments and approximately 5,898 square meters of office space. Under the agreement scheme, both companies supply capital to the project and divide the risk.

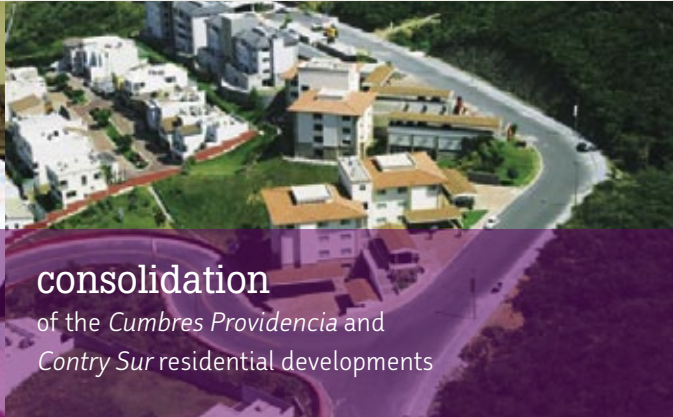
The reputation and experience the Real Estate Business has earned through its different residential and commercial developments are just two of the factors that ensure its continued execution of real estate projects that maximize the value of its land assets.

total sales
MILLIONS OF MEXICAN PESOS





constant
development
of new products



consolidation
of the *Cumbres Providencia* and
Contry Sur residential developments



\$ 34 million
U.S. dollars invested in
ceramic tile plant

financial performance

2007 was one of the most intense years in the history of Grupo Lamosa's financing and investing activities, with the making of decisions that are very important for the Company's future growth.

The sale of the *Galerías Valle Oriente* and *Plaza Cumbres* shopping centers during the second quarter of the year was one of the Company's most successful spin-off decisions. The transaction - for a total amount of \$1,827 million pesos - was in line with the Real Estate Business's strategy of obtaining maximum value from its land reserves. Additionally, it significantly improved Grupo Lamosa's financial structure, preparing it for the non-organic growth contemplated in its vision.

To this end, the General Ordinary Stockholders' Assembly of August 24, 2007, in accordance with Mexican Stock Market Law, approved the acquisition of Porcelanite Holding, S.A. de C.V., a subsidiary of Grupo Carso, S.A. The transaction was finalized during the fourth quarter of the year for an amount of approximately US\$809.7 million, free of net debt.

The acquisition was financed through a syndicated loan facility of up to US\$900 million, of which an initial amount of US\$825 million with an average maturity of 5.6 years was drawn. The syndicate of 14 banks extending the loan was led by Scotia Capital, with the participation of BBVA, Banamex, Comerica, HSBC, JP Morgan, Unicredit, Banorte, ING, Merrill Lynch, Inbursa, ABN-AMRO, Santander and West LB.

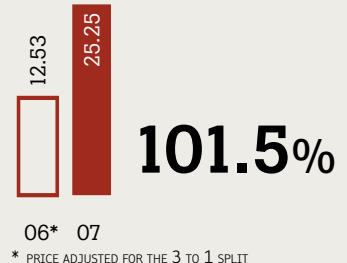
The loan was structured in two independent borrowings: the first of up to US\$600 million, of which US\$357 million are denominated in Mexican pesos, and the remaining portion of US\$243 million in U.S. dollars; and the second which was a subordinated credit of US\$225 million. The remainder of the loan facility corresponds to a revolving credit line of US\$75 million.

Lamosa's financial strategy contemplates a primary public offering of approximately US\$250 million, which is expected to be made during 2008 in order to reduce the Company's liabilities.

During the first quarter of the year, in order to increase the trading volume of the Lamosa* share, the Company's stockholders approved not only a cash dividend, but also a dividend of 1% in stock, and a share split of 3 to 1. This increased the stockholder base and the trading volume.

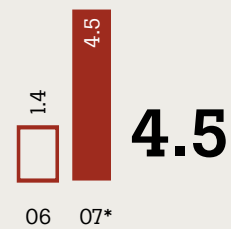
Lamosa shares produced a yield of 95.7% in 2007, exceeding the average of the Mexican Stock Market Index. The Company made purchases and sales of the shares representing its capital stock, in accordance with current stock market regulations and its plan to increase the trading volume.

share price



* PRICE ADJUSTED FOR THE 3 TO 1 SPLIT

debt / EBITDA



* DOES NOT INCLUDE EBITDA OF PORCELANITE HOLDING, S.A. DE C.V. CORRESPONDING TO THE PERIOD OF JAN.-NOV. 2007



training
and development of
personnel



launch
of Maya Collection
at *Expo CIHAC*



9%
growth in adhesives
sales volume

corporate governance

2007 was the first complete year in which the new Mexican Stock Market Law was in effect and Grupo Lamosa operated in strict compliance with this Law. The Company's Board of Directors, as well as the Audit and Corporate Practices Committees, acted in accordance with the legislation, aligning their obligations in loyalty and diligence with the Company's strategies and objectives.

Grupo Lamosa continues to focus on operating with best corporate practices and to adhere to the Code of Best Corporate Practices, because the Company is convinced that that is the way to generate value for stockholders by:

- + Protecting them by ensuring fair treatment,
- + Disclosing important events that affect the achievement of the Company's objectives precisely and in a timely manner, and
- + Imposing a greater level of transparency and trust.

Members of the Audit Committee:

Carlos Zambrano Plant
COMMITTEE CHAIRMAN

Francisco Javier Fernández Carbajal
(UNTIL OCTOBER 2007)

Eduardo Padilla Silva
Max Michelle Suberville
(AS OF OCTOBER 2007)

Members of the Corporate Practices Committee:

Eugenio Garza Herrera
COMMITTEE CHAIRMAN

Eduardo Elizondo Barragán
Bernardo Elosúa Robles



board of directors and company officers

Federico Toussaint Elosúa
Chairman of the Board of
Grupo Lamosa

MEMBER SINCE 1989

Max Michel Suberville
Honorary Chairman of El Puerto de
Liverpool, S.A. de C.V. I
Audit Committee

Eduardo Elizondo Barragán
Chairman of the Board and CEO of
CRIOTEC

MEMBER SINCE 1992 I
Corporate Practices Committee

José Alfonso Rubio Elosúa
Independent Consultant

MEMBER SINCE 1989

Bernardo Elosúa Robles
Independent Consultant
MEMBER SINCE 1993
Corporate Practices Committee

Andrés Elosúa González
CEO of Lafon Launay Cosmetics
MEMBER SINCE 2007

Juan Miguel Rubio Elosúa
CEO of Productos
Alimenticios XICO
MEMBER SINCE 1996

Guillermo Barragán Elosúa
CEO of Hidrobart
MEMBER SINCE 1993

Javier Saavedra Valdes
Professional Painter
MEMBER SINCE 1998

José Manuel Valverde Valdes
Risk Management Director, Consumer
Bank, Grupo Financiero BANORTE
MEMBER SINCE 1998

Eugenio Garza Herrera
Chairman of the Board and CEO of
Xignux MEMBER SINCE 1997 I
Corporate Practices Committee

Armando Garza Sada
Senior Vice-President for
Development, Grupo ALFA
MEMBER SINCE 1997 I

Francisco Javier Fernández
Carbajal
Independent Consultant
MEMBER FROM 2002 TO AUGUST 2007 I
Audit Committee

Eduardo Padilla Silva
CEO FEMSA Comercio
MEMBER SINCE 2004 I
Audit Committee

Carlos Zambrano Plant
Consultant
MEMBER SINCE 1991 I
Audit Committee

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

I (Independent)

In accordance with the Stockholders'
Assembly of March 15, 2007.

COMPANY OFFICERS

Federico Toussaint Elosúa
CHIEF EXECUTIVE OFFICER

Sergio Narváez Garza
WALL AND FLOOR TILE VICE-PRESIDENT

Jorge Manuel Aldape Luengas
ADHESIVES VICE-PRESIDENT

José Mario Gutiérrez Peña
SANITARYWARE VICE-PRESIDENT

Óscar Lozano Ferral
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:

Julio Rafael Vargas Quintanilla,
Tomás Luis Garza de la Garza,
Sergio Narváez Garza, Federico
Toussaint Elosúa, José Mario
Gutiérrez Peña, Jorge Manuel
Aldape Luengas and Óscar
Lozano Ferral.

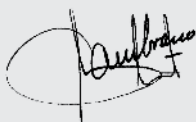
audit committee report

as of February 22, 2008

To the Board of Directors of Grupo Lamosa, S.A.B. de C.V. (the Company)

In compliance with the Company Statutes, pursuant to Article 43 of Mexican Stock Market Law, and in accordance with my position as Chairman of the Audit Committee, I would like to present you with my report on the Audit Committee's activities in regard to the financial year ended on December 31, 2007.

- 1.- We reviewed the guidelines for the system of internal control and internal auditing of the Company and its Subsidiaries, taking into account the observations of independent experts.
- 2.- To date, this Audit Committee has no knowledge of any incompliance with the operating and accounting guidelines and policies of the Company and its Subsidiaries.
- 3.- This Committee has met with the representative of the firm of external auditors and evaluated the performance both of the firm and the auditor responsible therefor. The firm is responsible for expressing an opinion on the fairness of the Company's financial statements and their compliance with Mexican Financial Reporting Standards. At the current time, we believe the performance of the firm and its auditors to be satisfactory.
- 4.- This Committee authorized the payment to the firm that supplied external auditing services to the Company for the fiscal year of 2007. The said firm provided additional services, comprising a report to the Mexican Social Security Institute (IMSS), services related to tax issues, limited reviews, and due diligence activities for the acquisition of Porcelanite and the process of its integration.
- 5.- This Committee reviewed the accounting policies corresponding to the Reserve for Non-collectible Accounts Receivable, the Degradation of Obsolete Inventory, Major Accounting Adjustments and the Valuation of the Deterioration of Fixed Assets, on the basis of the information provided by the Chief Executive Officer and external auditor. We also examined the Manual of Guidelines applicable to Board Members' requests for information on Lamosa, and issued a favorable opinion for their approval by the Board of Directors.
- 6.- During the year, we observed nothing worthy of note with regard to the accounting, internal controls, and internal and external auditing, nor any claims relating to irregularities on the part of Management.
- 7.- With regard to the agreements made at the Company's General Stockholders' Assembly, we have verified that the Chief Executive Officer has put them into effect.
- 8.- The Committee gave the Board of Directors a favorable opinion on the Annual Report of the Chief Executive Officer corresponding to the fiscal year of 2007.
- 9.- On the basis of the external auditors' report, this Committee believes that the accounting and information policies and criteria followed by the Company are adequate and sufficient, and have been applied consistently in the information presented by the Chief Executive Officer and by the Board of Directors, reflecting fairly the Company's financial position and results.



C.P. Carlos Zambrano Plant
COMMITTEE CHAIRMAN

corporate practices committee

as of February 22, 2008

To the Board of Directors of Grupo Lamosa, S.A.B. de C.V. (the Company)

In compliance with the Company Statutes, pursuant to Article 43 of Mexican Stock Market Law, and in accordance with my position as Chairman of the Corporate Practices Committee, I would like to present you with my report on the Corporate Practices Committee's activities in regard to the financial year ended on December 31, 2007.

- 1.- We reviewed the previously defined goals, and individual and Company performance during the year and, where necessary, made any observations on the performance of Company officers.
- 2.- We received from Company Management a proposal for internal policies and guidelines for transactions with related parties and the use of Company assets, which are currently under review. After this Committee has issued its opinion thereon and the Board of Directors has approved the said guidelines, we will be in a position to monitor that they are being followed.
- 3.- We reviewed the conditions and structure used to determine the total salary and benefit packages of the Chief Executive Officer and Company officers, using the opinion of independent experts for the proposal of long-term incentives, and consider that they are in line with the market mean for the region.
- 4.- To date, this Committee is not aware that the Board of Directors or any Committee has given authorization for any board member, Company officer or person in a position of command to take advantage of business opportunities - either for themselves or for third parties - that correspond to the Company or its Subsidiaries.
- 5.- We received from the Board of Directors a proposal for policies for the designation, evaluation and overall remuneration of Company officers, which are currently under review. After this Committee has issued its opinion thereon and the Board of Directors has approved them, we will be in a position to monitor that they are being followed.



Eugenio Garza Herrera
COMMITTEE CHAIRMAN

independent auditor's report

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

We have audited the accompanying consolidated balance sheets of Grupo Lamosa, S.A. B. de C.V. and subsidiaries (the "Company") as of December 31, 2007 and 2006, 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 as of December 31, 2007. 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 Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial reporting standards 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 1b to the accompanying consolidated financial statements, on November 30, 2007 the Company acquired Porcelanite Holding, S.A. de C.V. ("Porcelanite"). The Company's 2007 financial statements include the results of operations of Porcelanite and its subsidiaries as of such date and therefore are not comparable to the prior year.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Lamosa, S.A. B. de C.V. and subsidiaries as of December 31, 2007 and 2006, 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 Mexican Financial Reporting Standards.

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. Carlos Javier Vázquez Ayala
February 21, 2008

consolidated balance sheets

As of December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power as of December 31, 2007)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	566,927	31,060
Trade accounts receivable (net of \$72,900 and \$22,139 of allowance for doubtful accounts in 2007 and 2006, respectively)	2,314,828	839,754
Other accounts receivable	301,233	256,304
Inventories, net	1,307,339	488,190
Current assets	4,490,327	1,615,308
Real estate inventories	758,135	567,197
Commercial centres		965,610
Property, plant and equipment, Net	6,338,998	2,808,393
Goodwill	4,059,381	72,433
Other assets, Net	302,685	82,468
Total	15,949,526	6,111,409
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	5,532	400,997
Trade accounts payable	709,077	565,060
Other payables and accrued expenses	572,602	333,556
Income tax payable	157,889	76,634
Current liabilities	1,445,100	1,376,247
Long-term debt	9,045,227	983,855
Employee retirement obligations	142,908	116,833
Other long-term liabilities		23,328
Deferred income tax	1,056,010	173,549
Total liabilities	11,689,245	2,673,812
Stockholders' equity:		
Capital stock	334,489	334,464
Additional paid-in capital	149,096	149,096
Retained earnings	4,818,020	4,032,918
Insufficiency in restated stockholders' equity	(713,827)	(732,845)
Cumulative initial effect of deferred income tax	(375,733)	(375,733)
Derivative financial instruments	(1,203)	(20,018)
Majority stockholders' equity	4,210,842	3,387,882
Minority interest in consolidated subsidiaries	779	1,055
Trustee rights of third parties	48,660	48,660
Total stockholders' equity	4,260,281	3,437,597
Total	15,949,526	6,111,409

See accompanying notes to these consolidated financial statements.

consolidated statements of income

For the years ended December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power as of December 31, 2007, except per share data)

	2007	2006
Net sales	\$ 6,817,337	\$ 4,358,351
Costs and expenses:		
Cost of sales	3,986,731	2,652,027
Operating expenses	1,132,650	997,713
	5,119,381	3,649,740
Operating income	1,697,956	708,611
Other expenses, net	239,162	36,580
Net comprehensive financing cost:		
Interest expense	172,040	162,935
Interest income	(33,109)	(1,534)
Monetary position gain	(9,006)	(72,591)
Exchange loss, net	34,617	3,649
	164,542	92,459
Income after net comprehensive financing cost	1,294,252	579,571
Income tax	394,045	169,695
Consolidated net income	900,207	409,876
Net income per share	\$ 2.45	\$ 1.13

See accompanying notes to these consolidated financial statements.

consolidated statements of changes in stockholders' equity

For the years ended December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power as of December 31, 2007)

	Capital stock	Additional paid-in capital	Retained earnings
Balances as of January 1, 2006	\$ 334,440	\$ 71,899	\$ 3,651,956
Issuance of common stock	24	77,197	(24)
Issuance of treasury stock, net			29,100
Comprehensive income			409,876
Dividends paid			(57,990)
Balances as of December 31, 2006	334,464	149,096	4,032,918
Issuance of common stock	25		(25)
Issuance of treasury stock, net			(39,778)
Comprehensive income			900,207
Dividends paid			(75,302)
Balances as of December 31, 2007	\$ 334,489	\$ 149,096	\$ 4,818,020

See accompanying notes to these consolidated financial statements.

Insufficiency in restated stockholders' equity	Cumulative initial effect of deferred income tax	Derivative financial instruments	Trustee rights of third parties and minority interest	Total stockholders' equity
\$ (735,998)	\$ (375,733)	\$ 104,904	\$ 52,967	\$ 3,104,435
			26	77,223
				29,100
3,153		(124,922)	(3,278)	284,829
				(57,990)
(732,845)	(375,733)	(20,018)	49,715	3,437,597
				(39,778)
19,018		18,815	(276)	937,764
				(75,302)
\$ (713,827)	\$ (375,733)	\$ (1,203)	\$ 49,439	\$ 4,260,281

consolidated statements of changes in financial position

For the years ended December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power as of December 31, 2007)

	2007	2006
Operating activities:		
Consolidated net income	900,207	409,876
Items that did not require (generate) resources:		
Depreciation and amortization	290,083	263,919
Employee retirement obligations	16,331	15,371
Bad debt expense	11,822	8,937
Deferred income tax and employee statutory profit sharing	110,417	18,477
Fixed asset impairment	20,053	24,244
Inventory impairment		9,142
Derivative financial instruments	16,991	(16,991)
Other		1,673
	1,365,904	734,648
Changes in operating assets and liabilities:		
Trade accounts receivable	108,466	(68,826)
Other accounts receivable	(23,088)	(80,011)
Inventories	904,339	(132,134)
Trade accounts payable	21,865	78,035
Other	(59,788)	(5,613)
Net resources generated by operating activities	2,317,698	526,099
Financing activities:		
Proceeds from notes payable	9,711,029	2,523,494
Repayment of notes payable	(1,991,432)	(2,731,611)
Effect of inflation on notes payable	(56,378)	(62,655)
Derivative financial instruments	2,533	
Proceeds from issuance of common stock		77,223
(Purchase) sale of treasury stock, net	(39,778)	29,100
Dividends paid	(75,302)	(57,990)
Net resources generated by (used in) financing activities	7,550,672	(222,439)
Investing activities:		
Acquisition of property, plant and equipment	(387,499)	(313,028)
Sales of property, plant and equipment	30,887	
Acquisition of Porcelanite, net of cash received	(8,777,632)	
Investments in subsidiaries	(6,361)	
Other	(191,898)	(1,239)
Net resources used in investing activities	(9,332,503)	(314,267)
Cash and cash equivalents:		
Net increase (decrease)	535,867	(10,607)
Balance at beginning of year	31,060	41,667
Balance at end of year	\$ 566,927	\$ 31,060

See accompanying notes to these consolidated financial statements.

notes to consolidated financial statements

For the years ended December 31, 2007 and 2006
(In thousands of Mexican pesos of purchasing power as of December 31, 2007)

1. Nature of operations

- a) Grupo Lamosa, S.A.B. de C.V. 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. The Company is organized into three reportable segments, which include Ceramic, Adhesive and Real Estate.
- b) On November 30, 2007, pursuant to a purchase and sale agreement dated July 2, 2007, the Company acquired 99.96% of the capital stock of Porcelanite Holding, S.A. de C.V. ("Porcelanite") paying US\$809.7 million in cash. The Company financed the acquisition of Porcelanite by obtaining a long-term loan of US\$825 million, which include the debt issuance costs. Porcelanite is a holding company of a group of entities whose activities are primarily the production and sales of ceramic tiles and adhesives for ceramic coverings. The Company's 2007 financial statements include the results of operations of Porcelanite and its subsidiaries as of the acquisition date and therefore are not comparable to the prior year.

The Company recorded goodwill of \$3,909,963 as a result of the acquisition. This amount reflects the purchase accounting based on a preliminary allocation of the purchase price to identifiable assets and liabilities acquired. The final allocation of the purchase price will be determined at a later date and is dependent on a number of factors, including the final fair value determination of the separable tangible and identifiable intangible assets acquired and liabilities assumed as of the closing date of the acquisition. As of December 31, 2007, no portion of the excess of purchase price over net assets of Porcelanite was allocated to identifiable intangible assets. The purchase price allocation and the identification of intangible assets may change upon the receipt of more detailed information, and such changes may be significant.

Below is the condensed balance sheet of Porcelanite and its subsidiaries as of November 30, 2007:

	Amount
Assets	
Current assets:	\$ 2,359,706
Long-term assets	3,865,573
Total	\$ 6,225,279
Liabilities and Stockholders' Equity	
Current liabilities	\$ 1,563,350
Long-term liabilities	790,544
Total liabilities	2,353,894
Stockholders' equity	3,871,385
Total liabilities and stockholders' equity	6,225,279

2. Basis of presentation

- a) **Basis of consolidation** - The consolidated financial statements include those of Grupo Lamosa, S.A.B. de C.V. ("Glasa") and its subsidiaries. Currently, Glasa owns approximately 100% of the capital stock and trustee rights of a majority of its subsidiaries. For consolidation purposes intercompany balances and transactions have been eliminated.

The principal subsidiaries and associated companies, classified according to their activities, are shown below:

Ceramic

Lamosa Revestimientos, S.A. de C.V.
 Mercantil de Pisos y Baños, S.A. de C.V.
 Lamosa USA Inc.
 General de Minerales, S.A. de C.V.
 Sanitarios Lamosa, S.A. de C.V.
 Porcelanite Holding, S.A. de C.V. ⁽¹⁾
 Porcelanite, S.A. de C.V. ⁽¹⁾
 Ital Gres, S.A. de C.V. ⁽¹⁾
 Porcel, S.A. de C.V. ⁽¹⁾
 Gres, S.A. de C.V. ⁽¹⁾
 Productos Cerámicos de Querétaro, S.A. de C.V. ⁽¹⁾
 Pavillion, S.A. de C.V. ⁽¹⁾
 Barros y Pizarras, S.A. de C.V. ⁽¹⁾
 Estudio Cerámico México, S.A. de C.V. ⁽¹⁾⁽³⁾
 Servigesa, S.A. de C.V. ⁽¹⁾⁽³⁾
 Porcelanite Lamosa, S.A. de C.V. ⁽⁴⁾
 Revestimientos Porcelanite, S.A. de C.V. ⁽⁴⁾
 Servicios Comerciales Lamosa, S.A. de C.V. ⁽⁴⁾
 Revestimientos Porcelanite Lamosa, S.A. de C.V. ⁽⁴⁾
 Revestimientos Lamosa, S.A. de C.V. ⁽⁵⁾

Adhesive

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.
 Tecnoconcreto, S.A.
 Servicios de Administración de Adhesivos, S.A. de C.V.
 Servicios Industriales de Adhesivos, S.A. de C.V.
 Soluciones Técnicas para la Construcción, S.A. de C.V. ⁽¹⁾

Real Estate

Grupo Inmobiliario Viber, S.A. de C.V.
 Fideicomisos de actividades empresariales para el desarrollo de inmuebles
 Desarrollos Inmobiliarios Lamosa, S.A. de C.V. ⁽²⁾
 Inmobiliaria Galerías Valle Oriente, S.A. de C.V.
 Inmobiliaria Plaza Cumbres, S.A. de C.V.
 Servicios Inmobiliarios Viber, S.A. de C.V. (antes Construmaquilas, S.A. de C.V.)
 L&L Consorcio Inmobiliario, S.A. de C.V. ⁽⁴⁾
 Inmobiliaria Revolución, S.A. de C.V. ⁽⁴⁾
 Lamosa Desarrollos Inmobiliarios, S.A. de C.V. ⁽⁴⁾

Corporate

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

⁽¹⁾ These entities were acquired in November 2007 (see NOTE 1b).

⁽²⁾ This entity was incorporated in 2005 through a spin-off of another of the Company's subsidiaries and was liquidated in December 2006.

⁽³⁾ Associated companies where the Company has a 49% share interest.

⁽⁴⁾ These entities were incorporated in December 2007.

⁽⁵⁾ This entity was incorporated from the spin-off of another subsidiary in January 2007.

- b) **Explanation for translation into English** - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Mexican Financial Reporting Standards (Mexican FRS). Certain accounting practices applied by the Company that conform with Mexican FRS (which standards are called "Normas de Información Financiera" or "NIF's") may not conform with accounting principles generally accepted in the country of use.
- c) **Comprehensive income** - Represents changes in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income. In 2007 and 2006, other comprehensive income items consist of the insufficiency in restated stockholders' equity, the conversion effects of foreign subsidiaries and the effects of derivative financial instruments.
- d) **Classification of costs and expenses** - The costs and expenses presented in the statement of income were classified based on their function, as that is the classification used by the industry the Company participates in. Thus, cost of sales was separated from operating costs and expenses.
- e) **Operating income** - Operating income is obtained from subtracting cost of sales and operating expenses from net sales. Although NIF B-3, Statement of Income, does not require its presentation, this subtotal is presented in the consolidated statements of income, as it contributes to a better understanding of the Company's economic and financial performance and is a measure used by management to evaluate the results of operations.

3. Summary of significant accounting policies

The accompanying financial statements have been prepared in conformity with Mexican FRS, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Company's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Company are as follows:

- a) **Changes in accounting policies** - Effective January 1, 2007, the Company adopted new NIF B-3, which now classifies revenues, costs and expenses into ordinary and non-ordinary. Ordinary items are derived from primary activities representing an entity's main source of revenues. Non-ordinary items are derived from activities other than those representing an entity's main source of revenues. Consequently, the classification of certain transactions as special and extraordinary was eliminated; these items are now part of other income and expenses and non-ordinary items, respectively. Statutory employee profit sharing ("PTU") should now be presented as an ordinary expense and no longer presented as a tax on income. According to Interpretation of Financial Information Standards Number 4, Presentation of Statutory Employee Profit Sharing in the Statement of Income, ("INIF 4") statutory employee profit sharing should be included within other income and expenses and no longer within income taxes. The effect of adopting NIF B-3 was the reclassification of current and deferred PTU expense for fiscal 2006 of \$14,826 to other income and expenses, net.

As of January 1, 2007, the Company adopted NIF C-13, Related Parties, which broadens the concept of "related parties" to include i) the overall business in which the reporting entity participates; ii) close family members of key management or prominent executives; and iii) any fund created in connection with a labor-related compensation plan. NIF C-13 also requires the following disclosures: 1) that the terms and conditions of consideration paid or received in transactions carried out between related parties be equivalent to those of similar transactions carried out between independent parties and the reporting entity, only if sufficient evidence exists; 2) benefits granted to the entity's key management or prominent executives. The Company has included the disclosures required by NIF C-13 in the accompanying financial statements.

- 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 as of December 31, 2007 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) **Cash and cash equivalents** - This line item consists mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses. This line item is stated at nominal value plus accrued yields, which are recognized in results as they accrue.
- 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 the 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:

	2007	Average years	2006
Buildings and commercial centers	17		23
Machinery and equipment	7		8
Transportation equipment	3		2
Computer equipment	3		3
Furniture and mixtures	5		7

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

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 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 recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value in the balance sheet, regardless of its intent for holding them. Fair value is determined using prices quoted on recognized markets. If such instruments are not traded, fair value is determined by applying recognized valuation techniques.

When derivatives are entered into to hedge risks, and such derivatives meet all hedging requirements, their designation is documented at the beginning of the hedging transaction, describing the transaction's objective, characteristics, accounting treatment and how the ineffectiveness of the instrument will be measured. The derivatives financial instruments are negotiated only with institution of recognized financial strength. The Company's policy is to not enter into derivative transactions for speculative purposes.

Changes in the fair value of derivative instruments designated as hedging are recognized as follows; (i) for fair value hedges, changes in both the derivative instrument and the hedged item are recognized in current earnings, (ii) 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.

- j) **Other assets** - Other assets are restated using the NCPI and are amortized based on the respective expected life.
- k) **Goodwill** - Goodwill represents the excess of cost over the fair value of subsidiary shares, as of the date of acquisition. It is restated using the NCPI and at least once a year is subject to impairment tests.
- l) **Employee retirement obligations** - Seniority premiums and pension plans, and 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.
- m) **Income tax** - Income taxes are recorded in the results of the year in which they are incurred. Beginning October 2007, based on its financial projections, the Company must determine whether it will incur regular income tax ("ISR") or the new Business Flat Tax ("IETU") and, accordingly, recognizes deferred taxes based on the tax it will pay. Deferred taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery.
- n) **Employee statutory profit sharing** - Statutory employee profit sharing (PTU) is recorded in the results of the year in which it is incurred and presented under other income and expenses in the accompanying consolidated statements of income. 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.
- o) **Provisions** - Are recognized for current obligations that result from a past event, are probable to result in the use of economic resources, and can be reasonably estimated.
- p) **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.
- q) **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.
- r) **Monetary position gain** - Monetary position gain, which represents the increase of purchasing power of monetary items caused by inflation, is calculated by applying NCPI factors to monthly net monetary position. Gains result from maintaining a net monetary liability position.
- s) **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.
- t) **Earnings per share** - Earnings per share are computed by dividing consolidated net income by the weighted average number of shares outstanding during each period. Earnings per share is based on 367,881,347, and 362,332,139 weighted average common shares outstanding during 2007 and 2006, respectively.

4. Other accounts receivable

	2007	2006
Recoverable taxes	\$ 237,829	\$ 202,611
Other	63,404	53,693
	\$ 301,233	\$ 256,304

5. Inventories - net

	2007	2006
Finished products	\$ 867,062	\$ 298,060
Work in process	95,233	47,082
Raw materials	220,285	87,060
Supplies and spare parts	129,134	55,947
Merchandise in transit	886	1,929
Advances to suppliers	5,431	4,840
Allowance for obsolescence	(10,692)	(6,729)
	\$ 1,307,339	\$ 488,190

6. Real estate inventories

	2007	2006
Land in development for sale	\$ 401,838	\$ 96,576
Undeveloped land	203,659	228,546
Urbanization in progress	57,046	106,792
Construction in progress	95,592	135,283
	\$ 758,135	\$ 567,197

7. Property, plant and equipment, net

	2007	2006
Land	\$ 474,056	\$ 663,346
Buildings	3,111,731	1,001,715
Machinery and equipment	8,274,386	2,145,094
Transportation equipment	108,114	60,343
Furniture and mixtures	91,660	52,524
Computer equipment	87,490	51,797
Construction in progress	231,032	112,318
	12,378,469	4,087,137
Accumulated depreciation	(6,039,471)	(1,278,744)
	\$ 6,338,998	\$ 2,808,393

Unamortized capitalized net comprehensive financing cost was \$37,734 and \$43,270 at December 31, 2007 and 2006, respectively.

8. Commercial centers

On June 12, 2007, the Company sold two commercial shopping centers that operate in Monterrey, Mexico for an amount of \$1,826,744. The sales agreement was entered into with a real estate company based in the United States of America. As a result of this transaction, the Company recorded net sales of \$1,826,744, which increased operating income and net consolidated income by \$828,326 and \$452,997, respectively.

The resources generated by this transaction were primarily used to pay down long-term debt.

9. Other assets

	2007	2006
Trademarks acquired	\$ 15,909	\$ 30,420
Investment in associates companies	37,727	
Pre-operating expenses		5,633
Intangible pension asset (NOTE 11)	12,042	12,995
Debt issuance costs	218,928	
Other	18,079	33,420
	\$ 302,685	\$ 82,468

10. Long-term debt

a) Long-term debt is summarized as follows:

	2007	2006
Secured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a spread of 2%, principal payable in various installments through 2013	\$ 2,655,990	
Secured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on Interbank Equilibrium Interest Rate (TIIE) plus a spread of 2% principal payable in various installments through 2013	3,926,822	
Unsecured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a spread of 4.5%, principal payable in various installments through 2014	2,459,250	
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%, which matured in 2007		\$ 228,272
Unsecured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a spread between 0.25% and 1.1%, principal payable in various installments through 2013, which was pre-paid in 2007		858,328
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, which was pre-paid in 2007		163,728
Unsecured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread 1.15% and 1.2%, original maturity date of 2009, which was pre-paid in 2007		100,232
Unsecured bank loan, denominated in Mexican pesos, bearing interest at a fixed rate of 8.6% original maturity date of 2008, which was pre-paid in 2007		20,752
Unsecured notes payable, denominated in U.S. dollars, bearing interest at a fixed rate of 10%, principal payable in various installments through 2008, which was pre-paid in 2007		6,189
Capital lease, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread between 0.75% and 3.25% , principal payable in various installments through 2011	8,697	7,351
Total long-term debt	9,050,759	1,384,852
Current portion of long-term debt	(5,532)	(400,997)
Long-term debt	\$ 9,045,227	\$ 983,855

As of December 31, 2007, the interest rates TIIE and LIBOR were 7.925% and 4.7025%, respectively.

b) The schedule of contractual principal payments of long-term debt as of December 31, 2007, is as follows:

Year ending December, 31	Amount
2009	\$ 330,811
2010	659,322
2011	922,048
2012	1,514,046
2013 and thereafter	5,619,000
	\$ 9,045,227

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, 2007.

d) Debt of the Company totaling \$6,582,812 is collateralized by fixed assets with a book value of \$5,996,208 and shares of a subsidiary with a book value of \$3,896,559 as of December 31, 2007. Additionally, brands and patents owned by the Company are also granted as collateral.

e) On July 26, 2007 and November 9, 2007, the Company prepaid US\$83.3 million in long-term debt (see NOTE 10a). Additionally, the Company cancelled its currency exchange swap contracts of US\$47 million and interest rate swaps of US\$62 million that were hedging part of such debt and recognized the related costs in results of operations.

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

	Income (expense) for the year ending December 31,	
	2007	2006
Interest swaps	\$ 18,817	\$ 4,191
Currency swaps	(6,257)	1,004
Net	\$ 12,560	\$ 5,195

11. 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, Labor Obligations, calculated as described in note 3 l), together with certain actuarial assumptions utilized, are presented below as of December 31, 2007 and 2006:

	2007	2006
Accumulated benefit obligation	\$ 155,674	\$ 111,498
Projected benefit obligation	\$ 165,693	\$ 116,223
Plan assets	(30,056)	
Unfunded Status	135,637	116,223
Unrecognized transition obligation	(17,135)	(9,788)
Variations in assumptions and adjustments for experience	(2,717)	(10,380)
Net projected liability	115,785	96,055
Additional liability	27,123	20,778
	\$ 142,908	\$ 116,833
Net periodic cost	\$ 16,331	\$ 15,371
Rates used (net of inflation)		
Discount rate	4.00%	4.50%
Estimated wage increases	1.00%	1.50%
Estimated rate of return on plan assets	4.50%	

12. Other long-term liabilities

	2006
Deposits in guarantee	\$ 19,124
Derivative financial instruments	4,204
	\$ 23,328

13. Stockholders' equity

- As of December 31, 2007 the minimum fixed capital stock consists of 360 million ordinary zero-par value shares with voting rights, and variable capital consists of 10.9 million ordinary shares, respectively, without par value. All the shares are unrestricted as to ownership.
- At the general extraordinary stockholders' meeting held on March 15, 2007, it was approved to increase the number of outstanding shares represented by the Company's ordinary shares of capital stock. The increase was affected through a 3 for 1 stock split of the 122,412,000 shares issued outstanding prior to the split. The split became effective for all stockholders of record as of April 20, 2007. As a result, the Company's earnings per share has been recalculated to give retroactive effect as if the stock split had occurred as of the beginning of the earliest period presented.
- At the general extraordinary stockholders' meetings held on March 15, 2007 and March 16, 2006, dividends were declared for \$75,302 (\$ 73,291 at nominal value) and \$57,990 (\$54,204 at nominal value), respectively.
- Pursuant to the general ordinary stockholders' meetings held on March 15, 2007 and March 16, 2006, variable capital was increased by \$25 and \$24, respectively, capitalizing retained earnings for the same amount and issuing 3,672,360 and 1,212,000 ordinary shares without par value, effective August 1, 2007 and August 1, 2006, respectively.
- Pursuant to the general ordinary stockholders' meeting held on March 16, 2006, the account to repurchase treasury stock was increased by \$64,223 (\$60,000 at nominal value).
- Pursuant to the general ordinary stockholders' meetings of one of the Company's subsidiaries held on March 14, 2006, variable capital was increased by \$77,223 (\$72,000 at nominal value), which consisted of 144 shares, without par value, paid in cash. The issuance resulted in an increase to additional paid-in capital of \$77,197 in 2006.

- g) 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, 2007 and 2006, the legal reserve, in historical pesos, was \$480.
- h) Stockholders' equity, except restated paid-in capital and tax-retained earnings, will be subject to income tax payable by the Company at the rate in effect upon distribution. Any tax paid on such distribution, may be credited against annual and estimate income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.
- i) The balances of the stockholders' equity tax accounts as of December 31, are:

	2007	2006
Contributed capital account	\$ 264,963	\$ 264,963
Net tax income account	5,366,015	1,898,213
Net reinvested tax income account		22,019
Total	\$ 5,630,978	\$ 2,185,195

14. 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, 2007 and 2006, corresponds to the contributions of a third party as trustee to the capital of another business trust created in 2004.

15. Contingencies and commitments

- a) The Company is not a party to, and none of its assets are 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 2007 was approximately 3,801,166 millions of British Thermal Units ("MMBTU"), of which, it had hedged a total of 1,852,788 MMBTU. The Company maintains hedges on the price of natural gas for approximately 285,402 MMBTU with termination dates in March 2008 at a fixed price of US\$7.90 per MMBTU. These agreements were designated by management as hedging the natural gas market price variations and resulted in a derivative liability of \$1,670 as of December 31, 2007. Accordingly, other comprehensive income was affected by \$1,203, net of deferred income tax, as the hedge was considered to be highly effective for accounting purposes (no ineffectiveness). As of February 21, 2008, the issuance date of these consolidated financial statements, the market price of natural gas is US\$7.74 per MMBTU.
- c) The Company has an operating lease agreement for machinery and equipment. The future estimated obligations arising from this agreement are as follows:

Year	Amount
2008	\$ 6,971
2009	8,703
2010	23,553
2011	26,551
2012 and thereafter	110,934
	\$ 176,712

16. Foreign currency balances and transactions

a) The monetary position in foreign currency, expressed in thousands of U.S. dollars as of December 31, 2007, is as follows:

	Foreign currency balances	Mexican peso equivalent
Monetary assets	US\$ 33,679	\$ 368,196
Monetary liabilities	(492,455)	(5,382,519)
Net liability position	US\$ (458,776)	\$ (5,014,323)

b) Non-monetary assets of foreign origin, valued in thousands of U.S. dollars as of December 31, 2007 are as follows:

	Foreign currency balances	Mexican peso equivalent
Inventories	US\$ 10,252	\$ 112,054
Machinery and equipment	231,678	2,532,243

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

	2007	2006
Export sales	US\$ 64,454	US\$ 64,595
Interest expense, net	3,071	5,142
Import purchases	12,213	18,260

d) The exchange rate used to translate U.S. dollars to Mexican pesos as of December 31, 2007 and 2006, was \$10.93 and \$10.82, respectively (nominal pesos). At February 21, 2008, the issuance date of these consolidated financial statements, the exchange rate was \$10.80 (nominal pesos) per one U.S. dollar.

17. Other expenses, net

	2007	2006
Minority interest in trusts and commercial centers	\$ 213,656	\$ 4,033
Preoperating expenses	12,297	15,077
Fixed asset impairment	20,053	24,244
Inventory impairment		9,142
Employee statutory profit-sharing	11,517	14,826
Other income, net	(18,361)	(30,742)
	\$ 239,162	\$ 36,580

18. Income tax

- a) In accordance with Mexican tax law, the Company is subject to ISR and through 2007 to 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. In 2007 and 2006, the tax rate was 28% and 29%, respectively. Due to changes in the tax legislation effective January 1, 2007, taxpayers who file tax reports and meet certain requirements may obtain a tax credit equivalent to 0.5% or 0.25% of taxable income. In addition, as a result of changes in the tax law effective in 2005, cost of sales is deducted instead of inventory purchases. Taxpayers had the option, 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 which amount of \$70,356 was determined in conformity with the respective tax rules taking into account inventory turnover. As of 2006, PTU paid is fully deductible.

In 2007, IMPAC was calculated by applying 1.25% to the value of the assets of the year, without deducting any debt amounts. Through 2006, IMPAC was calculated by applying 1.8% on the net average of the majority of restated assets less certain liabilities, including liabilities payable to banks and foreign entities. IMPAC is payable only to the extent that it exceeded ISR payable for the same period.

The Company is subject to ISR and, through 2007, IMPAC, together with its subsidiaries, on a consolidated basis.

- b) On October 1, 2007, the Business Flat Tax Law ("LIETU") was enacted and went into effect on January 1, 2008. In addition, the Tax Benefits Decree and the Third Omnibus Tax Bill were published on November 5 and December 31, 2007, respectively, clarifying or expanding the transitional application of the law regarding transactions carried out in 2007 that will have an impact in 2008. IETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, according to the terms of the LIETU, less certain authorized deductions. IETU payable is calculated by subtracting certain tax credits from the tax determined. Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated beginning January 1, 2008. LIETU establishes that the IETU rate will be 16.5% in 2008, 17% in 2009, and 17.5% as of 2010. The Asset Tax Law was repealed upon enactment of LIETU; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid, may be refunded, according to the terms of the law. In addition, as opposed to ISR, the parent and its subsidiaries will incur IETU on an individual basis.

Based on its financial projections, the Company determined that it will continue to pay ISR in the future. Therefore, the enactment of the LIETU did not have an impact on its consolidated financial position or results of operations as its deferred income taxes continue to be calculated considering the ISR tax rate in effect.

- c) The provision for ISR is analyzed as follows:

	2007	2006
Current	\$ 283,628	\$ 151,440
Deferred	110,417	18,255
Total	\$ 394,045	\$ 169,695

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

	2007	2006
	%	%
Effective income tax rate	30.4	29.3
Other permanent differences	(2.4)	(0.3)
Statutory income tax rate	28.00	29.00

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

	2007	2006
Deferred income tax liabilities:		
Property, plant and equipment	\$ 906,109	\$ 144,225
Inventories	172,643	38,394
Real estate inventories	89,838	118,414
Debt issuance costs	61,300	
Trademarks acquired	4,455	8,518
	<u>1,234,345</u>	<u>309,551</u>
Deferred income tax assets:		
Allowance for doubtful accounts	20,412	6,199
Tax loss carryforwards		26,526
Employee retirement obligations	34,328	29,411
Other	67,199	25,824
	<u>121,939</u>	<u>87,960</u>
Tax on assets	56,396	48,042
Net liability	\$ 1,056,010	\$ 173,549

f) Recoverable tax on assets for which prepaid income tax have been recognized, can be recovered subject to certain conditions. Restated amounts as of December 31, 2007 and expiration dates are as follows:

Year of expiration	Tax on assets
2009	\$ 1,873
2010	3,963
2011	18,646
2012	9,698
2013	13,501
2014	8,715
	\$ 56,396

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 \$7,396 in 2007 and \$4,844 in 2006.

19. 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. "Fidudisa"), and into an irrevocable business activity trust ("Business Trust U-Calli") 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 U-Calli 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.

b) The interest in the Business Trust U-Calli earnings for the trustees was as follows:

	2007	2006
Grupo Inmobiliario Viber, S.A. de C.V.	\$ 181,417	\$ 38,308
U-Calli Desarrollos Inmobiliarios, S.A. de C.V.	41,541	4,033
	\$ 222,958	\$ 42,341

c) Transactions with related parties, carried out in the ordinary course of business were as follows:

	2007	2006
Other expenses, net (see NOTE 17)	\$ 213,656	\$ 4,033

d) For the years ended December 31, 2007 and 2006, the benefits granted to Company key management (and/or relevant officers) were \$37,460 and \$29,859, respectively.

20. 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 is as follows:

December 31, 2007:	Ceramic	Adhesive	Real estate	Corporate and other	Total
Total net sales	\$ 2,861,240	\$ 1,719,349	\$ 2,372,068	\$ 362,913	\$ 7,315,570
Intersegment sales	(46,701)	(88,115)	(504)	(362,913)	(498,233)
Net sales to third parties	2,814,539	1,631,234	2,371,564	0	6,817,337
Operating income (loss)	306,080	392,244	1,065,650	(66,018)	1,697,956
Total assets	9,203,862	888,761	537,455	5,319,448	15,949,526
Total liabilities	1,799,382	289,511	222,748	9,377,604	11,689,245
Capital expenditures	289,334	16,022	427	81,716	387,499
Depreciation and amortization	212,026	30,699	16,730	30,628	290,083
Fixed asset impairment	20,053				20,053
December 31, 2006:	Ceramic	Adhesive	Real estate	Corporate and other	Total
Total net sales	\$ 2,618,028	\$ 1,579,075	\$ 326,045	\$ 156,015	\$ 4,679,163
Intersegment sales	(59,975)	(103,101)	(2,048)	(155,688)	(320,812)
Net sales to third parties	2,558,053	1,475,974	323,997	327	4,358,351
Operating income (loss)	307,640	355,208	79,007	(33,244)	708,611
Total assets	3,056,779	643,214	1,775,783	635,633	6,111,409
Total liabilities	1,549,994	288,295	55,594	779,929	2,673,812
Capital expenditures	207,654	19,686	982	84,706	313,028
Depreciation and amortization	174,170	26,645	36,697	26,407	263,919
Fixed asset impairment	24,244				24,244

Export sales represent 10.6% and 17.3% of total sales in 2007 and 2006, respectively, and are made mainly to the United States of America.

21. New accounting principles

In 2007, the Mexican Board for Research and Development on Financial Information Standards (CINIF) issued the following Mexican Financial Reporting Standards (NIF) and Financial Information Standards Interpretations (INIF), which became effective for fiscal years beginning on January 1, 2008:

NIF B-2, Statement of cash flows

NIF B-10, Effects of inflation

NIF B-15, Translation of foreign currencies

NIF D-3, Employee benefits

NIF D-4, Taxes on income

INIF 5, Recognition of the Additional Consideration Agreed To at the Inception of a Derivative Financial Instrument to Adjust It to Fair Value

INIF 6, Timing of Formal Hedge Designation

INIF 7, Application of Comprehensive Income or Loss Resulting From a Cash Flow Hedge on a Forecasted Purchase of a Non-Financial Asset

Some of the significant changes established by these standards are as follows:

NIF B-2, Statement of Cash Flows. This NIF establishes general rules for the presentation, structure and preparation of a cash flow statement, as well as the disclosures supplementing such statement, which replaces the statement of changes in financial position. NIF B-2 requires that the statement show a company's cash inflows and outflows during the period. Line items should be preferably presented gross. Cash flows from financing activities are now presented below those from investing activities (a departure from the statement of changes in financial position). In addition, NIF B-2 allows entities to determine and present their cash flows from operating activities using either the direct or the indirect method.

NIF B-10, Effects of Inflation. CINIF defines two economic environments: a) inflationary environment, when cumulative inflation of the three preceding years is 26% or more, in which case, the effects of inflation should be recognized using the comprehensive method; and b) non-inflationary environment, when cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements. Additionally, NIF B-10 eliminates the replacement cost and specific indexation methods for inventories and fixed assets, respectively, and requires that the cumulative gain or loss from holding non-monetary assets be reclassified to retained earnings, if such gain or loss is realized; the gain or loss that is not realized will be maintained in stockholders' equity and charged to current earnings of the period in which the originating item is realized.

NIF B-15, Translation of Foreign Currencies. NIF B-15 eliminates classification of integrated foreign operations and foreign entities and incorporates the concepts of accounting currency, functional currency and reporting currency. NIF B-15 establishes the procedures to translate the financial information of a foreign subsidiary: i) from the accounting to the functional currency; and ii) from the functional to the reporting currency, and allows entities to present their financial statements in a reporting currency other than their functional currency.

NIF D-3, Employee Benefits. This NIF includes current and deferred PTU. Deferred PTU should be calculated using the same methodology established in NIF D-4. It also includes the career salary concept and the amortization period of most items is reduced to five years, as follows:

Items will be amortized over a 5-year period, or less, if employees' remaining labor life is less than the:

- Beginning balance of the transition liability for severance and retirement benefits
- Beginning balance of past service cost and changes to the plan
- Beginning balance of gains and losses from severance benefits, according to actuarial calculations, should be amortized against the results of 2008
- Beginning balance of gains and losses from retirement benefits, according to actuarial calculations, should be amortized over a 5-year period (net of the transition liability), with the option to fully amortize such item against the results of 2008.

NIF D-4, Income Taxes - This NIF relocates accounting for current and deferred PTU to NIF D-3, it eliminates the permanent difference concept, redefines and incorporates various definitions and requires that the cumulative ISR effect be reclassified to retained earnings, unless it is identified with some of the other comprehensive income items that have not been applied against current earnings.

INIF 5, Recognition of the Additional Consideration Agreed To at the Inception of a Derivative Financial Instrument to Adjust It to Fair Value.

INIF 5 states that any additional consideration agreed to at the inception of a derivative financial instrument to adjust it to its fair value at that time should be part of the instrument's initial fair value and not subject to amortization as established by paragraph 90 of Bulletin C-10. INIF 5 also establishes that the effect of the change should be prospectively recognized, affecting results of the period in which this INIF becomes effective. If the effect of the change is material, it should be disclosed.

INIF 6, Timing of Formal Hedge Designation. INIF 6 states that hedge designations may be made as of the date a derivative financial instrument is contracted, or at a later date, provided its effects are prospectively recognized as of the date when formal conditions are met and the instrument qualifies as a hedging relationship. Paragraph 51.a) of Bulletin C-10 only considered the hedge designation at the inception of the transaction.

INIF 7, Application of Comprehensive Income or Loss Resulting From a Cash Flow Hedge on a Forecasted Purchase of a Non-Financial Asset.

INIF 7 states that the effect of a hedge reflected in other comprehensive income or loss resulting from a forecasted purchase of a non-financial asset should be capitalized within the cost of such asset, whose price is set through a hedge, rather than reclassifying the effect to the results of the period affected by the asset, as required by Paragraph 105 of Bulletin C-10. The effect of this change should be recognized by applying any amounts recorded in other comprehensive income or loss to the cost of the acquired asset, as of the effective date of this INIF.

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

22. Financial statements issuance authorization

On February 21, 2008, the issuance of the consolidated financial statements was authorized by Ing. Federico Toussaint Elosúa, Chief Executive Officer of the Company and Ing. Tomás Luis Garza de la Garza, Chief Financial Officer. These consolidated financial statements are subject to approval at the general ordinary stockholders' meeting, where the financial statements may be modified, based on provisions set forth by the Mexican General Corporate Law.

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