

CONSOLIDATING OUR

LEADERSHIP



THE COMPANY

Grupo Lamosa, through its four businesses in Mexico, focuses its resources on the Construction Industry and the Real Estate Sector. It manufactures and sells construction products such as ceramic tiles, bathroom fixtures and ceramic adhesives; and develops residential and commercial real estate projects, largely in the Monterrey metropolitan area.

Grupo Lamosa has made significant capital expenditures over the past few years in order to construct a state-of-the-art, world-leading technological platform, increase productivity, and develop higher value added products. At the end of 2007, Grupo Lamosa acquired Porcelanite Holding, S.A. de C.V., becoming the world's largest ceramic tile producer in terms of sales volume.

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After the acquisition of Porcelanite Holding, S.A. de C.V., during 2008 Grupo Lamosa implemented an intensive integration initiative to merge the operations of the two companies. During this time, the Company redirected its business model, set up working teams, identified best practices and redefined all processes. The integration resulted in more synergies than had been expected, strengthening Grupo Lamosa's competitive advantages and positioning the Company to capitalize on short- and long-term opportunities.



INTEGRATION

GRUPO LAMOSA

BUSINESS / COMPANIES

Ceramic Tiles

- » Porcelanite Lamosa, S.A. de C.V.
 - » Revestimientos Porcelanite, S.A. de C.V.
 - » Revestimientos Porcelanite Lamosa, S.A. de C.V.
 - » Servicios Comerciales Lamosa, S.A. de C.V.
 - » Porcelanite Holding, S.A. de C.V.
- » Revestimientos Lamosa, S.A. de C.V.
- Plants:** Benito Juárez, Tlaxcala (5), San Luis Potosí, Sonora, Querétaro, Guanajuato



Adhesives

- » Crest, S.A. de C.V.
Plants: Santa Catarina, Guadalajara, Morelia, Chihuahua, Tizayuca
 - » Adhesivos de Jalisco, S.A. de C.V.
Plants: Guadalajara, León, Mérida
- » Industrias Niasa, S.A. de C.V.
Plants: México, Guadalajara, Chihuahua, Navojoa, Tijuana, Torreón
 - » Soluciones Técnicas para la Construcción, S.A. de C.V.
Plant: Tizayuca



Sanitaryware

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



Real Estate

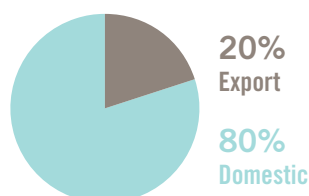
- » Grupo Inmobiliario Viber, S.A. de C.V.
 - » Lamosa Desarrollos Inmobiliarios, S.A. de C.V.
 - » Inmobiliaria Revolución, S.A. de C.V.
 - » Ladrillera Monterrey, S.A. de C.V.
- » **Main developments:** Privanzas, Cumbres Providencia and Contry Sur, among others



COMPETITIVE ADVANTAGES

- » Strategically located to serve North, Central and South America
- » State-of-the-art technological platform
- » Market leadership and extensive geographic coverage both in Mexico and abroad
- » Innovative designs in line with the latest market trends
- » Compliance with the highest quality standards

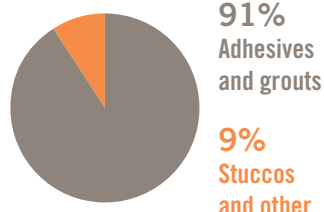
SALES BREAKDOWN (VALUE)



PRODUCTS AND SERVICES

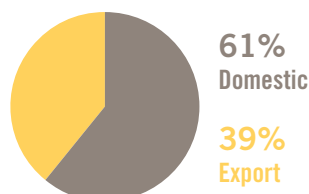
- » Floor tiles
- » Wall tiles
- » Skirting boards
- » Porcelain enamel tiles
- » Special pieces

- » 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
- » New product research and development



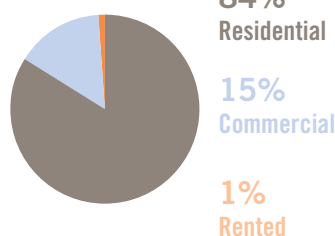
- » Adhesives for installing wall and floor tiles
- » Grouts
- » Stuccos
- » Texturized finishes
- » Waterproofing materials
- » Specialized products

- » Product warranty
- » Design and innovation of high-performance products
- » Development of intelligent, water-efficient, "Dual Flush" toilet
- » "Ideal High" products with added height for greater comfort
- » Focus on customer service



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

- » More than 25 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



- » Residential developments
- » Commercial developments
- » Office park

FINANCIAL HIGHLIGHTS

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

(Figures for 2007 are expressed in millions of constant Mexican pesos as of December 31, 2007, and for 2008 in millions of current Mexican pesos)

	2007	2008	VAR %
RESULTS			
Net sales ⁽¹⁾	6,721	8,416	25
Export sales (MILLIONS OF USD)	64	132	105
Export sales / net sales	11%	17%	
Operating income ^{(2) (3)}	1,655	1,019	(38)
Operating income / net sales	25%	12%	
Comprehensive financing cost	165	2,146	1,204
Consolidated net income (loss)	900	(933)	(204)
FINANCIAL POSITION			
Total assets	15,949	16,828	6
Total liabilities	11,689	13,862	19
Stockholders' equity	4,260	2,966	(30)
Book value per share ⁽⁴⁾	11.49	8.00	(30)
CASH FLOW			
Net operating cash flow ⁽⁵⁾	1,958	1,652	(16)
Capital expenditures ⁽⁶⁾	9,165	166	(98)
NUMBER OF EMPLOYEES			
Total personnel	5,634	4,885	(13)

(1) In 2007, the Company's Real Estate Division posted sales of Ps 1,826.9 million from the sale of the "Galerias Valle Oriente" and "Plaza Cumbres" shopping malls.

(2) In 2007, the Company's Real Estate Division posted an operating income of Ps 828.4 million from the sale of the "Galerias Valle Oriente" and "Plaza Cumbres" shopping malls.

(3) In 2008, increased energy prices reduced the operating income by Ps 445.0 million.

(4) On a total of 370.9 million shares.

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

(6) In 2007, capital expenditures include the acquisition of Porcelanite Holding, S.A. de C.V.





The implementation of the Lamosa-Porcelanite integration process was one of the most important achievements of 2008.

NET SALES *millions of Mexican pesos*



annual growth '05-'08

+27.3%

EXPORT SALES *millions of USD*



annual growth '05-'08

+34.8%

OPERATING INCOME *millions of Mexican pesos*



annual growth '05-'08

+12.8%

CONSOLIDATED NET INCOME *millions of Mexican pesos*



COMPREHENSIVE FINANCING COST *millions of Mexican pesos*



annual growth '05-'08

+245.6%

NET OPERATING CASH FLOW *millions of Mexican pesos*



annual growth '05-'08

+18.6%

TO OUR STOCKHOLDERS

During 2008, Grupo Lamosa took steps to adapt to the prevailing business context, focusing on a careful management of cash flow in order to facilitate the Company's operations and compliance with financial responsibilities.

Without doubt, 2008 brought important challenges to Grupo Lamosa. During the year, the Company made significant progress with activities resulting from the acquisition of Porcelanite Holding, S.A. de C.V. at the end of 2007 and also faced a market whose dynamism was reduced by the recessive economic environment.

The Lamosa-Porcelanite integration process was one of the most important achievements of 2008. By understanding the cultures of the two companies and introducing best practices across the board, the Company implemented a new business model that capitalizes on the synergies of the merger and strengthens the competitive advantages of the merged entities.

The integration was a long and demanding process, which had been planned in detail before the acquisition through an identification of diverse sources of synergies and the creation of specific working teams in the different business areas. These teams followed up on all aspects of the process

to ensure they were carried out and capitalized on.

Another significant occurrence during 2008 was the cancellation of the Company's plan to make a public share offering. The offering would have reduced the level of debt that had been incurred as a result of the acquisition of Porcelanite Holding, S.A. de C.V. However, the difficult financial conditions that had originated in the United States and then affected all other world economies resulted in increased risk aversion and the closing of access to capital markets.

During 2008, Grupo Lamosa took steps to adapt to the prevailing business context and the short- and medium-term perspectives, mainly focusing on a careful management of cash flow in order to facilitate operations and ensure that the Company complied with its financial responsibilities. In addition, Grupo Lamosa managed its personnel and production capacities in accordance with the dynamics and prevailing conditions of the market.



Grupo Lamosa's new size as a result of the Porcelanite acquisition enabled the Company to diversify its markets, both in Mexico and abroad. The increased number of plants throughout Mexico helped to optimize domestic operations and had a favorable impact on results. In export markets, Grupo Lamosa was able to capitalize on important opportunities in Central and South America, thereby offsetting the reduction in sales resulting from the industrial contraction in the United States.

Despite the adverse conditions of 2008, which were exacerbated by volatility in energy prices and enhanced operating expenses, adversely affecting the Company's operating margins, the consolidated results were in general terms positive, with favorable sales growth and margins that exceeded industry averages.

Consequently, excluding the sale of the shopping malls at the end of 2007, Grupo Lamosa posted a 72.0% increase in revenues and a 23.3% growth in operating income.

Given the uncertain and complicated outlook for the future, 2009 will surely be a challenging year for Grupo Lamosa. However, the Company is better positioned today to face an environment that, although certainly beset by important challenges, also represents a time to capitalize on opportunities both in Mexico and abroad.

Once again, Grupo Lamosa thanks all its stockholders for their trust, its personnel for their continuous commitment and efforts, and its suppliers, creditors, distributors, customers and friends for their support.

Federico Toussaint Elosúa

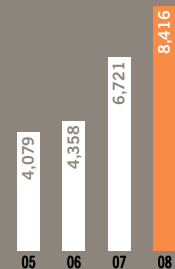
Chairman of the
Board of Directors

\$8,416

2008 Net Sales millions of Mexican pesos

Grupo Lamosa's new size as a result of the Porcelanite acquisition enabled the Company to diversify its markets, both in Mexico and abroad.

Net Sales
millions of Mexican pesos



OBTAINING GREATER

SYNERG

The Ceramic Tile Business is present at more than

1,200

points of sale in Mexico

The largest tile producer

in the world



The Porcelanite-Lamosa integration resulted in more synergies than had been expected.

Ten ceramic tile production facilities throughout Mexico to serve our customers.



The main sources of synergies included: Logistics, Process Optimization, Product Mixes, Economies of Scale, and a Nationwide Domestic Distribution Network.

The integration process following the acquisition of Porcelanite allowed Grupo Lamosa to identify and analyze the differentiating factors that will determine the Company's future success. The results exceeded expectations, with the Company capitalizing on more synergies than had been anticipated.

IES



STRENGTHENING OUR COMPETITIVE

ADVVA



The acquisition of Porcelanite has positioned Grupo Lamosa to capitalize on the strengths resulting from its new size, the talent of its people, its focus on innovative products, its state-of-the-art process technology and the strategic location of its operations.

ADVANTAGES

Grupo Lamosa has more than

25

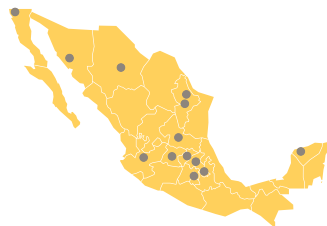
production centers throughout the Mexican Republic.

Platform with the technology and

Leadership

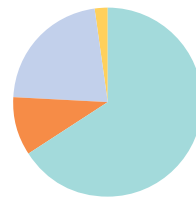
to grow outside Mexico.

● Lamosa plant locations



Closeness to the customer allows the Company to offer world-class service

Current Grupo Lamosa business portfolio



- Ceramic Tiles
- Sanitaryware
- Adhesives
- Real Estate

Grupo Lamosa's new size with the incorporation of Porcelanite, combined with its increased geographic coverage and continuous efforts to develop and launch new, innovative products, are just some of the advantages that differentiate the Company from the competition.

CONSOLIDATING OUR

LEADER

Leading

player in all its markets

With a range of more than

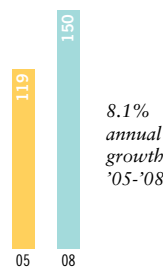
2,000

products in its different businesses.



Image of technological leadership with the launch of specialized products for the construction industry.

Total Sales / Personnel
thousands of U.S. dollars



Significant increases in productivity

Grupo Lamosa's efforts to strengthen its positioning, with capital expenditures of more than one billion dollars over the past six years, have consolidated the leadership of its industrial businesses in all their markets.



SHIP



The strategy Grupo Lamosa has implemented has been consistent with its vision: to consolidate a leadership position in all its businesses, expanding its offerings and diversifying its markets.

GAINING

STREN



Despite the adverse environment, Grupo Lamosa has the strength and competitive advantages to capitalize on opportunities in the short and medium term.

GTH

AS WE MOVE FORWARD

Grupo Lamosa is one of the few Mexican companies with a track record of more than

115

years in the market.

105.3%

Growth in Export Sales in USD

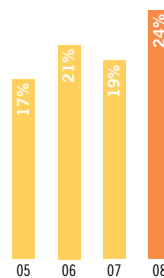


Grupo Lamosa has a strong portfolio of products and brands enabling it to satisfy the different needs of its varied markets.



Ceramic Tile Business

Export Sales Volume / Total Sales (%)



Grupo Lamosa expanded its operations to Central and South America, exporting its products to more than 20 different countries and expanding export sales, thereby offsetting the market contraction in the United States.



For the Ceramic Tile Business, the integration and redesign of its operations as a result of the acquisition of Porcelanite Holding, S.A. de C.V. was the most important event of 2008. The integration process allowed the business to capitalize on synergies, which turned out to be greater than had been envisioned at the beginning of the year.

The Lamosa-Porcelanite integration process presented an important commercial challenge, given the value and recognition of both brands. The business had to focus on making sure that the integration has a positive effect on the market, capitalize on the attributes of the two companies and act with total transparency before all customers.

The efforts Grupo Lamosa made to ensure the success of the process have been translated into an improved competitive positioning for the business,



Launch of the Oaxaca range as part of the “Great Mexican Collections”

mance in foreign markets, with export sales rising 275.7% in 2008 compared to 2007.

It is important to note the growth in this business’s export sales despite the difficult conditions in its different foreign markets. During the year, it was able to capitalize on the competitive advantages resulting from the acquisition of Porcelanite, participating in new markets and increasing its presence in Central and South America.



CERAMIC TILES

Net Sales
millions of Mexican pesos



which will enable it to continue taking advantage of market opportunities.

The 2008 results of the Ceramic Tile Business were favorable despite the difficult market environment, especially as of the second half of the year. Sales grew 186.8%, largely driven by the incorporation of the Porcelanite operations and an outstanding perfor-

During the year, the Ceramic Tile Business continued its efforts to strengthen its portfolio of products, both in Mexico and abroad. In the fourth quarter, it took part in the Expo CIHAC trade fair in Mexico City, where the organizers recognized the business for its presentation of the Maya product range, which belong to the “Great Mexican Collections”.

During the fourth quarter of the year, the Oaxaca range of the same collection was launched. This series is a high-end line of porcelain enamel products which has been well accepted because of its original designs, reinforcing the Company’s positioning as a leader in the quality, innovation and creativity of its products. The line includes *Barro Negro*, *Piedra de Mitla* and *Madera de Copal* tiles produced in different colors and a wide variety of formats.

At the Coverings 2008 Trade Show in Orlando, Florida, Grupo Lamosa's Ceramic Tile Business obtained "Best in the Show" recognition for the second time. The organizers of the exhibition, one of the most important on a world level, give this award on the basis of factors such as product pre-



"Best in Show" recognition at the Coverings 2008 Trade Show

sentation. In 2008, 1,200 expositors from 50 different countries took part in the event.

The leadership that this business has achieved represents an enormous commitment to generate value by capitalizing on the opportunities generated in the recessive environment that we are currently experiencing. The business is favorably positioned to take

advantage of these opportunities in a focused and efficient way in order to strengthen its standing in the future.

In Mexico, the accumulated housing deficit and new housing needs generated every year, combined with the Federal Government's support for this area, will continue to drive the demand for ceramic tiles and the Ceramic Tile Business must take advantage of this in 2009.

*Successful integration
of the operations of
Porcelanite Holding,
S.A. de C.V.*



The Adhesives Business made outstanding progress throughout 2008, consolidating its leadership in Mexico and continuing to post favorable results despite the adverse economic conditions and their impact on the construction industry.

This business's 2008 achievements include the successful incorporation and optimization of the adhesives operations of Porcelanite, the positive performance of the line of waterproofing products in its second year in the market, and the enhanced presence of the segment's products in the northwestern and southeastern regions of Mexico.

The actions taken allowed the business to close 2008 with a favorable 13.1% increase in sales compared to 2007. The rise in sales of stuccos and specialized products, as well as international sales, contributed significantly to this growth.



Undisputed market leader in Mexico

Day” event held in Mexico City, which was attended by approximately 1,200 installers. The business took advantage of the occasion to promote and launch new specialized products.

The efforts the Adhesives Business has made to develop and launch new, specialized products for the construction industry has been one of the key fac-

ADHESIVES



Net Sales
millions of Mexican pesos

+13.1%



In its efforts to continue expanding operations outside Mexico, the Adhesives Business participated in the Coverings 2008 Trade Show in Orlando, Florida, establishing commercial relations with U.S. customers from Texas, California and Illinois.

During 2008, the business continued with activities to celebrate the 50th anniversary of Crest in the Mexican market. One of these activities was an “Installer

tors for differentiating its products and services and consolidating its image of being at the forefront of technology. During 2008, new, innovative offerings were launched, including a rapid-drying, easily applicable waterproofer in powder form, Imper Crest Cemento, specially designed for damp environmental and surface conditions.

This business continues to focus on expanding its operations and capitalizing on opportunities in Mexico and abroad. The strength of its portfolio of brands and product quality are just two of the factors that will continue to contribute to its strong market positioning and positive performance despite the unfavorable economic conditions.

The 2008 results of the Sanitaryware Business were greatly affected by the contraction of the construction industry in the United States, the segment's main export market.

Due to the existing environment, 2008 sales were 8.4% below those of the previous year.

Despite the decline in this industry in the United States, the efforts of the Sanitaryware Business to increase its market share in the wholesale plumbing channel gave it access to new distributors in different regions, including the states of Washington, Oregon, Alabama and Mississippi.

In addition, the consumer trend towards high-performance products that consume small amounts of water, particularly in California and Texas, and the business's high level of differentiated service have

The "Green Line" is a range of certified environmentally friendly products that use only 4.8 liters (1.3 gallons) of water per flush, when the official standard volume is 6 liters (1.6 gallons).

During 2008, this business persisted with its efforts to increase the presence of its products at new points of sale throughout Mexico, participating in fairs and exhibitions, such as Expo Ferretera in Guadalajara.



SANITARYWARE



been decisive factors in strengthening its presence in these states. The Sanitaryware Business continues taking steps to maintain and strengthen its leadership position in the domestic market.

During 2008, efforts were focused on promoting the "Green Line" of bathroom fixtures, designed for the so-called "green" mortgages.



Launch of the "Green Line" for the so-called "green" mortgages

In the United States, it took part in the Kitchen and Bath Show held in Chicago, Illinois.

Over the past few years, the Sanitaryware Business has been one of the few producers to successfully invest in state-of-the-art technology for its processes and in the design and development of new products to satisfy market needs.

The business is currently the third-largest bathroom fixtures manufacturer in the NAFTA region and is favorably positioned to take advantage of the opportunities that arise in the near future.



REAL ESTATE



Net Sales
millions of Mexican pesos

-90.7%

2007 figure includes the sale of shopping malls



2008 was a complicated year for the Real Estate Business. The economic decline, particularly during the second half of the year, slowed the real estate sector and resulted in the suspension of a number of projects that the business had intended to start up during the year.

This business closed the year with reduced revenues, obliging it to redefine its strategy to adapt to the new recessive context of the real estate market. To this end, it sought to enhance the efficiency of its operations and increase its focus on company-owned land reserves, facilitating operations that the Company can finance itself and the rapid recovery of investment.

During the year, the Real Estate Business continued to promote and sell land, houses and apartments through its different developments, including *Privanzas*, *Contry Sur* and *Cumbres Providencia*.

It is important to note that Grupo Lamosa's recent size increase, combined with the sale of shopping malls during 2007, has reduced the relative weight of this business's revenues in the Company's portfolio.

FINANCIAL PERFORMANCE

Grupo Lamosa faced significant challenges in its financial activities during 2008, with the global economic context preventing it from implementing actions that had been contemplated in its financial plan. The closing of access to capital markets put a stop to a public share offering that would have reduced the level of debt resulting from the acquisition of Porcelanite Holding, S.A. de C.V. at the end of 2007.

With this setting and the reduced market activity, in 2008 Grupo Lamosa focused its efforts on successfully integrating the operations of Porcelanite, optimizing its

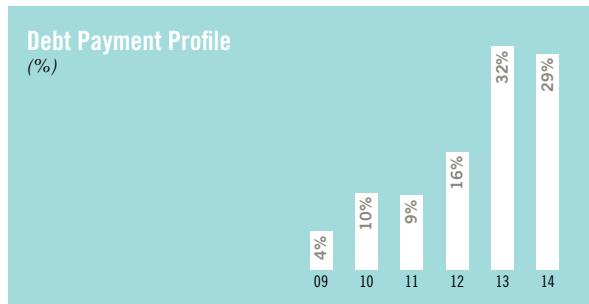
use of resources and generating internal cash flow in order to facilitate the operation of its industrial businesses and meet all its financial debt-related obligations. It is important to note that the amortizations on the Company's current consolidated debt are favorably structured and increase gradually with time. \$31.6 million dollars of the total debt come due in 2009, a figure which represents only 4% of the interest-bearing debt.

Because of the 26% devaluation of the Mexican peso vis-à-vis the U.S. dollar during 2008, combined with the impact of energy prices and the market contraction on

results, Grupo Lamosa did not comply with the covenants corresponding to the syndicated loan which had been determined under a very different market environment. This situation obliged the Company to reinforce its constant communication and excellent relations with its financial creditors, ensuring that it would continue its normal course of operations. On March 6, 2009, Grupo Lamosa reached a forbearance agreement until June 30, 2009, which will allow it to continue operating under current conditions, with creditors accepting to abstain from any right to demand payment in accordance with the corresponding credit contract. As a result and in accordance with Mexican Financial Reporting Standards, the debt was accounted for as short-term.

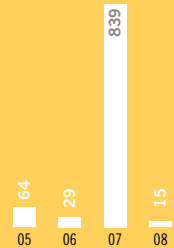
It is important to note that in 2009 Grupo Lamosa will have the financial capacity and cash flow to continue operating and comply with its financial debt-related obligations.

During 2008, Grupo Lamosa made transactions with derivative instruments, in accordance with internal guidelines which limit such actions to hedging activities



Capital Expenditures
millions of U.S. dollars

2007 figure includes the acquisition of Porcelanite



and prohibit speculation. Derivative transactions must be focused on minimizing the volatility of the price of natural gas, the foreign exchange rate and interest rates. Since they are effective coverages, the impact of the Mark to Market is accounted for under equity, pursuant to Mexican Financial Reporting Standards.

During 2008, Grupo Lamosa invested 165.7 million pesos in projects designed to automate processes, capitalize on synergies, and conserve and maintain its production facilities.

Financial capacity and cash flow to continue operating and meet financial debt-related obligations.

CORPORATE GOVERNANCE

Grupo Lamosa made significant progress in the area of corporate governance during 2008, adhering to a very high degree to the new Code of Best Corporate Practices issued by the *Consejo Coordinador Empresarial*.

Both the Corporate Practices and Audit Committees carried out their activities in accordance with current regulations and the Company by-laws.

Grupo Lamosa is convinced that good corporate governance, besides protecting the interests of the investors, promotes investment and risk capital transactions. Moreover, at times like these when there is a crisis of confidence, they represent a differentiating factor as the Company endeavors to go far further than simply complying with existing regulations.

Members of the Audit Committee:

- Carlos Zambrano Plant (Chairman)
- Eduardo Padilla Silva
- Max Michel Suberville

Members of the Corporate Practices Committee:

- Eugenio Garza Herrera (Chairman)
- Eduardo Elizondo Barragán
- Bernardo Elosúa Robles
- Salvador Alva Gómez

BOARD OF DIRECTORS AND COMPANY OFFICERS



BOARD OF DIRECTORS

Federico Toussaint Elosúa
Chairman of the Board of Grupo Lamosa. Member since 1989 **R**

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 **R**

Bernardo Elosúa Robles
Independent Consultant
Member since 1993 **R**
Corporate Practices Committee

Andrés Elosúa González
CEO of Lafon Launay Cosmetics
Member since 2007 **R**

Juan Miguel Rubio Elosúa
CEO of Productos Alimenticios XICO
Member since 1996 **R**

Guillermo Barragán Elosúa
CEO of Hidrobart
Member since 1993 **R**

Javier Saavedra Valdes
Professional Painter
Member since 1998 **R**

José Manuel Valverde Valdes
Consultant in Consumer Credit
Decision Processes. Member since
1998 **R**

Eugenio Garza Herrera
Chairman of the Board and CEO
of Xignux. Member since 1997 **I**
Corporate Practices Committee

Armando Garza Sada
Senior Vice-President of Development
of Grupo ALFA. Member since 1997 **I**

Salvador Alva Gómez
Ex-President of Pepsico Latin America
Member since 2008 **I**
Corporate Practices Committee

Eduardo Padilla Silva
Chief Executive Officer, 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 Santos
Elizondo Cantú-Rivera-González-de la
Garza Mendoza, S.C. Member since
1995. Secretary

R (Related)

I (Independent)

In accordance with the Stockholders' Meeting
of March 11, 2008.

Left to right (standing): Juan Miguel Rubio Elosúa, Eugenio Garza Herrera, José Manuel Valverde Valdes, Eduardo Padilla Silva, Javier Saavedra Valdes, Bernardo Elosúa Robles, José Alfonso Rubio Elosúa, Andrés Elosúa González.

Left to right (sitting): Salvador Alva Gómez, Armando Garza Sada, Max Michel Suberville, Federico Toussaint Elosúa, Eduardo Elizondo Barragán, Carlos Zambrano Plant, Guillermo Barragán Elosúa.



Federico Toussaint Elosúa
Chief Executive Officer

Sergio Narváez Garza
Ceramic 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

Left to right:

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

AUDIT COMMITTEE REPORT

February 22, 2009

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

On behalf of the Audit Committee, as Chairman of the same, and pursuant to that set out in Article 42 of the Company by-laws and in Article 43 of Mexican Stock Market Law, I would like to present to you an annual report on the Audit Committee's activities in relation to the financial year ended on December 31, 2008.

1. We reviewed the reports of the external auditors and on the results of the internal audit for the year of 2008, as well as the reports corresponding to the said year that, according to legal requirements, this Committee issues a favorable opinion on and then presents to the Board of Directors.
2. To date, this Audit Committee has no knowledge of any non-compliance 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 2008. The said firm provided additional services, comprising the issuing of opinions on fiscal issues and limited reviews, among other activities.
5. This Committee reviewed the integral risk project, which seeks to reinforce the functions of corporate governance and control and focus them on the basis of risk. This Committee also reviewed the results of the compliance audit carried out by an external legal consultant in relation to intellectual property, labor and environmental issues.
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. The Committee gave the Board of Directors a favorable opinion on the Annual Report of the Chief Executive Officer and on the report on operations and activities in which the Board was involved, corresponding to the fiscal year of 2008.
8. 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.



Carlos Zambrano Plant
Chairman

CORPORATE PRACTICES COMMITTEE REPORT

February 26, 2009

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

As Chairman of the Corporate Practices Committee and pursuant to that set out in Article 42 of the Company by-laws and in Article 43 of Mexican Stock Market Law, I would like to present to you an annual report on this Committee's activities in relation to the financial year ended on December 31, 2008.

1. We reviewed the previously defined goals, and individual and Company performance during the year and, where necessary, any observations on the performance of Company officers. We also reviewed the evaluation system, which validates the performance of the different officers.
2. 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 short- and long-term incentives, and consider that they are in line with the market mean.
3. We reviewed the functions and remuneration of the Ceramic Tile Business's organizational management as a result of the incorporation of the operations of Porcelanite.
4. This Committee gave no 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, and is not aware that the Board of Directors or any Committee has done so.
5. The Corporate Practices Committee will continue carrying out all the actions necessary to comply with the legal and statutory requirements that govern it.



Eugenio Garza Herrera
Chairman

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

February 26, 2009

(March 6, 2009, with respect to the "Forbearance Agreement" disclosed in note 10a)

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, 2008 and 2007, the related consolidated statements of operations and changes in stockholders' equity for the years then ended, the consolidated statement of cash flows for the year ended December 31, 2008 and the consolidated statement of changes in financial position for the year ended 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 ("MFRS"). 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 with those of 2008.

As mentioned in note 10a to the accompanying consolidated financial statements, as of December 31, 2008, the Company failed to comply with its obligation to maintain certain financial ratios and covenants of its long-term debt, which granted its lenders the unilateral ability to accelerate the maturity of such debt. As a result, this debt has been classified in the consolidated balance sheet as of December 31, 2008, within current liabilities (current portion of long-term debt) in accordance with MFRS.

As a result of its non-compliance discussed in the preceding paragraph, in the fourth quarter of 2008 the Company entered into negotiations with its lenders to revise certain terms originally agreed to within its long-term debt agreement. As of the issuance date of the Company's consolidated financial statements, the negotiation process has not been completed, however, on March 6, 2009, the Company signed a "Forbearance Agreement" with a maturity in June 30, 2009 which establishes a standstill period during which its lenders will not take legal action based on events of default existing as of the date this document became legally enforceable.

As disclosed in note 3a to the accompanying consolidated financial statements, effective January 1, 2008, the Company adopted NIF B-2, "Statement of Cash Flows", NIF B-10, "Effects of Inflation", NIF D-3, "Employee Benefits" and NIF D-4, "Income Taxes"; and therefore the 2008 financial statements are not comparable with those of 2007.

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, 2008 and 2007, and the results of their operations and changes in their stockholders' equity for the years then ended and of their cash flows for the year ended December 31, 2008 and the changes in their financial position for the year ended December 31, 2007, 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

CONSOLIDATED BALANCE SHEETS

As of December 31, 2008 and 2007
(In thousands of Mexican pesos - see Note 2a)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 574,481	\$ 566,927
Trade accounts receivable (net of \$56,657 and \$72,900 of allowance for doubtful accounts in 2008 and 2007, respectively)	2,938,053	2,314,828
Other accounts receivable	630,377	301,233
Inventories, net	1,572,222	1,307,339
Derivative financial instruments	229,608	
Current assets	5,944,741	4,490,327
Real estate inventories	781,309	780,345
Property, plant and equipment, net	5,785,102	6,316,788
Intangible assets	4,246,662	4,290,351
Other assets	70,624	71,715
Total	\$ 16,828,438	\$ 15,949,526
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable to financial institutions	\$ 69,500	
Current portion of long-term debt	10,789,646	\$ 5,532
Trade accounts payable	1,006,828	709,077
Other payables and accrued expenses	631,643	572,602
Derivative financial instruments	525,842	
Income tax payable		157,889
Current liabilities	13,023,459	1,445,100
Long-term debt		9,045,227
Employee retirement benefits	121,464	142,908
Derivative financial instruments	143,550	
Deferred income tax	573,702	1,056,010
Total liabilities	13,862,175	11,689,245
Stockholders' equity		
Capital stock		
Additional paid-in capital	334,489	334,489
Retained earnings	149,096	149,096
Insufficiency in restated stockholders' equity	2,766,071	4,818,020
Cumulative initial effect of deferred income tax		(713,827)
Derivative financial instruments	(285,062)	(375,733)
Majority stockholders' equity	(1,203)	2,964,594
Minority interest in consolidated subsidiaries	2,964,594	4,210,842
Trustee rights of third parties	1,669	779
Total stockholders' equity	48,660	2,966,263
Total	\$ 16,828,438	\$ 15,949,526

Ing. Federico Toussaint Elosúa
Chief Executive Officer

Ing. Tomás Luis Garza de la Garza
Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2008 and 2007
(In thousands of Mexican pesos, except per share data - see Note 2a)

	2008	2007
Net sales	\$ 8,416,017	\$ 6,720,761
Costs and expenses:		
Cost of sales	5,642,464	3,955,621
Operating expenses	1,754,763	1,110,226
	7,397,227	5,065,847
Operating income	1,018,790	1,654,914
Other expenses, net	163,401	196,120
Net comprehensive financing cost:		
Interest expense	840,941	172,040
Interest income	(21,810)	(33,109)
Monetary position gain		(9,006)
Exchange loss, net	1,263,327	34,617
Valuation effects of derivative financial instruments	63,526	
	2,145,984	164,542
(Loss) income before income tax	(1,290,595)	1,294,252
Income tax (benefit) expense	(357,359)	394,045
Consolidated net (loss) income	\$ (933,236)	\$ 900,207
Net (loss) income per share	\$ (2.53)	\$ 2.45

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2008 and 2007
(In thousands of Mexican pesos - see Note 2a)

	Capital stock	Additional paid in capital	Retained earnings
Balances as of January 1, 2007	\$ 334,464	\$ 149,096	\$ 4,032,918
Issuance of common stock	25		(25)
Purchase 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
Reclassification of insufficiency in restated stockholders' equity			(713,827)
Reclassification of the initial cumulative effect of deferred income taxes			(375,733)
Purchase of treasury stock, net			(29,153)
Trustee rights of third parties			
Comprehensive loss			(933,236)
Balances as of December 31, 2008	\$ 334,489	\$ 149,096	\$ 2,766,071

Insufficiency in restated stockholders' equity	Cumulative initial effect of deferred income tax	Derivative financial instruments	Trustee third rights of parties and minority interest	Total stockholders' equity
\$ (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
713,827				
	375,733			(29,153)
			(48,660)	(48,660)
		(283,859)	890	(1,216,205)
\$ 0	\$ 0	\$ (285,062)	\$ 1,669	\$ 2,966,263

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2008
(In thousands of Mexican pesos - see Note 2a)

2008

Operating activities:

Loss before income taxes	\$ (1,290,595)
Items related to investing activities:	
Depreciation and amortization	566,366
Impairment of long-lived assets	146,437
Other	52,304
Items related to financing activities:	
Interest income	(21,810)
Interest expense	840,941
Exchange loss, net	1,263,327
Valuation effects of derivative financial instruments	63,526
	<u>1,620,496</u>
Trade accounts receivable	(623,225)
Inventories	(314,507)
Trade accounts payable	297,751
Other accounts payable and receivable	30,113
Income taxes paid	(443,265)
Net cash provided by operating activities	<u>567,363</u>
Investing activities - Purchases of machinery and equipment	(165,736)
Net cash used in investing activities	<u>(165,736)</u>
Excess cash to apply to financing activities	<u>401,627</u>
Financing activities:	
Proceeds from notes payable	1,206,548
Repayment of notes payable	(746,170)
Interest paid, net	(782,504)
Purchase of treasury stock, net	(29,153)
Other	(42,794)
Net cash used in financing activities	<u>(394,073)</u>
Net increase in cash and cash equivalents	7,554
Cash and cash equivalents at beginning of year	566,927
Cash and cash equivalents at end of year	<u>\$ 574,481</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 2007
(In thousands of Mexican pesos - see Note 2a)

2007
Operating activities:

Consolidated net income	\$ 900,207
Items that did not require (generate) resources:	
Depreciation and amortization	290,083
Employee retirement obligations	16,331
Bad debt expense	11,822
Deferred income tax and employee statutory profit sharing	110,417
Impairment of long-lived assets	20,053
Derivative financial instruments	16,991
	1,365,904

Changes in operating assets and liabilities:

Trade accounts receivable	108,466
Other accounts receivable	(23,088)
Inventories	904,339
Trade accounts payable	21,865
Derivative financial instruments	(59,788)
Net resources generated by operating activities	2,317,698

Financing activities:

Proceeds from notes payable	9,711,029
Repayment of notes payable	(1,991,432)
Effect of inflation on notes payable	(56,378)
Derivative financial instruments	2,533
Purchase of treasury stock, net	(39,778)
Dividends paid	(75,302)
Net resources generated by financing activities	7,550,672

Investing activities:

Acquisition of property, plant and equipment	(387,499)
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)
Net resources used in investing activities	(9,332,503)

Cash and cash equivalents:

Net increase	535,867
Balance at beginning of year	31,060
Balance at end of year	\$ 566,927

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007
(In thousands of Mexican pesos – see Note 2a)

NOTE 1 NATURE OF OPERATIONS

a. **Activities** – Grupo Lamosa, S.A.B. de C.V. (“Glasa”) and its subsidiaries (the “Company”) are engaged in the manufacture of ceramic products for wall and floor coverings, bathroom fixtures, adhesives for ceramic tiles and development of real estate projects for sale and rent. The Company is organized into three reportable segments, which include Ceramic, Adhesive and Real Estate.

b. **Acquisition of subsidiary** – 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”) for \$809.7 million in cash. In accordance with Mexican Financial Reporting Standards (“MFRS”), the acquisition was recorded using the purchase method. The Company financed the acquisition of Porcelanite by obtaining a long-term loan of \$825 million (including debt issuance costs). Porcelanite is a holding company for a group of entities whose activities include the production and sales of ceramic tiles and adhesives for ceramic coverings.

The acquisition cost allocated to the acquired assets and assumed liabilities as of the date of acquisition, based on their fair values, are presented below:

	Amount
Current assets:	\$ 2,359,706
Property, plant and equipment	3,865,573
Intangible assets	3,791,424
Goodwill	118,539
Total assets	10,135,242
Current liabilities	1,563,350
Long-term liabilities	790,544
Total liabilities	2,353,894
Net assets acquired	\$ 7,781,348

Intangible assets acquired are mainly trademarks whose useful lives are considered indefinite and therefore are not subject to amortization. Goodwill was allocated to the ceramic segment.

The Company’s 2007 consolidated financial statements include the results of operations of Porcelanite and its subsidiaries as of the acquisition date and therefore are not comparable with those of 2008. The changes in financial position for the year ended December 31, 2007 reflects the acquisition of Porcelanite in the line item “Net cash used in investing activities”.

The following consolidated pro forma income statements of Grupo Lamosa and subsidiaries for the year ended December 31, 2007, include the financial information of Porcelanite and its subsidiaries as if the acquisition had occurred on January 1, 2007:

	Amount
Net sales	\$ 10,408,409
Operating income	2,347,438
Net income	1,050,562
Net income per share	2.18

NOTE 2 BASIS OF PRESENTATION

a. Monetary unit of the financial statements – The financial statements and notes thereto as of December 31, 2008 and for the year then ended, include balances and transactions denominated in Mexican pesos of different purchasing power, while those as of and for the year ended December 31, 2007 are presented in Mexican pesos of purchasing power of December 31, 2007; consequently, they are not comparable.

b. Consolidation of financial statements – 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 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⁾⁽²⁾	Servigesa, S.A. de C.V. ⁽¹⁾⁽²⁾
Porcelanite Lamosa, S.A. de C.V. ⁽³⁾	Revestimientos Porcelanite, S.A. de C.V. ⁽³⁾	Servicios Comerciales Lamosa, S.A. de C.V. ⁽³⁾
Revestimientos Porcelanite Lamosa, S.A. de C.V. ⁽³⁾	Revestimientos Lamosa, S.A. de C.V. ⁽⁴⁾	Intangibles Porcelanite, S.A. de C.V. ⁽⁵⁾
Intangibles Ital Gres, S.A. de C.V. ⁽⁵⁾	Sanitarios Azteca, S.A. de C.V.	

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.	Tecnocreto, 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.	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.	L&L Consorcio Inmobiliario, S.A. de C.V. ⁽³⁾	Inmobiliaria Revolución, S.A. de C.V. ⁽³⁾
Lamosa Desarrollos Inmobiliarios, S.A. de C.V. ⁽³⁾	Trust for the urbanization, development and marketing of real estate	Servicios Inmobiliarios Viber, S.A. de C.V.

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

⁽¹⁾ These entities were acquired on November 30, 2007 (see note 1b).

⁽²⁾ Associated companies where the Company has a 49% share interest.

⁽³⁾ These entities were incorporated in December 2007.

⁽⁴⁾ This entity was incorporated from the spin-off of another subsidiary in January 2007.

⁽⁵⁾ This entity was incorporated from the spin-off of another subsidiary in December 2008.

c. *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 MFRS. Certain accounting practices applied by the Company that conform with MFRS (which standards are called “Normas de Información Financiera” or “NIF’s”) may not conform with accounting principles generally accepted in the country of use.

d. *Comprehensive income (loss)* – 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 operations. In 2008, other comprehensive income items consist of the effects of derivative financial instruments and in 2007, other comprehensive income items consist of the insufficiency in restated stockholders’ equity and the effects of derivative financial instruments.

e. *Classification of costs and expenses* – The costs and expenses presented in the statement of operations 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.

f. *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 operations, 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.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with MFRS, 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. *Accounting changes* – Effective January 1, 2008, the Company adopted the following new NIF’s and therefore the 2008 consolidated financial statements are not comparable with those of 2007:

- NIF B-2, “Statement of Cash Flows” (“NIF B-2”) - NIF B-2 supersedes Bulletin B-12 “Statement of Changes in Financial Position”, and replaces the statement of changes in financial position. NIF B-2 permits the presentation of such statement using either the direct or the indirect method; the Company elected to utilize the indirect method. The statement of cash flows is presented in nominal pesos.

NIF B-2 must be applied prospectively, consequently, the Company presented a statement of cash flows for the year ended December 31, 2008 and a statement of changes in financial position for the year ended December 31, 2007.

- NIF B-10, “Effects of Inflation” (“NIF B-10”) - NIF B-10 defines two economic environments: a) an inflationary environment, when cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be comprehensively recognized; and b) a 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 has been realized; the gain or loss that is not realized will be maintained in stockholders’ equity and charged to current earnings over the period in which the originating item is recognized in earnings. As a result of adopting NIF B-10, the Company discontinued its recognition of the effects of inflation in its financial information for periods subsequent to December 31, 2007 as the cumulative inflation for the previous three years was less than 26%. Comparative financial information for periods prior to January 1, 2008 has been restated to constant Mexican pesos as of December 31, 2007.

The Company determined that it was impractical to identify the gain (loss) from its monetary position recorded in equity and the cumulative gain (loss) from holding non-monetary assets relating to unrealized assets at January 1, 2008; therefore, on that date in accordance with NIF B-10, the Company reclassified the entire balance of insufficiency of restated stockholders' equity to retained earnings.

Since cumulative inflation over the three preceding years is 11.56%, the environment in which the Company operates is no longer considered to be inflationary, and therefore the Company discontinued the recognition of the effects of inflation in its financial statements beginning January 1, 2008. However, assets, liabilities and stockholders' equity at December 31, 2008 and 2007 include restatement effects recognized through December 31, 2007.

- NIF D-3, "Employee benefits" ("NIF D-3") - NIF D-3 incorporates current and deferred statutory employee profit sharing ("PTU") as part of its provisions and establishes that deferred PTU must be determined using the asset and liability method established in NIF D-4, "Income taxes" ("NIF D-4"), instead of only considering temporary differences that arise in the reconciliation between the accounting result and income for PTU purposes.

NIF D-3 also eliminates the recognition of the minimum liability. NIF D-3 also incorporates the career salary concept in the actuarial calculation and limits the amortization period of most unrecognized items to five years or less if the employee's remaining labor life is less than the following:

- The beginning balance of the transition liability for termination benefits and retirement benefits.
 - The beginning balance of past services and modifications to the plan.
 - The beginning balance of actuarial gains and losses from retirement benefits is amortized in 5 years (net of the transition liability), with the option to fully amortize it against current earnings of 2008, within other income and expense. The Company amortizes actuarial gains and losses in results of operations over a five year period.
- NIF D-4, "Income taxes" ("NIF D-4") - NIF D-4 eliminates the permanent difference concept; clarifies and incorporates certain definitions, and requires that the balance of the "Initial cumulative effect of deferred income taxes" be reclassified to retained earnings unless it is identified with any of the other comprehensive income (loss) items pending to be applied against current earnings.

b. Recognition of the effects of inflation – As mentioned in a) above, beginning January 1, 2008, the Company discontinued its recognition of the effects of inflation.

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. At December 31, 2008 and 2007, there was cash for \$231,043 and \$144,454, respectively, which is intended for the payment of bank interest presented within current liabilities.

d. Inventories and cost of sales – Beginning in 2008, inventories are stated at the lower of cost or net realizable value and are recorded at their weighted-average cost. Through December 31, 2007, inventories were stated at the latest purchase price or production cost, without exceeding the net realizable value. Cost of sales was 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. Costs through December 31, 2007 were restated for the effects of 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. *Property, plant and equipment* – Property, plant and equipment of domestic origin are initially recorded at acquisition cost and through December 31, 2007 were restated for the effects of inflation by applying factors derived from the NCPI. Through 2007, for fixed assets of foreign origin, restated acquisition cost expressed in the currency of the country of origin is converted into Mexican pesos at the market exchange rate in effect at the balance sheet date. Depreciation is computed using the straight-line method, based on the estimated useful lives of the related assets as follows:

	Average years	
	2008	2007
Buildings and improvements	20	17
Machinery and equipment	7	7
Transportation equipment	3	3
Computer equipment	3	3
Furniture and mixtures	5	5

Net comprehensive financing cost incurred during the period of construction and installation of property, plant and equipment is capitalized and through December 31, 2007 was restated for the effects of inflation using the NCPI.

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

g. *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.

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

The Company uses interest rate swaps, foreign currency forward contracts and commodity (natural gas) contracts to manage its exposure to fluctuations of interest rates, foreign currency and the market price of natural gas.

i. **Goodwill and intangible assets** – Goodwill represents the excess of the purchase price over the fair value of the net assets and liabilities of acquired businesses. Goodwill and indefinite-lived intangible assets are not amortized but are instead tested for impairment on at least an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired, utilizing fair value estimates. Such fair value estimates are based on valuation models that typically incorporate probability assessments of expected future cash flows. Through December 31, 2007, such assets were restated for the effects of inflation using the NCPI.

Intangible assets with a determinable useful life include debt issuance costs, which are being amortized over the term of the respective loans.

j. **Employee retirement benefits**– Liabilities from seniority premiums, pension plans and severance payments are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at nominal rates in 2008 and net discount rates in 2007. 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.

k. **Income tax** – Income taxes are recorded in the results of the year in which they are incurred. To recognize deferred income taxes based on its financial projections, the Company must determine whether it will incur regular corporate income tax ("ISR") or the 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.

Tax on assets ("IMPAC") paid through 2007 that is expected to be recovered is recorded as an advanced payment of ISR and is presented in the consolidated balance sheets decreasing the deferred tax liability.

l. **Statutory employee profit sharing** – Statutory employee profit sharing 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 that in 2008 resulted from comparing the accounting and tax basis of assets and liabilities and, in 2007, resulted from comparing the accounting result and income for PTU purposes. Deferred PTU is recognized only when it can be reasonably assumed that such difference 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.

m. **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.

n. **Foreign currency transactions** – Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the date of the financial statements. Exchange fluctuations are recorded in results of operations, except those amounts capitalized as a component of construction costs.

o. **Insufficiency in restated stockholders' equity** – Through December 31, 2007, insufficiency in restated stockholders' equity represented the accumulated monetary position result through the initial restatement of the financial statements and the increase in the restated value of non monetary assets above (below) inflation.

p. **Monetary position gain** – Trough December 31, 2007, monetary position gain, represented the increase of purchasing power of monetary items caused by inflation, was calculated by applying NCPI factors to monthly net monetary position. Gains resulted from maintaining a net monetary liability position.

q. **Revenue recognition** – Revenues are recognized in the period in which the risks and rewards of ownership are transferred to customers, which generally coincides with the shipment of products to customers in satisfaction of orders and the transfer of the rights to possession of real estate inventories.

r. **Earnings (loss) per share** – Earnings (loss) per share are computed by dividing consolidated net (loss) income by the weighted average number of shares outstanding during each period. Earnings (loss) earnings per share are based on 368,732,595 and 367,881,347 weighted average common shares outstanding during 2008 and 2007, respectively.

s. **Reclassifications** – Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2007 have been reclassified to conform to the presentation of the 2008 consolidated financial statements.

NOTE 4 OTHER ACCOUNTS RECEIVABLE

	2008	2007
Recoverable taxes	\$ 490,778	\$ 237,829
Accounts receivable from associated companies	64,783	40,538
Other	74,816	22,866
	\$ 630,377	\$ 301,233

NOTE 5 INVENTORIES, NET

	2008	2007
Finished products	\$ 1,132,114	\$ 867,062
Work in process	106,756	95,233
Raw materials	232,149	220,285
Supplies and spare parts	123,608	129,134
Merchandise in transit	2,647	886
Advances to suppliers	7,057	5,431
Allowance for obsolescence	(32,109)	(10,692)
	\$ 1,572,222	\$ 1,307,339

NOTE 6 REAL ESTATE INVENTORIES

	2008	2007
Land in development for sale	\$ 515,899	\$ 424,048
Undeveloped land	173,819	203,659
Urbanization in progress	64,583	57,046
Construction in progress	27,008	95,592
	\$ 781,309	\$ 780,345

NOTE 7 PROPERTY, PLANT AND EQUIPMENT, NET

	2008	2007
Land	\$ 459,990	\$ 451,846
Buildings and improvements	3,133,894	3,111,731
Machinery and equipment	8,316,412	8,274,386
Transportation equipment	114,377	108,114
Furniture and mixtures	97,214	91,660
Computer equipment	94,936	87,490
Construction in progress	42,199	231,032
	12,259,022	12,356,259
Accumulated depreciation	(6,473,920)	(6,039,471)
	\$ 5,785,102	\$ 6,316,788

Unamortized capitalized net comprehensive financing cost was \$36,704 and \$37,734 at December 31, 2008 and 2007, respectively.

NOTE 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 in 2007.

NOTE 9 INTANGIBLE ASSETS

	2008	2007
Non-amortizable intangible assets:		
Trademarks acquired	\$ 3,791,424	\$ 3,791,424
Goodwill	267,957	267,957
	4,059,381	4,059,381
Amortizable intangible assets:		
Debt issuance cost	187,281	218,928
Intangible pension asset		12,042
	187,281	230,970
	\$ 4,246,662	\$ 4,290,351

NOTE 10 LONG-TERM DEBT

a. Bank debt in accordance with long-term credit agreements as of December 31, 2008 and 2007 is summarized as follows:

	2008	2007
(1) 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	\$ 3,355,830	\$ 2,655,990
(1) 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	3,926,822
(1) Secured bank loan, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread of 3.5%, principal payable in 2010	390,000	
(1) Unsecured bank loan, denominated in U.S. dollars, bearing interest at a floating rate based on LIBOR plus a spread between 4.5% and 6.5%, principal payable in various installments through 2014	3,107,250	2,459,250
Capital lease, denominated in Mexican pesos, bearing interest at a floating rate based on TIIE plus a spread of 3.25% , principal payable in various installments through 2012	9,744	8,697
Total long-term debt	10,789,646	9,050,759
Current portion of long-term debt	(10,789,646)	(5,532)
Long-term debt	\$ 0	\$ 9,045,227

(1) As of December 31, 2008, the Company failed to comply with its obligation to maintain certain financial ratios and covenants of its long-term debt, which granted its lenders the unilateral ability to accelerate the maturity of such debt. As a result, this debt has been classified in the consolidated balance sheet as of December 31, 2008, within current liabilities (current portion of long-term debt) in accordance with MFRS. As a result of its non-compliance, in the fourth quarter of 2008 the Company entered into negotiations with its lenders to revise certain terms originally agreed to within its long-term debt agreement. As of the issuance date of the Company's consolidated financial statements, the negotiation process has not been completed, however, on March 6, 2009, the Company signed a "Forbearance Agreement" with a maturity in June 30, 2009 which establishes a standstill period during which its lenders will not take legal action based on events of default existing as of the date this document became legally enforceable.

The Company's management expects the negotiation with its lenders will be completed to the satisfaction of all parties, and plans to maintain the originally established maturity of its bank debt. The schedule of contractual principal payments of the Company's bank debt as of December 31, 2008, is as follows:

Year ending December, 31	Amount
2009	\$ 367,419
2010	1,121,078
2011	1,021,851
2012	1,676,355
2013	3,495,693
2014 and thereafter	3,107,250
	\$ 10,789,646

As of December 31, 2008, the interest rates TIIE and LIBOR were 8.7% and 2.2%, respectively.

b. Debt of the Company totaling \$7,672,652 is collateralized by fixed assets with a book value of \$5,785,102 and shares of a subsidiary with a book value of \$4,029,900 as of December 31, 2008. Additionally, brands and patents owned by the Company are also granted as collateral.

c. The Company primarily uses interest rate swaps (“interest swaps”) and currency options (“currency options”) to manage its exposure to fluctuations in interest and foreign currency exchange rates. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various derivative transactions.

The Company’s currency options granted it the right to buy dollars at a fixed exchange rate. The Company’s interest swaps effectively convert a portion of its variable rate debt to fixed rate debt.

The following table summarizes the derivative financial instruments in place as of December 31, 2008:

Type of transaction	Commencement date	Termination date	Company pays fixed interest rate	Company receives interest rate	Notional amount (Thousands)	Contract currency	Exchange rate
Currency options	May 23, 2008	Various dates up through August 27, 2009 and November 26, 2013			US\$90,000	U.S. dollars	15.00
Interest swaps	May 30, 2008	Various dates to November 29, 2013	4.225%	LIBOR reviewed every 3 months	US \$60,000	U.S. dollars	10.394
Interest swaps	May 30, 2008	Various dates to November 29, 2013	4.23%	LIBOR reviewed every 3 months	US \$30,000	U.S. dollars	10.40

As of December 31, 2008, the fair value of the Company’s interest swaps and currency options is as follows:

	Fair value of assets (liabilities)
Interest swaps	\$ (35,723)
Currency options	229,608

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

	Income (expense) for the year ended December 31,	
	2008	2007
Interest swaps	\$ (9,067)	\$ 18,817
Currency swaps		(6,257)
Net	\$ (9,067)	\$ 12,560

NOTE 11 EMPLOYEE RETIREMENT BENEFITS

The disclosures relating to the Company's pension plans, seniority premium and severance payments required by the NIF D-3, issued by the Mexican Board for Research and Development of Financial Information Standards ("CINIF"), calculated as described in note 3-j), together with certain actuarial assumptions utilized, are presented below as of December 31, 2008 and 2007 are presented below:

	2008	2007
Vested benefit obligation	\$ 8,750	\$ 20,109
Nonvested benefit obligation	\$ 156,016	\$ 136,995
Projected benefit obligation	164,766	157,104
Plan assets	(26,410)	(30,056)
Unfunded status	138,356	127,048
Unrecognized items:		
Past service costs and changes to the plan	(7,985)	10,614
Unrecognized actuarial gains and losses	(8,907)	5,246
Net projected liability	\$ 121,464	\$ 142,908
Net period cost	\$ 34,672	\$ 16,331

Net discount rates used in actuarial calculations were as follows:

	2008	2007
	%	%
Discount rate	8.25	4.00
Estimated wage increase	4.50	1.00

NOTE 12 STOCKHOLDERS' EQUITY

- a. As of December 31, 2008 the minimum fixed capital stock consists of 360 million ordinary zero-par value shares without voting rights, and variable capital consists of 10.9 million ordinary shares, respectively, without par value. All shares are unrestricted as to ownership.
- b. At the general extraordinary stockholders' meeting held on March 15, 2007, an increase in the number of outstanding shares represented by the Company's ordinary shares of capital stock was approved. 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.
- c. At the general extraordinary stockholders' meetings held March 15, 2007, dividends were declared for \$75,302 (\$73,291 at nominal value).
- d. Pursuant to resolutions approved at the general ordinary stockholders' meetings held on March 15, 2007, variable capital was increased by \$25, capitalizing retained earnings for the same amount and issuing 3,672,360 ordinary shares without par value, effective August 1, 2007.
- e. Retained earnings include 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, 2008 and 2007, the legal reserve, in historical pesos, was \$480.
- f. 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.

g. The balances of the stockholders' equity tax accounts as of December 31, are:

	2008	2007
Contributed capital account	\$ 264,963	\$ 264,963
Net tax income account	6,113,100	5,366,015
Total	\$ 6,378,063	\$ 5,630,978

h. 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, corresponds to the contributions of a third party as trustee to the capital of another business trust created in 2004, which during 2008 was assigned to the third party.

NOTE 13 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 2008 was approximately 9,260,693 millions of British Thermal Units ("MMBTU"), of which, it had hedged a total of 3,957,988 MMBTU. The Company maintains hedges on the price of natural gas for approximately 13,056,918 MMBTU with 8,234,268 in 2009, 3,071,400 in 2010 and 1,751,250 in 2011 at a fixed price of US\$10.06, US\$9.29 and US\$8.60 per MMBTUS, respectively. These agreements were designated by management as hedging the natural gas market price variations and resulted in a derivative liability of \$633,669 as of December 31, 2008 presented in the line item "derivative financial instruments" in the consolidated balance sheets. Accordingly, other comprehensive income was affected by \$410,503, net of deferred income tax, as the hedge was considered to be highly effective for accounting purposes. As of February 26, 2009, the issuance date of these consolidated financial statements, the market price of natural gas is US\$3.87 per MMBTU.

The effect of the transactions mentioned above, was a charge for \$187,884 on the consolidated statements of income for the year ended December 31, 2008.

c. The Company has operating lease agreements for machinery and equipment denominated in U.S. dollars. The future estimated obligations arising from this agreement are as follows:

Year	Amount
2009	\$ 12,486
2010	26,175
2011	35,279
2012	34,337
2013 and thereafter	115,541
	\$ 223,818

NOTE 14 FOREIGN CURRENCY BALANCES AND TRANSACTIONS

a. The monetary position in foreign currency, expressed in thousands of U.S. dollars as of December 31, 2008, is as follows:

	Foreign currency balances		Mexican peso equivalent
Monetary assets	40,941	\$	482,732
Monetary liabilities	(481,118)		(6,616,836)
Net liability position	(440,177)	\$	(6,134,104)

b. Non-monetary assets of foreign origin, valued in thousands of U.S. dollars as of December 31, 2008 are as follows:

	Foreign currency balances		Mexican peso equivalent
Inventories	4,286	\$	59,153
Machinery and equipment	160,631		2,195,940

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

	2008		2007
Export sales	132,246		64,454
Interest expense, net	31,157		3,071
Import purchases	9,177		12,213

d. The exchange rate used to translate U.S. dollars to Mexican pesos as of December 31, 2008 and 2007, was \$13.81 and \$10.93, respectively (nominal pesos). At February 26, 2009, the issuance date of these consolidated financial statements, the exchange rate was \$14.93 (nominal pesos) per one U.S. dollar.

NOTE 15 OTHER EXPENSES, NET

	2008		2007
Minority interest in trusts and commercial centers (note 17c)	\$ 12,695	\$	213,656
Severance expenses	34,041		
Impairment of long-lived assets	146,437		20,053
Statutory employee profit sharing	9,781		11,517
Other income, net	(39,553)		(49,106)
	\$ 163,401	\$	196,120

NOTE 16 INCOME TAX

a. Beginning in 2008, the Company is subject to ISR and IETU and through 2007 to ISR and tax on assets ("IMPAC").

ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. The tax rate was 28% for the year ended December 31, 2007. The Company received a tax credit of \$ 2,930 in 2007, equivalent to 0.25% of taxable income because it complied with the requirements set forth in the tax law.

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

The Business Flat Tax Law ("LIETU") 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. The 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 the LIETU; however, under certain circumstances, IMPAC paid in the 10 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 which allows a company to file a consolidated tax return, the LIETU requires the parent and its subsidiaries to file individual returns.

In 2007, IMPAC was calculated by applying 1.25% to the value of the assets of the year, without deducting any debt amounts. IMPAC was payable only to the extent that it exceeded ISR payable for the same period.

Based on its financial projections, the Company, according to INIF 8, "Effects of the Business Flat Tax", determined that it will continue to pay ISR in the future and therefore, deferred income taxes continue to be calculated considering the ISR tax rate in effect.

b. The provision for ISR is analyzed as follows:

	2008	2007
Current	\$ 34,239	\$ 283,628
Deferred	(391,598)	110,417
Total	\$ (357,359)	\$ 394,045

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

	2008	2007
	%	%
Effective income tax rate	27.7	30.4
Other	0.3	(2.4)
Statutory income tax rate	28.0	28.0

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

	2008	2007
Deferred income tax liabilities:		
Property, plant and equipment	\$ 767,606	\$ 906,109
Inventories	79,615	172,643
Real estate inventories	13,918	89,838
Debt issuance costs	52,439	61,300
Trademarks acquired		4,455
	\$ 913,578	\$ 1,234,345
Deferred income tax assets:		
Derivative financial instruments	123,139	
Exchange losses, net	35,407	
Allowance for doubtful accounts	15,864	20,412
Employee retirement benefits	34,010	34,328
Other	95,209	67,199
	303,629	121,939
Tax on assets	36,247	56,396
Net liability	\$ 573,702	\$ 1,056,010

e. 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, 2008 and expiration dates are as follows:

Year of expiration	Tax on assets
2009	\$ 185
2010	484
2011	3,821
2012	9,698
2013	13,343
2014	8,716
	\$ 36,247

f. In 2007, 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.

NOTE 17 TRANSACTIONS WITH RELATED PARTIES

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

b. The main features of the Business Trust Fidudisa 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.

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

	2008	2007
Grupo Inmobiliario Viber, S.A. de C.V.	\$ 23,239	\$ 181,417
U-Calli Capital, S.A. de C.V.	12,695	41,541
	\$ 35,934	\$ 222,958

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

	2008	2007
Other expenses, net (see note 15)	\$ 12,695	\$ 213,656

e. For the years ended December 31, 2008 and 2007, the benefits granted to Company's key management (and/or relevant officers) were equal to \$41,674 and \$37,460, respectively.

NOTE 18 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, 2008:	Ceramic	Adhesive	Real estate	Corporate	Total
Total net sales	\$ 6,359,972	\$ 1,849,462	\$ 211,819	\$ 225,241	\$ 8,646,494
Intersegment sales	0	(5,236)	0	(225,241)	(230,477)
Net sales to third parties	6,359,972	1,844,226	211,819	0	8,416,017
Operating income (loss)	591,637	435,938	54,674	(63,459)	1,018,790
Total assets	13,525,605	808,641	599,943	1,894,249	16,828,438
Total liabilities	2,305,127	303,624	24,945	11,228,479	13,862,175
Capital expenditures	113,043	39,843	33	12,817	165,736
Depreciation and amortization	509,236	30,778	240	26,112	566,366
Impairment of long-lived assets	146,437				146,437
Net cash provided by (used in)					
operating activities	487,580	36,584	(39,928)	83,127	567,363
Net cash provided by (used in)					
financing activities	(13,276)	(7,431)	1,066	(374,432)	(394,073)

December 31, 2007:	Ceramic	Adhesive	Real estate	Corporate	Total
Total net sales	\$ 2,861,240	\$ 1,719,349	\$ 2,275,492	\$ 362,913	\$ 7,218,994
Intersegment sales	(46,701)	(88,115)	(504)	(362,913)	(498,233)
Net sales to third parties	2,814,539	1,631,234	2,274,988	0	6,720,761
Operating income (loss)	306,080	392,244	1,022,608	(66,018)	1,654,914
Total assets	13,113,825	888,761	537,455	1,409,485	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
Impairment of long-lived assets	20,053				20,053

Export sales represent 17.4% and 10.6% of total sales in 2008 and 2007, respectively, and are made mainly to the United States of America.

NOTE 19 NEW ACCOUNTING PRINCIPLES

With the purpose of making Mexican standards converge with international standards, in 2008, the Mexican Board for Research and Development of Financial Information Standards ("CINIF") issued the following NIFs and Interpretations of Financial Reporting Standards ("INIF"), which become effective as follows:

a. For fiscal years beginning on January 1, 2009:

NIF B-7, Business Acquisitions

NIF B-8, Consolidated or Combined Financial Statements

NIF C-7, Investments in Associated Companies and other Permanent Investments

NIF C-8, Intangible Assets

NIF D-8, Share-based Payments

INIF 14, Construction Contracts, Sale of Real Property and Rendering of Related Services

Some of the most important changes established by these standards are:

NIF B-7, Business Acquisitions, includes a change of concepts, from minority interest to non-controlling interest and requires fair value measurement of the non-controlling interest as of the acquisition date. Consequently, the overall goodwill is recognized based on fair value. NIF B-7 establishes that acquisition costs should not be part of the consideration paid and restructuring costs should not be recognized as an assumed liability from the acquisition.

NIF B-8, Consolidated or Combined Financial Statements, includes a change of concepts, from minority interest to non-controlling interest, and from majority interest to controlling interest. NIF B-8 establishes that special purpose entities, over which control is exercised, should be consolidated. Provided certain requirements are met, it allows the option to present stand-alone financial statements of intermediate controlling companies and requires that potential voting rights be considered to analyze whether control exists.

NIF C-7, Investments in Associated Companies and other Permanent Investments, requires that investments in special purpose entities where significant influence is exercised be accounted for using the equity method. It also requires that potential voting rights be considered to analyze whether significant influence exists. In addition, NIF C-7 establishes a specific procedure and establishes caps to the recognition of losses in associated companies, and requires that investments in associated companies be presented including any acquisition related goodwill.

NIF C-8, Intangible Assets, establishes that separating an intangible asset is not the only condition necessary for its identification; an intangible asset must be derived from contractual or legal rights. NIF C-8 eliminates the assumption that intangible assets are amortized over a period not to exceed 20 years. It also requires that any pre-operating expenses incurred through December 31, 2002 and still being amortized be canceled against retained earnings. NIF C-8 requires specific disclosures for public entities.

NIF D-8, Share-based Payments, sets the rules for recognition of share-based payments, including the granting of stock options to employees. Therefore, the use of IFRS 2, Share-Based Payments, that was applied as supplemental guidance is discontinued with the adoption of this standard.

b. For fiscal years beginning on January 1, 2010, (early adoption is permitted):

INIF 14, Construction Contracts, Sale of Real Property and Rendering of Related Services, is an interpretation of Bulletin D-7, Construction and Manufacturing Contracts for Certain Capital Assets, and requires segregation of the different components of the contracts in order to define whether the contract refers to the construction of real property, the sale of real property, or the rendering of related services, and establishes rules for recognizing revenue and related costs and expenses, based on the different elements identified in the contract. INIF 14 provides guidance for the appropriate use of the percentage-of-completion method for revenue recognition.

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

NOTE 20 FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

On February 26, 2009 (March 6, 2009, with respect to the “Forbearance Agreement” disclosed in note 10a), 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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