Notes to CONSOLIDATED FINANCIAL STATEMENTS

Grupo Lamosa, S. A. B. de C. V. and Subsidiaries
For the years ended December 31, 2018 and 2017
(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 and commercialization of ceramic products for floor and wall coverings, and adhesive for ceramic tiles. 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. 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, 2018:

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, 2018, including the annual improvements to IFRS; however, they had no significant effects on the Company's consolidated financial statements.

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 financial instruments measured at amortized cost or fair value through other comprehensive income.

With regards to 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 if the Company changes its investment strategy in the future. Additionally, in terms of hedge accounting, there were no impacts.

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. However, at the transition date, there were no significant effects to be recorded in adopting the new IFRS 9 methodology. Finally, the amount of disclosures in the consolidated financial statements of the Company was increased.

IFRS 15, Revenues from contracts with customers
IFRS 15, "Revenues from contracts with customers", became effective for periods beginning January 1, 2018. 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.

The Company adopted this standard using the modified retrospective method applied to the contracts in force on the date of initial adoption January 1, 2018, and determined that there were no impacts on its consolidated financial statements as of that date. In addition, the amount of disclosures required in the consolidated financial statements of the Company was increased.

New and revised IFRS Standards in issued but not yet effective

IFRS 16, Leases

IFRS 16, "Leases" 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, and the Company decided to adopt it with the recognition of all the effects to that date, without modifying past periods.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset will be depreciated based on the contractual term or, in some cases, on its economic useful life. Moreover, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

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 nor terms renewals (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, (this election can be made on a lease-by-lease basis), and for those agreements where the acquisition of an individual asset of the contract was less than $5,000 (five thousand dollars). Therefore, payment for such leases will continue to be recognized as expenses within operating income.

The Company adopted IFRS 16 on January 1, 2019; therefore, it recognized a right-of-use asset of $195,300 and a lease liability of approximately $195,300. In addition, the Company adopted and applied the following practical expedients provided by IFRS 16:

- Account for as leases the payments made in conjunction with the rent, and that represent services (for example, maintenance and insurance).
- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use of a funding rate by portfolio to measure leases.
- For leases classified as financial as of December 31, 2018 and without components to update minimum payments for inflation, maintain on the date of adoption of IFRS 16 the balance of the asset for right of use and its corresponding lease liability.
- Not to revisit the previously reached conclusions for service agreements which were analyzed as of December 31, 2018 under IFRIC 4, *Determining Whether a Contract Contains a Lease*, and where it had been concluded that there was no implicit lease.

The Company has taken the required steps to implement the changes that the standard represents in terms of internal control, tax and systems affairs, from the adoption date.

Lastly, as a result of these changes in accounting, some performance indicators of the Company, such as operating income and adjusted EBITDA, will be affected because what was previously recognized as an operating rental expense equivalent to rental payments, now a portion will be recognized by reducing the financial liability (which will not affect the statement of income), and the other portion will be recognized as a financial expense under the operating income indicator. Additionally, the expense for depreciation of right-of-use assets will affect operating income linearly, but without representing a cash outflow, which will benefit the adjusted EBITDA

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 are 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 the net assets and the results of the operations of the Company in Argentina, an economy that is considered hyperinflationary, which are expressed in terms of the unit of current measurement to date of the end of the reporting period. In general, the historical cost is based on the fair value of the consideration given in exchange for 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 Company operates (its functional currency). For the purpose of these consolidated financial statements, the results and the financial position of each Company 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.

Subsidiaries that operate abroad whose functional currency is different from the presentation currency of the consolidated financial statements convert their financial statements using the following exchange rates: 1) closing for assets and liabilities and 2) historical for capital accounting and 3) the date of the transaction for income, costs and expenses. Moreover, if the functional currency in which a foreign subsidiary operates corresponds to a hyperinflationary economy, its financial statements are restated by applying the requirements of IAS 29, "Financial Report in Hyperinflationary Economies", using the price index of the country of origin of the functional currency, and subsequently converted using the closing exchange rate for all items for consolidation purposes. The conversion effects arising from the consolidation of the Company's subsidiaries are recorded in stockholders' equity, within the other comprehensive income items.

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. Inflationary effect recognition – The functional currency of the Company's subsidiaries corresponds to a non-hyperinflationary economy, except for the Argentine operation where, as of July 1, 2018, the cumulative inflation rate of the last three years approaches or exceeds 100%, qualifying as a hyperinflationary economy and in accordance with IAS 29, the financial information of that subsidiary is expressed in purchasing power as of that date and at the end of the fiscal year in the consolidated financial statements.

g. 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.

h. Reclassifications – A reclassification was made in the consolidated statement of financial position in the goodwill item, derived from an account receivable from the selling Company.

i. 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

Administradora Lamosa, S. A. de C. V. (previously Administradora Lamosa, S. A. de C. V. SOFOM E. N. R.)
Cerámica Cordillera Comercial, S. A.
Cerámica San Lorenzo Colombia, S. A. S.
Cerámica San Lorenzo, I. C. S. A.
Cerámica San Lorenzo Industrial de Colombia, S. A.
Cerámica San Lorenzo, S. A. C.
Estudio Cerámico México, S. A. de C. V. (1)
Gres, S. A. de C. V.
Gresaise, S. A. de C. V.
Inmobiliaria Porcelanite, S. A. de C. V.
Inversiones San Lorenzo, S. A.
Ital Gres, S. A. de C. V.
Italaise, S. A. de C. V.
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.
Porcel, S. A. de C. V.
Porcelanite Lamosa, S. A. de C. V.
Lamosa Energía de Monterrey, S. A. de C. V. (previously Productos Cerámicos de Querétaro, S.A. de C.V.)
Revestimientos Keramica Colombia, S. A. S. (2)
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)

Adhesives Business

Adhesivos de Jalisco, S. A. de C. V.
Adhesivos Perdura, S. A. de C. V.
Crest, S. A. de C. V.
Crest Norteamérica, S. A. de C. V.
Industrias Niasa, S. A. de C. V.
Ladrillera Monterrey, S. A. de C. V.
Niasa México, S. A. de C. V.
Soluciones Técnicas para la Construcción, S. A. de C. V.
Soluciones Técnicas para la Construcción del Centro, S. A. de C. V.
Tecnocreto, S.A.

Corporate and others

Lamosa Servicios Administrativos, S. A. de C. V.
Servicios Administrativos Lamosa, S. A. de C. V.
Servicios Lamosa S. A. de C. V. (previously 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.
Grupo Inmobiliario Viber, S. A. de C. V.
Servicios de Administración el Diente, S. A. de C. V.

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

(2) Company merged with Cerámica San Lorenzo Industrial de Colombia, S. A. on October 31, 2018.

3. 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 – Through December 31, 2017, the Company classified financial assets into the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depended on the purpose for which the financial assets were acquired.

Beginning January 1, 2018, in accordance to the adoption of IFRS 9, "Financial Instruments", the Company subsequently classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

Financial assets are entirely written off when the right to receive the related cash flows expires or is transferred, and the Company has also substantially transferred all the risks and rewards of its ownership, as well as the control of the financial asset.

Amortized cost and effective interest method

The effective interest method is a method to calculate the amortized cost of a debt instrument and to allocate the interest income during the relevant period.

The amortized cost of a financial asset is the amount at which the financial asset is measured in the initial recognition less the repayments of the principal, plus the accumulated amortization using the effective interest method of any difference between that initial amount and the amount of maturity, adjusted for any loss. The gross book value of a financial asset is the amortized cost of a financial asset before adjusting any provision for losses.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at fair value through other comprehensive income. For financial assets acquired or originated that have credit impairment, the Company recognizes interest income by applying the adjusted effective interest rate for credit at the amortized cost of the financial asset as of its initial recognition. The calculation does not return to the gross base, even if the credit risk of the financial asset subsequently improves, so that the financial asset no longer has a credit deterioration.

Classes of financial assets under IFRS 9, in effect beginning January 1, 2018

i. Financial assets at amortized cost

Financial assets at amortized cost are those that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on both collecting contractual cash flows and selling the financial assets; and their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2018, the Company does not hold financial assets to be measured at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, in addition to those described in point i in this section, are those that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since: i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

Despite the previously mentioned classifications, the Company may make the following irrevocable elections in the initial recognition of a financial asset:

a. Disclose the subsequent changes in the fair value of an equity instrument in other comprehensive income, only if such investment (in which no significant influence, joint control or control is maintained) is not held for trading purposes, or is a contingent consideration recognized as a result of a business combination.

b. Assign a debt instrument to be measured at fair value in profit or loss, if such election eliminates or significantly reduces an accounting mismatch that would arise from the measurement of assets or liabilities or the recognition of profits and losses on them in different basis.

As of December 31, 2018, the Company has not made any of the irrevocable designations described above.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period, recognized in comprehensive income.

Impairment of financial assets

The Company recognizes lifetime ECL for trade receivables with clients and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience for a range of clients with the objective of determining a percentage of default risk, adjusted for factors that are specific to the debtors, such as possible guarantees, insurance policies, general economic conditions and an evaluation of both the current direction and the forecast conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant impairment in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 180 days for national customers, and 90 days for foreign customers.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) he financial instrument has a low risk of default,

(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 180 days past due for national customers and 90 days for foreign customers.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events: significant financial difficulty of the issuer or the borrower; a breach of contract, such as a default or past due event; the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lenders would not otherwise consider; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company and all the cash flows that the Company expects to receive, discounted at the original effective interest rate in case the value of money in time is a factor to consider.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another company.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

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.

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.

The balance of investments in associates is presented within the heading of other non-current assets in the statement of financial position.

h. 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 3f). 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.

As of January 1, 2019, the Company adopted IFRS 16 requirements, so its accounting policy to measure leases as a lessee changed according to what is described in note 2b.

i. 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.

j. 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.

k. 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.

l. 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

This classification includes loans with banking institutions, and other financial liabilities, which are initially recognized at fair value net of the transaction costs and are subsequently measured at amortized cost using the effective interest rate method, recognizing the interest expenses 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 fulfilled, cancelled or have expired. When the Company exchanges with the existing lender one debt instrument in another with substantially different terms, this exchange is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. Similarly, the Company considers the substantial modification of the terms of an existing liability or part of it as an extinction of the original financial liability and recognition of a new liability. It is assumed that the terms are substantially different if the present discounted value of the cash flows under the new terms, including any net paid rate of any rate received and discounted, using the original effective rate, is at least 10% different from the Remaining cash flows of the original financial liability. The costs incurred in the refinancing are recognized immediately in results at the date of termination of the previous financial liability.

Meanwhile, if the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after the modification must be recognized in profit or loss as a result of changes in other gains and losses.

m. Derivative financial instruments – The Company values and recognizes 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 mainly uses currency forwards and market price of generic goods (natural gas) swaps, to manage its exposure to fluctuations in interest rates, foreign exchange, and market prices of natural gas, respectively (see note 5.2.5).

n. 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.

o. 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.

p. 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.

q. 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 $22,726 in 2018 and $20,813 in 2017.

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.

r. 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.

s. Revenue recognition – Revenues comprise the fair value of the consideration received or to receive for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of income, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts.

To recognize revenues from contracts with customers, the comprehensive model for revenue recognition is used, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when the Company satisfies a performance obligation.

Revenue from the sale of goods and products

Contracts with customers are formalized by commercial agreements complemented by purchase orders, whose costs comprise the promises to produce, distribute and deliver goods based on the contractual terms and conditions set forth, which do not imply a significant judgment to be determined. When there are payments related to obtaining contracts, they are capitalized and amortized over the term of the contract.

Performance obligations held by the Company are not separable, and are not partially satisfied, since they are satisfied at a point in time, when the customer accepts the products. Moreover, the payment terms identified in most sources of revenue are short-term, with variable considerations including discounts given to customers, without financing components or guarantees. These discounts are recognized as a reduction in revenue; therefore, the allocation of the price is directly on the performance obligations of production, distribution and delivery, including the effects of variable consideration.

The Company recognizes revenue at a point in time, when control of sold goods has been transferred to the customer, which is given upon delivery of the goods promised to the customer according to the negotiated contractual terms. The Company recognizes an account receivable when the performance obligations have been met, recognizing the corresponding revenue; moreover, the considerations received before completing the performance obligations of production and distribution are recognized as customer advances.

Dividend income from investments is recognized once the rights of stockholders to receive this payment have been established (when it is probable that the economic benefits will flow to the Company and the revenue can be reliably determined).

The Company's management adopted IFRS 15, *"Revenue From Contracts with customers"*, on January 1, 2018 using the modified retrospective method applied to the contracts in force on the date of adoption; thus, the accounting policy applied as of said date, is not comparable to that used for the year ended December 31, 2017

t. 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 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.

u. 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 for exchange rate differences arising from transactions related to foreign currency risk hedges. Management has determined that the functional currency of its main foreign operations is the U.S. dollar, Argentine peso, Chilean peso, Colombian peso, Peruvian sol and quetzal 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, 2018 and 2017 for the consolidated statement of financial position and approximate average of 2018 and 2017 of the accounts of the consolidated statement of income, are as follows:

	As of December 31, 2018	
Currency	Closing	Average
U.S. Dollar	19.6829	19.2279
Colombian Peso	0.00606	0.00625
Peruvian Sol	5.83543	5.8571
Argentinian Peso	0.52060	0.7349
Chilean Peso	0.02829	0.0301
Quetzal	2.54000	2.54000

	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
Quetzal	2.68000	2.68000

v. 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 382,759,336 weighted average shares outstanding during 2018 and 2017, respectively. The Company does not have potentially dilutive instruments.

4. Critical accounting judgments and key uncertainty sources in estimates

In the application of the accounting policies mentioned in Note 3, 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.

Estimation of default probabilities and recovery rate to apply the model of expected losses in the calculation of impairment of financial assets.

The Company assigns to customers with whom it maintains an account receivable at each reporting date, either individually or as a group, an estimate of the probability of default on the payment of accounts receivable and the estimated recovery rate, with the purpose of reflecting the cash flows expected to be received from the outstanding balances on said date. See Note 7.

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 3e and 3i.

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 3k.

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 11 and 12.

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.

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 2h. The balances of these investments in associates as of December 31, 2018 and 2017 were $ 36,338 and $ 36,338, respectively.

Identification of a general Price index in Argentina

As of July 1, 2018, the Company reflects the effects of hyperinflation on the financial information of its subsidiary in Argentina using price indexes that are considered appropriate in accordance with Resolution 539/19 JG ("the Resolution") of the Argentine Federation of Professional Councils of Economic Sciences. This resolution establishes that a combination of price indexes should be used in the calculation of the effects of restatement of financial statements. Therefore, the Company has decided to use the CPI (Consumer Price Index) to restate balances and transactions that have been generated as of January 2017; and the IPIM (domestic wholesale price index) for balances and transactions generated for all months prior to 2017, except for the months of November and December 2015, due to the fact that said index was not available. For these months, the Company used the IPCBA (consumer price index of the city of Buenos Aires).

The initial effect of the application of the accounting for hyperinflationary economies in the consolidated financial statements of the Company was $ 46,724, which was recognized within stockholders' equity as part of the conversion effect of the Argentine subsidiary. Additionally, the result in the monetary position recognized for the period from July 1 to December 31, 2018 was $31,188.

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.

5. 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.

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

	December 31, 2018		2017
Financial assets:			
Cash and cash equivalents (1)	$ 360,130		$ 713,523
Accounts receivable (1)	3,330,271		3,384,338
Financial liabilities:			
Derivative financial instruments (2)	-		$ 95,109
Amortized cost liabilities (1) (3)	10,040,042		10,528,764

(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.

5.2 Market risk

5.2.1 Foreign Exchange risk

The Company's and its subsidiaries 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$):

		2018		2017
Financial asset	US$	30,237	US$	29,420
Financial liabilities		(373,571)		(488,833)
Liability position	US$	(343,334)	US$	(459,413)
Equivalent in Mexican pesos	$	(6,757,809)	$	(9,068,813)

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

As of December 31, 2018	As of December 31, 2017
$ 19.68	$ 19.74

At February 12, 2019, the interbank exchange rate established by Banco de Mexico was $19.09 Mexican pesos per U.S. dollar.

5.2.2 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 foreign currency, if the exchange rate increase or decrease, the exchange effects would be against or in favor, respectively. Therefore, if as of December 31, 2018, 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 $981,118 impacting income before taxes and the Company's stockholders' equity would have resulted in an exchange loss. If additionally, 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.

5.2.3 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 trends in interest rates, specifically the 28-day TIIE and 3M LIBOR, which increased their levels in the last two quarters of 2018. As of December 31, 2018, the Company has a debt balance in local currency of $1,787,903 with a 28- day TIIE plus 2.00%, and $33,385 with a 28-day TIIE plus a surcharge between 4% and 2%. In addition, it maintains a debt in US dollars of US$322,409 with a 3M LIBOR plus a surcharge of 2.15%; and US$3,000 with a LIBOR plus 1.90%, US$3,500 with a 3M LIBOR plus a surcharge of 2.0% and US$1,631, with a 3M LIBOR plus a 2.24%. The Company also maintains a debt denominated in Argentine Pesos of ARS 23,477 at a rate of 63% and ARS 1,690 at a rate of 66%.

Similarly, a debt denominated in Colombian Pesos of COP 1,500,000 is maintained at a variable rate of IBR plus a surcharge of 4.175%. The interest expense recorded during 2018 and 2017 was $516,096 and $479,225, respectively.

5.2.4 Sensitivity analysis of interest risk

If as of December 31, 2018, 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 $88,921. 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.

5.2.5 Natural gas price risk

The Company is exposed to fluctuations in the price of natural gas. During the years ended December 31, 2018 and 2017, the Company consumed natural gas of approximately 12,437,785 and 13,152,698 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.

The effect for the aforementioned hedging transaction represented expenses of $69,484 and $71,281 in the 2018 and 2017 consolidated statements of income, respectively, which was presented within cost of sales.

As of December 31, 2018, the Company does not have hedges for natural gas. As of December 31, 2017, the fair value of these 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)
	2,580,000			$	¡(87,967)

(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, 2018 and 2017 and February 12, 2019, the issuance date of the consolidated financial statements, the market price of natural gas was US$5.4266, US$3.5356 and US$4.1045, U.S. dollars of MMBTUS, respectively.

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

Activity of the year:		2018		2017
Opening balance	$	(66,220)	$	(103,694)
Changes during the year		94,600		53,534
Tax effect		(28,380)		(16,060)
Ending balance	$	-	$	(66,220)

5.2.6 Sensitivity analysis of natural gas price risk

If as of the December 31, 2018, 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 $133,060, having an effect in stockholders' equity of $93,142. If additionally, 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.

5.3 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. 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.

5.4 Credit risk

The maximum exposure to credit risk is represented by accounts receivable as shown in the consolidated statements of financial position. The client portfolio is comprised mostly of moral persons with experience in construction finishes and with a considerable track record in the distribution of the products of the Company's brands, which generally constitute an important source in their business lines.

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.

6. Cash and cash equivalents

	2018	2017
Cash and bank deposits	$ 221,651	$ 313,888
Cash equivalents- investments in money market fund	138,479	399,635
	$ 360,130	$ 713,523

7. Accounts receivable, net

	2018	2017
Accounts receivable	$ 3,456,201	$ 3,520,375
Allowance for doubtful accounts	(125,930)	(136,037)
	$ 3,330,271	$ 3,384,338

Movements in the allowance for doubtful accounts receivables based on the methodology used in 2017 are as follows:

	2017
Opening balance	$ (123,192)
Allowance for doubtful accounts for the year	(25,629)
Write-offs	12,784
Ending balance	(136,037)
Adjustments from IFRS 9 adoption	-
Opening balance as of January 1, 2018	$ (136,037)

The changes in the impairment allowance for accounts receivable in 2018, with the new expected losses model used by the Company, are as follows:

Customer groups	Accounts receivable	Secured accounts receivable	Unsecured accounts receivable	Default probability range	Loss given default range	Opening balance -Impairment allowance	Increases in the allowance	Cancellations in the allowance	Ending balance -Impairment allowance
Construction / Ceramic	3,135,547	1,114,320	2,021,227	0.02% - 0.05%	1.0	$ (103,540)	$ (11,832)	$ 2,810	$ (112,562)
Construction / Adhesives	638,318	41,943	596,375	0.03% - 0.05%	1.0	(32,497)	(4,429)	23,558	(13,368)
Total						$ (136,037)	$ (16,261)	$ 26,368	$ (125,930)

The increase in the allowance for doubtful accounts were derived by an application consisting of the probability of default on recurring sales to the Company's customers. Moreover, with respect to cancellations, these were made by recovering the amount previously considered uncollectible and, to a lesser extent, by considering some accounts receivable that are legally irrecoverable. The Company has guaranteed its portfolio for $247,215 as of December 31, 2018.

8. Inventories

	2018	2017
Finished goods	$ 1,473,833	$ 1,377,400
Work in process	119,864	139,334
Raw materials	557,766	575,532
Accessories and spare parts	328,578	376,422
	$ 2,480,041	$ 2,468,688

The amount of the inventories consumed and recognized as part of cost of sales for the years ended December 31, 2018 and 2017, amounted to $6,069,265 and $5,864,606, respectively.

Inventories recognized as an expense for the years ended December 31, 2018 and 2017 include $25,414 and $31,968, respectively, for write-downs of inventory to their net realizable value.

9. Other current assets

	2018	2017
Recoverable taxes	$ 431,570	$ 112,981
Advance to suppliers	36,562	81,344
Other	54,970	59,591
	$ 523,102	$ 253,916

10. Real estate inventories

	2018	2017
Real estate for sale	$ 19,274	$ 19,274
Undeveloped land	93,689	93,689
	$ 112,963	$ 112,963

11. Property, plant and equipment, net

	2018	2017
Land	$ 1,360,543	$ 1,434,116
Building and constructions	4,366,575	4,441,347
Machinery and equipment	10,820,774	10,868,909
Furniture and equipment	70,236	72,165
Vehicles	106,631	102,567
Computers	171,087	122,180
Investment in process	424,588	139,000
	17,320,434	17,180,284
Accumulated depreciation	8,454,606	8,278,513
	$ 8,865,828	$ 8,901,771

	Balances as of December 31, 2017	Translation effect	Inflationary effect	Additions	Depreciation	Disposals	Capitalization	Balances as of December 31, 2018
Investments:								
Land	$ 1,434,116	$ (77,016)	$ 2,436	$ 1,007	$ -	$ -	$ -	$ 1,360,543
Buildings and constructions	4,441,347	(121,064)	18,178	9,843	-	124	18,395	4,366,575
Machinery and equipment	10,868,909	(234,106)	31,775	124,046	-	196,022	226,172	10,820,774
Furniture and equipment	72,165	(4,469)	(4)	4,463	-	2,050	131	70,236
Transport equipment	102,567	(3,286)	841	12,560	-	8,697	2,646	106,631
Computer equipment	122,180	(2,011)	689	43,426	-	9,284	16,087	171,087
Investments in process	139,000	(11,755)	19,653	546,322	-	5,201	(263,431)	424,588
Total investments	17,180,284	(453,707)	73,568	741,667	-	221,378	-	17,320,434
Depreciación:								
Buildings and constructions	1,633,080	(56,141)	1,760	-	108,579	3,595	-	1,683,683
Machinery and equipment	6,402,849	(137,547)	3,251	-	357,734	127,780	-	6,498,507
Furniture and equipment	60,387	(2,259)	(1)	-	6,201	1,818	-	62,510
Transport equipment	66,066	(1,762)	333	-	15,400	6,814	-	73,223
Computer equipment	116,131	(1,002)	268	-	26,877	5,591	-	136,683
Total accumulated depreciation	8,278,513	(198,711)	5,611	-	514,791	145,598	-	8,454,606
Investments, net	$ 8,901,771	$ (254,996)	$ 67,957	$ 741,667	$ 514,791	$ 75,780	$ -	$ 8,865,828

	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
Budilgings 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

During the years ended December 31, 2018 and 2017, the Company had idle capacity of 10.47% and 10.99%, respectively. Interest expense related to qualifying assets as of December 31, 2017 were $61,837, as of December 31, 2018 the costs related to fixed assets were not significant.

During the years ended December 31, 2018 and 2017, the Company wrote-off property, plant and equipment amounting to $35,733 and $24,065, respectively, of assets that were removed from use.

12. Intangible assets, net

	2018	2017
Unamortized intangible assets:		
Brands	$ 4,773,022	$ 4,902,783
Goodwill	705,090	803,384
	5,478,112	5,706,167
Amortized intangible assets	226,984	217,010
	$ 5,705,096	$ 5,923,177

	Brands	Goodwill	Total Unamortized Intangibles	Amortized Intangibles	Total
Balances as of January 1, 2017	$ 4,967,332	$ 813,713	$ 5,781,045	$ 230,936	$ 6,011,981
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	803,384	5,706,167	217,010	5,923,177
Acquisitions	-	-	-	41,527	41,527
Conversion effect	(129,761)	(98,294)	(228,055)	-	(228,055)
Amortization	-	-	-	(31,553)	(31,553)
Balances as of December 31, 2018	$ 4,773,022	$ 705,090	$ 5,478,112	$ 226,984	$ 5,705,096

As of December 31, 2018 and 2017, 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 the corresponding exercise that was put into operation and the implementation of the enterprise resource planning (ERP) system in Cerámica San Lorenzo y Cordillera.

For purposes of impairment tests, the non-amortizable intangible asset of brands and goodwill was assigned to the Company's following cash generating units (CGU):

	2018	2017
North America ceramic tiles	$ 3,946,296	$ 3,946,296
South America ceramic tiles		
Chile	570,901	526,055
Peru	53,998	86,587
Colombia	506,109	606,333
Argentina	173,010	313,097
Adhesives	227,798	227,799
	$ 5,478,112	$ 5,706,167

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.

Future cash flows discounted at present value based on 5-year financial projections and growth in perpetuity from the last year, considering estimations as of the valuation date based on the budget approved by the administration, including the latest known trends in the business and industry. 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, 2018 and 2017, are as follows:

	2018	2017
Discount rate		
North America ceramic tiles	11.0%	11.2%
Adhesives	11.0%	11.5%
South America ceramic tiles		
Chile	14.0%	14.1%
Peru	13.0%	12.4%
Colombia	12.6%	13.3%
Argentina	35.5%	22.7%
Perpetuity growth rate		
North America ceramic tiles and Adhesives	3.0%	3.0%
South America ceramic tiles:		
Chile	3.5%	3.5%
Peru	3.0%	3.0%
Colombia	3.0%	3.0%
Argentina	8.0%	5.0%

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.

13. Other non-current assets

	2018	2017
Recoverable taxes	$ 46,186	$ 35,683
Other assets	33,543	33,190
Investments in shares	36,338	36,338
Account receivable selling part	55,441	65,732
Expenses to be amortized	25,957	19,208
	$ 197,465	$ 190,151

14. Other current liabilities

		2018		2017
Contributions and taxes payable	$	171,945	$	145,327
Freights payable		330,477		311,112
Energy payable		338,373		211,906
Statutory employee profit sharing (PTU)		99,902		141,783
Provisions		54,552		219,154
Dividends payable		56,321		42,542
Sundry creditors		335,586		241,538
Other accounts payable		78,513		126,866
	$	1,465,669	$	1,440,228

15. Long-term debt

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

		2018		2017
Bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum rate of 3.15% in 2018, and 3.15% in 2017; principal matures in different dates through 2021.	$	6,345,937	$	6,757,800
Bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum rate of 2.65% in 2018; with maturities of principal through 2019, with prepayment options.		59,049		-
Secured bank loans, denominated in Columbian Pesos with an IBR interest rate plus a surcharge of 4.175% with expiration during 2019.		9,183		-
Secured bank loans, denominated in US dollar with a variable interest rate at the end of December 2018 of LIBOR 3M plus a surcharge of 2.0% in 2018; principal matures in different dates up to a year.		69,172		-
Overdraft-type bank loans denominated in Argentinian pesos, with a variable interest rate of 63% with maturity during 2019.		12,558		-
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 2018, and 3% in 2017; principal matures in different dates through 2021.	$	1,787,903	$	1,898,877
Total financial debt		8,283,802		8,656,677
Debt issuance costs		(125,180)		(170,701)
Total net financial debts		8,158,622		8,485,976
Current portion		(888,030)		(461,595)
Long-term debts	$	7,270,592	$	8,024,381

Long-term debt maturities as of December 31, 2018 are as follows:

Year		Principal		Interest [1]
2020	$	1,300,771	$	430,455
2021		5,969,821		266,569
	$	7,270,592	$	697,024

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

TIEE, LIBOR interest rates, and variable Argentinean and IBR Colombian rates were as follow:

Year	TIIE %	LIBOR %	VARIABLE %	IBR %
2018	8.595	2.8076	63.0	4.250
2017	7.624	1.6942	32.0	-

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

b. 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, 2018 and 2017.

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:

		2018		2017
Finance lease denominated in US dollars, bearing variable interest based on LIBOR plus an interest rate of 2.24% for 2018 and 2017, with maturities of principal on different dates through 2020.	$	32,097	$	63,378
Finance lease denominated in Mexican pesos, bearing variable interest based on TIIE plus an interest rate between 4.00% and 2.00% for 2018 and 4.00% and 2.00% for 2017. The principal matures at different dates through 2022.		33,385		37,041
Total net finance lease		65,482		100,419
Current portion		(51,528)		(52,328)
Long- term finance lease	$	13,954	$	48,091

	Minimum lease payments				Present value of minimum lease payments			
		2018		2017		2018		2017
Less than one year	$	55,111	$	57,373	$	51,528	$	52,328
More than one year		16,184		51,193		13,954		48,091
		71,295		108,566	$	65,482	$	100,419
Less amounts representing future interest expense		(5,813)		(8,147)				
Present value of minimum lease payments	$	65,482	$	100,419				

The expiration of long-term finance leases as of December 31, 2018 is as follows:

Year		Principal		Interest
2019	$	51,528	$	3,583
2020		5,848		1,554
2021		6,041		583
2022		2,065		93
	$	65,482	$	5,813

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 7.31% in 2018 and 5.44% in 2017.

17. Employee benefits

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

	2018	2017
Discount of projected benefit obligation at present value	9.25%	7.25%
Salary increase	5.50%	5.10%

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 2018 and 2017 are as follows:

	Net income		Other comprehensive items
2018	Current service cost	Net interest defined benefit liability	Actuarial remeasurements
Pension and retirement plans	$ 5,914	$ 9,875	$ 9,347
Seniority premium	9,976	10,533	(13,953)
Total	$ 15,890	$ 20,408	$ (4,606)

	Net income		Other comprehensive items
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

For the years ended in December 31, 2018 and 2017, $15,890 and $14,397 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:

	2018	2017
Amount accumulated in other comprehensive income items at the beginning of the period, net of taxes	$ 59,457	$ 39,619
Actuarial remeasurements	(6,580)	28,339
Tax effect	1,974	(8,501)
Amount accumulated in other comprehensive income items at the end of the period, net of taxes	$ 54,851	$ 59,457

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

Pension and retirement plan		2018		2017
Opening balance	$	200,744	$	173,672
Service cost		5,914		5,181
Interest cost		9,875		7,956
Actuarial losses		13,353		20,790
Benefits paid		(23,578)		(6,855)
Ending balance	$	206,308	$	200,744

Seniority Premium		2018		2017
Opening balance	$	164,823	$	141,771
Service cost		9,976		9,216
Interest cost		10,533		9,355
Actuarial losses		(19,094)		7,549
Benefits paid		(7,146)		(3,068)
Ending balance	$	159,092	$	164,823
Total liability for defined benefits	$	365,400	$	365,567

The average of the benefit obligation at December 31, 2018 and 2017 is 5.6 and 6.8 years, respectively.

18. Stockholders' equity

a) The minimum fixed capital stock, without the right to withdrawal, is composed by ordinary, nominative shares, without the expression of nominal value and the variable capital by ordinary, nominative shares, without the expression of nominal value. All shares are freely subscribed.

	2018	2017
	Number of shares	
Minimum fixed capital stock	360,000,000	360,000,000
Variable capital	25,843,423	25,843,423
	385,843,423	385,843,423

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 2018 and 2017 at the Annual Stockholders' Meetings held on March 14, 2018 and March 15, 2017 amounted to $ 90 million Mexican pesos for each of the aforementioned years. In relation to the years ended December 31, 2018 and 2017, the Company did not conduct transactions with shares of its capital stock.

c) At the general stockholders' meetings held on March 14, 2018, dividends were declared for $267,932, from the net tax income account (CUFIN), equivalent 0.70 Mexican pesos per share.

d) 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

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 Company is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2018 and 2017, 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 against the tax of the year and the provisional payments.

g) The balances of the stockholders' equity tax accounts are:

	2018	2017
Contributed capital account	$ 422,483	$ 430,302
Net tax income account (CUFIN)	22,206,573	19,862,429
Total	$ 22,629,056	$ 20,292,731

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, 2018 amounted to $8,283,802 (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 $7,019,187.

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 2018 the Company carried out the management of its capital by observing those requirements, fully complying with all its financial commitments and showing indexes with better performance to those previously described.

Below are some of the major items that are considered for the management of the Company's capital as of December 31, 2018 and 2017.

	2018	2017
Total debt	$ 8,224,104	$ 8,586,395
Cash and cash equivalents	360,130	713,523
Net debt	7,863,974	7,872,872
Stockholders' equity	9,288,268	8,657,775
Leverage measured as net debt to stockholders' equity	0.85	0.91
Total debt main ítems:		
Secured loan	$ 8,283,802	$ 8,656,677
Other	65,482	100,419
Debt issuance costs	(125,180)	(170,701)
Total debt	$ 8,224,104	$ 8,586,395

The decrease in the total debt during 2018 was due mainly from amortizations made.

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

19. Operating expenses

	2018	2017
Selling	$ 2,957,538	$ 2,884,717
Administration	1,285,775	1,189,148
Total	$ 4,243,313	$ 4,073,865

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 and 20% as of 2019 only the northern border strip, 15% in Colombia, 29.5% in Peru and 27% in Chile. For the United States, the applicable rate as of December 31, 2018 is 21%. For Argentina, the applicable rate as of December 31, 2018 is 30% and 2019, the applicable rate will be 25% as of 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 Company 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 that the 2014 Mexican Law repealed the fiscal consolidation regime, an option was established to calculate the income tax jointly in groups of companies (tax integration regime). The new regime allows for the case of integrated companies owned directly or indirectly by more than 80% by an integrating company, to have certain benefits in the tax payments (when within the group of companies there are entities with profits or losses in the same year), which may be deferred for three years and be up-to-date, on the date on which the declaration corresponding to the fiscal year following the one in which the aforementioned period ends is to be filed.

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, 2018, derived from such tax reforms, are as follows:

Item:		ISR liabilities
Recognition of:		
Liabilities from losses on sale of shares	$	(894,439)
Liabilities from tax integration regime		(299,700)
Balance	$	(1,194,139)

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

Year		ISR liabilities
2019	$	234,150
2020		300,172
2021		301,664
2022		179,074
2023 and subsequent		179,079
	$	1,194,139

b. Income taxes for 2018 and 2017 consist of the following:

		2018		2017
Current income tax	$	868,886	$	1,125,096
Deferred income tax		(140,869)		(453,536)
Total	$	728,017	$	671,560

c. The reconciliation of the statutory and effective income tax rates, expressed as a percentage of income before income taxes in 2018 and 2017 is:

	2018		2017
		%	
Effective rate	34.9		28.0
Effect of inflation	0.40		0.50
Nondeductible	(5.70)		0.50
Others	0.40		1.0
Statutory rate	30.0		30.0

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, 2018:						
Derivative financial instruments	$	94,600	$	(28,380)	$	66,220
Remeasurement of defined benefits obligation		5,067		(1,520)		3,547
Cumulative translation adjustment		(482,624)		–		(482,624)
	$	(382,957)	$	(29,900)	$	(412,857)
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)

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

		2018		2017
Deferred income tax asset:				
Allowance for doubtful accounts	$	31,403	$	32,648
Derivative financial instruments		-		26,390
Provisions		283,860		315,212
Employee benefits		55,831		156,251
Tax loss carryforwards		1,173,210		1,040,923
Other		95,393		65,767
Total		1,639,697		1,637,191

		2018		2017
Deferred income tax liability:				
Inventories	$	(77,009)	$	(63,548)
Real estate inventories		(3,841)		(3,841)
Property, plant and equipment		(284,165)		(339,164)
Brands		(64,880)		(64,476)
Commissions paid for debt restructuring		(35,917)		(48,568)
Total		(465,812)		(519,597)
Tax on assets		35,345		33,229
Deferred income tax asset, net	$	1,209,230	$	1,150,823
Deferred income tax liability:				
Others	$	(8,671)	$	17,679
Benefits for tax loss carryforwards		43,061		-
Property, plant and equipment		(309,762)		(309,315)
Brands		(39,669)		(45,653)
Deferred income tax liability, net	$	(315,041)	$	(337,289)

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, 2018 are:

Year		Amount
2020	$	329
2021		861
2022		21,723
2023		32,324
2024		74,435
2025		206,808
2026		230,416
2027		199,928
2028		449,447
	$	1,216,271

22. Related party balances and transactions

a. The balances with related parties as of December 31, 2018 and 2017 were as follows:

		2018		2017
Accounts receivable - Estudio Cerámico de México, S. A. de C. V.	$	1,217	$	686
Accounts payable - Estudio Cerámico de México, S. A. de C. V.		438		320

b. The transactions with related parties as of December 31, 2018 and 2017 were as follows:

		2018		2017
Sales of finished goods	$	16,655	$	12,533
Lease income		7,136		6,732
Other income, net		4,193		3,592

c. For the years ended December 31, 2018 and 2017, the direct short-term benefits granted to the key management personnel of the Company for $128,241 and $112,601, respectively.

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.

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.

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

December 31, 2018:	Ceramic	Adhesive	Corporate and other	Consolidated
Total net sales	$ 13,687,942	$ 4,041,386	$ 3,481,999	$ 21,211,327
Intersegment sales		(2,444)	(3,481,854)	(3,484,298)
Net sales to third parties	13,687,942	4,038,942	145	17,727,029
Operating income	1,804,473	939,623	(12,604)	2,731,492
Depreciation and amortization	456,508	36,439	53,397	546,344
Other expenses	80,048	(12,236)	73,709	141,521
Acquisition of property, plant and equipment and intangible assets	(640,910)	(50,269)	(65,665)	(756,844)
Total assets	15,419,749	1,539,577	5,824,800	22,784,126
Total liabilities	3,095,572	807,013	9,549,195	13,451,780

December 31, 2017:	Ceramic	Adhesive	Corporate and other	Consolidated
Total net sales	$ 14,200,908	$ 3,758,788	$ 3,318,642	$ 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	3,223	2,803,930
Depreciation and amortization	513,746	31,206	50,248	595,200
Other expenses	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	5,541,808	23,099,350
Total liabilities	4,228,023	866,952	9,346,600	14,441,575

25. Information by geographic region

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

	Revenues from third parties		Non-current assets	
	2018	2017	2018	2017
North America	$ 13,485,271	$ 13,519,983	$ 12,776,954	$ 13,091,540
Central America	142,290	124,185	8,020	10,861
South America	4,099,468	4,326,798	3,305,608	3,176,484
	$ 17,727,029	$ 17,970,966	$ 16,090,582	$ 16,278,885

26. Authorization of financial statements

On February 12, 2019, the issuance of the consolidated financial statements was authorized by Federico Toussaint Elosúa, Chief Executive Officer, and Jorge Antonio Touche Zambrano, Chief Financial Officer. These consolidated financial statements are subject to the approval of the ordinary stockholders' meeting, where they may be modified, based on the provisions set forth by the General Corporate Law.