Notes *to Consolidated Financial Statements*

Grupo Lamosa, S.A.B. de C.V. and Subsidiaries
For the years ended December 31, 2017 and 2016
(In thousands of Mexican pesos)

1. Activities

Grupo Lamosa, S.A.B. de C.V. and its subsidiaries (the "Company") are engaged in the manufacture of ceramic products for floor and wall coverings, adhesive for ceramic tiles and real estate projects for sale. The Company's address is Avenida Pedro Ramírez Vázquez No. 200–1 Col. Valle Oriente C.P. 66269 San Pedro Garza García, Nuevo León, Mexico.

2. Relevant events

a. Acquisition of subsidiaries– On September 30, 2016, the Company acquired 100% of the shares representing the capital stock of 6 entities that compose Cerámica San Lorenzo and Cordillera, which are primarily engaged in the manufacture and sale of ceramic tiles in Argentina, Chile, Peru and Colombia. The Company carried out this acquisition in order to expand its market, diversify risks, and strengthen its leadership in the industry.

This acquisition is classified as a business combination pursuant to the requirements of IFRS 3, "Business Combinations"; therefore, it will apply the purchase method to measure the assets acquired and liabilities assumed in the transaction. The amount paid in the debt–free acquisition amounted to $241.6 million U.S. dollars net of the cash received. The acquisition was financed by contracting long–term bank loans.

In accordance with IFRS 3, which grants a period of twelve months to complete the allocation of the purchase price from the date of acquisition, on the date of presentation of the consolidated financial statements, the Company concluded with the process of completing the assignment from the purchase price to the net assets identified in the transaction. This assignment was carried out with the support of independent appraisers to determine the fair values of certain assets as of September 30, 2016.

Below are the final values of condensed net assets acquired as of September 30, 2016:

Consideration transferred, net of cash received:

Cash	$	4,763,501
Identifiable assets acquired and liabilities assumed:		
Current assets	$	2,385,060
Long–term assets		3,938,890
Total assets	$	6,323,950
Liabilities and stockholders' equity		
Current liabilities	$	1,282,446
Long–term liabilities		761,600
Total liabilities		2,044,046
Net identifiable assets and liabilities	$	4,279,904
Goodwill	$	483,597

As a result of the conclusion of the allocation of the purchase price mentioned in the previous paragraph, the consolidated financial statements of the Company, reported to and for the year ended December 31, 2016, were restructured. Below are the effects of this restructuring in a condensed way:

Condensed consolidated statement of financial position		December 31, 2016 (Reported)		Adjustments		December 31, 2016 (Restructured)
Current assets	$	6,814,472	$	–	$	6,814,472
Non–current assets		15,947,405		143,854		16,091,259
Total assets	$	22,761,877	$	143,854	$	22,905,731
Current liabilities	$	4,239,232	$	–	$	4,239,232
Non–current liabilities		11,323,890		116,918		11,440,808
Total liabilities	$	15,563,122	$	116,918	$	15,680,040
Stockholders' equity	$	7,198,755	$	26,936	$	7,225,691
Total liabilities and stockholders' equity	$	22,761,877	$	143,854	$	22,905,731

Condensed consolidated statement of income		December 31, 2016 (Reported)		Adjustments		December 31, 2016 (Restructured)
Net sales	$	13,619,256	$	–	$	13,619,256
Costs and expenses		11,178,085		49,461		11,227,546
Operating income	$	2,441,171		(49,461)	$	2,391,710
Comprehensive financing cost	$	1,115,343		–	$	1,115,343
Income before income taxes		1,325,828		(49,461)		1,276,367
Income taxes		653,463		(10,517)		642,946
Net income	$	672,365	$	(38,944)	$	633,421

Condenses consolidated statement of comprehensive income		December 31, 2016 (Reported)		Adjustments		December 31, 2016 (Restructured)
Net income	$	672,365	$	(38,944)	$	633,421
Other comprehensive income		206,916		65,880		272,796
Comprehensive income of the year	$	879,281	$	26,936	$	906,217

The income and net loss for the 3–month period ended December 31, 2016 contributed by the acquired business amounts to $1,185,316 and $(55,998), respectively.

If the acquisition of Cerámica San Lorenzo and Cordillera had been realized on January 1, 2016, the net income and loss would have increased by $ 2,954,169 (unaudited) and $ (255,035) (unaudited), respectively.

The results of the acquired transactions have been included in the consolidated financial statements from the acquisition date; therefore, the 2016 consolidated statements of income and of financial position are not comparable to those of the prior year. The 2016 consolidated statement of cash flows incorporates the acquired transactions of the Company on a sole line item of the investing activity, net of the cash acquired.

b. Operational restructuring – During the first quarter of 2017, the Company formalized the restructuration plan for its subsidiary in Argentina, which consisted in closing two of their four plants in such country. After this event, the Company communicated this decision to the directly affected areas. This restructure has the objective to improve the profitability of the operation in this country. The amount for closing such plants, accounted in cost of sales, was for $390 million pesos.

3. Basis of presentation and consolidation

a. Statement of compliance – The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS") and their amendments as issued by the International Accounting Standards Board ("IASB").

b. Explanation for translation into English – The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. Certain accounting practices applied by the Company that conform with IFRS may not conform with accounting principles generally accepted in the country of use.

c. New accounting pronouncements – In the current year, the Company applied a series of new and modified IFRSs, issued by the International Accounting Standards Board ("IASB"), which are mandatory and are effective as of the periods beginning on or after January 1, 2017:

Modifications to International Financial Reporting Standards that are mandatory for the current year

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; however, they had no significant effects on the Company's consolidated financial statements.

New IFRS issued and interpretation

IFRS 9, Financial Instruments

IFRS 9, "Financial Instruments", replaces IAS 39, "Financial Instruments: Recognition and Measurement". This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company did not have a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should it change its investment strategy in the future. Additionally, in terms of hedge accounting, the requirements of IFRS 9 are consistent with the Company's current accounting policy under IAS 39 and no impact is anticipated on its initial adoption nor future hedging operations.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined the impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

IFRS 15, Revenues from contracts with customers

IFRS 15, "Revenues from contracts with customers", was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer. The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance.

Specifically, the standard introduces a five–step approach for revenue recognition:

Step 1: Identifying the contract

Step 2: Identifying the performance obligations in the contract;

Step 3: Determining the transaction price;

Step 4: Allocating the transaction price to the performance obligations in the contract;

Step 5: Recognizing revenue when the Company satisfies a performance obligation.

In accordance with IFRS 15, revenue is recognized when the performance obligation is satisfied, that is, when the 'control' of the underlying goods or services of the performance obligation has been transferred to the customer. In addition, guidelines have been included in IFRS 15 to address specific situations. And, the number of disclosures required is increased.

Based on the nature of the company's operations and the current accounting policies applied for revenue recognition, management does not see that the application of IFRS 15 has a significant impact on the statements of financial position and its consolidated results.

IFRS 16, Leases

IFRS 16, "Leases" was issued in January 2016 and supersedes IAS 17, "Leases" as well as the related interpretations. The new standard brings most leases on–balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, "Revenue from Contracts with Customers," has also been applied.

Under IFRS 16 a lessee recognizes a right–of–use asset and a lease liability. The right–of–use asset is treated similarly to other non–financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front–loaded expense profile (whereas operating leases under IAS 17 would typically have had straight–line expenses) as an assumed linear depreciation of the right–of–use asset and the decreasing interest on the liability will lead to an overall decrease of expense over time.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight–line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease–by–lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated. The Company is in the process of evaluating the potential impacts on its consolidated financial statements, derived from the adoption of this standard.

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. This interpretation is effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted. The Company translates the foreign currency considerations at the exchange rate on the date the transaction is carried out, whether it is received or paid and gives them a non–monetary item treatment, and therefore does not have any significant impacts on the adoption of this interpretation in its consolidated financial statements.

IFRIC 23, Interpretation on uncertainty over income tax treatments

This new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, "*Income tax*", when there is uncertainty over income tax treatments. Uncertain tax treatments is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such circumstances, the Company shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and the tax rates determined by applying this interpretation.

The Company shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. On initial application, IFRIC 23 must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings.

The Company is assessing and determining the potential impacts for the adoption of this interpretation on its consolidated financial statements.

d. Basis of preparation – The consolidated financial statements were prepared based on the historical cost, except for as mentioned in the accounting policies in Note 4. The historical cost is generally based on the fair value of the consideration granted in exchange of the assets.

e. Local, functional and reporting currency – The individual financial statements of each subsidiary of the Company are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these consolidated financial statements, the results and the financial position of each entity are converted into Mexican pesos, which is the functional currency of the operations of the Company, and the reporting currency of the consolidated financial statements.

The following table shows the functional currencies of the main foreign operations of the Company, which are the record currency:

Country	Currency
Argentina	Argentinian Peso
Chile	Chilean Peso
Colombia	Colombian Peso
United States	U.S. Dollar
Peru	Peruvian Sol
Guatemala	Quetzal

f. Classification of costs and expenses – The costs and expenses presented in the consolidated statements of income were classified based on their function, as that is the common practice of the industry the Company participates in. Thus, cost of sales was separated from the remaining costs and expenses.

g. Basis of consolidation – The financial statements of Grupo Lamosa, S.A.B. de C.V. ("Glasa") and those of the controlled companies were considered to prepare the consolidated financial statements. Control is achieved when the Company has the power over the investee, when it is exposed or has the rights to obtain variable returns from its participation, and has the capacity to govern the financial and operating policies of the investee so as to obtain benefits from its activities. Glasa owns 100% of the capital stock of its subsidiaries. For consolidation purposes, all the significant balances and transactions between affiliated companies have been eliminated.

The subsidiaries and associates grouped by business segment, which form part of the continuing operations of Glasa, are as follows:

Ceramic Business	Adhesives Business
Administradora Lamosa, S. A. de C. V. (previously Administradora Lamosa, S. A. de C. V. Sofom E. N. R.)	Adhesivos de Jalisco, S.A. de C.V.
Cerámica Cordillera Comercial, S. A. (4)	Adhesivos Perdura, S.A. de C.V.
Cerámica San Lorenzo Colombia, S. A. S. (4)	Crest, S.A. de C.V.
Cerámica San Lorenzo, I. C. S. A. (4)	Crest Norteamérica, S.A de C.V.
Cerámica San Lorenzo Industrial de Colombia, S. A. (4)	Industrias Niasa, S.A. de C.V.
Cerámica San Lorenzo, S. A. C. (4)	Ladrillera Monterrey, S.A. de C.V
Estudio Cerámico México, S.A. de C.V. (1)	Niasa México, S.A. de C.V.
Gres, S.A. de C.V.	Soluciones Técnicas para la Construcción, S.A. de C.V.
Gresaise, S.A. de C.V.	Soluciones Técnicas para la Construcción del Centro, S. A. de C. V.
Inmobiliaria Porcelanite, S. A. de C. V.	Tecnocreto, S.A.
Inversiones San Lorenzo, S. A. (4)	
Ital Gres, S.A. de C.V.	
Italaise, S.A. de C.V.	
Keramica Perú, S. A. C. (3) (5)	
Lamosa Revestimientos, S.A. de C.V.	
Mercantil de Pisos y Baños, S.A. de C.V.	
Pavillion, S.A. de C.V.	
PLG Ceramics, Inc.	
PL Ceramics Group, Inc. (2)	
Porcel, S.A. de C.V.	
Porcelanite Lamosa, S.A. de C.V.	
Lamosa Energia de Monterrey, S. A. de C. V. (previously Productos Cerámicos de Querétaro, S.A. de C.V.)	
Revestimientos Keramica Colombia, S. A. S. (6)	
Revestimientos Lamosa México, S.A. de C.V.	
Revestimientos Porcelanite, S.A. de C.V.	
Revestimientos y Servicios Comerciales, S.A. de C.V.	
Servicios Comerciales Lamosa, S.A. de C.V.	
Servigesa, S.A. de C.V. (1)	

Real Estate Business	Corporate and others
	Lamosa Servicios Administrativos, S.A. de C.V.
Grupo Inmobiliario Viber, S.A. de C.V.	Servicios Administrativos Lamosa, S.A. de C.V.
Servicios de Administración el Diente, S.A. de C.V.	Servicios Lamosa S.A. de C.V. Sofom E. N. R.
	Servicios Industriales Lamosa, S.A. de C.V.
	Inmobiliaria Revolución, S.A. de C.V.

(1) Associated companies where the Company has a 49% shared interest.

(2) Company merged with PLG Ceramics, Inc on June 1, 2017.

(3) Company merged with Ceramica San Lorenzo, S. A. C. on October 1, 2017.

(4) Foreign companies acquired on September 30, 2016.

(5) Company incorporated on July 22, 2016.

(6) Company incorporated on August 26, 2016.

4. Significant accounting policies

a. Cash and cash equivalents – Cash and cash equivalents includes cash on hand, sight bank deposits, and short–term investments that are readily convertible to cash, not subject to significant risk of changes in their value. Cash and cash equivalents are measured at nominal value and yields are recognized in profit or loss as they are accrued.

b. Financial assets – Financial assets are recognized and derecognized on the trade date where there is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset during a period which is generally regulated by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Effective interest method

It is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payable (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument (or, where appropriate), a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as financial assets at fair value through profit or loss (FVTPL).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- Probability that the borrower will enter bankruptcy or financial re–organization

Certain categories of financial assets, such as trade receivables, are not assessed for impairment on an individual basis but on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period between 70 and 130 days, that is in the legal process, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When a financial asset is considered available for trade is impaired, the cumulative gain or loss previously recognized in other comprehensive income items is reclassified to the period's profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held–to–maturity' investments, 'available–for–sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short–term profit–taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39, "*Financial Instruments: Recognition and Measurement*", permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statements of income.

Held to maturity investments

Financial instruments with fixed or determinable payments and fixed maturities for which the Company has both the positive intention and the ability to hold to maturity are classified as investments held to maturity. Held–to–maturity investments are measured at amortized cost using the effective interest method less any impairment, recognizing revenue on an effective yield basis.

Available–for–sale financial assets (AFS financial assets)

Are non–derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held–to–maturity investments or (c) financial assets at fair value through profit or loss.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in investment revaluation reserve, except for impairment losses, interest calculated using the effective interest method, and gains and losses on exchange, which are recognized in profit or loss. Where an investment is disposed or determined to impairment, the cumulative gain or loss previously recognized in the investment revaluation reserve is reclassified to income.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Accounts receivable and other receivables

Accounts receivable and other receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as "accounts receivable". Accounts receivable and other receivables (including trade accounts receivable, other receivables, cash and bank account balances) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short–term receivables when the recognition of interest would be insignificant.

c. Inventories – Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs of inventories are determined on a weighted average cost method basis and include the acquisition or production cost which is incurred when purchasing or producing a product and other costs incurred in bringing inventories to their current location ad condition. For inventories of finished goods and inventories in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

d. Real estate inventories – Real estate inventories mainly consist of land and materials incurred in the real estate business activity of the Company, and are valued at the lower of cost or net realizable value.

Directly related borrowing costs, incurred from loans related to the construction process are capitalized. See more detail in note 4.f for policy of capitalization of borrowing costs.

e. Property, plant and equipment – Property, plant and equipment are initially recorded at their cost of acquisition and/or construction net of accumulated depreciation and/or accumulated impairment losses, if any. The borrowing costs related to the acquisition or construction of qualifying asset are capitalized as part of the cost of that asset, according to the Company´s policy. The improvements that have the effect of increasing the value of the asset, either because they increase the service capacity, improve efficiency or extend the useful life of the asset, are capitalized. Lower maintenance costs are recognized directly in costs in the period they are made. Depreciation of assets begins when the asset is ready for use.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Except for the depreciation of machinery and equipment which is depreciated based on units produced with the total estimated asset during its service life, the depreciation of other fixed assets is calculated under the straight–line method based on the estimated useful lives, as follows:

	Years
Buildings and improvements	35 to 40
Transportation equipment	4 to 5
Computer equipment	4
Furniture and equipment	10

Gain or loss on the sale or retirement of property, plant and equipment is calculated as the difference between the net income from the sale and the carrying amount of the asset and is recorded in other income (expenses) of the operations, when all significant risks and rewards of ownership of the asset are transferred to the buyer, which normally occurs when ownership of the property is transferred.

f. Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale, are added to the cost of those assets during the construction phase and up to the beginning of operation and / or exploitation. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

g. Investment in associates – An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, other comprehensive income items, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Requirements of IAS 39 are applied to determine whether it is necessary to recognize an impairment loss in respect of the Company's investment in an associate. When necessary, the impairment test of the total carrying value of the investment (including goodwill) in accordance with IAS 36, "Impairment of Assets", as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost of sales) against its carrying value. Any impairment loss recognized is part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

h. Business combinations – Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition–date fair values of the assets transferred by the Company, liabilities assumed by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. The costs related to the acquisition are generally recognized in the income statement as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value,

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non–controlling interests in the acquiree, and the fair value of the Company previously held equity interest in the acquiree (if any) over the net of the acquisition–date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition–date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non–controlling interests in the acquiree and the fair value of the Company previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

If the initial accounting treatment of a business combination is not complete at the end of the reporting period in which the combination occurs, the Company reports provisional amounts for items whose accounting is incomplete. Such provisional amounts are adjusted during the measurement period, no greater than twelve months, or additional assets or liabilities are recognized to reflect the new information obtained on the facts and circumstances existing at the acquisition date and, should have they been known, they would have affected the amounts recognized as of that date.

i. Leases – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a financial lease obligation. Lease payments are apportioned between interest expenses and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in profit or loss under the effective interest rate, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (see Note 4.f). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight–line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight–line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

j. Intangible assets – Intangible assets represent payments whose benefits will be received in future years. The Company classifies its intangible assets into definite and indefinite–lived assets according to the period in which the Company expects to receive benefits.

Intangible assets with finite lives are amortized over their estimated useful lives. Intangible assets with indefinite lives are not amortized and are subject to an annual evaluation to determine if there is impairment of assets.

The main intangible assets of the Company are trademarks, goodwill, and investments in software.

k. Goodwill – Goodwill arising from a business combination and recognized as an asset at the date that control is acquired (the acquisition date).

Goodwill is not amortized but assessed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash–generating units (or groups of cash–generating units) that is expected to benefit from the synergies of the combination. Cash–generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of a cash–generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash–generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

l. Impairment of tangible and intangible assets other than goodwill – At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash–generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash–generating units, or otherwise they are allocated to the smallest group of cash–generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash–generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash–generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash–generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash–generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

m. Financial liabilities – Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'debt or other financial liabilities measured at amortized cost'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statements of income.

Debt and other financial liabilities measured at amortized cost

Include loans from financial institutions and other financial liabilities, which are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, and the interest expense is recognized on an effective yield basis.

Financial liabilities are classified as short– term and long–term according to their maturity.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition

The Company derecognizes financial liabilities only when the Company's obligations are discharged, cancelled or they expire.

n. Derivative financial instruments – The Company values and records all operations with derivative financial instruments in the consolidated statements of financial position as either an asset or liability at fair value, regardless of the purpose of holding them.

The fair value of these instruments is determined based on the present value of cash flows. This method involves estimating future cash flows of derivatives according to the fixed rate of the derivative and the forward curve at that date to determine the variable cash flows, using the appropriate discount rate to estimate the present value. All derivatives of the Company are classified in Level 2 of the fair value hierarchy. Fair value measurements in Level 2 are those derived from different information than quoted prices included within Level 1 (fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities) that can be seen for the asset or liability, either directly (eg., as prices) or indirectly (eg., derived from prices).

At the inception of the hedge relationship of a derivate financial instrument, the Company ensures that all hedge accounting requirements are complied with and documents its designation at the inception of the hedge, describing the objective, characteristics, accounting treatment and the way the measurement of effectiveness will be performed, applicable to that operation.

Derivatives designated as hedges for accounting purposes are accounted for based on the type of hedge: (1) for fair value hedges, changes in both the derivative and the hedged item are recognized at fair value and are recognized in profit or loss, (2) when cash flows hedges, the effective portion is temporarily recognized in other comprehensive income and in profit or loss when the hedged item affects it; the ineffective portion is recognized immediately in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, when it no longer qualifies for hedge accounting or effectiveness is not sufficient to compensate changes in fair value or cash flows of the hedged item.

When discontinuing cash flow hedge accounting, any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When it is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. Where a hedge for a forecasted transaction is proved satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in other comprehensive income in equity are recognized in proportion to profit or loss, to the extent that the forecasted asset or liability affects it.

Certain derivative financial instruments contracted for hedging from an economic perspective that do not meet all the requirements under the standard, are designated for accounting purposes as FVTPL. The fluctuation in the fair value of these derivative instruments are recognized in the consolidated statements of income.

The Company uses interest rate swaps, foreign exchange and natural gas hedges, to manage its exposure to fluctuations in interest rates, foreign exchange, and market prices of natural gas, respectively (see Note 6.2).

o. Short–term employee benefits – Short–term employee benefits are calculated based on the services provided, considering their current salaries and the liability is recognized as it accrues. It mainly includes workers' profit sharing (PTU) payable, vacations and vacation premiums, and incentives.

p. Statutory employee profit sharing (PTU) – PTU is recorded in the period's profit or loss in which it is incurred and presented in cost of goods sold and operating expenses.

q. Termination benefits – The Company provides benefits upon termination of employment under certain circumstances required. These benefits consist of a lump sum payment of three months' salary plus 20 days per year worked in the event of unjustified dismissal.

Termination benefits are recognized when the Company decides to terminate the employment relationship with an employee or when the employee accepts an offer of termination.

r. Long–term employee benefits – The Company provides its employees long–term benefits that consist of defined contribution plans and defined benefit plans.

Legal defined contribution plan – The Company makes contributions equivalent to 2% of the salary of their workers to their plan defined contribution plan based on the retirement savings requirements established by law. The expense recognized for this item was $20,813 in 2017 and $18,666 in 2016.

Defined contribution plan – The Company has a pension plan with defined contribution benefits for certain employees, equivalent to a maximum of 6.25% of their annual taxed wage.

The Company has two types of retirement: normal retirement, which applies when turning 65 years of age, and early retirement, which applies when turning 55 years of age with at least 5 years of service.

In the case of leaving prior to retirement, the employee's entitlements on contributions will be adjusted to the years of service with the Company.

Defined benefit plans – For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All remeasurements of the Company's defined benefit obligations such as actuarial gains and losses are recognized directly in other comprehensive income ("OCI") and shall not be recycled to profit or loss at any time. The Company presents service costs within cost of sales and operating expenses, and presents net interest cost within interest expense in the consolidated statements of income. The projected benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation as of the end of each reporting period.

The defined benefit plans that the Company provides to its employees are:

Seniority premium – In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one–time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

Pension plan – The Company maintains for certain employees a pension plan with defined benefits that consists of a one–time payment or a monthly payment determined based on their base pay according to age and years of service. The retirement ages are: normal. – Staff with 50 years of age and at least 5 years of service; advanced. – Staff with 45 years of age and at least 15 years of service, and early. – Staff with 40 years of age and a minimum of 10 years of service.

s. Provisions – Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

t. Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable, reduced for estimated customer returns, rebates and other similar allowances granted by the Company.

Revenue from the sale of goods and real estate is recognized when all of the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Company
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

u. Income taxes – Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax corresponds to income tax ("ISR") and is recorded in the income of the year when incurred. Taxable profit differs from profit as reported in the consolidated statements of income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, including tax loss benefit. Deferred income tax asset is presented net of the reserve arising from the uncertainty of the realization of certain benefits.

On initial recognition, such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset short–term assets with short–term liabilities and when they relate to income taxes relating to the same taxation authority and the Company intends to liquidate its assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The business assets tax ("IMPAC"), expected to be recoverable is recorded as a tax credit and is presented in the consolidated statements of financial position increasing income tax deferred asset.

v. Foreign currency transactions – Foreign currency transactions are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for capitalization of borrowing costs during the construction of assets on construction financing. Management has determined that the functional currency of its main foreign operations is the U.S. dollar, Argentine peso, Chilean peso, Colombian peso and Peruvian sol while for the operations in Mexico, is the Mexican peso.

For the purposes of presenting the consolidated financial statements, the Company's assets and liabilities in foreign currency and its foreign currency transactions are expressed in Mexican pesos, using the foreign exchange rates in effect at the end of the period. Income and expense items are translated into the average exchange rates in effect of the period, unless they fluctuate significantly during the period, in which case the exchange rates at the transaction date are used. Differences arising in foreign exchange rates, if any, are recognized in other comprehensive income, and are accumulated in stockholders' equity.

The main closing exchange rates as of December 31, 2017 for the consolidated statement of financial position and approximate average of 2017 of the accounts of the consolidated statement of income, are as follows:

	As of December 31, 2017	
Currency	Closing	Average
U.S. Dollar	19.7354	19.1026
Colombian Peso	0.00664	0.00638
Peruvian Sol	6.08929	5.88161
Argentinian Peso	1.04808	1.08570
Chilean Peso	0.03201	0.02993

w. Earnings per share ("EPS") – EPS is calculated by dividing the consolidated net income by the weighted average number of shares outstanding during the period. Earnings per share are based on 382,759,336 and 380,558,232 weighted average shares outstanding during 2017 and 2016, respectively. The Company does not have potentially dilutive instruments.

5. Critical accounting judgments and key uncertainty sources in estimates

In the application of the accounting policies mentioned in Note 4, the Company's management made judgments, estimates and assumptions about certain amounts of assets and liabilities of the financial statements. The estimates and associated assumptions are based on experience and other factors that are considered relevant. Actual results could differ from such estimates.

The estimates and associated assumptions are continuously reviewed. Amendments to accounting estimates are recognized in the period in which the estimate is modified, future periods if the change affects both current and future periods.

Useful lives of fixed and intangible assets

Useful lives and residual values of fixed and intangible assets are used to determine depreciation expense and amortization of such assets, except for machinery and equipment which are depreciated on the basis of units produced estimating a total production, and are defined in accordance with internal specialists. Useful lives and residual values are reviewed periodically at least once a year, based on the current conditions of the assets and the estimate of the period during which they will continue to generate economic benefits to the Company. If there are changes in the related estimate, measurement of the net carrying amount of assets and the corresponding depreciation or amortization expense are affected prospectively. See Note 4.e.

Valuations to determine the recoverability of deferred tax assets

As part of the tax analysis that the Company makes, on an annual basis it determines the projected taxable income based on the judgements and estimates of future operations, to conclude on the probability of recoverability of deferred tax assets, such as including tax losses and other tax credits. See Note 21.

Impairment of long lived assets

The carrying amount of long–lived assets is reviewed for impairment when situations or changes in circumstances indicate that it is not recoverable. If there are indicators of impairment, a review is carried out to determine whether the carrying amount exceeds its recoverable amount and whether it is impaired. The evaluation of impairment is estimated in accordance to what is mentioned in Note 4l.

The Company reviews on an annual basis the circumstances that provoked an impairment loss derived from the cash generating units to determine if such circumstances have been modified and if they have generated reversal conditions. In case of a positive conclusion, the next step is to calculate the recoverable amount and, if it is appropriate the reversal of impairment previously recognized. In case of having recognized an impairment loss of goodwill, no reversal procedure is applied. See Notes 12 and 13.

Assumptions made in defined benefit plan obligations

The Company uses assumptions to determine the best estimate for its employee retirement benefits. Assumptions and estimates are established in conjunction with independent actuaries. These assumptions include demographic hypothesis, discount rates and expected increases in remunerations and future permanence, among others. Although the assumptions are deemed appropriate, a change in such assumptions could affect the value of the employee benefit liability and the results of the period in which it occurs. See Note 17.

Assignment of purchase price – fair value of net assets acquired

For the purposes of the consolidated financial statements, the excess of the consideration paid for the acquisition described in Note 2 on the carrying amount of the net assets acquired was allocated to goodwill. However, in accordance with the provided in IFRS 3 that grant a period of twelve months to complete the allocation of the purchase price from the date of acquisition, as of the date of presentation of the consolidated financial statements, the company concluded with the process of completing the allocation of the purchase price to the net assets identified in the transaction. This assignment was carried out with the support of independent appraisers to determine the fair values of certain assets as of September 30, 2016.

Additionally, the Company's management makes certain critical judgements, which are explained below:

Significant influence

The Company holds a 49% interest in both Estudio Cerámico México, S.A. de C.V. and Servigesa, S.A. de C.V., but since it does not hold the majority of the substantive rights in these entities and does not have the power and the ability to affect variable returns, it has concluded that it does not exercise control over them. See Note 3.g. The balances of these investments in associates as of December 31, 2017 and 2016 were $ 36,338 and $ 32,478, respectively.

Contingencies

The Company is subject to transactions or contingent events on which it uses professional judgment in the development of estimates of probability of occurrence. The factors considered in these estimates are the legal situation at the date of the estimate, and the opinion of legal advisors. See Note 20.

6. Objectives of risk management in financial instruments

The Company is exposed to different financial risks inherent in its operation, which are evaluated through a risk management program and are listed below: a) market risk which included foreign exchange risk, interest and price rates mainly natural gas, b) liquidity risk and c) credit risk, for which it seeks to manage the potential negative effects thereof in its financial performance. According to the valuation of these risks and internal guidelines, the Company carries out operations with derivative financial instruments, which are only for purposes of hedging and must be previously approved by the Finance Committee, comprised of independent and related party members of the Company's Board of Directors.

6.1 Categories and fair value of financial instruments

Below are the financial instruments and their fair value based on their category:

	December 31,			
		2017		2016
Financial assets:				
Cash and cash equivalents [1]	$	713,523	$	538,866
Accounts receivable [1]		3,384,338		3,128,598
Financial liabilities:				
Derivative financial instruments [2]	$	95,109	$	119,047
Amortized cost liabilities [1][3]		10,528,764		11,722,191

[1] Measured at amortized cost. The book value of cash and equivalents, accounts receivable and short–term financial liabilities, approximates their fair value because they are shot–maturity instruments.

[2] Instruments measured at fair value

[3] The fair value of long–term debt and finance leases is similar to their book value as they reflect the amounts at which they might be exchanged and/or settled. Additionally, the contractual terms and conditions are similar to market conditions at the reporting date.

6.2 Market risk

6.2.1 Foreign Exchange risk

The Company's exposure to the volatility of the exchange rate of the Mexican peso against the U.S. dollar for the financial instruments is shown as follows (figures in this Note are expressed in thousands of U.S. dollars – US$):

		2017		2016
Financial assets	US$	29,420	US$	52,243
Financial liabilities		(488,833)		(446,168)
Liability position	US$	(459,413)	US$	(393,925)
Equivalent in Mexican pesos	$	(9,068,813)	$	(8,138,491)

The exchange rates in effect at the date of consolidated financial statements per U.S. dollar were as follows:

	As of December 31, 2017		As of December 31, 2016	
	$	19.74	$	20.66

At February 8, 2018, the interbank exchange rate established by Banco de Mexico was $18.70 Mexican pesos per U.S. dollar.

As of December 31, 2017, the Company also has conducted exchange rate hedging transactions through forwards to ensure the exchange rate of the transactions with suppliers in its subsidiary in Chile.

The following table shows the exchange rate derivative financial instruments as of December 31 2017:

Type of transaction	Beginning date	Termination date	Actual notional (thousands)	Contract currency	Exchange rate	Fair value
Forward	01–ene–17	Various dates, between January 2 and June 27, 2018	CLP$6,666,794	Chilean Peso	635.13	$ (7,129)

The following table shows the exchange rate derivative financial instruments as of December 31 2016:

Type of transaction	Beginning date	Termination date	Actual notional (thousands)	Contract currency	Exchange rate	Fair value
American call options	Nov–01–16	Jan–01–17	USD$80,000	U.S. dollars	23.00	0
American call options	Oct–31–16	Feb–01–17	USD$120,000	U.S. dollars	23.00	617
American call options	Nov–01–16	Jan–06–17	USD$120,000	U.S dollars	23.00	0
American call options	Nov–01–16	Jan–06–17	USD$35,761	U.S dollars	23.00	0
Forward	Jan–01–16	Various dates, between January 3 and June 27, 2017	CLP$8,002,038	Chilean peso	675.41	$ (1,465)

6.2.2. Sensitivity analysis of exchange risk

Because the Company has a borrowing position in foreign currency, mainly due to debt and finance leases in US dollars it is exposed to variations in exchange rates. In this position in foreing currency, if the exchange rate increase or decrease, the exchange effects would be against or in favor, respectively. Therefore, if as of December 31, 2017, the Mexican peso/U.S. dollar ratio increased by $3.00 Mexican pesos, then the amount of net monetary position in foreign currency would have increased by $1,378,239 impacting income before taxes and the Company's stockholders' equity would have resulted in an exchange loss. If on the other hand, such ratio had decreased by $3.00 Mexican pesos, the effect would have been the opposite. Both scenarios represent the amount that management considers reasonably possible to occur in a year given current market volatility.

6.2.3 Interest rate risk

All of the bank debt is contracted at a variable rates, which exposes the Company to interest rate risk. The risk exposure mainly lies in variations that could occur in the reference interest rates used in Mexico and in the United States, (28–day Interbank Equilibrium Interest Rate or "TIIE" and the 3–month London Interbank Offered Rate or "LIBOR").

The Company monitors the trends of such interest rates, through the third quarter of 2017, the trend of the 28–day TIIE and the 3M LIBOR increased and continued like this during the fourth quarter of 2017. As of December 31, 2017, the Company has a debt balance in local currency of $1,898,877 with a 28–day TIIE plus 2.00%, and $37,141 with a 28–day TIIE plus a surcharge between 4% and 2%. In addition, it maintains a debt in US dollars of US$342,420 with a 3M LIBOR plus a surcharge of 2.15%; and US$3,211 with a LIBOR plus 2.24%. The interest expense recorded during 2017 and 2016 was $479,225 and $224,331, respectively.

6.2.4 Sensitivity analysis of interest risk

If as of December 31, 2017, the interest rates on the Company's debt instruments had increased one percentage point, which represents the percentage that management considers reasonably possible to occur in the coming year, the impact in income before income taxes and the Company's stockholders' equity would be an expense of $96,762. The increase of interest rates would generate a decrease of the income while a decrease in such rates would generate a benefit to the income.

Natural gas price risk

The Company is exposed to fluctuations in the price of natural gas. During the years ended December 31, 2017 and 2016, the Company consumed natural gas of approximately 13,152,698 and 10,815,815 million British Thermal Units ("MMBTUS"), respectively. Based on the guidelines established by the Finance Committee to hedge the risk of the rise in the price of gas, a strategy to hedge this input has been implemented by contracting derivative financial instruments that have been classified as cash flow hedges.

As of December 31, 2017 and 2016, the Company has derivatives that hedge the natural gas price of approximately 2,580,000 and 5,160,000 MMBTUS, respectively. The effect for the aforementioned hedging transaction represented expenses of $71,281 and $87,333 in the 2017 and 2016 consolidated statements of income, respectively, which was presented within cost of sales.

At the same date, the fair value of such hedges was as follows:

Type of Transaction	Notional MMBTU in Effect	Maturity	Average Price US$ [1]	Fair Value Liability
In 2017:				
Swaps	2,580,000	2018	4.50	$ (87,967)
Swaps	2,580,000			$ (87,967)
In 2016:				
Swaps	2,580,000	2017	4.50	$ (47,945)
Swaps	2,580,000	2018	4.50	(69,637)
	5,160,000			$ (117,582)

[1] The Company has the right and the obligation, to buy at the established price. There was no premium paid for entering into these transactions.

As of December 31, 2017 and 2016 and February 8, 2018, the issuance date of the consolidated financial statements, the market price of natural gas was US$3.5356, US$2.9199 and US$4.355, U.S. dollars of MMBTUS, respectively.

The valuation of the effective portion of derivative financial instruments recognized in other comprehensive income for the years ended December 31, is as follows:

Activity of the year:	2017	2016
Opening balance	$ (103,694)	$ (153,621)
Changes during the year	53,534	71,324
Tax effect	(16,060)	(21,397)
Ending balance	$ (66,220)	$ (103,694)

6.2.6 Sensitivity analysis of natural gas price risk

If as of the December 31, 2017, the gas price had increased by 10%, which represents the percentage that management considers reasonably possible to occur in the coming year, the Company's income before taxes would have decreased by $118,246, having an effect in stockholders' equity of $82,773. If on the other hand, such ratio had decreased by 10%, then the effect would be the opposite. Such effects consider the aforementioned hedging strategy and the effect of the corresponding derivative financial instruments.

6.3 Liquidity risk

The Company is exposed to different industry factors, as well as to economic factors, which could affect the cash flow of its operations. Some of these factors are not controllable by the Company; however, the Company manages the liquidity risk through the monthly review of actual and projected cash flows to anticipate and react to potential future events.

A contractual payments' analysis of non–derivative financial liabilities is disclosed in Note 15 and 16 and the maturity analysis for derivative financial liabilities is disclosed in Note 6.2.5, which will be settled in the short–term. This risk is managed by maintaining a proper cash balance for its operation and debt service, complemented by available lines of credit with various banks which to date, have not been needed to use.

6.4 Credit risk

The maximum exposure to credit risk is represented by accounts receivable as shown in the consolidated statements of financial position. The customer portfolio is composed predominantly by entities in the construction industry who have a long history with the Company. For its credit risk management, the Company carries out a thorough review of customers interested in purchasing its products, as well as the annual evaluation of existing customers, considering both qualitative and quantitative variables and by establishing credit limits. The portfolio is based on the characteristics and conditions of customers, supported with promissory notes when necessary. In addition, no customer individual or with affiliated companies represent more than 10% of sales or account receivables for the reported years in these consolidated financial statements.

7. Cash and cash equivalents

		2017		2016
Cash and bank deposits	$	313,888	$	389,502
Cash equivalents– investments in money market fund		399,635		149,364
	$	713,523	$	538,866

8. Accounts receivable, net

		2017		2016
Accounts receivable	$	3,520,375	$	3,251,790
Allowance for doubtful accounts		(136,037)		(123,192)
	$	3,384,338	$	3,128,598

Age of due portfolio, uncollectible:		2017		2016
60 to 90 days	$	31,034	$	44,369
90 to 120 days		17,686		41,306
Over 120 days		109,336		80,109
	$	158,056	$	165,784

Movements in the doubtful account estimate:		2017		2016
Opening balance	$	(123,192)	$	(72,248)
Charges				(23,734)
Allowance for doubtful accounts of the year		(25,629)		(64,441)
Write–offs		12,784		37,231
Ending balance	$	(136,037)	$	(123,192)

9. Inventories

		2017		2016
Finished goods	$	1,377,400	$	1,616,903
Work in process		139,334		105,662
Raw materials		575,532		587,663
Accessories and spare parts		376,422		369,189
	$	2,468,688	$	2,679,417

The amount of the inventories consumed and recognized as part of cost of sales for the years ended December 31, 2017 and 2016, amounted to $5,864,606 and $4,585,237, respectively.

Inventories recognized as an expense for the years ended December 31, 2017 and 2016 include $31,968 and $22,645, respectively, for write–downs of inventory to their net realizable value.

10. Other current assets

		2017		2016
Recoverable taxes	$	112,981	$	256,111
Advance to suppliers		81,344		152,508
Other		59,591		58,972
	$	253,916	$	467,591

11. Real estate inventories

		2017		2016
Real estate for sale	$	19,274	$	32,483
Undeveloped land		93,689		93,689
	$	112,963	$	126,172

12. Property, plant and equipment, net

		2017		2016
Land	$	1,434,116	$	1,438,055
Buildings and constructions		4,441,347		4,383,643
Machinery and equipment		10,868,909		10,450,173
Furniture and equipment		72,165		68,313
Vehicles		102,567		98,757
Computers		122,180		103,294
Investment in process		139,000		418,025
		17,180,284		16,960,260
Accumulated depreciation		8,278,513		7,867,122
	$	8,901,771	$	9,093,138

	Balances as of December 31, 2016	Translation effect	Business acquisition	Additions	Depreciation	Disposals	Capitalization	Balances as of December 31, 2017
Investments:								
Land	$ 1,438,055	$ (5,957)	$ –	$ 11,687	$ –	$ 9,669	$ –	$ 1,434,116
Buildings and constructions	4,383,643	(31,691)	–	11,415	–	4,724	$ 82,704	4,441,347
Machinery and equipment	10,450,173	(131,785)	–	60,098	–	90,882	581,305	10,868,909
Furniture and equipment	68,313	(673)	–	7,158	–	2,633		72,165
Transport equipment	98,757	(1,293)	–	17,138	–	15,557	3,522	102,567
Computer equipment	103,294	(250)	–	8,178	–	6,104	17,062	122,180
Investments in process	418,025	3,962	–	414,535	–	12,929	(684,593)	139,000
Total investments	16,960,260	(167,687)	–	530,209	–	142,498	–	17,180,284
Depreciation:								
Buildings and constructions	1,513,446	7,509	–	–	$ 116,161	4,036	–	1,633,080
Machinery and equipment	6,129,290	(60,143)	–	–	390,814	57,112	–	6,402,849
Furniture and equipment	57,708	(733)	–	–	6,443	3,031	–	60,387
Transport equipment	63,437	(522)	–	–	15,155	12,004	–	66,066
Computer equipment	103,241	(234)	–	–	18,795	5,671	–	116,131
Total accumulated depreciation	7,867,122	(54,123)	–	–	547,368	81,854	8,278,513	
Investments, net	$ 9,093,138	$ (113,564)	$ –	$ 530,209	$ 547,368	$ 60,644	$ –	$ 8,901,771

	Balances as of December 31, 2015	Translation effect	Business acquisition	Additions	Depreciation	Disposals	Capitalization	Balances as of December 31, 2016
Investments:								
Land	$ 595,421	$ 52,852	$ 781,924	$ 7,858	$ –	$ –	$ –	$ 1,438,055
Buildings and constructions	3,168,124	50,152	625,807	13,063	–	1,005	527,502	4,383,643
Machinery and equipment	7,950,608	59,678	1,327,003	130,543	–	292,935	1,275,276	10,450,173
Furniture and equipment	58,704	267	5,862	7,813	–	4,428	95	68,313
Transport equipment	94,903	(181)	5,984	15,380	–	24,825	7,496	98,757
Computer equipment	93,154	60	1,824	6,035	–	7,622	9,843	103,294
Investments in process	456,318	387	14,431	1,771,439	–	4,338	(1,820,212)	418,025
Total investments	12,417,232	163,215	2,762,835	1,952,131	–	335,153	–	16,960,260
Depreciation:								
Buildings and constructions	1,432,053	–	–	–	82,841	1,448	–	1,513,446
Machinery and equipment	6,005,110	–	–	–	295,644	171,464	–	6,129,290
Furniture and equipment	55,165	–	–	–	5,231	2,688	–	57,708
Transport equipment	73,821	–	–	–	14,090	24,474	–	63,437
Computer equipment	91,664	–	–	–	18,672	7,095	–	103,241
Total accumulated depreciation	7,657,813	–	–	–	416,478	207,169	–	7,867,122
Investments, net	$ 4,759,419	$ 163,215	$2,762,835	$1,952,131	$ 416,478	$ 127,984	$ –	$ 9,093,138

During the years ended December 31, 2017 and 2016, the Company had idle capacity of 10.99% and 8.14%, respectively. Interest expense related to qualifying assets as of December 31, 2016 were $61,837, as of December 31, 2017 the costs related to fixed assets were not significant.

During the years ended December 31, 2017 and 2016, the Company wrote–off property, plant and equipment amounting to $24,065 and $36,000, respectively, of assets that were removed from use.

13. Intangible assets

	2017	2016
Unamortized intangible assets:		
Brands	$ 4,902,783	$ 4,967,332
Goodwill	869,116	879,445
	5,771,899	5,846,777
Amortized intangible assets	217,010	230,936
	$ 5,988,909	$ 6,077,713

Cost	Brands	Goodwill	Total Unamortized Intangibles	Amortized Intangibles	Total
Balances as of December 31, 2015	$ 3,791,459	$ 382,636	$ 4,174,095	$ 245,158	$ 4,419,253
Acquisitions	1,123,073	483,597	1,606,670	15,694	1,622,364
Conversion effect	52,800	13,212	66,012		66,012
Amortization				(29,916)	(29,916)
Balances as of December 31, 2016	4,967,332	879,445	5,846,777	230,936	6,077,713
Acquisitions				19,244	19,244
Conversion effect	(64,549)	(10,329)	(74,878)		(74,878)
Amortization				(33,170)	(33,170)
Balances as of December 31, 2017	$ 4,902,783	$ 869,116	$ 5,771,899	$ 217,010	$ 5,988,909

As of December 31, 2017 and 2016, intangible assets with finite useful lives mainly refer to expenses of the Company related to the implementation of an enterprise resource planning (ERP) system which began amortization in 2014, when it was deemed to be ready for its intended use.

For purposes of impairment tests, goodwill was assigned to the Company's following cash generating units (CGU):

	2017	2016
North America ceramic tiles	$ 3,946,296	$ 3,946,296
South America ceramic tiles		
Chile	526,055	541,109
Peru	86,587	113,839
Colombia	606,333	625,893
Argentina	378,829	391,841
Adhesives	227,799	227,799
	$ 5,771,899	$ 5,846,777

The following factors are considered to assess the recoverable value of the CGU for impairment test purposes:

- Market share and expected price levels.
- Size of the market where the CGU operates for estimation of recoverable value purposes.
- Behavior of primary costs of raw materials and input, and the necessary expenses to maintain fixed assets in conditions to be used.
- Cash flows projections, discounted to present value based on financial projections, based on the estimates at the date of the valuation using the budget approved by management, which includes the latest trends.
- The discount rate based on the weighted capital cost and the market participants' variables to be considered.
- Perpetuity growth rate estimated based on the inflation of the economy where the Company operates.

The discount and perpetuity growth rates used for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Discount rate		
North America ceramic tiles	11.2%	11.5%
Adhesives	11.5%	11.1%
South America ceramic tiles [(1)]		
Chile	14.1%	
Peru	12.4%	
Colombia	13.3%	
Argentina	22.7%	
Perpetuity growth rate		
Ceramic tiles and Adhesives	3.00%	3.0%
South America ceramic tiles [(1)]		
Chile	3.5%	
Peru	3.0%	
Colombia	3.0%	
Argentina	5.0%	

(1) In relation to the 2016 impairment tests of South America ceramic tiles as a cash generating unit in 2016, since said CGU comes from the acquisition described in note 2b, these were made as part of the process of assigning the purchase price in which the fair values of the net assets acquired and the value of the goodwill were identified, so as of that date and as of December 31, 2016, said values reflect the fair value of the cash generating unit.

For the purposes of the calculation of the recoverable value of cash generating units, discount rates before taxes are used, which are applied to cash flows before taxes. Additionally, the perpetuity growth rate reflects a growth approximately equal to annual estimated inflation starting from the sixth year of cash flows.

Management concluded that there have been no impairment losses during the reporting periods as a result of the test performed on intangibles with indefinite useful lives.

The Company's management believes that any possible reasonable change in the factors to assess the recoverable value will not cause the CGU value to exceed their recoverable value.

14. Other current liabilities

	2017	2016
Contributions and taxes payable	$ 145,327	$ 83,747
Freights payable	311,112	261,526
Energy payable	211,906	188,775
Statutory employee profit sharing (PTU)	141,783	67,677
Provisions	219,154	241,732
Dividends payable	42,542	45,772
Sundry creditors	241,538	339,349
Other accounts payable	126,866	168,338
	$ 1,440,228	$ 1,396,916

15. Long–term debt

a. According to the long–term loan agreements, the bank debt as of December 31, is as follows:

	2017	2016
Bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum rate of 3.15% in 2017, and 3.15% in 2016; principal matures in different dates through 2021.(1)	$ 6,757,800	$ 7,305,504
Bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum rate of 2.65% in 2017 and 2.65% in 2016; with maturities of principal through 2019, with prepayment options.		516,600
Overdraft–type bank loans denominated in Argentinian pesos, with a variable interest rate at the closing of December 2017 of 28% and 27.6% in 2016; principal does not mature until 1 year.		179,262
Bank loan denominated in Mexican pesos, and bearing variable interest based on Interbank Equilibrium Interest Rate ("TIIE") plus a maximum surcharge of 3.0% in 2017, and 3% in 2016; principal matures in different dates through 2021.	1,898,877	1,960,528
Total financial debt	8,656,677	9,961,894
Debt issuance costs	(170,701)	(216,220)
Total net financial debt	8,485,976	9,745,674
Current portion	(461,595)	(426,985)
Long–term debt	$ 8,024,381	$ 9,318,689

[1] On September 23, 2016, the Company signed an amendment to the long–term loan agreement related to the debt originally acquired on November 30, 2007 and previously refinanced in 2011 and 2014. Through this debt, a new debt of $200 million U.S. dollars was acquired under Tranche C, which was used to acquire the companies Cerámica San Lorenzo and Cordillera, with operations in 4 countries in South America. This transaction generated better financial conditions for the Company, extending its maturity to September 2021, and maintaining an average life of 3.9 years as of December 31, 2016. Based on the above, the original capitalized expenses are amortized during the remaining life of the new term through the effective interest method. Said amendment generated the payment of a commission of 4.2 million U.S. dollars, which is being amortized during the debt period based on the effective interest rate.

Long–term debt maturities as of December 31, 2017 are as follows:

Year	Principal	Interest [2]
2019	$ 797,707	$ 409,316
2020	1,303,616	353,504
2021	5,923,058	218,619
	$ 8,024,381	$ 981,439

[2] Interest is determined based on variable rates at the end of the period.

TIIE, LIBOR interest rates, and variable Argentinean rate were as follows:

Year	TIIE %	LIBOR %	VARIABLE %
2017	7.624	1.6942	32.0
2016	5.840	0.9979	27.6

b. The debt is guaranteed by a group of subsidiaries of the Company which represent 85% of the total assets and consolidated EBITDA.

c. Certain restrictions are included in some clauses of the long–term debt agreements of the Company as well as the obligation to maintain certain financial ratios. Such restrictions have been met at December 31, 2017 and 2016.

16. Finance leases

The Company has obligations for finance leases contracted in local and foreign currency with different financial institutions to purchase machinery and equipment, and vehicles, which consist of the following:

	2017	2016
Finance lease denominated in US dollars, bearing variable interest based on LIBOR plus an interest rate of 2.24% for 2017 and 2016, with maturities of principal on different dates through 2020.	$ 63,378	$ 98,019
Finance lease denominated in Mexican pesos, bearing variable interest based on TIIE plus an interest rate between 4.00% and 2.00% for 2017 and 5.00% and 2.00% for 2016. The principal matures at different dates through 2022.	37,041	34,526
Total net finance lease	100,419	132,545
Current portion	(52,328)	(51,566)
Long–term finance lease	$ 48,091	$ 80,979

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	2017	2016
Less than one year	$ 57,373	$ 57,201	$ 52,328	$ 51,566
More than one year	51,193	85,560	48,091	80,979
	108,566	142,761	$ 100,419	$ 132,545
Less amounts representing future interest expense	(8,147)	(10,216)		
Present value of minimum lease payments	$ 100,419	$ 132,545		

The expiration of long–term finance leases as of December 31, 2017 is as follows:

Year	Principal	Interest
2018	$ 52,328	$ 5,045
2019	37,835	2,265
2020	7,832	712
2021	2,389	124
2022	35	1
	$ 100,419	$ 8,147

Interest is determined based on variable rates at the end of the period.

These contracts are denominated in U.S. dollars and in Mexican pesos with variable interest rates based on the LIBOR and TIIE. The average effective interest rate was approximately 5.44% in 2017 and 4.59% in 2016.

17. Employee benefits

a) The main assumptions used for actuarial calculations of defined benefit plans:

	2017	2016
Discount of the projected benefit obligation at present value	7.25%	6.75%
Salary increase	5.10%	4.80%

The determination of the discount rate of employee benefit obligations of the Company is based on the annual estimated cash flows which are determined with zero coupon government M bonds for a period of twenty years, assuming an average working life of its employees.

b) The effects recognized in the consolidated statements of other comprehensive income for 2017 and 2016 are as follows:

		Net income			Other comprehensive income	
2017		Current service cost		Net interest defined benefit liability		Actuarial remeasurements
Pension and retirement plans	$	5,181	$	7,956	$	14,553
Seniority premium		9,216		9,355		5,285
Total	$	14,397	$	17,311	$	19,838

		Net income			Other comprehensive income	
2016		Current service cost		Net interest defined benefit liability		Actuarial remeasurements
Pension and retirement plans	$	4,999	$	7,199	$	7,282
Seniority premium		8,866		8,565		(22,145)
Total	$	13,865	$	15,764	$	(14,863)

For the years ended in December 31, 2017 and 2016, $14,398 and $13,865 of costs for services, respectively, have been included in the consolidated statements of other comprehensive income as part of cost of sales and operating expenses.

The remeasurement of the liability for defined benefits recognized in other comprehensive income items is as follows:

		2017		2016
Amount accumulated in other comprehensive income items at the beginning of the period, net of taxes	$	39,619	$	54,482
Actuarial remeasurements		28,339		(21,233)
Tax effect		(8,501)		6,370
Amount accumulated in other comprehensive income items at the end of the period, net of taxes	$	59,457	$	39,619

c) Changes in the defined benefit obligation for pension and retirement plan and seniority premium plan:

Pension and retirement plan		2017		2016
Opening balance	$	173,672	$	156,733
Service cost		5,181		4,999
Interest cost		7,956		7,199
Actuarial losses and gains		20,790		10,403
Benefits paid		(6,855)		(5,662)
Ending balance	$	200,744	$	173,672

Seniority premium		2017		2016
Opening balance	$	141,771	$	158,486
Service cost		9,216		8,866
Interest cost		9,355		8,565
Actuarial losses and gains		7,549		(31,636)
Benefits paid		(3,068)		(2,510)
Ending balance	$	164,823	$	141,771
Total liability for defined benefits	$	365,567	$	315,443

The average of the benefit obligation at December 31, 2017 and 2016 is 6.8 and 8.8 years, respectively.

18. Stockholders' equity

a) The minimum non–withdrawal fixed capital stock consists of ordinary shares, at no par value, and variable capital of ordinary shares, at no par value. All the shares are freely subscribed.

	2017	2016
	Number of shares	
Minimum fixed capital stock	360,000,000	360,000,000
Variable capital	25,843,423	25,843,446
	385,843,423	385,843,446

b) According to the current stock market regulations in effect and the Company's by–laws, each year the Annual Ordinary Stockholders' Meeting of Grupo Lamosa, S.A.B. de C.V. approves the maximum amount of resources that the Company can allocate to the acquisition of shares of its capital stock. The maximum amount of resources approved for 2017 and 2016 at the Annual Stockholders' Meetings held on March 15, 2017 and March 16, 2016 amounted to $ 90 million Mexican pesos for each of the aforementioned years. In relation to the years ended December 31, 2017 and 2016, the Company did not conduct transactions with shares of its capital stock.

c) At the general stockholders' meetings held on March 15, 2017, dividends were declared for $229,655, from the net tax income account (CUFIN), equivalent 0.60 Mexican pesos per share.

d) At the general stockholders' meetings held on March 16, 2016, dividends were declared for $151,588, from the net tax income account (CUFIN), equivalent 0.40 Mexican pesos per share; in addition, dividends were declared of 1%, equivalent to a new share for every 100 shares in circulation. This dividend resulted in an increase in a variable portion of capital stock, amounting to $25 issuing 3,789,697 shares.

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, 2017 and 2016, 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 estimated 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 are:

	2017	2016
Contributed capital account	$ 430,302	$ 377,455
Net tax income account (CUFIN)	19,862,429	16,919,239
Total	$ 20,292,731	$ 17,296,694

h) Items of other comprehensive income consist of the following:

Derivative financial instruments valuation

The effective portion of the gains or losses arising from the measurement of financial instruments designated as cash–flows accounting hedges, net of income taxes, is recognized in other comprehensive income.

Actuarial remeasurements of defined benefit obligations

Actuarial remeasurements are recognized as other components of comprehensive income. During the period, the actuarial remeasurements corresponded solely to variations in actuarial assumptions for both the labor liability and the plan assets and are presented net of income taxes.

Effects of foreign currency translation

This reserve is generated by converting the financial statements from functional to reporting currency of the foreign subsidiaries. This effect is not subject to deferred taxes calculation since the Company controls the time of the temporary difference reversal and it is not probable that such temporary difference will be reversed in the foreseeable future. During the period, there were no other movements that affect the accumulated balance of this reserve.

i) Capital management – For capital management purposes, the Company considers, in addition to stockholders' equity and the items thereof, all the financing sources both internal and external, including liabilities with costs resulting from contracting short–term and long–term debt. Similarly, investment in working capital is considered by including items such as customers, inventories and suppliers, as well as cash and cash equivalents.

The Company is subject to obligations arising from contacting a secured loan, whose balance as of December 31, 2017 amounted to $8,656,677 (a combination of U.S. dollars and Mexican pesos). The main obligations contained in such agreements include the following financial covenants [1]:

- Debt service coverage (EBITDA[2] / Net Financial Expenses plus the current portion of long–term debt) greater than or equal to 1.25.
- Leverage of total debt (total debt / EBITDA) less than or equal to 3.50.
- Minimum stockholders' equity greater than or equal to $5,719,938.

[1] According to the contracts, financial covenants are determined using figures from the financial statements under IFRS.

[2] EBITDA is defined as the operating income added to depreciation and amortization and other items such as statutory employee profit sharing, doubtful accounts estimate, inventory write–downs, employee obligations, and impairment for long–lived assets

During 2017, the Company was in compliance with all of its financial commitments and required ratios.

Below are some of the major items that are considered for the management of the Company's capital as of December 31, 2017 and 2016.

	2017	2016
Total debt	$ 8,586,395	$ 9,878,219
Cash and cash equivalents	713,523	538,866
Net debt	7,872,872	9,339,353
Stockholders' equity	8,657,775	7,225,691
Leverage measured as net debt to stockholders' equity	0.91	1.29
Total debt main items:		
Secured loan	8,656,677	9,961,894
Other	100,419	132,545
Debt issuance costs	(170,701)	(216,220)
Total debt	$ 8,586,395	$ 9,878,219

The decrease in the total debt during 2017 was due mainly from amortizations made and exchange effect.

The generation of operating cash flows helped the Company meet its debt maturities scheduled for the year.

19. Operating expenses

	2017	2016
Selling	$ 2,884,717	$ 2,258,470
Administration	1,189,148	933,647
Total	$ 4,073,865	$ 3,192,117

20. Contingencies and commitments

The Company's assets are not subject to any pending legal proceeding for which a contingency might arise, except for some ordinary or incidental litigation against which the Company is duly insured or the amounts of them are unimportant.

21. Income taxes

a. The Company is subject to ISR, with a tax rate of 30% in Mexico, 15% in Colombia, 27% in Peru and 35% in Chile. For the United States, the applicable rate as of December 31, 2017 is 35% but for 2018, the applicable rate would change to 21%. For Argentina, the applicable rate as of December 31, 2017 was for 35% but for 2018 and 2019, the applicable rate would be 30% and 25% from 2020.

   The Company incurred income taxes on a consolidated basis up to 2013 with its Mexican subsidiaries. As a result of the 2014 tax reform, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the deferred income tax determined as of that date during the subsequent five years beginning in 2014, as illustrated below, except for the income tax losses related to the sale of shares, which will be paid over a ten year period.

   At the same time in which the 2014 Tax Law eliminated the tax consolidation regime, which permits an option to jointly calculate income tax in groups of legal entities (tax integration regime). Under this scheme, integrated entities owned either directly or indirectly in more than an 80% by an integrative entity, will be able to individually defer in 3 years part of the tax determined, which must be paid on the same date as the deadline for filing the return of the year following that in which the three–year period ends

The Company and its subsidiaries decided to adhere to this new regime, and therefore they have determined the income tax incurred in 2014 as described previously.

Reconciliation of income tax assets and liabilities balances as of December 31, 2017, derived from such tax reforms, are as follows:

Item:		Deferred tax assets		ISR liabilities
Recognition of:				
Assets and liabilities from tax losses	$	1,040,923	$	(66,807)
Liabilities from losses on sale of shares		–		(1,018,945)
Liabilities from tax integration regime		–		(422,230)
Balance	$	1,040,923	$	(1,507,982)

The ISR liability relating to the tax consolidation and tax integration regime expires in the following years:

Year		ISR liabilities
2018	$	337,935
2019		329,290
2020		328,290
2021		170,823
2022 and subsequent		341,644
	$	1,507,982

b. Income taxes for 2017 and 2016 consist of the following:

		2017		2016
Current income tax	$	1,125,096	$	896,106
Deferred income tax		(453,536)		(253,160)
Total	$	671,560	$	642,946

c. The reconciliation of the statutory and effective income tax rates, expressed as a percentage of income before income taxes in 2017 and 2016 is:

	2017		2016
		%	
Effective rate	29.0		49.0
Effect of inflation	–		(17.0)
Effect of permanent differences, mainly nondeductible expenses	–		(3.0)
Others	1.0		1.0
Statutory rate	30.0		30.0

Derivative from fiscal amendments occurred in Argentina and United States; the Company determined the deferred income tax considering the applicable tax rates for the years in which it expects to revert the assets or liabilities for deferred income tax. The effect for the change in tax rate recognized in the consolidated state of income as of 2017 was for $36,000.

Other comprehensive income (OCI) amounts and items and deferred taxes affected during the period are:

		Amount before income taxes		Income taxes in OCI		Amount net of income taxes
As of December 31, 2017:						
Derivative financial instruments	$	53,534	$	(16,060)	$	37,474
Remeasurement of defined benefits obligation		(28,340)		8,502		(19,838)
Cumulative translation adjustment		(33,196)		–		(33,196)
	$	(8,002)	$	(7,558)	$	(15,560)

As of December 31, 2016:						
Derivative financial instruments	$	71,324	$	(21,397)	$	49,927
Remeasurement of defined benefits obligation		21,233		(6,370)		14,863
Cumulative translation adjustment		208,006		–		208,006
	$	300,563	$	(27,767)	$	272,796

d. The main items that give rise to a deferred income tax balance, as of December 31, are:

		2017		2016
Deferred income tax asset:				
Allowance for doubtful accounts	$	32,648	$	29,244
Derivative financial instruments		26,390		35,275
Provisions		315,212		237,042
Employee benefits		156,251		148,719
Tax loss carryforwards		1,040,923		904,978
Other		65,767		48,268
Total		1,637,191		1,403,526
Deferred income tax liability:				
Inventories		(63,548)		(75,818)
Real estate inventories		(3,841)		(20,494)
Property, plant and equipment		(339,164)		(310,113)
Brands		(64,476)		(281,782)
Commissions paid for debt restructuring		(48,568)		(42,151)
Total		(519,597)		(730,358)
Tax on assets		33,229		32,039
Deferred income tax asset, net	$	1,150,823	$	705,207

		2017		2016
Deferred income tax liability:				
Provisions	$	17,679	$	–
Property, plant and equipment		(309,315)		(299,516)
Brands		(45,653)		(44,742)
Total	$	(337,289)	$	(344,258)

The benefits of restated tax loss carryforwards for which the deferred income tax asset has been recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2017 are:

Year		Amount
2020	$	314
2021		821
2022		20,722
2023		30,833
2024		59,359
2025		197,253
2026		239,278
2027		492,343
	$	1,040,923

22. Related party balances and transactions

a. The balances with related parties as of December 31, 2017 and 2016 were as follows:

		2017		2016
Accounts receivable – Estudio Cerámico de México, S.A. de C.V.	$	686	$	842
Accounts payable – Estudio Cerámico de México, S.A. de C.V.		320		1,107

b. The transactions with related parties as of December 31, 2017 and 2016 were as follows:

		2017		2016
Sales of finished goods	$	12,533	$	15,869
Lease income		6,732		6,291
Other income, net		3,592		2,982

c. For the years ended December 31, 2017 and 2016, the direct short–term benefits granted to the key management personnel of the Company for $112,601 and $ 84,682, respectively. The Company does not have agreements or programs share–based payments.

23. Long–term provisions

Long–term provisions shown in the Company's financial position mainly represent legal affairs with third parties and authorities to the detriment of one of the subsidiaries in Argentina, which will probably give rise to outflow of economic resources, which are not expected to be realized in the following twelve months. Once these issues are entirely solved, the Company will be indemnified by the seller under the share purchase–sale agreement for the shares of Cerámica San Lorenzo and Cordillera. As of December 31, 2017, the Company has determined that the effects of the time value of money of these provisions are not significant.

24. Information by operating segments

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods provided. These segments are managed separately; each requires its own system of production, technology, and marketing and distribution strategies. Each market serves to different customer bases.

Transactions between segments are determined based on comparable prices to those that would be used with or between independent parties in comparable transactions.

The accounting, administrative and operating policies are the same as those described by the Company, which evaluates the performance of its segments based on operating income. Sales and transfers between segments are recorded in each segment as if they were made to third parties; i.e. at market prices.

The Company's main products by segment are as follows:

Segment:	Main products:
Ceramic	Floor tiles, wall tiles
Adhesive	Adhesives for floors and walls
Real estate	Commercial and residential developments

The Company's segments to be reported pursuant to IFRS 8, "Operating Segments", are as follows:

December 31, 2017:	Ceramic	Adhesive	Real estate	Corporate and other	Consolidated
Total net sales	$ 14,200,908	$ 3,758,788	$ 16,656	$ 3,301,986	$ 21,278,338
Intersegment sales	(65)	(5,321)		(3,301,986)	(3,307,372)
Net sales to third parties	14,200,843	3,753,467	16,656		17,970,966
Operating income	1,897,268	903,439	1,296	1,927	2,803,930
Depreciation and amortization	513,746	31,206		50,248	595,200
Other provisions	106,952	14,062		74,653	195,667
Acquisition of property, plant and equipment and intangible assets	(316,752)	(103,486)		(19,244)	(439,482)
Total assets	16,174,784	1,382,758	158,497	5,383,311	23,099,350
Total liabilities	4,228,023	866,952	5,537	9,341,063	14,441,575

December 31, 2016:	Ceramic	Adhesive	Real estate	Corporate and other	Consolidated
Total net sales	$ 10,164,954	$ 3,459,634	$ 136	$ 3,031,173	$ 16,655,897
Intersegment sales	(185)	(5,283)		(3,031,173)	(3,036,641)
Net sales to third parties	10,164,769	3,454,351	136		13,619,256
Operating income (loss)	1,726,196	752,559	(1,280)	(85,765)	2,391,710
Depreciation and amortization	365,923	30,698		53,947	450,568
Other provisions	78,934	17,937		94,940	191,811
Acquisition of property, plant and equipment and intangible assets	(1,536,778)	(77,001)		(22,929)	(1,636,708)
Total assets	16,131,748	1,292,064	117,204	5,364,715	22,905,731
Total liabilities	3,788,129	800,218	(10,333)	11,102,026	15,680,040

25. Information by geographic region

The information of the Company by geographic region is presented below:

	Revenues from third parties		Non–current assets	
	2017	2016	2017	2016
North America	$ 13,519,983	$ 12,305,290	$ 13,091,540	$ 12,624,119
Central America	124,185	128,650	10,861	14,003
South America	4,326,798	1,185,316	3,176,484	3,453,137
	$ 17,970,966	$ 13,619,256	$ 16,278,885	$ 16,091,259

26. Approval of financial statements

On February 8, 2018, the issuance of the consolidated financial statements was authorized by Federico Toussaint Elosúa, Chief Executive Officer, and Tomás Luis Garza de la Garza, Chief Financial Officer. These consolidated financial statements are subject to the approval at the ordinary stockholders' meeting, where they may modify the consolidated financial statements, based on the provisions set forth by the General Corporate Law.