CORPORACIÓN MOCTEZUMA

DETERMINATION AND FOCUS

Annual Report **2017**

MISSION

Produce cement and concrete that satisfies our clients' requirements, at the lowest cost and most competitive price in an environment of safety and development for our personnel, in harmony with the environment, a positive relationship with the community that surrounds us, giving fair payment to employees and value added to the investment made by our shareholders and clients.

VISION

Maintain our leadership of efficiency and profitability, expanding our cement and concrete operations at national level, positioning our brand as the high quality of our product merits.

VALUES

Our values are the foundations of our company identity, as well as the shared convictions that form part of our long term strategy and the service we offer on the market.

Committed

We are committed to the well-being of Mexico.

Near at hand

We listen and respond

Competitive

Investment and innovation

Consistent

Consistency that creates confidence

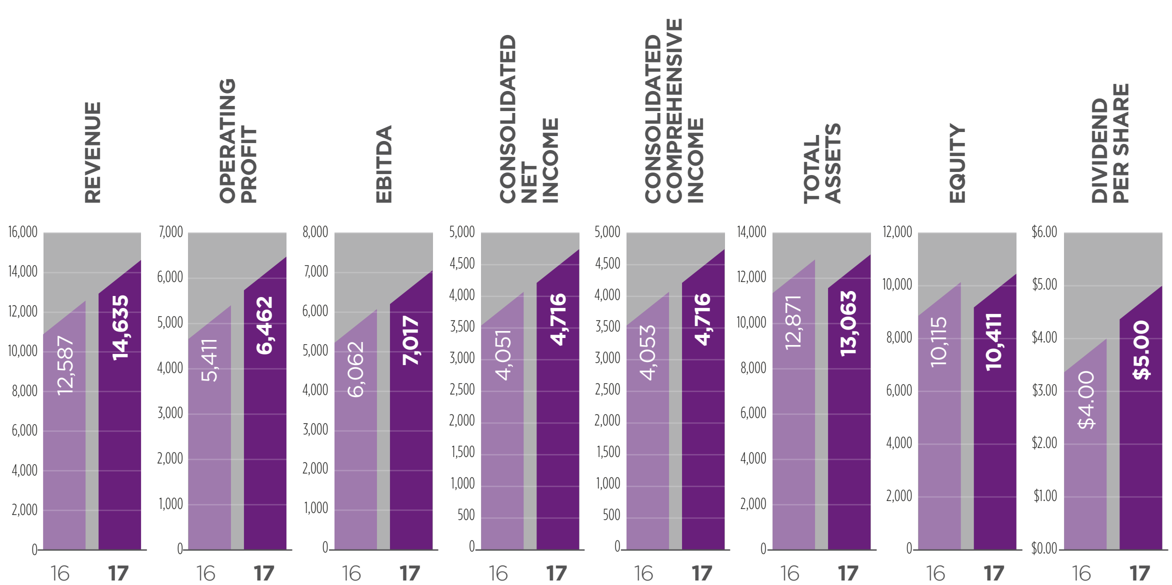
CONTENTS

RELEVANT **FIGURES**

Figures in millions of Mexican Pesos, except for dividends per share which are expressed in Mexican Pesos.

	2017	2016	Variation %
Total Assets	13,063	12,871	1.5%
Total Liabilities	2,651	2,756	(3.8%)
Equity	10,411	10,115	2.9%
Revenue	14,635	12,587	16.3%
Gross Profit	7,138	6,182	15.5%
Gross Margin	48.8%	49.1%	
Operating Profit	6,462	5,411	19.4%
Operating Margin	44.2%	43.0%	
EBITDA*	7,017	6,062	15.8%
EBITDA Margin	47.9%	48.2%	
Consolidated Net Income	4,716	4,051	16.4%
Consolidated Net Income Margin	32.2%	32.2%	
Consolidated Comprehensive Income	4,716	4,053	16.4%
Consolidated Comprehensive Income Margin	32.2%	32.2%	
Dividend per Share	5.00	4.00	25.0%

* EBITDA. Earnings before Interest, Taxes, Depreciation and Amortization.



MESSAGE TO **OUR SHAREHOLDERS**

Constantly changing environments, uncertainty due to the new government in the United States and a greater demand for prime materials which increased prices, are some of the things that characterized the world economic environment during 2017.

The rhythm of growth of the Mexican economy slowed to a modest rate of 2.1% in 2017 with respect to the previous year, while the construction industry registered a reduction of 1.0% during the same period.

Corporación Moctezuma began 2017 with the aims of marketing the additional production of our second cement line at the Apazapan plant as well as improving our services and presence in different states by an efficient use of the railways.

The constant investments we have made in the most up-to-date cement and concrete production technology over more than two decades have been essential and have allowed us to cope with the natural disasters which occurred during 2017, in our role as an efficient and reliable manufacturer, caring for the environment through lower consumption of inputs and energy, high quality products and healthy margins. At the same time, our team of professionals, cultivated through permanent training processes, has been of great importance, as has the special attention paid to workplace safety in addition to the transparency and efficiency in our operations.

In consequence, we have delivered our shareholders good results in 2017, improving on those of the previous year. Our sales increased by 16.3% with the help of the new cement production capacity at the Apazapan plant and the price increases in our products which allowed us to partially offset higher production costs.

Despite increases in the cost of important inputs, we managed to maintain our margins and avoid negative impacts of note. The EBITDA Margin was 47.9%.

2017 was the year with the highest dividend payments in our history. Once the construction of the second Apazapan line was completed, having been paid for from our own cash-flows and without prejudicing our financial position by avoiding debt, we paid our shareholders approximately $4,400 million Mexican Pesos.

We did not forget our social commitments. We continued our programmes supporting health, education and work-training. In addition, we participated with civil society and the authorities by contributing to the rescue and reconstruction work in response to the earthquakes of 7 and 19 September, especially by providing help to the communities surrounding our plants.

Year by year environmental conditions change and present us with different challenges. However, we remain firm to our essential aim, with determination and focus on fulfilling our objectives.

The support of our clients, suppliers, employees, directors, board members and shareholders permitted us a good harvest of results in 2017. To all of them, we reiterate our recognition and thanks.

Juan Molins Amat
President of the Board

Fabrizio Donegà
Chief Executive Officer

However,
we remain firm
to our essential aim, **with determination and focus on fulfilling our objectives.**

CEMENT **DIVISION**

We were faced with important economic challenges due to an increase in fuel and energy prices, volatility in the value of the Mexican Peso and higher levels of inflation which we overcame with integrity and expertise to the benefit of our stakeholders. In 2017 we managed to improve on the already outstanding results reported in previous years.

SCENARIO

Our commercial actions were aimed at coping with a scenario which posed a number of challenges both nationally and internationally which we overcame with determination and focus.

Externally, the change of government in the United States caused uncertainty which had a negative impact on the parity of the Mexican Peso with respect to the Dollar and the flow of investment into Mexico.

Within Mexico, the rise in gasoline and electricity prices increased levels of inflation had repercussions on the cost of industrial production. In response to this, the Bank of Mexico increased the interest rate in an attempt to balance currency parity and retain capital in the country.

The construction industry which was dynamic during the first half of 2017, felt the effects of a reduction in public infrastructure investment, an atypical rainy season and the earthquakes in September which had a negative impact on the demand for cement.

WE PUT THE NEW PRODUCTION FROM APAZAPAN ON THE MARKET

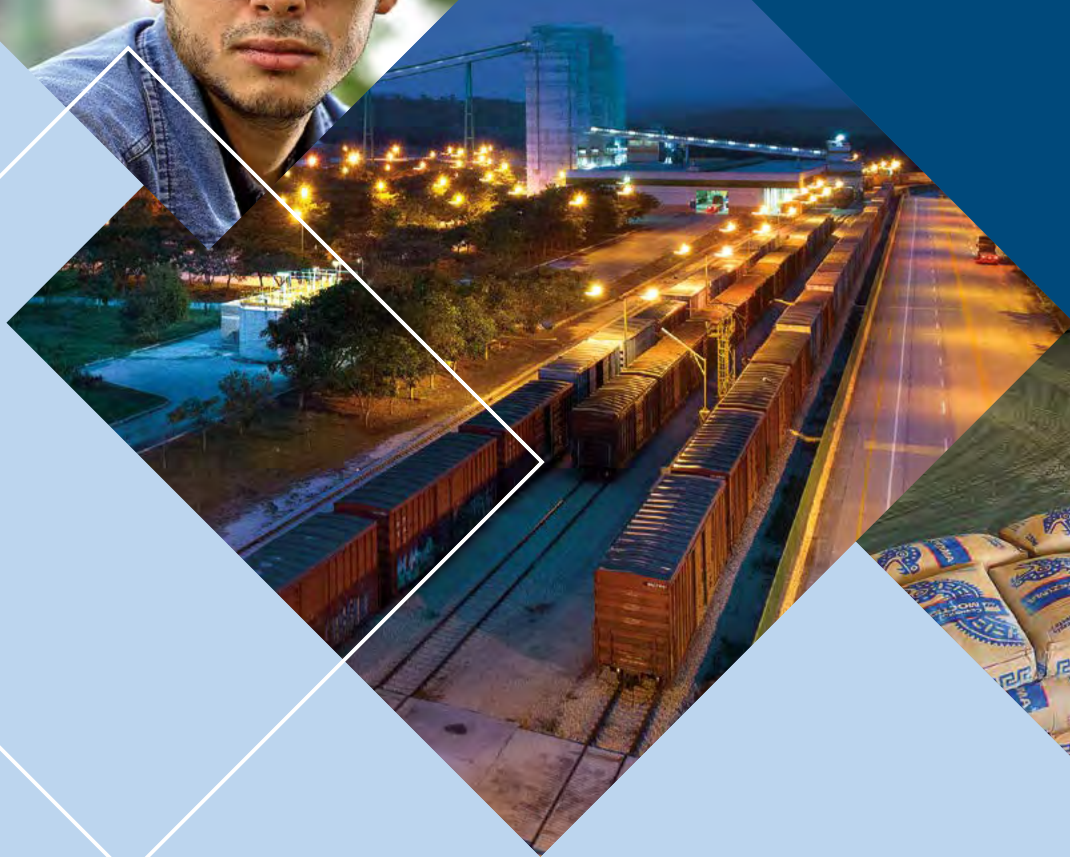
Despite the challenges described here, we began 2017 with great optimism, as this year marked the beginning of operations on the second production line at Apazapan.

Again our project team showed their ability as the building and work on the line were achieved in a shorter time than expected and without setbacks, making optimum use of the budget programmed.

Putting the production of the new line on the market was planned and implemented carefully, in such a way that we will be able to respond to the demands of our clients.

The second Apazapan line lightened the workload on our other lines which, thanks to the high demand for

From Apazapan we sent cement **to strategic markets in the Southeast of the country.**



cement in Mexico, had been working at full capacity during 2015 and 2016. From Apazapan we sent cement to strategic markets in the southeast of the country, thus improving services to our distributors in this region.

WE KEPT OURSELVES IN THE FOREFRONT

Our cement plants are fully automated, they are equipped with up-to-date technology and in order to keep them in optimum conditions, we carry out the requisite preventive maintenance.

Thanks to putting the second Apazapan line into production, it was possible to make improvements on furnace number 2 at the Tepetzingo plant.

The investment in Tepetzingo had beneficial results on:

- The efficiency of the furnace
- Production capacity
- Lower gas emissions in the environment.

WE WORK FOR OUR CLIENTS

We made investments oriented towards optimizing client services by making efforts in logistics, mainly by reinforcing our railway infrastructure in areas of great importance to us in the Bajío.

We strengthened direct contact with our clients both in person and by telephone by means of the most recent technological tools available so as to be constantly aware of their needs and requirements.

Thanks to our IT platform, clients can consult their orders, states of account and make clarifications on line.

During 2017 we worked to strengthen our network of distributors by hiring specialists who shared expectations and vision of the national and international economic situation with them, helping them to improve their decision making in a complex environment at the same time as keeping ourselves in close contact so as to maintain our position as their commercial partners.

We have an IT platform **that makes communication with our clients easier** and helps us to maintain closer commercial relations with them.

DETERMINATION AND FOCUS ON 2018

Discipline in the cost and spending controls established in previous years, along with the successful strategy implemented in our production and sales areas, allowed us to improve on the outstanding results reported in past years.

Looking ahead to 2018, we visualize a difficult economic environment that is hard to predict resulting from the lack of definition with respect to NAFTA, the political uncertainty due to the elections to be held in Mexico during the year and the protectionism of our principal commercial partner. However, we foresee a country invigorated by the structural reforms which have reduced the dependence of the national economy on public sector spending and on oil revenue. This should have a positive effect on private sector investment.

Thus, the objectives established for 2018 are ambitious because we know our capacities, we have a clear strategy, our plants are in excellent condition, we have the infrastructure to supply our markets and the human resources to fulfil the aims we have set ourselves. Thanks to all this, we trust in the present and future of Mexico and Cementos Moctezuma, a Company proud to be Mexican.

NORTHERN REGION
Coahuila
Durango
Zacatecas
Aguascalientes
San Luis Potosí
Veracruz Norte
Tamaulipas
Nuevo León

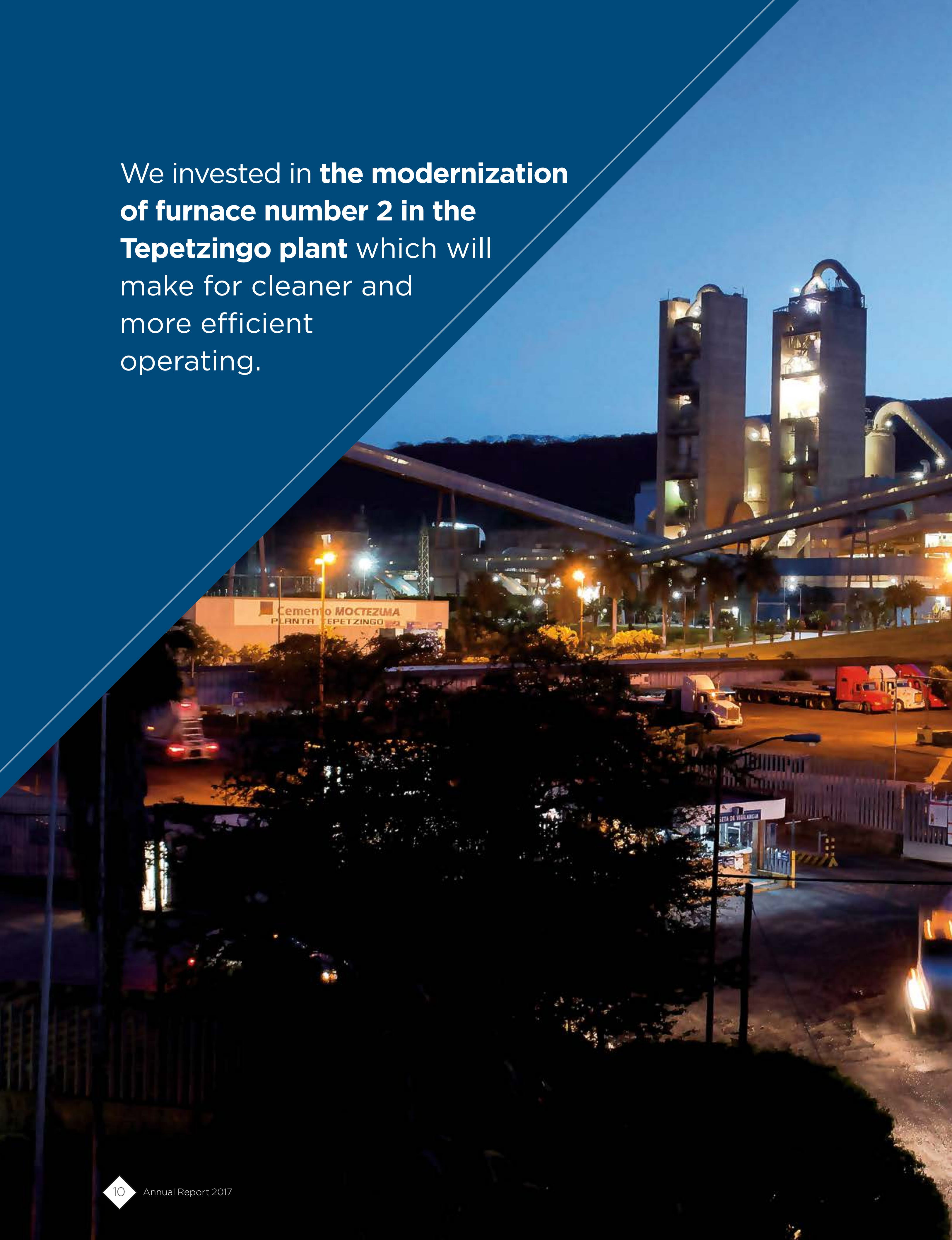
CENTRAL REGION
Estado de México
Ciudad de México
Hidalgo

BAJÍO REGION
Sonora
Sinaloa
Nayarit
Jalisco
Colima
Michoacán
Guanajuato
Querétaro

SOUTHERN REGION
Puebla
Tlaxcala
Guerrero
Morelos
Oaxaca

SOUTHEASTERN -PENÍNSULA REGION
Campeche
Chiapas
Quintana Roo
Tabasco
Veracruz
Yucatán

We invested in **the modernization of furnace number 2 in the Tepetzingo plant** which will make for cleaner and more efficient operating.




Cemento
MOCTEZUMA

The increase in our aggregate production will permit us to **ensure quality and guarantee supply,** thus depending less on outside suppliers.

CONCRETOS MOCTEZUMA

In the middle of the year reported here, Mr. Ioannis Karidis, an engineer with broad international knowledge and experience in the concrete industry was appointed as new Director General of Concretos Moctezuma.

2017 was a turning point for us. With determination and clear orientation, we laid the foundations that will allow us to develop Concretos Moctezuma to its full potential, providing special attention and a personalized service to our clients, offering quality products and increasing the profitability of our operations.

In an environment characterized by a considerable increase in fuel costs, a highly important component in the cost structure of the concrete industry, we put in place controls aimed at achieving greater efficiency in our operations.

During the year we invested in aspects of great relevance such as improvements in industrial safety, installation of water recyclers, development of the technology platform, consolidation of our infrastructure, an increase in the volume of aggregate production and the renovation of our transport fleet with the corresponding environmental benefits.

In addition, we reinforced our organizational structure, we updated and implemented the systems, procedures and controls necessary for the development of a management model capable of adapting rapidly to the specific needs and demands of the different markets we supply.

DYNAMIC MANAGEMENT

We implemented changes aimed at decentralizing decision making on marketing and the operation of the 33 concrete plants we were operating at the end of 2017, thus empowering each of their directors. Based on the specific characteristics of their regional markets, each director defined what should be done in order to make their territory more profitable and is evaluated on the results obtained.

With this management model, we gave the directors powers to administer their territories, thus optimizing results.

We are developing a management model capable of adapting itself rapidly to the specific needs and demands of the different markets we serve, and which is flexible, decentralized and profitable.

Our objective is to have a structure which is solid and responds rapidly. We consider that it is preferable to have strong, flexible legs rather than an enormous head which centralizes decisions and reduces the capacity to respond to the demands of regional markets.

OPERATIONAL EFFICIENCY AND PROFITABILITY

For some time we were more concerned with moving a greater volume of concrete than with operational profitability. From 2013 onwards, we decided to reinvent ourselves and embarked on a process of orderly withdrawal from a number of non-strategic regions and focussing our attention on those of greater value for the Company.

Throughout 2017 we kept our focus on profitability. Taking into account that investments in concrete plants are long term projects, their location is decided on the basis of a region's potential. When we install a new plant, it must have the market to make it sustainable. In this way we achieve greater efficiency by travelling over shorter distances from the plant to the construction site thus allowing us to reduce distribution costs, which is especially important in an environment in which fuel prices are increasing.

With the new management of Concretos Moctezuma, we analysed productivity not only on the level of the organization as a whole, but also in greater detail, so as to study benefits plant by plant and with respect to each client. It is the growth of each of our clients and how we can contribute to it which is fundamental to the success of our business.

OUTSTANDING PROJECTS IN 2017

- Observatorio Station for the Mexico-Toluca Rail way Line.
- Xalapa Relief Road
- Veracruz Breakwater
- IMSS Hospital in Querétaro

VALUE ADDED

Aggregates are highly important in the concrete supply chain, which is why, during 2017, we continued to make investments which allowed us to increase aggregate production.

In Concretos Moctezuma we can count on the highest quality cement, for which we require prime quality aggregates in order to offer concretes which fulfil and exceed the specifications of our clients. To achieve this, we decided to invest in aggregates, which allows us to depend less on outside suppliers and to guarantee the quality we require.

With these actions, we aimed to ensure supply and maintain a uniform quality, a situation which works in favour of our costs, as with better quality aggregates, we reduce the quantity of cement used to mix our concrete products.

Through the investments we have made during 2017 the second aggregates line began operating in Tepetzingo in addition to those at La Plancha, Apazapan and La Mancha plants. At the La Mancha plant, we also increased sand production.

In order to strengthen this important area of our business, in 2017 we created the Aggregates Management area which will contribute to this division's development and improve its position as a business unit.

THE CLIENT COMES FIRST

Throughout the year we worked on the development of information platforms, the Concrete Information System and the new Sales Force tool which will enable us to reinforce and increase our services and forge even closer business relations with our clients. These new tools will help us follow up on important aspects such as credit, invoicing, suggestions and complaints thus providing us with more opportune and detailed information with which to improve client services.

As well as using technology, we made our sales team aware of the importance of service, as they provide a strong advisory component in our commercialization process. In order to provide this level of service and advice, we stay close to our clients through periodic visits, telephone calls and e-mail.

We believe that personalized attention is a factor which distinguishes us from our competitors and that it is appreciated by our clients.

Our approach is clear; we want to win the best clients. For them we make high quality concretes and we work to improve our services and invest in tools which make communications easier. In this way we are consolidating long term relations with our clients with a clear "win-win" vision.

IN SAFETY, DETERMINATION AND FOCUS

Throughout 2017 the efforts of Corporación Moctezuma have been oriented towards efficient operations, transparent management, ethical conduct and special care for the safety of our workforce.

In Concretos Moctezuma, safety was also of special concern while carrying out our operations. We continued to invest in safety equipment for our workers, in signs to prevent accidents as well as updating and carrying out maintenance on the equipment in the concrete plants and on the concrete mixing trucks. We put special emphasis on corrective measures which is why when any safety related incident occurred, we immediately looked into the problem and implemented the necessary measures to avoid it occurring again.

Knowing that in the field of workplace safety we can never do too much, together with our employees and with the valuable technological support of our partner, Grupo Cementos Molins, we reinforced our actions to develop a safety culture.

At the end of 2017, we began to implement the Seguridad en el Trabajo a Través de la Observación Preventiva (STOP) programme. This program, which started in 2016, highlights the idea that safety is everyone's responsibility. This principle generates the commitment of each worker, making them aware of the importance of safety and emphasising that their participation is the key to identifying and preventing hazards at work.

Although this year our accident rate was lower than the year before and stayed at an acceptable level, we know that changing workers' mentalities with respect to safety will be favourable to better performance in the organization.

BUILDING A BETTER FUTURE

During 2017 Concretos Moctezuma worked on actions to make the Company more solid, we made investments which allow us to strengthen the supply chain, to establish closer business relations with our clients and to develop a new workplace culture amongst our employees.

The measures adopted required determination and focus on the tasks we have set ourselves and on the challenges posed by an uncertain and volatile environment. We are sure that we are building solid foundations for the growth we expect in the future.


PALACIO
grupo vyg


Concretos MOCTEZUMA

We developed technological tools to speed up communications, we made the sales team aware of the importance of service and produced high quality concretes as we want to win the best clients.

HUMAN **RESOURCES**

Due to a number of national and international factors, 2017 was a year of uncertainty but yet again the Moctezuma team showed its skill, facing the challenges and successfully finishing projects such as the second production line at Apazapan.

We took measures to protect our employees, ensuring that their welfare is high priority for Corporación Moctezuma as they are the organization's fundamental asset.

FOCUS ON WORKPLACE SAFETY

During 2017 our CEO put the focus on workplace safety as one of the central pillars of our operations. This resulted in practical actions aimed at creating a safety culture in the Company.

This year saw the creation of the figure of Dinamizador de Seguridad (safety promotor), a person selected from the organization to work specifically on these issues, with responsibility for supervising projects and work in this area, to emphasize and reinforce their importance and to drive them forward. This issue is so important for Corporación Moctezuma that the Dinamizador de Seguridad reports directly to the CEO and in upper management meetings industrial safety is always on the agenda.

On the basis of this criterion, workplace safety served as a guide for the application of effort and resources in the area of Human Resources.

In 2016 the Cement División adopted the STOP programme with the aim of making every employee aware of the importance of safety in the workplace and contributing to the creation of a workplace safety culture. The results were positive which is why in 2017 it was implemented in Concretos Moctezuma. Thanks to this programme we have reinforced workplace safety education and training.

Due to the measures adopted and the care taken by every worker, in 2017 we celebrated one year without accidents in the Apazapan Cement Plant, while at the Cerritos Plant we achieved a 300 day accident free period. Concretos Moctezuma reduced its accident

Team work, professionalism, respect, solidarity and companionship are solid values shared by all of us who form part of the Moctezuma Family.

rate to 3.6, a positive result considering that 5 years ago it was 12.

The results obtained encourage us to increase our efforts, as when we talk about the welfare of our employees we will not skimp on resources.

CAPACITY, EXPERTISE AND CHARACTER

We have a great team of workers who do their jobs with dedication and skill. They are the key piece in the Company and with their determination and focus they make the outstanding results that we report possible and set the standards for the new challenges we set ourselves. The capacity of our human resources has been evident during the construction and start-up of the second cement production line at Apazapan which required the participation of 1,800 people. We should point out that in this important project there were no major setbacks and it was finished in less time than programmed, starting in February 2015 and ending in January 2017, although operations were scheduled to begin in mid-2017. With Apazapan 2 in operation, our production capacity rose to a total of 8 million tons a year.

2017 has left an indelible mark, as during the year we experienced natural phenomena which caused unfortunate loss of life and the destruction of housing and infrastructure. During the second half of the year, in a large part of the country, Mexican society suffered hurricanes that caused the heaviest rains for more than two decades and two very strong earthquakes. Despite these adverse circumstances, we did not interrupt operations and continued to serve our clients without forgetting to provide help to the community.

CLEAR VISION BASED ON VALUES

Those of us who form part of the Company share solid values: honesty, ethics and transparency which, in addi-

In 2017 the post of Dinamizador de Seguridad was created with the responsibility of working on safety issues and to report directly to the CEO.

tion to the capacity and commitment of each employee, facilitate our cohesion as an organization.

Another pillar of our operations has been Transparent Management. This year we put a lot of effort into internal reorganization, on implementing rules and procedures, avoiding excessive red tape in Company management. We made advances in institutionalizing and formalizing unwritten concepts and criteria, offering our personnel a clear vision, with policies and procedures that are communicated extensively and carefully to all our workers.

THE MOCTEZUMA FAMILY

The professionalism, respect, values and comradeship within the organization allow us to say that we are a great family, the Moctezuma Family.

The same as in the family nucleus, in Corporación Moctezuma there is a support network, team work and we look out for the welfare of those who make up this family – this is the sentiment shared by those who make up the Company. As a result of the 19 September earthquake some workers' houses were affected, so we provided them with help to rebuild their homes and overcome this unfortunate experience quickly.

Thanks to the commitment and dedication of all those who form part of our Company, Corporación Moctezuma was included in the 2017 Ranking of Super Empresas Expansión in the category of companies with fewer than 500 employees. In order to be included in this select group of businesses, the following 17 factors were evaluated: leadership, organizational dynamics, resilience, identification with the company, education and training, organizational motivation, workforce attitudes, honesty, diversity and inclusion, company policy, social responsibility, the working hours, safety in the workplace, work-related stress, positive psychology and salaries.


CORPORACIÓN MOCTEZUMA

We are pleased to find ourselves amongst the 20 highest ranking places in this category. We have the motivation to improve but we know that the best recognition is knowing that our employees have a good place to work in and to develop both as people and professionals.

PROFESSIONAL DEVELOPMENT

We assigned resources to developing our most important resource, our personnel. Moctezuma's workforce gives it a competitive advantage and this is why we place our confidence and invest in them.

In 2017 we provided the technical training needed to consolidate their skills and improve their job performance. During the year technical training was provided in the following way:

Employees who received training in 2017

• Upper management	8
• Middle management	41
• White collar staff	600
• Shop-floor workers	519
• **Total**	**1,168**

In line with the CEO policy, no act of corruption is tolerated. Together with our legal department we have reinforced measures to avoid unfair commercial practices by developing a protocol in this area and we are giving courses on specific topics: unfair commercial practices, fraud, security and internal and external dissemination of our anti-corruption policies.

Through the long-term vision of Corporación Moctezuma University and in collaboration with different universities, our workers can study for undergraduate and postgraduate degrees in order to improve their professional education.

We have faith in the capacity of Moctezuma's workers. In 2017 we have worked on management development to strengthen knowledge and skills in the coordination of material and human resources, leadership and clarity of objectives. The resources invested have provided results and opened opportunities for professional development amongst workers and staff who are our first choice for managerial and directorship appointments.

Employees who concluded their studies through Corporación Moctezuma University.

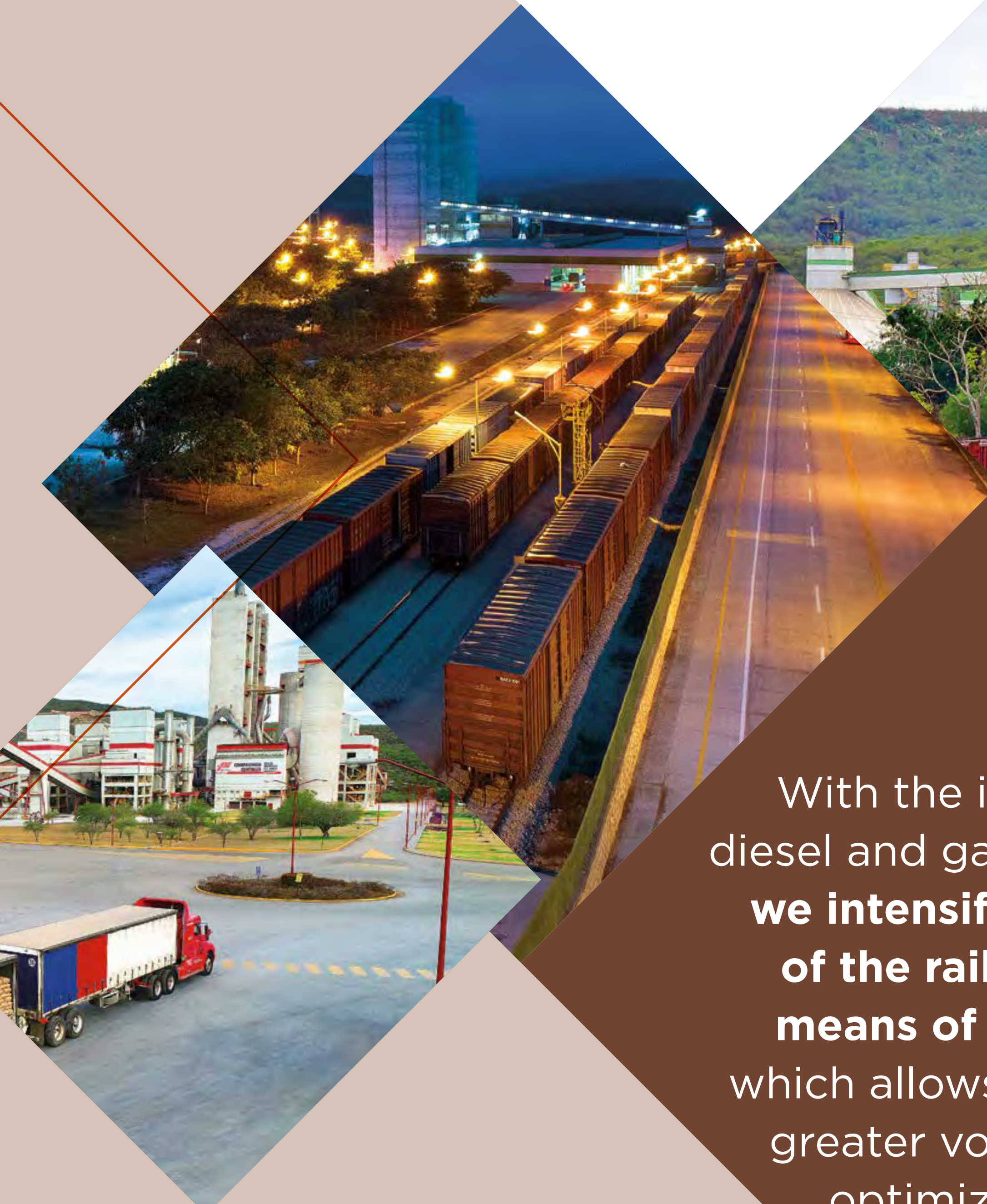
- 10 Masters' degrees
- 20 High School degrees

NEW CHALLENGES TO OVERCOME

We ended 2017 with aims fulfilled, with outstanding achievements but also with new objectives for next year and although we expect that 2018 will be challenging, we can count on highly valued workers.

More than 1,800 people worked on the construction and start-up of the second production line at Apazapan, the project was completed in less than the time originally projected.


BRIGADIST
MOCTEZUMA



With the increase in diesel and gasoline prices, **we intensified the use of the railways as a means of transport,** which allows us to move greater volumes and optimize costs.

LOGISTICS

Corporación Moctezuma made significant changes in its organizational structure this year, separating and reassigning a number of functions vital to the efficiency and transparency of our operations.

The Logistics Department participated in these changes as it was assigned the responsibility of physically supplying all prime materials to our plants, a function that had previously been handled by the Supplies area. In contrast, cement exports, previously handled by Logistics, were assigned to the Commercial Department of the Cement División.

2017 presented considerable challenges in terms of logistics, especially due to price increases in gasoline and diesel which, without a doubt, had a major impact in our operating costs.

Logistics have become much more complex and costly. Due to these cost increases it is necessary to make adjustments in the area of internal services making them more open, transparent, and competitive, improving productivity and evidently focussing on greater cost saving.

Today, the name of the game is efficiency in transport productivity both by rail and road. We believe that it is the only way we can compensate in part for the price increases in our inputs.

TIMELY RESPONSE

Thanks to the high demand in recent years, the 3 cement plants worked at almost full capacity. Since the second production line in Apazapan began operations, we had to balance the volumes produced at each of our 3 installations, marketing cement from Apazapan in the zones of influence of the other 2 plants.

Due to this decision the inventories and production capacities of the 3 plants were readjusted, and in order to achieve this, the use of rail transport was important in optimizing distribution costs which are so relevant in the cement industry.

A number of natural phenomena posed logistical challenges. The subsidence on the Mexico-Cuernavaca highway affected the transport routes to and from the Tepetzingo plant and the trucks had to take longer routes. Due to the earthquakes which occurred in September, Mexico City's authorities temporally prohibited access of heavy vehicles from our Tepetzingo Plant in Morelos to our markets in Mexico City and El Bajío, which meant we had to distribute our product from other plants. These unexpected conditions had a temporary negative impact on our costs. However, we responded opportunely, adjusting a series of factors in order to maintain supply and as far as possible did not fail to supply any clients.

IN THE FACE THE HIGHER COSTS, WE AIMED FOR EFFICIENCY

Because of the federal government's decision to free gasoline and diesel prices, the prices of these fuels increased, due to which, distribution costs went up, thus putting pressure on the profit margins in the cement industry.

In response to this, and thanks to the experience acquired over previous years, throughout 2017 we focussed on greater use of the railways as a means of transporting cement. This enables us to move greater volumes at a lower cost as well as supplying zones further away from our plants.

Due to this earlier experience, our plants already had the infrastructure necessary for this form of transport. Throughout the year, we made the investments necessary to build terminals, warehouses and to acquire the loading and unloading equipment needed to deliver cement in zones that we consider to be strategic and where we want to provide our clients with a better service.

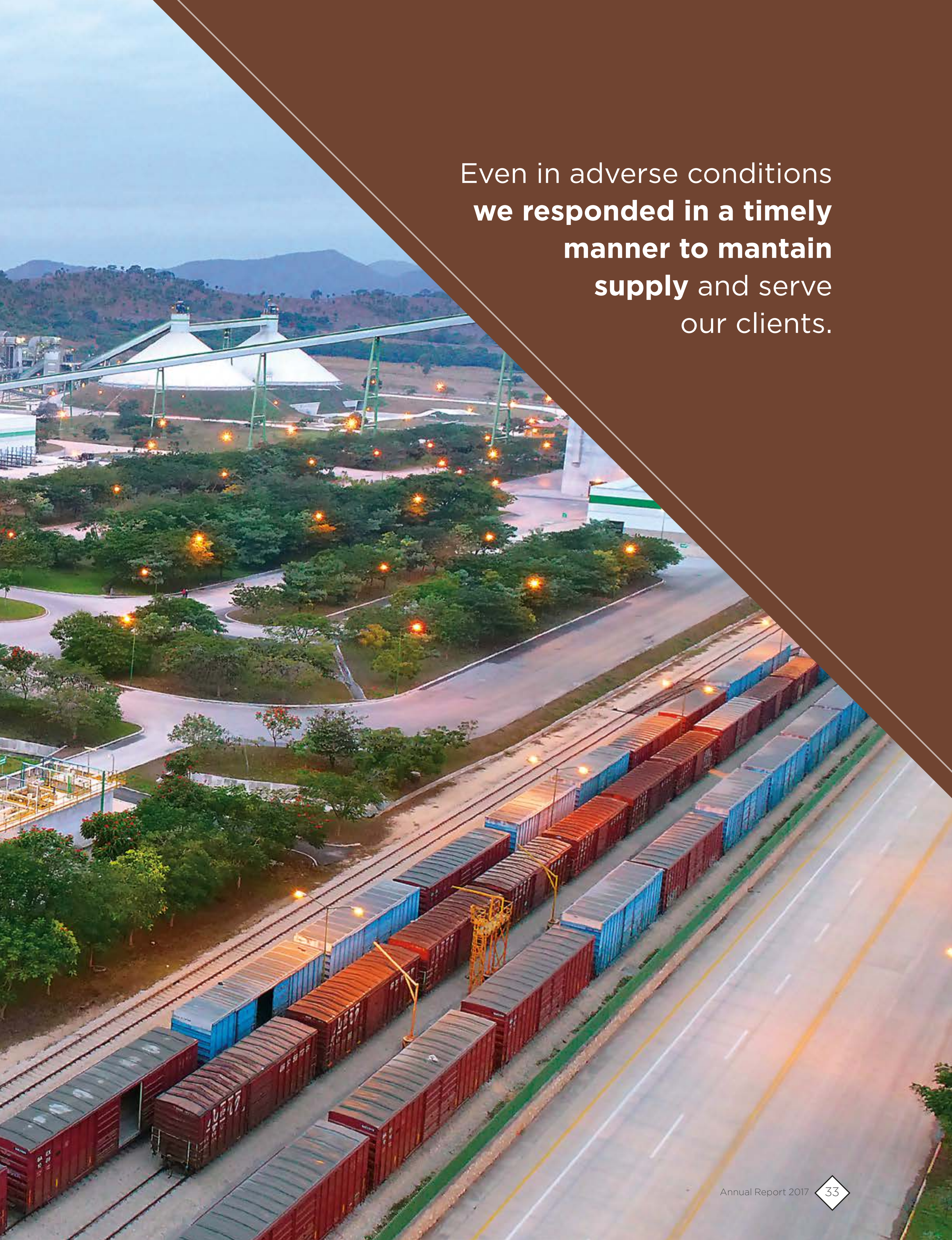
The use of railway transport has allowed us to improve our environmental impact by reducing gas emissions.

NEW CHALLENGES, THE SAME QUALITY SERVICE

There is a challenging future on the horizon because of uncertainty with respect to trends in fuel prices, the elections in July 2018 and the future of NAFTA.

In 2018 we will reap the rewards of a number of investments in infrastructure beneficial to distribution in strategic zones. We reinforced the use of the railway for moving cement as we know that we have little room for manoeuvre. However, the efforts made by the Logistics Department aim to maintain and improve the quality of service to other areas of the Company and, of course, to our clients.

We have invested in the construction and improvement of our rail infrastructure in order to transport greater volumes of cement to strategic zones.



Even in adverse conditions **we responded in a timely manner to mantain supply** and serve our clients.

During the year the Procurement Department faced a number of challenges. However, **the expertise and commitment of those who work there made it possible to solve the problems which occurred.**

PROCUREMENT **DEPARTMENT**

With a new strategic vision, we successfully confronted major challenges: the start of a new cycle of worldwide prime material price increases, natural disasters in the form of hurricanes and earthquakes and higher demand for inputs due to the start-up of the new production line.

The evolution of the Company in 2017 also affected the area of Procurement, now transformed into a Department which no longer reports to the CFO but to the CEO instead. Previously its function was restricted to supplying inputs for cement production. With its new profile as the Procurement Department it was given new responsibilities and, in general, was charged with serving all areas of the company.

DYNAMIC STYLE OF WORK

The changes made in the Company's structure respond to a need for modernization and best practice in corporate governance. We strengthened the department in response to the additional functions assigned to it, and during 2017 we worked to provide it with the resources necessary to operate in an optimum manner.

The broadening of the Procurement Department's functions to serve all areas of the Company aims to guarantee the supply of inputs required for all our production processes as well as commercialization, logistics and management, taking care of the basic elements of quality, opportunity, continuity and service. Careful attention to our internal clients is our day-to-day concern.

A YEAR OF CHALLENGES, A YEAR OF RESULTS

After low electricity and petcoke prices in 2015 and 2016, conditions changed in 2017 and energy prices increased considerably. At the same time, increases in the prices of other inputs impacted directly on the cost of each sack of cement. In addition, the depreciation of the Mexican Peso with respect to the Dollar complicated the scenario even more as many prices are fixed on the international markets. However, the spending controls in place allowed us to maintain our margins.

Having an additional production line at Apazapan increased the demand for inputs to supply the two production lines at this plant and ensure they operated well, especially as one of the lines was only just going into full production. An example of this is the timely provision of fuel using the Just in Time approach.

At the end of August 2017, hurricane Harvey hit the south of the United States and represented a major threat to our work as shipping was affected, thus halting the maritime transport we use to import fuel. This forced us to consider other options as our plants continued operating and therefore fuel stocks contracted. In the event, by working together with refineries, shipping companies and port terminals we managed overcome this situation as our production was not affected for a single day.

ETHICAL COMMERCIAL RELATIONS

As it is responsible for the overall function of procurement, it is imperative for the Procurement Department to maintain transparent relations inside and outside Corporación Moctezuma.

Having extended procurement services to other areas of the Company that we had not worked with before, we have established new internal relations which are carried out in an atmosphere of respect, professionalism and efficiency, giving the support necessary to provide them with the supplies needed for their operations.

Outside the Company, Procurement's priority is to strengthen relations with our suppliers, which means improving communications and collaborating more closely in a win-win environment. We are currently building a portal of suppliers which will be ready by 2018 and will allow us make communications easier and improve our processes.

Participating in meetings with suppliers enables us to communicate the objectives of the Procurement Department and the scope of its functions in all Company activities as well as our interest in building transparent business relations in competitive conditions and to our mutual benefit. These relations are based on respect, trust, fair treatment and above all, ethical foundations so that the relations and benefits will be long-term for both parties.

Having an additional production line going into full production at Apazapan increased the demand for inputs to feed both lines at this plant and ensure their optimum functioning.

We worked hard to maintain healthy business relationships with suppliers, ethical conduct being the principal guideline in a win-win environment

SUSTAINABILITY

The values underpinning Corporación Moctezuma demand exemplary conduct, and we remain firm to the path we have set out, seriously committing ourselves to sustainability with strict adhesion to corporate governance best practices.

SUSTAINABLE APPROACH

The principles which guided the actions of Corporación Moctezuma in 2017 are closely related to social responsibility. Keeping transparency, ethics and workplace safety in the centre of our corporative performance led us to strengthen policies, procedures and internal regulations that enrich our business culture.

To care for the environment we made investments to reduce particle emissions.

After the earthquakes that seriously affected a large part of the country, especially the region where our Tepetzingo plant is located, we collaborated with civil society and the authorities to aid communities that had suffered serious damage.

In addition, we carried out our traditional activities to contribute to health, education and work-training in the communities surrounding our cement plants. Today it is unthinkable for businesses to pursue economic benefits at any cost. Instead they are obliged to conduct themselves according to a set of values.

At Corporación Moctezuma we are aware of our responsibility to society and carry out practical actions to contribute to social development, we follow a strict code of ethics and are steadfastly committed to the environment.

COMPANY SOLIDARITY

On the 7 and 19 September, 2017, the central and southern regions of the country suffered earthquakes of great magnitude. The epicentre of the 19 September earthquake was in Morelos, seriously affecting this state where our Tepetzingo plant is located and also Mexico City where we have our corporate headquarters, for which reason we immediately provided help.

We implemented social responsibility programmes in 3 main areas: health, education and work training, with the aim of improving the lives of the beneficiaries.

The serious damage caused by these events spurred civil society to organize rescue brigades to remove rubble and operate supply centres to provide aid to the general population.

Corporación Moctezuma provided the brigades with safety helmets, industrial gloves and boots and we donated medical supplies to hospitals as well.

Also, in collaboration with the municipal authorities we sent construction materials such as cement, mortar, iron rods and construction blocks so that the inhabitants of the communities near our Tepetzingo Plant could rebuild their damaged homes.

Later, in collaboration with the Cámara Nacional de Cemento we worked with other companies in our sector to help with rubble removal and reconstruction by sending heavy machinery and donating construction materials.

Under their own initiative Corporación Moctezuma workers from the Eulalia, Irapuato, Querétaro and Tepetzingo plants organized themselves to collect money and buy food that was delivered to food centres or affected communities. Meanwhile, the workers at our plant in Cuernavaca enthusiastically gave their time and effort to distribute the donations at hospitals in Morelos.

In addition, jackets, denim shirts and safety boots were donated to the Emiliano Zapata neighbourhood in Jojutla, Morelos, one of the zones most seriously affected by the earthquake.

Following the 19 September earthquake we participated actively, providing the rescue brigades with safety helmets, industrial gloves and boots, donating hospital supplies and construction materials to communities affected in the state of Morelos.

SOCIAL RESPONSIBILITY

Our actions in the field of social responsibility fall into 3 big categories:

- Health
- Education
- Work training

We invest in these areas because we are convinced that our actions will result in a better quality of life for those who receive them and will, in the long term, provide them with the tools needed to build a better future and more importantly, that the benefits will be permanent.

We joined forces with the health authorities to hold our traditional Health Fair in the communities surrounding our production installations, where we provided preventative health consultations and laboratory tests for the opportune detection of illnesses.

Health Fair

- 1,300 Beneficiaries

We carried out practical actions to encourage education in nearby communities by giving scholarships to outstanding pupils as a way of recognizing and rewarding those with good results.

We continued to donate hundreds of packs of school supplies to the communities near our cement and concrete plants, thus contributing to the academic formation of our neighbours.

Education

- 234 Scholarships
- 9,095 Packs of school supplies (Cementos Moctezuma)
- 1,895 Packs of school supplies (Concretos Moctezuma)

In the states where our cement plants are located there are high levels of migration, a situation which increases the risk of poverty and social decomposition. Providing work training is another branch of our efforts in social responsibility through which we support the creation of small businesses which contribute to a higher family income.

With training for activities such as the application and decoration of false nails, sandals, preserve and piñata making, we encourage the entrepreneurial capacity of our neighbours and help them to achieve a better standard of living.

CARING FOR THE ENVIRONMENT

Corporación Moctezuma works to maintain optimal environmental performance, not because it is fashionable but due to the conviction that it is everyone's responsibility to conserve the environment for future generations.

Since the Tepezingo Plant began operating in 1997, we have provided our production installations with state-of-the-art technology thanks to which we have sustained an optimum relation between energy consumed per ton produced. At the same time systems controlling environmental emissions have contributed to minimizing the impact on the communities surrounding us.

Throughout the year we worked to improve clinker quality which is reflected in lower CO2 emissions per ton of cement.

Although the 3 cement plants are new, we continually carry out preventive maintenance work to keep them in perfect condition. In 2017 we made improvements to the filter system of furnace 2 at Tepetzingo, replacing the electro-filter by bag filters resulting in substantially lower particle emissions. In addition, we replaced the furnace cooler in order to improve its efficiency thus optimizing thermal energy consumption.

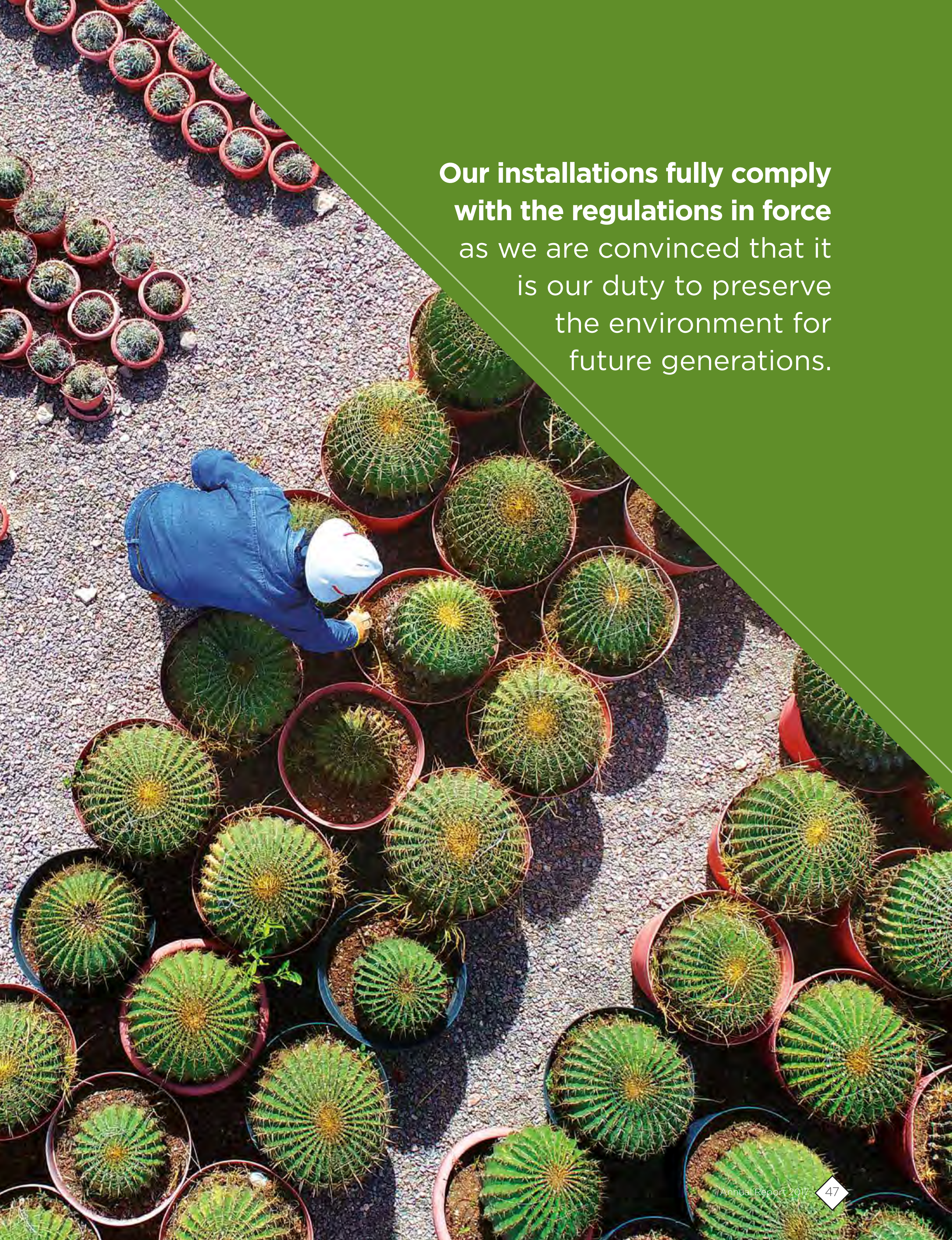
We decided to increase our use of railways to transport prime materials and finished products. This is an effective means for transporting large volumes over long distances, thus reducing the use of motor vehicles with the resulting reduction in of contaminating gas emissions.

In Concretos Moctezuma we carried out a diagnostic study of the areas of opportunity for our plants, the objective being that all of them, independently of their geographical location should comply with the NADF021 regulations in force in Mexico City, the strictest in the country. While compliance is not obligatory all over the country, our own convictions mean we aim to fulfil the highest standards.

Concretos Moctezuma has also installed 5 safety systems in silos at different plants. We continue to invest in water recycling equipment the benefits of which are evident. We also installed 6 truck washing systems in different plants and, as we do each year, we earmarked resources for modernizing our transport fleet.

We continue to maintain tree nurseries at the 3 cement plants where we reproduce a great variety of endemic species with which we remediate environmental deterioration in the zones around our plants.

Our installations fully comply with the regulations in force as we are convinced that it is our duty to preserve the environment for future generations.



CORPORATE **GOVERNANCE**

2017 was a year of organizational changes, our structure was modernized, we strengthened internal controls and we built work environments and business relations with more certainty and transparency.

The CEO established principles for action and performance for all Corporación Moctezuma's divisions and business activities based on:

- Transparent management
- Ethical conduct
- Focus on workplace safety
- Internal communication

These criteria are closely tied into improving our practices of good corporate governance which we believe are necessary to maintain and improve the quality of our products, client services as well as our commercial, operating and financial results which will help to ensure the continuity of the Company.

Based on these guidelines, the following actions, advances and achievements have been outstanding during 2017.

INTEGRITY IN INTERNAL CONTROL

In Corporación Moctezuma we have maintained an unbending commitment to ethics and transparency.

This route was clearly set out by the CEO and we have not allowed any deviation from it. The Internal Auditing Department plays a key role in compliance with internal control processes, particularly the supervision of procedures and practices. The audits carried out permit us to detect irregularities and to solve problems through an in-depth analysis.

In addition to its auditing work, this department also participates in the establishment and adoption of clear rules, procedures and policies with the aim of systematizing and formalizing customary practices within the company and giving certainty to our operations. As a result, there has been a greater flow of information with other departments advising on different aspects of transparency, ethics and efficiency.

The Auditing Department reinforced its staff in order to maintain the quality of its work. Together with the Area of Risk Management we looked into a number of issues that potentially affected our operations and

In Corporación Moctezuma we maintain an unbending commitment to ethical conduct, in this area we do not admit any deviation.

drew up action plans to create awareness about their importance to the Organization. Given the relevance of these issues, in 2017 we set up a Risks Committee through which we aim to emphasize the importance of planning and risk prevention starting from the highest levels of the Company.

Below we present the members of Corporación Moctezuma's governing bodies made up of professionals of proven capacity and experience:

BOARD OF DIRECTORS	
NON-INDEPENDENT MEMBERS	
Proprietary Members	**Substitute Members**
Juan Molins Amat *(Chairman)*	Carlos Martínez Ferrer
Enrico Buzzi	Luigi Buzzi
Pietro Buzzi	Benedetta Buzzi
Julio Rodríguez Izquierdo	Salvador Fernández Capo
INDEPENDENT MEMBERS	
Proprietary Members	**Substitute Members**
Roberto Cannizzo Consiglio	Adrián Enrique García Huerta
Antonio Cosío Ariño	Antonio Cosío Pando
Guillermo Simón Miguel	
Carlo Bartolomeo Cannizzo Reniú	Stefano Amato Cannizzo
Marco Cannizzo Saetta *Secretary non-Board Member*	

COMPANY PRACTICES AND AUDITING COMMITTEE	
Roberto Cannizzo Consiglio	Chairman
Guillermo Simón Miguel	*Member*
Carlo B. Cannizzo Reniú	*Member*

On the 15 February, 2018, the Board announced the promotion of José María Barroso as the Company's Chief Executive Officer, a post he will fill from 1 March, 2018, as Mr Fabrizio Donegà decided to leave his post as CEO for personal reasons.

In addition, it was announced that Mr. Luis Rauch would join the Company as Director of Finance and Administration as of 1 March, 2018.

Below we present the team of executive directors at the publication date of this Annual Report.

TEAM OF EXECUTIVE DIRECTORS	
José María Barroso	Chief Executive Officer
Erika Aarun	Director of Legal Affairs and Governance
Alejandro del Castillo	Logistics Director
Miguel Ángel Gómez	Commercial Director, Cementos Moctezuma
Marco Grugnetti	Internal Auditing Director
Ioannis Karidis	Director Concretos
Isidro Ramírez	Technical Director
Luis Manuel Ramírez	Procurement Director
Luis Rauch	Director of Finance and Administration
Manuel Rodríguez	Director of Human Resources
Miguel Ángel Medina	Director, Apazapan Plant
Octavio Adolfo Senties	Director, Cerritos Plant
Secondino Quaglia	Director, Tepetzingo Plant

We improved communications with our stakeholders thanks to Alza la Voz, our communication channel where we listen to and respond to their opinions.

SEPARATION OF FUNCTIONS

In 2017 we created the Procurement Department to work with our suppliers and to fulfil our need for a timely supply of high quality, competitively priced inputs. Previously, some of the Department's responsibilities were carried out by a support area of the Finance and Administration Department. However, in accordance with criteria of corporative best practice and given its importance to the Company, the new Procurement Department now reports directly to the Chief Executive Officer and serves the whole organization, guaranteeing timely supplies for the optimum functioning of each area of the Company.

The separation of functions is also reflected in the Logistics Department, the reach of which now extends not only to the distribution of finished products but also to the transportation and delivery of prime materials needed for our production processes, a function previously carried out by Procurement.

These decisions work in favour of order within the Company, strengthening the organizational structure and permitting increased specialization and efficiency in its activities.

CORPORACIÓN MOCTEZUMA MAKES ITS VOICE HEARD

In 2017 we improved communications with our stakeholders, employees as well as suppliers and clients, thanks to the evolution of our communications channel, which previously had been managed from within our Organization. To improve confidentiality, transparency and efficiency of this important means of dialogue on issues that are of great interest to us, we decided to hire Ethic Global, a highly prestigious company that works with important organizations in Mexico and other countries, to ensure the highest international standards in our communication channel.

Our workers decided to call our updated communication channel Alza la Voz (Make your voice heard), giving it a deeper significance, highlighting the importance of giving all opinions the necessary force to be heard and attended in benefit of all groups of stakeholders and the Company.

Employees, suppliers and clients can communicate through Alza la Voz, revealing their name or anonymously by telephone, e-mail and to ensure more confidence on the part of the audiences, through an Ethic Global web site. This company filters the communication and refers it to the person responsible in Moctezuma, who begins the corresponding inquiry and who, when it is considered necessary, asks the denouncer for more information. Once the inquiry is concluded, the necessary measures are taken.

Alza la Voz has improved the confidence of our stakeholders and this has been reflected in a greater participation by these audiences. Looking ahead to 2018, with the intention of reinforcing Company transparency, we are planning to implement an Ethics Committee which will be responsible for evaluating the communications received.

WE CONTINUE TO EVOLVE

2017 was a year of organizational changes, our structure was modernized, we strengthened internal control, we built work environments and business relations with more certainty and transparency, we benefited from the arrival of new faces who, with their talent and capacity, contributed to the Company's decision making and operating efficiency.

Like any organization, Corporación Moctezuma is evolving, adapting itself to the new demands and challenges that arise. We will continue to work on internal controls, reinforcing corporate governance without unnecessary red tape, always applying the best managerial principles in the Company.

Thanks to the separation of functions, **we reinforced our organizational structure,** allowing for greater specialization and efficiency.

COMMENTS AND ANALYSIS
OF THE RESULTS

Figures expressed in millions of Mexican Pesos, except when otherwise stated.

2017 presented a complex economic environment due to a number of internal and external factors.

Internationally, the new government in the United States and its protectionist commercial policies that could have had a negative effect on Mexico, caused a fall in the value of the Mexican Peso with respect to the Dollar, mainly during the first quarter of the year. The Mexican Peso partially recovered towards the middle of the year but at the end of 2017 it was under pressure again which meant there was a great deal of volatility throughout the year. At the same time, during the second half of 2017, international oil and commodity prices rose, including that of paper, thus affecting costs for businesses participating in the cement and concrete industry.

In Mexico, the increase in fuel prices, which increased up to 20%, affecting the rate of inflation, particularly in relation to transport costs, a very important consideration for the cement industry. In addition, the cost of electrical energy rose 40% during 2017.

The construction sector was affected by the fall in public investment in infrastructure and also by natural phenomena such as the atypically severe rainy season and the 2 earthquakes that hit the central and southern regions of the country.

Faced with this scenario, the determination and focus that we applied to: efficiency in the control of costs and spending; the distribution of cement, including that of the new Apazapan line; staying close to our clients through better logistics and the consolidation of a more flexible corporative structure, enables us to report better financial results for 2017 than those for the previous year which we present below:

SALES

Our net sales rose to $14,635, reflecting a 16.3% increase compared to the previous year thanks to the operation of the second production line at Apazapan, the efforts we made in commercialization and which allowed us to reinforce our network of distributors with more focus on the client, through logistics which enabled us to send our products to strategic zones and a price adjustment that allowed us to transfer part of the rise in input costs.

GROSS PROFIT

Sales costs rose by 17.0% in relation to the annual variation, rising to $7,496 in 2017, above the percentage growth in revenue, due to major increases in production and distribution input costs. The Gross Profit was $7,138, 15.5% higher than that of the previous year. The Gross Margin fell from 49.1% in 2016 to 48.8% in 2017.

The increase in Gross Profit as a lower proportion of sales reflects the increases in electrical and thermal energy costs, but which, thanks to measures adopted to make more efficient use of resources, did not have a major impact on our costs.

OPERATING PROFIT

A total Operating Profit of $6,462 for 2017, an increase of 19.4% compared to the year before, was the result of the strict spending controls implemented and which made it possible to reduce and compensate for higher transport and cement sack costs.

The Operating Margin rose by 44.2%, an improvement of 12 basis point compared to the 43.0% reported in 2016, despite the challenges we had to overcome.

EBITDA

We kept our cash generation steady. In 2017 the EBITDA rose to $7,017, an improvement of 15.8% on the $6,062 reported the previous year. The lower growth of EBITDA with respect to Operating Margin was the result of a lower balance in the depreciation account in 2017 compared to the year before. The EBITDA Margin was 47.9% in 2017 compared to 48.2 % in 2016.

INTEREST EARNED, INTEREST PAID AND EXCHANGE FLUCTUATIONS

At the end of 2017 we had a Net Financial Income of $41 which is 82.1% lower than that reported a year earlier. This reduction is due to the fact that in 2017 there was a 44.5% increase in outlay on interest spending, an 18.9% fall in interest revenue which can be explained by the payment of cash dividends during the year and a loss of $25 due to a change in the exchange rate in contrast to an exchange profit of $138 in 2016.

CONSOLIDATED NET INCOME AND CONSOLIDATED COMPREHENSIVE INCOME

The Consolidated Net Income rose to $4,716 in 2017, an increase of 16.4% compared to the previous year. The Consolidated Net Income Margin in 2017 was 32.2%, the same as the year before.

In 2017 the Consolidated Comprehensive Income was $4,716, that is to say 16.4% higher than that reported for 2016. The Consolidated Comprehensive Margin remained unchanged at 32.2%.

DIVIDENDS

Our cash-generation capacity and a break in expansion projects during 2017 meant that it was possible to pay our shareholders a total of $4,402 in dividends, a value per share of $5.00 (five Mexican Pesos 00/100), the highest in the history of the Company.

DETERMINATION AND FOCUS

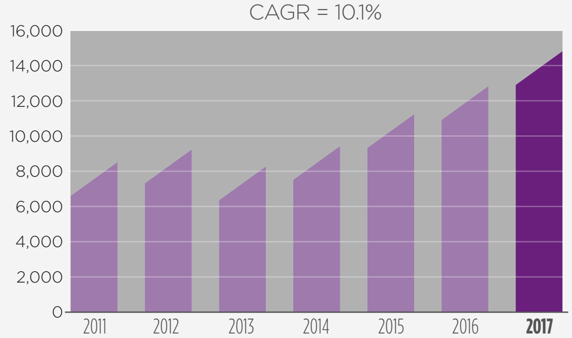
If we make an analogy, 2017 was a year to remember as a good harvest, the product of the hard work done by all of us.

The cost and spending controls implemented, responsible management, more efficient operations due to the separation of functions which permitted greater specialization and strengthening of corporate governance, have made these positive results and high margins possible.

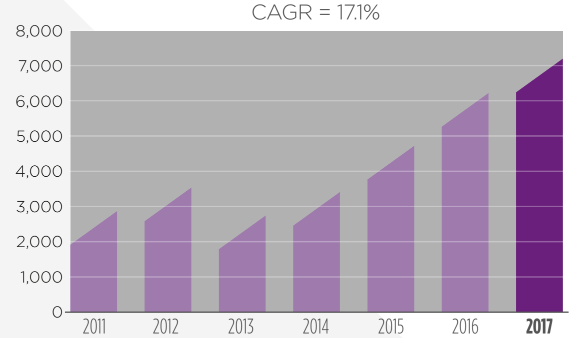
Now our efforts are aimed at continuing to work with determination and focus, with our eyes set on new challenges and with the firm conviction that we, the Moctezuma Family, are ready to confront and overcome the challenges to come.

Figures expressed in million of Mexican Pesos, except in dividend per share, expressed in Mexican Pesos.

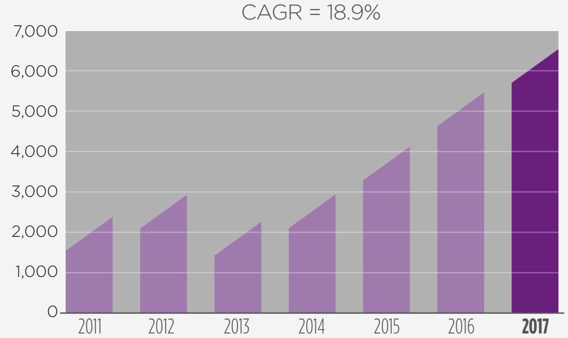
REVENUE
CAGR = 10.1%



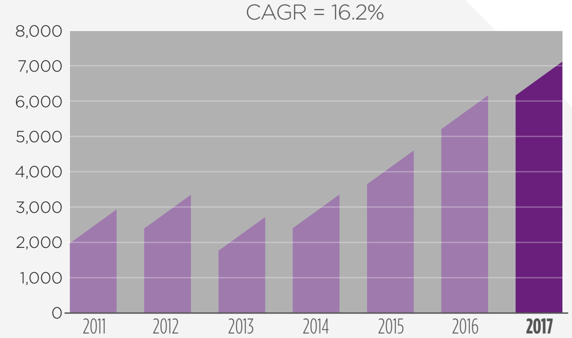
GROSS PROFIT
CAGR = 17.1%



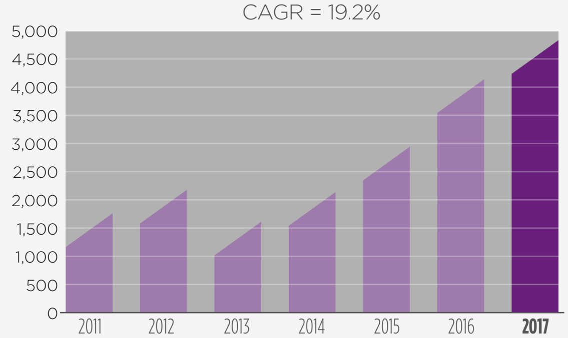
OPERATING PROFIT
CAGR = 18.9%



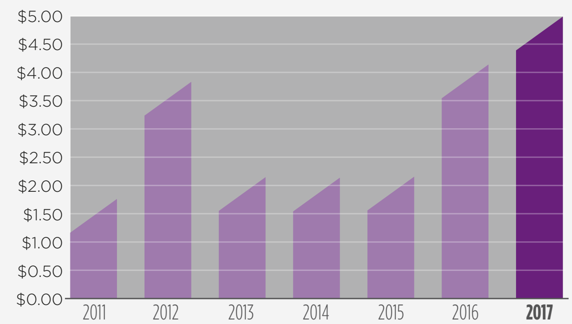
EBITDA
CAGR = 16.2%



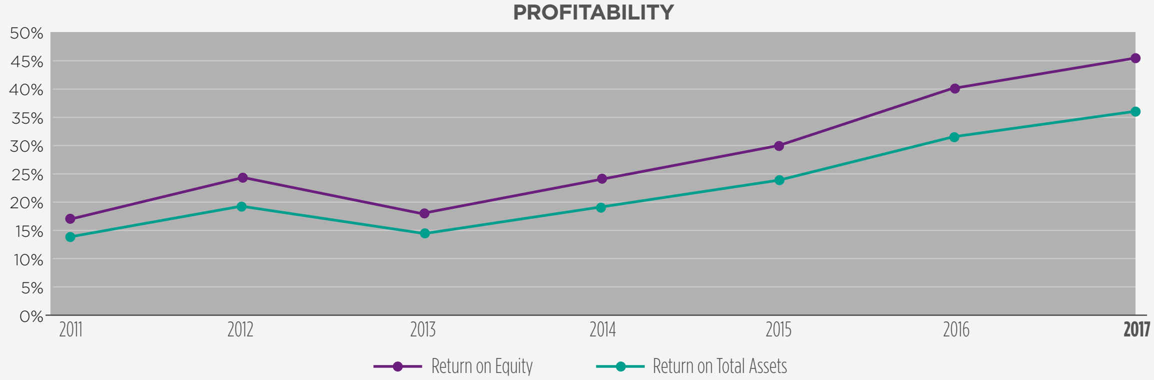
CONSOLIDATED NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
CAGR = 19.2%



DIVIDENDS PER SHARE



PROFITABILITY



CAGR: Compound Annual Growth Rate

Financial figures expressed in millions of Mexican Pesos, except when otherwise stated.

	2017	2016	2015	2014	2013	2012	2011
Total Assets	**13,063**	12,871	12,018	10,698	10,350	10,769	11,865
Total Liabilities	**2,651**	2,756	2,442	2,221	2,139	2,258	2,160
Equity	**10,411**	10,115	9,576	8,477	8,211	8,511	9,705
Revenue	**14,635**	12,587	11,026	9,186	7,959	9,099	8,226
Gross Profit	**7,138**	6,182	4,602	3,324	2,623	3,434	2,765
Gross Margin	**48.8%**	49.1%	41.7%	36.2%	33.0%	37.7%	33.6%
Operating Profit	**6,462**	5,411	4,016	2,810	2,143	2,824	2,288
Operating Margin	**44.2%**	43.0%	36.4%	30.6%	26.9%	31.0%	27.8%
EBITDA*	**7,017**	6,062	4,512	3,302	2,638	3,294	2,850
EBITDA Margin	**47.9%**	48.2%	40.9%	35.9%	33.1%	36.2%	34.6%
Consolidated Net Income	**4,716**	4,051	2,859	2,027	1,478	2,066	1,643
Consolidated Net Income Margin	**32.2%**	32.2%	25.9%	22.1%	18.6%	22.7%	20.0%
Consolidated Comprehensive Income	**4,716**	4,053	2,860	2,027	1,468	2,058	1,639
Consolidated Comprehensive Income Margin	**32.2%**	32.2%	25.9%	22.1%	18.4%	22.6%	19.9%
Dividend per Share**	**5.00**	4.00	2.00	2.00	2.00	3.70	1.30
Return on Equity	**45.3%**	40.0%	29.9%	23.9%	18.0%	24.3%	16.9%
Return on Total Assets	**36.1%**	31.5%	23.8%	18.9%	14.3%	19.2%	13.8%

* EBITDA. Earnings before Interest, Taxes, Depreciation and Amortization.

** Figures expressed in Mexican Pesos

2017 will be remembered as a year of good harvest, the product of the hard work done by all of us.

CORPORACIÓN MOCTEZUMA, S. A. B. DE C. V. AND SUBSIDIARIES

REPORT OF INDEPENDENT AUDITORS **AND CONSOLIDATED FINANCIAL STATEMENTS 2017 AND 2016**

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INDEPENDENT AUDITORS'S REPORT TO THE SHAREHOLDERS **AND BOARD OF DIRECTORS OF CORPORACIÓN MOCTEZUMA, S.A.B. DE C.V. AND SUBSIDIARIES**

OPINION

We have audited the accompanying consolidated financial statements of Corporación Moctezuma, S.A.B. de C.V. and subsidiaries (the Company), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Corporación Moctezuma, S.A.B. de C.V. and subsidiaries as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the International Ethics

Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Assessment of general information technology controls

We focused on reviewing the Company's information technology general controls since the Company is significantly dependent on the effective and continuous operation of its IT platform, which it developed internally. The IT platform is critical to the Company's management and management relies on the platform for the Company's financial reporting processes. The fact that the Company's IT system is developed internally gives rise to a number of risks for the Company, including risks related to the integrity of the data used, the system's accuracy, and appropriate maintenance of all levels of security against unauthorized system access or alteration to system data. The Company continuously enhances the efficiency and effectiveness of its IT structure, as well as the reliability and continuity of its electronic data processing systems.

Our audit procedures included the involvement of our IT specialists to review the segregation of functions, the reliability of changes made to the systems, and the effectiveness of the design and operation of system and process controls. We also verified the integrity and accuracy of the reports provided by management on the review of controls and the respective substantive procedures.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report filed with the National Banking and Securities Commission (the Commission) and the Mexican Stock Exchange and the annual report submitted to the shareholders, but does not include the consolidated financial statements and our auditor's report thereon. We expect to obtain the other information after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when we have access to it and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read and consider the Annual Report filed with the Commission and the annual report submitted to the shareholders, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and to issue a statement on the Annual Report required by the Commission that contains a description of the matter.

RESPONSIBILITIES OF MANAGEMENT AND OF THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner responsible for the audit is the one who signs this report.

Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version into English for convenience purposes only.

Mancera, S.C.
A Member Practice of
Ernst & Young Global Limited

C.P.A. Fernando Ruiz Monroy
Mexico City April 6, 2018

CORPORACIÓN MOCTEZUMA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF **FINANCIAL POSITION**

As at 31 December 2017 and 2016
(Amounts in thousands of Mexican pesos)

	Notes	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	7	Ps. 3,366,585	Ps. 3,278,323
Accounts receivable, net	8	1,127,572	1,176,402
Other accounts receivable	9	162,897	188,025
Inventories, net	10	913,894	805,475
Prepaid expenses		64,848	45,752
Total current assets		**5,635,796**	**5,493,977**
Non-current assets			
Equity investments	26	32,217	-
Property, plant and equipment, net	11	7,067,731	7,099,466
Deferred income tax asset	20b	130,111	71,876
Intangibles and other assets, net		196,727	205,792
Total non-current assets		**7,426,786**	**7,377,134**
Total assets		**Ps. 13,062,582**	Ps. **12,871,111**
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities			
Accounts payable to suppliers		Ps. 672,461	Ps. 556,098
Other accounts payable and accrued liabilities	13	599,058	582,576
Short-term finance leases	12	12,232	11,590
Taxes payable		443,235	582,951
Income tax on tax consolidation and deconsolidation	20c	11,931	11,931
Employee profit sharing		9,832	10,757
Total current liabilities		**1,748,749**	**1,755,903**
Non-current liabilities			
Deferred income tax liability	20b	875,884	958,794
Income tax on tax consolidation and deconsolidation and deferred income tax		68	11,999
Employee benefits	14	10,861	10,266
Long-term finance leases	12	15,649	19,168
Total non-current liabilities		**902,462**	**1,000,227**
Total liabilities		**2,651,211**	**2,756,130**
EQUITY			
Share capital	21	607,480	607,480
Share premium		215,215	215,215
Reserve for share buybacks		150,000	150,000
Retained earnings		4,697,504	5,049,546
Comprehensive income for the year		4,718,460	4,049,470
Equity holders of the parent		**10,388,659**	**10,071,711**
Non-controlling interest		22,712	43,270
Total equity		**10,411,371**	**10,114,981**
Total liabilities and equity		**Ps. 13,062,582**	**Ps. 12,871,111**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF **INCOME AND OTHER COMPREHENSIVE INCOME**

For the Years Ended 31 December 2017 and 2016
(Amounts in thousands of Mexican pesos, except basic and diluted earnings per share, which are expressed in Mexican pesos)

	Notes	2017	2016
Net sales		Ps. 14,634,645	Ps. 12,587,025
Cost of sales	22a	7,496,211	6,404,855
Administrative expenses	22b	292,598	313,552
Selling expenses	22b	338,076	300,418
Other operating expenses, net	22c	46,217	157,338
Total operating costs and expenses		8,173,102	7,176,163
Operating income		**6,461,543**	**5,410,862**
Interest expense		(17,811)	(12,328)
Interest income		83,882	103,423
Foreign exchange (loss)/gain, net		(25,088)	137,760
Share of profit/(loss) of joint venture		17,165	(6,652)
Income before income tax		**6,519,691**	**5,633,065**
Income tax	20a	1,803,439	1,582,491
Consolidated net income		4,716,252	4,050,574
Other comprehensive income, net of income tax:			
Items not to be reclassified to profit or loss			
(Loss)/gain of defined benefit obligation	14	(76)	2,607
Consolidated comprehensive income		Ps. 4,716,176	Ps. 4,053,181
Consolidated net income attributable to:			
Equity holders of the parent		Ps. 4,718,536	Ps. 4,046,863
Non-controlling interest		(2,284)	3,711
		Ps. 4,716,252	Ps. 4,050,574
Consolidated comprehensive income attributable to:			
Equity holders of the parent		Ps. 4,718,460	Ps. 4,049,470
Non-controlling interest		(2,284)	3,711
		Ps. 4,716,176	Ps. 4,053,181
Basic and diluted earnings per ordinary share, equity holders of the parent	27	Ps. 5.36	Ps. 4.60
Weighted average number of outstanding shares (thousands of shares)	21	880,312	880,312

The accompanying notes are an integral part of these financial statements.

CORPORACIÓN MOCTEZUMA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF **CHANGES IN EQUITY**

For the Years Ended 31 December 2017 and 2016
(Amounts in thousands of Mexican pesos)

	Contributed capital		Earned capital					
	Share capital	Share premium	Reserve for share buybacks	Retained earnings	Components of other comprehensive (loss)/income	Total equity holders of the parent	Non-controlling interest	Total equity
Balance as at 1 January 2016	**Ps. 607,480**	**Ps. 215,215**	**Ps. 150,000**	**Ps. 8,610,403**	**Ps. (39,610)**	**Ps. 9,543,488**	**Ps. 32,516**	**Ps. 9,576,004**
Capital contribution	-	-	-	-	-	-	7,043	7,043
Dividends paid	-	-	-	(3,521,247)	-	(3,521,247)	-	(3,521,247)
Consolidated comprehensive income	-	-	-	4,046,863	2,607	4,049,470	3,711	4,053,181
Balance as at 31 December 2016	**607,480**	**215,215**	**150,000**	**9,136,019**	**(37,003)**	**10,071,711**	**43,270**	**10,114,981**
Capital contribution/ (reduction)	-	-	-	47	-	47	(18,274)	(18,227)
Dividends paid	-	-	-	(4,401,559)	-	(4,401,559)	-	(4,401,559)
Consolidated comprehensive income	-	-	-	4,718,536	(76)	4,718,460	(2,284)	4,716,176
Balance as at 31 December 2017	**Ps. 607,480**	**Ps. 215,215**	**Ps. 150,000**	**Ps. 9,453,043**	**Ps. (37,079)**	**Ps. 10,388,659**	**Ps. 22,712**	**Ps. 10,411,371**

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENTS OF **CASH FLOWS**

For the Years Ended 31 December 2017 and 2016
(Amounts in thousands of Mexican pesos)

	2017	2016
OPERATING ACTIVITIES:		
Consolidated net income	Ps. 4,716,252	Ps. 4,050,574
Adjustments for:		
Foreign exchange loss/(gain) on cash and cash equivalents	18,303	(178,869)
Income tax recognized in the income statement	1,803,407	1,582,491
Depreciation, amortization and impairment allowance	555,189	651,094
Gain on sale of property, plant and equipment	(13,045)	(3,877)
Loss on sale of other assets	4,073	2,902
Share on the results of joint ventures	(17,164)	6,652
Interest income	(83,882)	(103,423)
Interest expense	5,082	3,190
	6,988,215	**6,010,734**
Changes in working capital:		
Decrease/(increase)in:		
Accounts receivable	167,776	50,421
Inventories	(109,639)	(45,719)
Prepaid expenses	(19,096)	47,537
Other assets	40,577	72,849
Increase/(decrease) in:		
Accounts payable to suppliers	113,461	112,354
Other accounts payable and accrued liabilities	56,625	164,551
Taxes payable	(2,187,632)	(1,629,210)
Employee profit sharing	(925)	1,375
Retirement benefits	486	2,713
Net cash flows from operating activities	**5,049,848**	**4,787,605**
INVESTING ACTIVITIES:		
Sale of shares of subsidiaries	(18,275)	-
Business combinations	(50,000)	-
Purchase or property, plant and equipment	(592,388)	(1,279,849)
Sale of property, plant and equipment	41,876	24,986
Purchase of other assets	(9,823)	(7,803)
Sale of other assets	10,963	13,230
Interest received	78,800	103,423
Net cash flows used in investing activities	**(538,847)**	**(1,146,013)**
FINANCING ACTIVITIES:		
Dividends paid	(4,401,559)	(3,521,247)
Capital increase	-	7,043
Increase in finance lease liabilities	6,658	11,904
Payment of finance leases	(9,535)	(11,519)
Net cash flows used in financing activities	**(4,404,436)**	**(3,513,819)**
Net increase in cash and cash equivalents	**106,565**	**127,773**
Cash and cash equivalents at beginning of year	3,278,323	2,971,681
Foreign exchange on cash and cash equivalents	(18,303)	178,869
Cash and cash equivalents at end of year	**Ps. 3,366,585**	**Ps. 3,278,323**

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL **STATEMENTS**

31 December 2017 and 2016
(Amounts in thousands of Mexican pesos)

1. Activities

Corporación Moctezuma, S.A.B. de C.V. and subsidiaries (the Company) is the majority shareholder of a group of companies that are primarily engaged in the production and sale of Portland cement, ready-mix concrete, sand and gravel, which means that the operations of these companies are primarily concentrated in the cement and concrete industry (Note 23). A list of the Company's subsidiaries is shown in Note 4b and the Company's related party information is disclosed in Note 16.

Corporación Moctezuma, S.A.B. de C.V. is a Mexican joint venture of Buzzi Unicem S.p.A. (an Italian company), which holds a 66.67% equity interest in the Company, and Cementos Molins, S.A. (a Spanish company).

The Company's business headquarters are located at Monte Elbruz 134 PH, Lomas de Chapultepec, Miguel Hidalgo 11000, Mexico City.

2. Compliance Statement

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

3. Basis of Preparation

a. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Company applied for the first time certain amendments to IFRS, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early-adopted any accounting standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in derivatives arising from financing activities, including both changes arising from cash flows and non-cash changes (such as exchange differences). The Company has provided the information for both the current and the comparative period in Note 6.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company applied these amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

b. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

I. IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. Based on a management's preliminary assessment, the Company expects no significant impact on its financial information or on its consolidated financial statements as a result of the adoption of IAS 9.

(a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted shares classified as available-for-sale with gains and losses recorded in OCI will instead be measured at fair value through profit or loss, which will increase the volatility in profit or loss.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognized in profit or loss during prior periods for these investments. The Company will apply the option to present fair value changes in OCI, and, therefore, the application of IFRS 9 will not have a significant impact.

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. Based on a management's preliminary assessment, the Company expects no significant impact on its financial information or its consolidated financial statements as a result of the adoption of IAS 9.

(c) Hedge accounting

Since the Company has no hedged items related to transactions or effective hedging periods, the adoption of this standard had no effect on the Company's financial information.

II. IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on 1 January 2018 using the full retrospective method.

Since the Company will adopt the new IFRS 15 on a prospective basis, the transition considerations that it will need to take into account involve the recognition of the cumulative effect of the adoption of IFRS 15 on 1 January 2018. In other words, since it will be adopting IFRS 15 prospectively, the Company will not need to restate its financial information of 2017 and 2016 or record any adjustments for the accounting differences between IAS 18 and IFRS 15. Additionally, the National Banking and Securities Commission in Mexico requires entities that adopt IFRS 15 to present consolidated financial statements for three years and the basis of revenue recognition reflected in these financial statements will vary over the three years, which is allowed under IFRS 15.

The Company is currently conducting qualitative and quantitative analyses of the effects that the adoption of IFRS 15 will have on its consolidated financial statements. This analysis includes (but is not limited to) the following activities for each type of revenue of each business unit:

- Identify its contracts with customers and their main characteristics
- Identify the performance obligations in the contracts
- Determine the transaction price and the effect of variable considerations

- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligations, which could be over time or at a point in time
- Identify the disclosures required under IFRS 15 and their effect on an entity's internal processes and controls
- Identify the potential costs to obtain or fulfill a contract with a customer that should be amortized in accordance with IFRS 15.

The Company has currently concluded its analysis for each type of revenue of its different business units that might be affected by the adoption of IFRS 15.

Based on a preliminary assessment, the Company expects no significant impact on its financial information or its consolidated financial statements as a result of the adoption of IFRS 15.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The IASB has issued amendments to IFRS 2 Share-based Payment that are intended to eliminate diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities generally will not restate prior periods, but they may elect retrospective application provided that they do so for all three amendments and meet certain other transitional provisions. The amendments are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right to use the asset). Lessees will be required to separately recognize the interest expense on the lease liability and the amortization expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Company plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

Annual Improvements to IFRS - 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. These amendments are not applicable to the Company.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments to IAS 28 are to be applied retrospectively. The amendments are applicable to annual reporting periods beginning on or after 1 January 2018, with earlier adoption permitted, although entities that elect to apply the amendments earlier must disclose that fact. The amendments to IAS 28 are not applicable to the Company.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:

i. The beginning of the reporting period in which the entity first applies the interpretation; or
ii. The beginning of a prior period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date.

4. Summary of Significant Accounting Policies

a. Basis of preparation

The accompanying consolidated financial statements have been prepared on a historical-cost basis, except for certain financial instruments, such as cash and cash equivalents, which are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

i. Historical cost
Historical cost is generally equal to the fair value of the consideration paid for goods and services

ii. Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, as determined using either observable inputs or other valuation techniques.

b. Basis of consolidation of financial statements

The consolidated financial statements include the financial statements of Corporación Moctezuma and those of its subsidiaries as at and for the year ended 31 December 2017. The Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the investor, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate the investor has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intercompany balances and transactions (assets, liabilities, equity, revenue, expenses and cash flows) have been eliminated on consolidation.

As at 31 December 2017 and 2016, the Company's equity interest in its subsidiaries and associates is as follows:

ENTITY	**2017**	2016	ACTIVITY
Cementos Moctezuma, S.A. de C.V.	100%	100%	Production and sale of Portland cement
Cementos Portland Moctezuma, S.A. de C.V.	100%	100%	Technical services
Proyectos Terra Moctezuma, S.A de C.V.	0%	100%	Real estate
Cemoc Servicios Especializados, S.A de C.V.	100%	100%	Logistics services
Comercializadora Tezuma, S.A de C.V.	0%	100%	Cement sale services
Latinoamericana de Concretos, S.A. de C.V. y subsidiarias	100%	100%	Production of ready-mix concrete
Latinoamericana de Concretos de San Luis, S.A. de C.V.	0%	60%	Production of ready-mix concrete
Concretos Moctezuma de Torreón, S.A. de C.V.	0%	55%	Production of ready-mix concrete

ENTITY	**2017**	2016	ACTIVITY
Concretos Moctezuma de Xalapa, S.A. de C.V.	60%	60%	Production of ready-mix concrete
Concretos Moctezuma de Durango, S.A. de C.V.	0%	100%	Production of ready-mix concrete
Concretos Moctezuma del Pacífico, S.A. de C.V.	85%	85%	Production of ready-mix concrete
Concretos Moctezuma de Jalisco, S.A. de C.V.	51%	51%	Production of ready-mix concrete
Maquinaria y Canteras del Centro, S.A. de C.V.	51%	51%	Sand and gravel extraction
Inmobiliaria Lacosa, S.A. de C.V.	100%	100%	Leasing services
Latinoamericana de Agregados y Concretos, S.A. de C.V.	0%	100%	Sand and gravel extraction
Latinoamericana de Comercio, S.A. de C.V.	100%	100%	Administrative services
Lacosa Concretos, S.A. de C.V.	100%	100%	Technical services

c. Investments in joint ventures

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The operating results and the assets and liabilities of joint ventures are recognized in the financial statements using the equity method, except if the investment is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, the investment in an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date. If the Company's share of losses of a joint venture exceeds its net investment (together with any long-term interests that, in substance, form part of the Company's net investment in the joint venture), the Company discontinues recognizing its share of further losses. Additional losses are provided for to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which it becomes a joint venture. On acquisition of the investment any difference between the cost of the investment and the Company's share of the net fair value of the identifiable assets and liabilities of the joint venture is accounted for as goodwill, which is included in the carrying amount of the investment. Any excess of the Company's share of the net fair value of the joint venture's identifiable assets and liabilities over the cost of the investment, after remeasurement, is recognized immediately in profit or loss in the period in which the investment was acquired.

Under the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the joint venture. The entire carrying amount of the investment (including goodwill) is tested for impairment 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 costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment in the joint venture. Accordingly, 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.

The Company discontinues the use of the equity method from the date the investment ceases to be a joint venture, or when the investment is classified as held for sale. When an investment ceases to be a joint venture, the retained interest is measured at fair value, which is its fair value on initial recognition as a financial asset in accordance with IAS 39.The difference between the carrying amount of the joint venture at the date that use of the equity method is discontinued and the fair value of any retained interest and any proceeds from disposing of the part of interest in the joint venture is recognized in profit or loss as part of the gain or loss on the disposal of the joint venture. In addition, the Company accounts for all amounts recognized in other comprehensive income in relation to that joint venture on the same basis as would be required if the joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by a joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when use of the equity method is discontinued.

If an investment in an associate becomes a joint venture or a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

If the Company's interest in a joint venture is reduced, but the equity method is continued to be applied, the Company reclassifies to profit or loss the proportion of the gain or loss previously recognized in other comprehensive income relative to that reduction in ownership interest if the gain or loss would have been reclassified to profit or loss in the case of disposal of the related assets or liabilities.

Profits and losses resulting from transactions between the Company and the joint venture are recognized in the Company's consolidated financial statements only to the extent of unrelated investors' interests in the joint venture.

d. Current non-current classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading

- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

e. Financial Instruments

Financial instruments are recognized when the Company becomes party to the contractual provisions of the instrument.

Financial instruments are measured initially at fair value. At initial recognition, the Company measures financial assets or financial liabilities at their fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

f. Financial assets

All financial assets are recognized initially at fair value plus transaction costs. Financial assets are classified in four categories: "financial assets at fair value through profit or loss", "held-to-maturity investments", "available-for-sale financial assets" and "loans and receivables". Financial assets are classified at initial recognition based on their characteristics and intended purpose. At the reporting date, all of the Company's financial assets are classified as held-to-maturity investments, loans and receivables.

i. Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including fees, points, transactions costs, and premiums or discounts) through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the instrument.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest rate (EIR) method, less any impairment. Interest income is recognized using the EIR method.

iii. Impairment of financial assets

Financial assets that are not carried at fair value through profit or loss are subject to an impairment test at the end of each reporting period. A financial asset is impaired, and impairment losses are recognized, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of financial asset.

Objective evidence of impairment may include:

- Significant financial difficulty of the issuer or obligor;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For trade receivables, the Company periodically assesses them for impairment based on an analysis of the risk of uncollectibility of past-due accounts that are more than a year old. This analysis is performed by a credit committee composed of the general director, the finance director, the sales director, and the credit and collection managers of the cement and concrete divisions.

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

For all impaired financial assets except trade receivables, the carrying amount of the asset is reduced directly and in the case of trade receivables, the carrying amount of the asset is reduced through the use of an allowance for doubtful accounts. Trade receivables that are assessed as uncollectible are charged to the allowance account. Subsequent recovery of previously recognized impairment losses are reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. However, this reversal may not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

iv. Derecognition of financial assets

The Company derecognizes financial asset when, and only when the contractual rights to the cash flows from the financial asset expire or it transfers substantially all the risks and rewards of ownership of the financial asset. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. If the Company retains substantially all the risks and rewards of ownership of a transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss allocated that had been recognized in other comprehensive income is recognized in profit or loss.

g. Inventories and cost of sales

Inventories are valued at the lower of cost and net realizable value. The costs, including a portion of the fixed and variable indirect costs, are allocated to inventories using the absorption costing method and valued using the average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

h. Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services or for administrative purposes are stated in the consolidated statement of financial position at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Likewise, when a major repair is performed, its cost is recognized in the carrying amount of the fixed asset as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, on a straight-line basis. The Company has determined that the residual values of its assets are immaterial.

Freehold land is not depreciated.

Properties in the course of construction for production, supply and administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated income statement.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed and retrospectively adjusted at each financial year-end.

i. Intangible assets

a. Intangible assets acquired separately

Intangible assets acquired separately are carried at cost, net of accumulated amortization and accumulated impairment losses, if any. Amortization is determined on a straight-line basis over the estimated useful lives of the assets. The residual values, useful lives and methods of amortization are reviewed at the end of each financial year and adjusted prospectively, if appropriate. Intangible assets with indefinite useful lives are not amortized, but are separately tested for impairment on an annual basis. The Company has determined that the residual values of its assets are immaterial.

b. Derecognition of intangible assets

Intangible assets are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset. This gain or loss is immediately recognized in profit or loss when the asset is derecognized.

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Company assesses whether there is any indication that its tangible and intangible assets may be impaired. If any such indication exists, the Company estimates the asset's recoverable amount. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis can be identified, corporate assets are also allocated to the cash-generating unit.

The recoverable amount is the higher of the asset's fair value less costs to sell and its 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 each asset.

If the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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.

k. Non-current assets held-for-sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The Company must be committed to a plan to sell the asset within one year from the date of classification.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets (or disposal group) held for sale are reviewed for impairment at each reporting date to determine if there is objective evidence of impairment.

l. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position principally consist of cash at banks and on hand and short-term investments with maturities of three months or less.

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

m. 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 a lessee
At the commencement of the lease term, the Company recognizes finance leases as assets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The liability for the lessor is recognized in its statement of financial position as a finance lease liability.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's accounting policy for borrowing costs.

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term or another systematic basis that better represents the pattern in which income is earned from the leased asset.

Incentives granted to the Company under operating lease agreements (e.g., grace periods) are recognized as a liability. The additional benefit provided by the incentive is recognized as a reduction of lease expense on a straight-line basis over the lease term or another systematic basis that better represents the pattern in which income is earned from the leased asset.

n. 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 an outflow of resources embodying economic benefits 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 expenditure required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured based on the estimated cash flows required to settle the present obligation, its carrying amount represents the present value of these cash flows.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized when, an only when, it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

o. Financial liabilities

i. Financial liabilities

Financial liabilities are measured initially at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest rate (EIR) method.

ii. Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid is recognized in profit or loss.

p. Employee benefits

Employee benefits are determined based on current salaries and in proportion to the services rendered. The related liability is recognized as the benefits accrue. These benefits consist mainly of employee profit sharing, the cost of compensated absences, such as paid annual leave and vacation premiums, and incentives.

The liability for seniority premiums is recognized in accordance with IAS 19 based on actuarial valuations performed at the end of each reporting period. Actuarial gains and losses are recognized in other comprehensive income so that the net pension liability reported in the consolidated statement of financial position reflects the real value of the deficit in the plan. Past service cost is recognized immediately in the consolidated income statement and unamortized past service cost is recognized in profit or loss.

The cost of retirement benefits is determined using the projected unit credit method.

Employee profit sharing is recognized in profit or loss of the year it is incurred and is presented as part of cost of sales, administrative expenses or selling expenses in the consolidated income statement.

q. Taxes

Income tax expense is the aggregate amount of year tax and deferred tax.

Current income tax

Current tax is the Company's income tax expense for the year and it is recognized in the consolidated income statement.

Deferred taxes

Deferred taxes are recognized on all temporary differences between financial reporting and tax values of assets and liabilities based on tax rates that have been enacted at the reporting date and where applicable, they include unused tax losses and certain unused tax credits.

The Company recognizes deferred tax assets for all deductible temporary differences and unapplied deductions to the extent that the Company will have taxable profit in future years against which it may carryforward its deductible temporary differences.

Deferred tax assets and liabilities are not recognized when the deductible temporary difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction, affects neither the accounting profit nor taxable profit or tax loss.

The Company recognizes deferred tax liabilities for all taxable temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, but only to the extent that the Company is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future. Deferred tax assets arising from temporary differences associated with investments in these investments and interests are recognized only to the extent that that it is probable that sufficient taxable profit will be available to allow that deferred tax asset to be utilized.

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 taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets shall reflect 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.

Current and deferred taxes

Current and deferred taxes are recognized as income or expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity.

r. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

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

Interest income

Interest income is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

s. Transactions in foreign currency

The Company's functional currency is the Mexican peso. Transactions in foreign currency are initially translated using the exchange rate prevailing on the day of the transaction. Foreign currency denominated assets and liabilities are translated into Mexican pesos using the prevailing exchange rate published in the Official Gazette at the reporting date. Foreign currency gains and losses are recognized in profit or loss or other comprehensive income.

t. Reserve for share buybacks

In accordance with the Securities Market Act, the Company has created a reserve for share buybacks funded through retained earnings in an effort to improve the performance of its shares on the Mexican Stock Exchange. The shares acquired and temporarily removed from the market are retained by the Company as treasury shares.

u. Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Since the Company has no dilutive potential shares, its diluted earnings per share are the same as its basic earnings per share.

5. Significant accounting judgments, estimates and assumptions

In the process of applying the Company's accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. The effects of changes in accounting estimates are recognized in the period of the change and future periods if the change affects both.

a. Critical accounting judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Litigation contingencies

As discussed in Note 24, the Company is party to various legal proceeding that have arisen in the normal course of its business. The outcome of these lawsuits is uncertain and there is a possibility that the Company may lose the cases. Although it is not possible to quantify the potential losses for the Company, management believes that any resulting liability will not have a significant effect on the Company's financial position or on its operating results.

b. Key sources of estimation uncertainty

The key sources of estimation uncertainty at the date of the consolidated statement of financial position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

- **Useful life estimates**
  As mentioned in Note 4h, the Company reviews the useful lives of its property, plant and equipment at each financial year-end and adjusts them prospectively, if appropriate. Changes in these estimates could have a significant effect on the Company's consolidated statement of financial position and statement of income and comprehensive income.

- **Allowance for doubtful accounts**
  With respect to its trade receivables, the Company calculates its allowance for doubtful accounts using estimates. Specifically, the Company assesses its trade receivables for impairment on a quarterly basis in March, June, September and December of each year based on an analysis of the risk of non-recoverability of trade receivable more than 180 days old. This analysis is performed by a credit committee composed of the Company's general director, finance director, sales director, credit and collection managers of the cement and concrete divisions.

- **Environmental provision**
  The Company determines the cost of rehabilitating the quarries from which it extracts the raw materials it needs for its cement production considering its obligations under current law. To determine the amount of this obligation, a site rehabilitation study is performed by an independent specialist taking into account the Company's obligations under the relevant legislation. This provision is recognized in accounting based on the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

- **Provision for labor obligations**
  The cost of the present value of labor obligations is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

  The parameter most subject to change is the discount rate. The discount rate is determined using the long-term government bond yield curve considering the duration of the bonds, as established in the relevant accounting standards.

The mortality rate is based on Mexico's publicly available mortality tables.

Future salary increases are based on expected future inflation rates for Mexico.

The Company based its assumptions and estimates on the parameters available when the consolidated financial statements were prepared. However, the existing circumstances and assumptions about future events may change due to changes in the market or circumstances that are beyond the Company's control. Such changes are reflected in the assumptions as they occur. Such changes are reflected in the assumptions as they occur.

6. Non-cash Transactions

In 2017 and 2016, the Company acquired equipment under finance leases in the amount of Ps.6,757 and Ps.10,638, respectively (not including VAT). This non-cash activity is reflected in the financing activities section of the Company's consolidated statements of cash flows.

7. Cash and cash equivalents

The Company has cash and cash equivalents in Mexican pesos, which is its functional currency, as well as in foreign currencies, specifically euros and U.S. dollars, which are invested in Mexican, U.S. and Spanish financial instruments with maturities of less than three months. An analysis of cash and cash equivalents as at 31 December 2017 and 2016 is as follows:

	2017	2016
Cash and cash in banks	Ps. 927,969	Ps. 1,747,698
Mexican Treasury Certificates (CETES)	1,112,998	648,900
Certificates of deposit	817,423	25,928
Bank paper	508,195	855,797
Total	**Ps. 3,366,585**	**Ps. 3,278,323**

8. Accounts Receivable, net

Accounts receivable in Mexican pesos and foreign currency are integrated as follows:

	2017	2016
Trade receivables	Ps. 1,239,160	Ps. 1,230,122
Allowance for doubtful accounts	(111,588)	(53,720)
Accounts receivable, net	**Ps. 1,127,572**	**Ps. 1,176,402**

Accounts receivable are measured at amortized cost.

The average consolidated credit term on the Company's sales is 24 days. The Company charges no interest on outstanding accounts, since the Company gives appropriate follow-up on collections of past-due balances based on their aging and in this way it promptly identifies doubtful accounts. The Company's lawyers are informed of any past-due balances identified as likely uncollectible in order for the lawyers to seek collection through the court.

Procedure for estimating allowance for doubtful accounts

- The Company records an allowance for credit losses, with the effects of the allowance reported in the consolidated income statement.

- Based on the Company's past collection experience in the construction industry in Mexico, management determines risk percentages to be applied to the balance of the Company's trade receivables. These risk percentages are determined based on the ages of the trade receivables.

- Management determines what risk percentages should be applied to the balances of trade receivables based on the ages of the balances. For trade receivables that are more than 180 days past due, management identifies conducts a collectability analysis applying the following considerations:

    - *Professional judgment that takes into account the Company's past collection experience.*
    - *Status of related legal proceedings and the likelihood of favorable rulings.*
    - *Guarantees obtained and management's expectations regarding their recovery.*

- Whenever the Company loses a lawsuit associated with a past due account receivable, the account receivable is immediately written off, ensuring that the Company meets all legal requirements for the income tax deduction of the bad debt.

- On a quarterly basis (March, June, September and December of each year), Company management reviews the aging parameters of the Company's accounts receivable and determines whether the amount of the allowance is reasonable. Any adjustment to the allowance resulting from this analysis must be authorized by the Credit Committee.

In order to manage the credit risk in its accounts receivable, the Company has adopted a policy of only engaging in transactions with solvent counterparties and obtaining sufficient guarantees from those counterparties. As a result, it takes steps to examine and subsequently select potential customers based on their creditworthiness and financial stability. It assigns credit limits and obtains guarantees in the form of debt instruments, lists of assets, collateral and mortgage guarantees that are duly supported by either the counterparty's legal representative or a third-party guarantor.

The collateral and mortgage guarantees that the Company receives are usually represented by properties.

As at 31 December 2017 and 2016, Ps. 374 of the total accounts receivable of the concrete division are secured. For the cement division, Ps. 47,000 of the accounts receivable are secured as at 31 December 2017 and 2016.

As at 31 December 2017 and 2016, the concrete division has approximately 1,733 and 1,431 customers, respectively; however, as at 31 December 2017, 56% of the total accounts receivable of this division are concentrated in 20 customers. As at 31 December 2017 and 2016, the cement division has approximately 709 and 700 customers, respectively; 80% of the total accounts receivable of this division are concentrated respectively in 610 customers as at 31 December 2017 and 2016.

a. Aging of trade receivables that are past-due but not impaired

		2017		2016
1-60 days	Ps.	16,382	Ps.	28,085
61-90 days		15,744		12,843
91-180 days		44,359		7,208
More than 180 days		140,303		183,227
Total	**Ps.**	**216,788**	**Ps.**	**231,363**

The Company calculates the aging of accounts receivable using a sales depletion system, which differs from the commonly used formula, since the traditional approach is based on average annual income and accounts receivable, while under the Company's sales depletion approach the aging of accounts receivable is calculated based on layers of sales until the balance of the portfolio is reduced to zero.

b. Movement in the allowance for doubtful accounts

		2017		2016
Balance at beginning of year	**Ps.**	**53,720**	**Ps.**	**118,122**
Write off of amounts deemed uncollectible during the year		(23,306)		(81,125)
Impairment losses recognized on accounts receivable		92,266		16,723
Cancellation due to sale of shares of subsidiaries		(11,092)		-
Balance at end of year	**Ps.**	**111,588**	**Ps.**	**53,720**

To determine the recoverability of a trade receivable, the Company considers changes in the credit quality of each account from the time the credit was granted until the end of the reporting period. The concentration of credit risk in the Company's trade receivables is limited by the fact the Company has a broad customer base that is geographically diverse. The credit limits assigned to customers are reviewed continually on a case-by-case basis.

9. Other Accounts Receivable

The other accounts receivable are integrated as follows:

	2017		2016	
Related party receivables (Note 16)	Ps.	8,714	Ps.	149,354
Recoverable taxes		93,453		420
Sundry debtors		49,057		26,168
Security deposits		10,475		10,659
Other accounts receivable		1,198		1,424
Total	**Ps.**	**162,897**	**Ps.**	**188,025**

10. Inventories, net

The inventories are integrated as follows:

	2017		2016	
Finished products	Ps.	94,119	Ps.	61,354
Production in process		171,557		147,515
Raw materials		56,950		66,793
Spare parts and operating materials		389,949		351,783
Fuel		67,667		67,027
Allowance for obsolete and slow-moving inventories		(3,914)		(632)
		776,328		**693,840**
Merchandise in transit		137,566		111,635
Total	**Ps.**	**913,894**	**Ps.**	**805,475**

Changes in the allowance for obsolete and slow-moving inventories:

	2017		2016	
Opening balance	**Ps.**	**632**	**Ps.**	**632**
Increase in the allowance		3,282		237
Charges to the allowance		-		(237)
Ending balance	**Ps.**	**3,914**	**Ps.**	**632**

11. Property, Plant and Equipment, net

The carrying amounts of property, plant and equipment at the beginning and end of 2017 and 2016 are as follows:

	Balance as at 31 December 2016	Additions	Disposals	Other movements	Balance as at 31 December 2017
Cost:					
Buildings	**Ps. 2,685,148**	**Ps. -**	**Ps. -**	**Ps. 39,266**	**Ps. 2,724,414**
Machinery and equipment	9,072,205	27,465	(127,798)	306,224	9,278,096
Automotive equipment	22,761	-	(1,540)	3,468	24,689
Equipment acquired under finance leases	50,489	6,757	(11,532)	(518)	45,196
Computer equipment	43,575	69	-	(65)	43,579
Office furniture and equipment	34,416	(7)	-	(137)	34,272
Construction in process	385,685	558,151	(1,226)	(395,908)	546,702
Land	875,359	-	-	(6,952)	868,407
Total	**Ps. 13,169,638**	**Ps. 592,435**	**Ps. (142,096)**	**Ps. (54,622)**	**Ps. 13,565,355**

	Balance as at 31 December 2016	Depreciation expense	Fully depreciated	Other movements	Balance as at 31 December 2017
Depreciation and impairment:					
Buildings	Ps. (1,275,762)	Ps. (117,820)	Ps. -	Ps. (12,275)	Ps. (1,405,857)
Machinery and equipment	(4,546,989)	(405,803)	84,256	28,586	(4,839,950)
Automotive equipment	(13,703)	(4,366)	1,125	-	(16,944)
Equipment acquired under finance leases	(24,162)	(10,053)	10,691	171	(23,353)
Computer equipment	(43,320)	(66)	-	65	(43,321)
Office furniture and equipment	(25,675)	(1,672)	-	(291)	(27,638)
Total	**Ps. (5,929,611)**	**Ps.(539,780)**	**Ps. 96,072**	**Ps. 16,256**	**Ps. (6,357,063)**
Impairment losses on intangible assets	**Ps. (140,561)**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. (140,561)**
Net investment	**Ps. 7,099,466**	**Ps. 52,655**	**Ps. (46,024)**	**Ps. (38,366)**	**Ps. 7,067,731**

	Balance as at 31 December 2015	Additions	Disposals	Other movements	Balance as at 31 December 2016
Cost:					
Buildings	Ps. 2,371,935	Ps. 416	Ps. (259)	Ps. 313,056	Ps. 2,685,148
Machinery and equipment	7,834,620	78,993	(91,062)	1,249,654	9,072,205
Automotive equipment	26,121	4,733	(6,035)	(2,058)	22,761
Equipment acquired under finance leases	51,217	10,638	(11,019)	(347)	50,489
Computer equipment	65,703	55	-	(22,183)	43,575
Office furniture and equipment	36,595	-	(22)	(2,157)	34,416
Construction in process	852,271	1,184,884	-	(1,651,470)	385,685
Land	786,700	131	-	88,528	875,359
Total	**Ps. 12,025,162**	**Ps. 1,279,850**	**Ps. (108,397)**	**Ps. (26,977)**	**Ps. 13,169,638**

	Balance as at 31 December 2015	Depreciation expense	Fully depreciated	Other movements	Balance as at 31 December 2016
Depreciation and impairment:					
Buildings	Ps. (1,065,127)	Ps. (110,736)	Ps. 32	Ps. (99,931)	Ps. (1,275,762)
Machinery and equipment	(4,322,222)	(370,683)	70,323	75,593	(4,546,989)
Automotive equipment	(17,706)	(3,183)	5,898	1,288	(13,703)
Equipment acquired under finance leases	(24,832)	(10,349)	11,019	-	(24,162)
Computer equipment	(63,316)	(635)	-	20,631	(43,320)
Office furniture and equipment	(26,386)	(1,722)	14	2,419	(25,675)
Total	**Ps. (5,519,589)**	**Ps. (497,308)**	**Ps. 87,286**	**Ps. -**	**Ps. (5,929,611)**
Impairment losses on intangible assets	**Ps. -**	**Ps. (140,561)**	**Ps. -**	**Ps. -**	**Ps. (140,561)**
Net investment	**Ps. 6,505,573**	**Ps. 641,981**	**Ps. (21,111)**	**Ps. (26,977)**	**Ps. 7,099,466**

The Company's average depreciation rates determined based on the estimated useful lives of the assets are as follows:

	Average depreciation rates
Buildings	5.00%
Machinery and equipment	5.00% to 7.00%
Automotive equipment and automotive equipment under finance lease	25.00%
Computer equipment	33.30%
Office furniture and equipment	10.00%

	Average depreciation rates
Assembly and installation	10.00%
Intangible assets	33.33%

12. Finance Leases

The amounts due under finance leases as at 31 December 2017 and 2016 are as follows:

	2017		2016	
Finance lease for vehicles denominated in Mexican pesos with Element Fleet Management Corporation México, S.A. de C.V., bearing average annual interest of 8.04%	Ps.	26,524	Ps.	28,571
Finance lease for vehicles denominated in Mexican pesos with BBVA Leasing, S.A. de C.V., bearing average annual interest of 6.71%		1,357		2,187
Total finance leases	**Ps.**	**27,881**	**Ps.**	**30,758**
Short-term portion of finance leases		12,232		11,590
Long-term portion of finance leases	Ps.	15,649	Ps.	19,168

Due to maturities long-term are as follows:

	2017	
2019	Ps.	9,381
2020		4,573
2021		1,695
Total	**Ps.**	**15,649**

13. Other Accounts Payable and Accrued Liabilities

The balance of other accounts payable and accrued liabilities are integrated as follows:

	2017		2016	
Trade advances	Ps.	448,126	Ps.	415,852
Expense provisions		82,298		68,966
Sundry creditors		34,945		24,436
Labor obligations and bonuses		33,689		33,448
Losses of joint venture		-		39,874
Total	**Ps.**	**599,058**	**Ps.**	**582,576**

14. Employee Benefits

In 2017 and 2016, the Company has a provision that covers it obligation related to the payment of seniority premiums, which consists of a one time payment equal to 12-days' salary of each year worked calculated based on the employee's final monthly salary (capped at twice the legal minimum daily wage established in the Federal Labor Law). The related liability and the annual cost of benefits are calculated by an independent actuary using the projected unit credit method.

The principal assumptions used in the actuarial valuations are as follows:

	2017	2016
Discount rate	7.20%	7.50%
Salary increase rate	5.50%	5.50%

The amounts recognized in the consolidated income statement for the seniority premium provision in 2017 and 2016 are:

	2017		2016	
Current year service cost	Ps.	1,022	Ps.	3,305
Interest cost		765		658
Effect of curtailments and settlements		606		(40)
Net periodic benefit expense	**Ps.**	**2,393**	**Ps.**	**3,923**

An analysis of the actuarial (remeasurements)/gains on seniority premiums recognized in other comprehensive income in 2017 and 2016 is as follows:

	2017		2016	
Actuarial (remeasurements)/gains on the obligation	**Ps.**	**(109)**	Ps.	2,767
Deferred income tax		33		(160)
Defined benefit cost items in other items	**Ps.**	**(76)**	**Ps.**	**2,607**

The amount recognized in the consolidated statement of financial position in respect of the Company's obligation regarding the seniority premiums for 2017 and 2016 is as follows:

	2017		2016	
Present value of defined benefit obligation for seniority premiums	Ps.	10,861	Ps.	10,266
Net liability generated by seniority premium	**Ps.**	**10,861**	**Ps.**	**10,266**

An analysis of changes in the present value of the seniority premium provision in 2017 and 2016 is as follows:

	2017		2016	
Opening balance of defined benefit obligation	**Ps.**	**10,266**	**Ps.**	**10,320**
Current year service cost		1,022		3,305
Interest cost		765		659
Actuarial loss/(gain)		109		(2,767)
Effect of curtailments or settlements of labor obligations		606		(40)
Benefits paid		(1,907)		(1,211)
Ending balance of defined benefit obligation	**Ps.**	**10,861**	**Ps.**	**10,266**

The sensitivity analyses described below consider reasonable potential changes in the respective assumptions at the end of the reporting period, with all other assumptions remaining constant.

2017 analysis

If the discount rate had been 0.5% higher and all other variables had remained constant, the Company's equity and consolidated comprehensive income for the years ended 31 December 2017 would have increased by Ps. 909.

A decrease of 0.5% with all other variables held constant would have resulted in a decrease in the Company's equity and consolidated comprehensive income for the year ended 31 December 2017 of Ps. 1,010.

2016 analysis

If the discount rate had been 0.5% higher and all other variables had remained constant, the Company's equity and consolidated comprehensive income for the years ended 31 December 2016 would have increased by Ps. 893.

A decrease of 0.5% with all other variables held constant would have resulted in a decrease in the Company's equity and consolidated comprehensive income for the year ended 31 December 2016 of Ps. 992.

In the sensitivity analysis described above, the present value of seniority premiums is calculated using the projected unit credit method at the end of the reporting period, which is the same method applied to calculate the liability for seniority premiums recognized in the consolidated statement of financial position.

There were no changes in the methods or assumptions considered in the sensitivity analyses of prior years.

15. Foreign currency balances and transactions

a. The monetary position in foreign currency as at December 2017 and 2016 is:

	2017		2016	
Thousands of U.S. dollars:				
Monetary assets	USD	60,124	USD	47,757
Monetary liabilities		(10,044)		(8,134)
Long/(short) position	**USD**	**50,080**	**USD**	**39,623**
Thousands of euros:				
Monetary assets	€	12,435	€	23,705
Monetary liabilities		(1,581)		(1,039)
Long/(short) position	**€**	**10,854**	**€**	**22,666**

b. In the years ended 31 December 2017 and 2016, the Company performed the following transactions in foreign currency that were translated and stated in Mexican pesos using the prevailing exchange rate at the date of each transaction:

	2017		2016	
	(In thousands of U.S. dollars)			
Interest income	USD	57	USD	3
Purchases		(134,447)		(61,391)
	(In thousands of euros)			
Purchases	€	(10,455)	€	(23,810)

c. The exchange rates as at 31 December were as follows:

	2017		2016	
U.S. dollar	Ps.	19.7354	Ps.	20.6640
Euro	Ps.	23.6933	Ps.	21.8005

16. Related party balances and transactions

a. Commercial transactions

Transactions carried out with related parties in the normal course of the Company's operations is as follows:

	2017		2016	
Revenue from product sales, interest income, etc.	Ps.	135,164	Ps.	38,622
Revenue from services rendered		-		206
Sale of fixed assets		1,895		-
Expenses for services received		(37,458)		(31,144)
Total	**Ps.**	**99,601**	**Ps.**	**7,684**

Balances receivable due from and payable due to related parties that are presented as part of other accounts receivable and other accounts payable in the consolidated statement of financial position are as follows:

	2017		2016	
Receivables:				
CYM Infraestructura, S.A.P.I. de C.V.	Ps.	8,417	Ps.	5,645
Total	**Ps.**	**8,417**	**Ps.**	**5,645**
Payables				
Buzzi Unicem S.p.A.	Ps.	1,986	Ps.	2,235
Promotora Mediterránea-2, S.A.		2,483		1,954
Cemolins Internacional S.L.		1,972		1,168
CYM Infraestructura S.A.P.I. de C.V.		-		4,927
Total	**Ps.**	**6,441**	**Ps.**	**10,284**

b. Loans to related parties

The Company has granted a short-term loan to the joint venture that bears interest at a rate that is comparable to standard commercial interest rates:

	2017		2016	
Loan to CYM Infraestructura, S.A.P.I. de C.V. (CYM Joint venture)	Ps.	-	Ps.	136,420
Loans to key personnel		297		7,289
Total	**Ps.**	**297**	**Ps.**	**143,709**

Due to their immateriality, the balance receivable from the related party and the loan granted to CYM are presented as part of other accounts receivable from related parties and are included in other accounts receivable.

c. Compensations of key management personnel

Compensation paid to the Company's Directors and other senior executives during the period is as follows:

	2017	2016
Short-term employee benefits	Ps. 71,809	Ps. 66,307
Total	**Ps. 71,809**	**Ps. 66,307**

The compensation paid to the Company's directors and senior executives is determined by the Remuneration Committee based on the individual performance of each executive and on current market trends.

17. Financial Instruments

a. Capital risk management

The objective of the Company's capital management is to ensure that the Company is able to continue as a going concern. The Company's policy it to not contract long-term debt, except for certain finance leases whose amounts are immaterial for its financial position taken as a whole. The Company is not subject to any external restrictions affecting its capital management.

Company management periodically reviews the Company's capital structure at the time it presents the financial projections included in its business plan to the Company's Board of Directors and shareholders. An analysis is as follows:

	2017	2016
Finance leases	Ps. 27,881	Ps. 30,758
Equity	10,411,371	10,114,981
	Ps. 10,439,252	**Ps. 10,145,739**
%	0.27%	0.30%
Finance leases	Ps. 27,881	Ps. 30,758
Operating cash flows	5,049,848	4,787,605
%	0.55%	0.64%

b. Categories of financial instruments

	2017	2016
Financial assets:		
Cash and cash equivalents	Ps. 3,366,585	Ps. 3,278,323
Trade receivables and other accounts receivable	1,197,017	1,364,007
Financial liabilities:		
Accounts payable	Ps. 1,271,519	Ps. 1,138,674
Short-term finance leases	12,232	11,590
Long-term finance leases	15,649	19,168

c. Objectives of financial risk management

The role of the Company's treasury function is to manage the Company's financial resources and mitigate the financial risks associated with its operations using internal risk reports, which analyze the level and magnitude of the Company's exposure to risks. These risks include market risk (foreign currency and commodity prices), credit risk and liquidity risk.

The Company minimizes the potentially adverse effects of these risks on its financial performance through various strategies. The Company's bylaws prohibit the Company from contracting any type of financing. The internal auditors periodically evaluate the Company's compliance with its policies and exposure limits. The Company does not contract financial instruments for either speculative or hedging purposes.

d. Management of foreign currency risk

The Company is exposed to foreign currency risk primarily through its purchases of materials and spare parts for its operations, which are paid for in foreign currencies (U.S. dollars and euros) and so give rise to accounts payable denominated in those currencies. The Company has investment policies that dictate the amounts of cash and cash equivalents that it needs to maintain in each currency, resulting in natural hedges against this risk. The Company's foreign currency position is shown in Note 15.

If the Mexican peso/U.S. dollar exchange rate had been 10% higher and all of the other variables had remained constant, the Company's equity and income after taxes as at 31 December 2017 and 2016 would have increased by Ps. 98,834 and Ps. 81,878, respectively. A decrease of 10% with all other variables held constant would have resulted in a decrease in the Company's equity and income after taxes by the same amount.

If the Mexican peso/euro exchange rate had been 10% higher and all of the other variables had remained constant, the Company's equity and income after taxes as at 31 December 2017 and 2016 would have increased by Ps. 25,716 and Ps. 49,413, respectively. A decrease of 10% with all other variables held constant would have resulted in a decrease in the Company's equity and income after taxes by the same amount.

e. Management of interest rate risk

The Company has no debt and it maintains investments in fixed-yield instruments. Interest under the Company's finance leases is at a fixed rate. In view of the above, the Company does not have significant exposure to interest rate risk.

f. Management of commodity price risk

One of the energy commodities that the Company consumes most is pet coke, which is subject to price changes. However, the Company is not exposed to any financial risk due to these price changes since it has no financial instruments in its consolidated statement of financial position that are subject to variability.

g. Management of liquidity risk

The Company does not have any significant long-term financial liabilities and it maintains significant balances of cash and cash equivalents, as shown in Note 7. The Company also periodically analyzes its cash flows and it maintains open lines of credit with banks and suppliers.

The maturities of the Company's finance leases are disclosed in Note 12. Given the high amounts of cash and cash equivalents that the Company maintains, no other disclosures are considered necessary.

h. Management of credit risk

Credit risk is the risk that the counterparty will default on its payment of obligations, leading to a financial loss for the Company. As mentioned in Note 8, the Company's policy is to only engage in transactions with solvent counterparties and, where appropriate, to obtain sufficient guarantees from those counterparties, as a way to mitigate its credit risk.

With respect to investments classified as cash equivalents, as indicated in Note 7, these investments are made in Mexican, U.S. and Spanish securities and accordingly, the credit risk surrounding these instruments is tied to the economic risk of these countries.

The Company's policy for managing the credit risk in its accounts receivable is described in Note 8.

18. Fair Value Measurement of Financial Instruments

Management believes that the carrying amount of the financial assets and liabilities recognized at amortized cost in the Company's consolidated financial statements approximates fair value, since these assets and liabilities are all settled in the short-term.

In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - Unobservable inputs for the asset or liability.

An analysis of the carrying amounts and fair values of the Company's financial assets and liabilities is as follows:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Assets measured at fair value:				
Cash and cash equivalents	Ps. 3,366,585	Ps. 3,366,585	Ps. 3,278,323	Ps. 3,278,323
Assets measured at amortized cost:				
Accounts receivable	1,197,017	1,164,824	1,364,007	1,334,684
Financial liabilities				
Liabilities measured at amortized cost:				
Accounts payable	Ps. 1,271,520	$ 1,271,520	Ps. 1,138,674	Ps. 1,138,674
Current portion of finance leases	12,232	12,232	11,590	11,590
Long-term finance leases	15,649	15,649	19,168	19,168

19. Derivative financial instruments

The Company's management has decided not exposing to risks that beyond its control, and for this reason the Company's policy is to refrain from contracting derivate financial instruments.

In accordance with article 104, section VI Bis, of the Securities Market Act, it may be concluded that as at 31 December 2017, the Company does not have any transactions with derivatives.

20. Income Tax

The Company is subject to the payment of income tax.

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2017 and 2016 (and in subsequent years). Until 2013, the Company and its subsidiaries determined their income tax on a consolidated basis. Starting on 1 January 2014, the tax consolidation regime in Mexico was eliminated and under the MITL currently in effect, the Company and its subsidiaries are required to deconsolidate and remit the income tax that was deferred in the consolidation over five years beginning in 2014, as shown below.

In accordance with point d) of section XV of the ninth transitory article of the 2014 MITL and because the Company was the controlling company of the group until 31 December 2013 and at that time was subject to the tax payment schedule established in section VI of the fourth article of the transitory rules for the MITL published in the Official Gazette on 7 December 2009, and article 70-A of the 2013 MITL that was abolished, the Company is required to continue remitting the tax that was deferred in the consolidation in 2007 and prior years in accordance with the referred rules until the entire amount of the tax payable has been remitted.

a. The income tax recognized in the consolidated income statement is as follows:

	2017	2016
Current income tax	Ps. 1,960,761	Ps. 1,747,882
Annual income tax from prior years	(9,856)	(66,987)
Deferred income tax	(147,466)	(98,404)
Total	**Ps. 1,803,439**	**Ps. 1,582,491**

b. Deferred tax assets and liabilities

	2017	2016
Assets:		
Property, plant and equipment and intangibles	Ps. (22,593)	Ps. 13,467
Trade advances	37,448	1,673
Provisions and reserves	63,476	34,078
Prepaid expenses	(3,518)	(1,069)
Tax losses of subsidiaries	55,298	23,727
Total assets	**Ps. 130,111**	**Ps. 71,876**

	2017		2016	
(Liabilities):				
Inventories	Ps.	(112,374)	Ps.	(97,142)
Property, plant and equipment and intangibles		(963,055)		(1,104,527)
Trade advances		97,594		135,349
Provisions and reserves		104,387		79,391
Prepaid expenses		(6,366)		(5,285)
Tax losses of subsidiaries		3,930		33,420
Total liabilities	**Ps.**	**(875,884)**	**Ps.**	**(958,794)**
Net total	**Ps.**	**(745,773)**	**Ps.**	**(886,918)**

To determine its deferred income tax as at 31 December 2017 and 2016, the Company applied the income tax rate that will be in effect when the temporary differences giving rise to deferred taxes are expected to reverse.

c. Tax consolidation

i. The last portion of the Company's income tax liability related to its tax consolidation was remitted in full in 2016.

ii. The Company's income tax liability as at 31 December 2017 resulting from its tax deconsolidation will be remitted as follows:

Year	Amount	
2018	Ps.	11,931
Total	**Ps.**	**11,931**

iii. A reconciliation of the statutory income tax rate to the effective income tax rate expressed as a percentage of pre-tax income is as follows:

	2017	2016
Statutory income tax rate	**30.00%**	**30.00%**
Plus/(less):;		
Effects of inflation	(1.18)%	(0.85)%
Non-deductible	0.31%	0.44%
Income tax from prior years	(0.15)%	(1.19)%
Other	(1.32)%	(0.31)%
Effective income tax rate	**27.66%**	**28.09%**

21. Equity

a. Contributed capital

The share capital as at 31 December 2017 and 2016 is as follows:

	Shares		Amount
Fixed share capital			
Common nominative shares of the single series (with no par value)	80,454,608	Ps.	15,582
Variable			
Common nominative shares of the single series (with no par value)	804,432,688		155,795
Total shares	**884,887,296**		**171,377**
Treasury shares	(4,575,500)		-
Outstanding shares	**880,311,796**	**Ps.**	**171,377**

b. Earned capital

At a regular shareholders' meeting held on April 4, 2017 a dividend was approved for the amount of $3,521,274,184 from accumulated profits for the years 2013, 2015 and 2016. The dividend is to be paid from the Company's CUFIN is integrated as follows:

- Ps. 11,348,294 from the Company's CUFIN balance of 2013 and prior years.
- Ps. 3,509,898,890 from the Company's CUFIN balance of 2015 and 2016.

The cash dividend of Ps. 4 per share will be paid to the shareholders through S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V. in two installments:

- The first installment of Ps. 3 per share, totaling Ps. 2,640,935,388, will be available for payment as of 24 April 2017 upon delivery of Cupon No. 28.
- The second installment of Ps. 1 per share, totaling 880,311,796, will be available for payment as of 10 July 2017 upon delivery of Coupon No. 29.

At a regular shareholders' meeting held on 22 November 2017, the shareholders declared a cash dividend of Ps. 880,311,796, which is equal to one Mexican peso per share, to be paid from the balance of the Company's CUFIN balance of 2016. The dividend is to be paid from the Company's CUFIN balance for 2015 and 2016 and it became due and payable by the Company on 4 December 2017.

At a regular shareholders' meeting held on 7 April 2016, the shareholders approved the payment of a cash dividend of Ps. 1,320,468, equal to Ps. 1.50 per share, to be paid from the balance of the Company's CUFIN balance for 2013 and 2014.

At a regular shareholders' meeting held on 7 December 2016, the shareholders approved the payment of a cash dividend of Ps. 2,200,779, equal to Ps. 2.50 per share, to be paid from the balance of the Company's CUFIN balance for 2014 and 2015.

The Company's legal reserve is included in its retained earnings. In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. The legal reserve may be capitalized but may not be distributed to the shareholders unless the Company is dissolved. Also, the legal reserve must be replenished if it is reduced for any reason. The legal reserve as at 31 December 2017 and 2016 is Ps. 130,024.

Except for earnings distributed from the Restated contributed capital account (CUCA) and the Net taxed profits account (CUFIN) balances, dividends will be subject to the payment of corporate income tax at the statutory rate at that time. Income tax paid on dividends may be credited against income tax payable (annual or in prepayments) in the year of payment or either of the two immediately subsequent years.

The balances of the fiscal accounts of equity are:

	2017	2016
Consolidated restated contributed capital account (CUCA)	Ps. 2,160,849	Ps. 2,023,835
Consolidated net taxed profits account (CUFIN)	2,230,685	2,427,324
Total	**Ps. 4,391,534**	**Ps. 4,451,159**

22. Costs and expenses based on their nature

a. The cost of sales recognized in the Company's consolidated income statement is as follows:

Cost of sales	2017	2016
Raw materials, freight, fuel and maintenance	Ps. 5,657,741	Ps. 4,671,094
Depreciation and amortization	531,714	485,544
Other costs	1,306,756	1,248,217
Total	**Ps. 7,496,211**	**Ps. 6,404,855**

b. The selling and administrative expenses recognized in the Company's consolidated income statement is as follows:

Selling and administrative expenses	2017	2016
Wages, benefits and fees	Ps. 354,134	Ps. 330,877
Depreciation and amortization	23,475	24,989
Other expenses	253,065	258,104
Total	**Ps. 630,674**	**Ps. 613,970**

c. The other operating expenses/(income) recognized in the Company's consolidated income statement is as follows:

Other operating expenses/(income)	2017	2016
Inflation restatement and surcharges on tax difference	Ps. 1,124	Ps. 1,186
Asset reserves	(11,480)	(264)
Clearing and adjusting of accounts	(8,321)	20,876
Allowance for doubtful accounts	90,038	-
Provisions and expenses for fixed assets	-	140,638
Gain on sale of fixed assets and other assets	(8,972)	(975)
Insurance recovery	(5,773)	(5,070)
Gain on sale of shares	(4,125)	-
Other	(6,274)	947
Total	**Ps. 46,217**	**Ps. 157,338**

23. Segment information

The Company identifies its operating segments based on internal reports regarding the Company's various components, which are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segments and evaluate their performance.

The Company's activities are grouped into three main business segments: Cement, Concrete and Corporate.

The tables below show financial information by business segment based on management's approach. Intersegment transactions have been eliminated. The Company's reportable segments in accordance with IFRS 8 Operating Segments are as follows:

2017	Net sales	Total assets	Equity investments	Depreciation and amortization
Cement	Ps. 12,272,329	Ps. 11,426,718	Ps. 483,659	Ps. 480,315
Concrete	2,361,770	1,491,752	102,291	68,662
Corporate	546	144,112	6,438	6,212
Total	**Ps. 14,634,645**	**Ps. 13,062,582**	**Ps. 592,388**	**Ps. 555,189**

2016	Net sales	Total assets	Equity investments	Depreciation and amortization
Cement	Ps. 10,264,505	Ps. 11,405,586	Ps. 1,127,426	Ps. 436,658
Concrete	2,321,996	1,419,583	140,683	68,230
Corporate	524	45,942	11,740	5,645
Total	**Ps. 12,587,025**	**Ps. 12,871,111**	**Ps. 1,279,849**	**Ps. 510,533**

24. Contingencies

The outcome of these lawsuits is uncertain and there is a possibility that the Company may lose the cases. Although it is not possible to quantify the potential losses for the Company, management believes that any resulting liability will not have a significant effect on the Company's financial position or on its operating results.

25. Operating leases

a. Lease agreements

The Company has operating leases for land, property, machinery, computer equipment and office equipment. Lease agreements are reviewed at the end of the lease term. The Company does not have the option of acquiring the leased property and equipment at the end of the lease term.

Payments recognized as expenses:

	2017	2016
Average monthly payments	Ps. 6,007	Ps. 3,791
Annual cost	72,079	45,497

b. Commitments under operating leases

The following is an analysis of the anual payments agreed upon in the lease contracts entered into over one year:

Year agreed	Amount
2018	Ps. 9,132
2019- 2021	3,209
Total agreed payments	**Ps. 12,341**

The Company is subject to contractual penalties for its failure to meet the obligations established in its lease agreements. These penalties are determined based on the terms and conditions of each agreement. As at 31 December 2017 and 2016, management is not aware of any failure by the Company to comply with the terms and conditions established in these agreements that would give rise to any contractual penalties, and the consolidated statement of financial position therefore does not include any liabilities related to these commitments.

26. Joint ventures

The Company indirectly holds equity interest in the following joint venture through its subsidiary Latinoamericana de Concretos, S.A. de C.V.:

Joint venture	Activity	Location of incorporation	Interest and voting rights held by the Company (50%) 2017	2016
CYM Infraestructura, S.A.P.I de C.V.	Construction of streets, highways, roads and bridges	Mexico City	Ps. 32,217	Ps. -

This Company recognizes its interest in this joint venture in its consolidated financial statements using the equity method.

A summary of the information on the joint venture is provided below. Highlights of the financial information shown are the amounts included in the Company's consolidated financial statements prepared under IFRS:

	2017	2016
Current assets	Ps. 83,613	Ps. 27,464
Non-current assets	Ps. -	Ps. 29,844
Current liabilities	Ps. 34,558	Ps. 153,454
Non-current liabilities	Ps. (15,379)	Ps. (26,250)

The assets and liabilities indicated above include the following:

	2017	2016
Cash and cash equivalents	Ps. 51,681	Ps. 229
Current financial liabilities (not including accounts payable to suppliers, other accounts payable and provisions)	Ps. 8,417	Ps. 142,065

	2017	2016
Sales	Ps. 451,304	Ps. 70,427
Net gain/(loss) for the year	Ps. 34,329	Ps. (13,304)

The net gain/(loss) indicated above includes the following:

	2017	2016
Depreciation	Ps. 30,959	Ps. 6,035
Interest expense	Ps. 4,068	Ps. 9,058
Income tax expense/(benefit)	Ps. 14,708	Ps. (7,095)

27. Basic Earnings Per Share

The profit and the average weighted number of ordinary shares used to calculated basic earnings per share are as follows:

	2017	2016
Net income attributable to equity holders of the parent	Ps. 4,718,536	Ps. 4,046,863
Weighted average number of outstanding shares (thousands of shares)	880,312	880,312
Basic earnings per ordinary share, equity holders of the parent	Ps. 5.36	Ps. 4.60

Since the Company has no dilutive potential shares, its diluted earnings per share are the same as its basic earnings per share.

28. Authorization of the Consolidated Financial Statements

On February 15, 2018, the accompanying consolidated financial statements and these notes were authorized by the Company's Board of Directors and Audit Committee, for their issue and subsequent approval by the shareholders, who have the authority to modify the Company's consolidated financial statements in accordance with Mexican Corporations Act.

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TYPE OF SHARES

Ordinarias

MARKETS

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S.A.B. de C.V.

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