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Annual Report

6

Continuous
Sustainable Evolution



A NEW CHIEF EXECUTIVE

OFFICER

As an organization, Corporación Moctezuma has closed one cycle and opened a new one. Our Company's leadership changed in October, 2016 when one successful stage in its growth ended and it entered a new era of achievements guided by a multinational outlook and experience.

Halfway through the year, Pedro Carranza informed the Board of his decision to retire. During his seven year period as CEO, the Company registered important achievements which contributed to its Continuous Sustainable Evolution.

The Board decided to appoint Mr. Fabrizio Donegà who took up his post as CEO of Corporación Moctezuma as of 3 October, 2016.

Fabrizio Donegà graduated in mechanical engineering at the University of Genoa in Italy, with postgraduate degrees in Corporate Finance from SDA Bocconi in Milan, Italy and Management Development from Harvard Business School in the United States. Mr. Donegà has more than 25 years' experience in the cement and concrete industry, largely in the multinational corporation Italcementi Group. He began as an engineer in cement plants and reached the position of plant director. Amongst his many posts are those of General Director for Greece and Bulgaria and was head of Italcementi's industrial operations in Cyprus, Kazakhstan and Egypt from 1999 to 2003. He was Italcementi's Deputy CEO from 2004 to 2007 where he was in charge of the group's industrial operations in Italy. From 2007 to 2015 he held the post of Chief Operating Officer of Ciments Français (part of the Italcementi Group) and responsible for operations in the southern Mediterranean, Middle East and Central Asia and later for France, Belgium, Spain and Morocco.



"The industrial structure of Corporación Moctezuma is new, efficient and modern, competing in the construction sector with the best technology and the highest quality products. At the same time, it participates in a market with important potential for medium and long term growth.

When there is a change of leadership in a successful company, the transition to a new leader is a step forward requiring continuity with the openness to implement changes that improve the relations with clients, suppliers, workers and always in search of solutions that take into account the needs of the market.

Corporación Moctezuma's shareholders and CEO value and emphasize the importance of honesty, transparency and ethics present in all our business relations and operations."

Fabrizio Donegà

Chief Executive Officer, Corporación Moctezuma

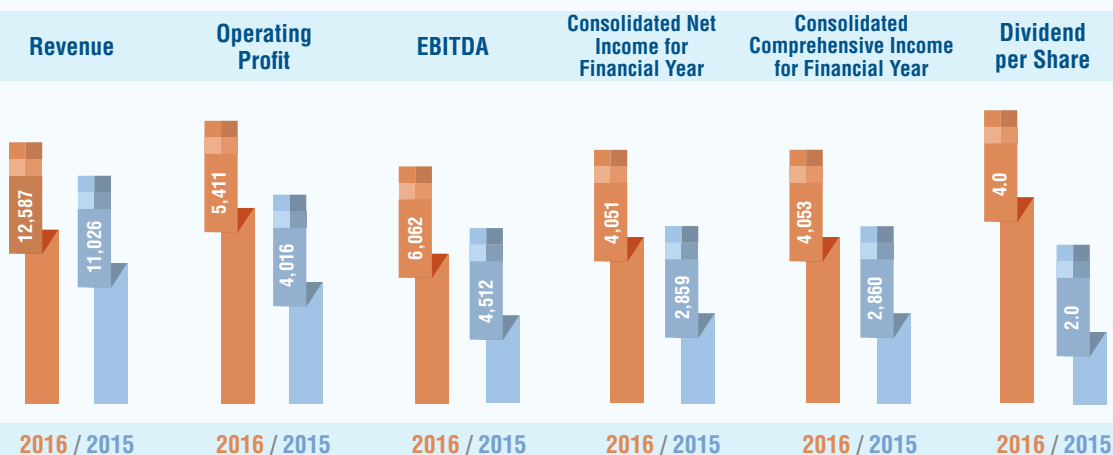
RELEVANT

FIGURES

Figures expressed in millions of pesos, except in dividend per share, expressed in pesos.

	2016	2015	Var.
Total Assets	12,871	12,018	7.1%
Total Liabilities	2,756	2,442	12.8%
Equity	10,115	9,576	5.6%
Revenue	12,587	11,026	14.2%
Cost of Sales	6,182	4,602	34.3%
Gross Margin	49.1%	41.7%	
Operating Profit	5,411	4,016	34.7%
Operating Margin	43.0%	36.4%	
EBITDA*	6,062	4,512	34.4%
EBITDA Margin	48.2%	40.9%	
Consolidated Profit/Consolidated Net Income for financial year	4,051	2,859	41.7%
Consolidated Margin/ Consolidated Net Income Margin	32.2%	25.9%	
Consolidated Comprehensive Income for Financial Year	4,053	2,860	41.7%
Consolidated Comprehensive Income Margin	32.2%	25.9%	
Dividend per Share	4.00	2.00	100.0%
Employees (units)	1,119	1,121	-0.2%

*EBITDA: Earnings before Interest, Taxes, Depreciation, Amortization, and Deterioration



MESSAGE TO OUR

SHAREHOLDERS



FROM THE CHAIRMAN OF THE BOARD AND THE CHIEF EXECUTIVE OFFICER

During 2016, growth in the construction and cement sectors in Mexico remained the same as that of the previous year. The internal market, consumption and investment performed well despite a 19.2% depreciation of peso with respect to the US dollar. For Corporación Moctezuma, this was a major step forward in our Continuous Sustainable Evolution.

SOLID FINANCES

Uncertainty dominated the domestic and international economic environment during 2016. An increase in the price of the US dollar with respect to other major currencies, the fall in international oil prices in the early months of the year and the partial recovery later on, the UK's referendum decision to leave the European Union, the election results in the United States and a number of armed conflicts resulted in a high degree of volatility which affected the situation of many countries but mainly that of the emerging markets. In Mexico, the adverse factors described above prompted the Federal Government to cut public spending and, as a result, to cancel major infrastructure projects which had been announced earlier.

After the convergence of factors in 2015 which permitted record results for our Company, we knew that it would not be easy to improve on them in 2016, and even less so in such a complex environment. However, major private sector investments led to a high demand for cement, and a price recovery, were reflected in a 14.2% sales increase with respect to the previous year.

During the first semester of 2016 energy costs remained low and in the second half of the year increased to earlier levels resulting in a 34.3% growth in the annual variation in our gross profit. Our operating profit increased by 34.7% in 2016 compared with the previous year. The EBITDA increased 34.4% in 2016 with respect to the previous year. The factors described above and our low levels of cost-generating liabilities were reflected in a 41.7% increase in our net profits for 2016 compared with those reported in 2015.

We paid our shareholders two dividend payments totalling \$3,521.2 million or \$4.00 pesos per share, while making the scheduled investments in a timely manner, thus maintaining a solid financial position and the highest profit margins in the sector.

NEW PRODUCTION LINE

New Production Line

In May 2014 the Board approved the construction of the second cement production line in the Apazapan Plant, Veracruz, a project that was totally financed with our own resources.

In keeping with the project schedule, at the end of 2016 the operation of this new line with a production capacity of approximately 1.4 million tons began with the production of clinker. This new line will help us lighten the load on the other production lines which were working at practically full capacity in order to respond to the needs of the market.

The new cement production line has important advantages the most outstanding of which are: a highly efficient cost per ton, good technical performance, strategic location with easy access to marine transport and the exportation of cement through the port of Veracruz, along with access to the national railway network allowing for low transport costs within Mexico.

A SUSTAINABLE BUSINESS

We took important measures in the field of workplace safety aimed at making each of our workers aware that they are responsible for safety. This year we started the programme "Seguridad en el Trabajo a través de la Observación Permanente" (Safety Training Observation Program, STOP) in which each employee becomes a safety inspector, aiming to generate a culture of safety at work.

The Company is working to create a safer environment and with the collaboration of our employees we hope to make progress in this area. However, we will never be entirely satisfied with our efforts towards safety in the workplace and we know that there will always be more to do.

During this year we paid more attention to the issues that are most important to our Stakeholders. We followed up on the materiality studies we have carried out and opened the doors of our cement plants to the surrounding communities which elicited a favourable and enriching response.

With respect to social responsibility, we increased our activities to benefit the health, education and job training of the disadvantaged groups in the communities near our main plants, working with them to achieve a better quality of life for their inhabitants.

Corporación Moctezuma's commitment to the environment, reflected in our modern plants, was strengthened with programmes to optimize our processes and to increase the use of clinker per ton of cement with the resulting benefit to the environment. We maintain low energy consumption levels both for



thermal and electrical energy and carry out high maintenance standards on our transport equipment and continue to renew our mixing trucks. During 2016, the Board approved new investments that will improve the environmental efficiency of the Tepetzingo cement plant in the coming year.

FOCUS ON THE CLIENT

We remain firmly committed to our clients with the aim of establishing lasting business relationships in an environment of respect and strict adherence to Corporación Moctezuma's values.

In 2016 we established closer ties with our clients, we invested in technology that allows us to provide them with attention in real time, to communicate directly with them and reduce our response time. We work to constantly improve of our client services, listening so that our clients know they have our Company's permanent support.

ETHICS AS A CENTRAL VALUE

Corporación Moctezuma has made important long term investments the impact of which will be felt for several decades as we trust in the future of Mexico and the markets we supply here. It is our conviction that all our dealings with our stakeholders must be transparent, upholding principles and values and always aimed at ensuring mutual benefits. We aim to ensure these criteria of honesty, continuity and relevance of the Company for the satisfaction and benefit of the shareholders, clients, suppliers, employees, communities and authorities that we interact with every day.

For this reason the Code of Ethics is, and will always be, what guides the behaviour of all of us at Corporación Moctezuma and those who have any kind of relationship with our Company.

LOOKING TOWARDS THE FUTURE

We ended the year 2016 with important achievements in the institutionalization of the Company, with outstanding financial results and a more direct dialogue with our audiences. We began 2017 with unusual political and economic events which had not been seen for a long time, with a trend towards an increase in energy prices and foreseeable changes in the current balance of supply and demand for cement and concrete.

At Corporación Moctezuma we will continue to strive for the continuous improvement of our operations, working honestly to make prime quality products and getting them to our consumers by means of a solid network of distributors. To achieve this, we trust in our magnificent team of employees who make all the difference in a competitive market.

We repeat our thanks to our shareholders and all those who made the results and achievements of 2016 possible and Corporación Moctezuma a company in Continuous Sustainable Evolution.

Juan Molins Amat
Chairman of the Board

Fabrizio Donegà
Chief Executive Officer

CEMENT

DIVISION

In 1997 the inauguration of the Tepetzingo Plant marked the beginning of a new era for Cementos Moctezuma. Before that, for 54 years we had operated a single cement plant in Jiutepec, Morelos. The basis for this new era has been the construction of modern cement plants equipped with up-to-date technology, which allow for optimal energy consumption as well as clean and efficient operations.



Tepetzingo Plant, Morelos





Apazapan Plant, Veracruz

IN CONTINUOUS EVOLUTION

Today, 19 years on, a clear sign of our evolution is that we have 3 cement plants using the same approach as that conceived for the Tepetzingo Plant. During this time we have matured as a company, optimizing our production processes, putting in place and improving cost and spending controls, starting to export our product, improving communication with our different stakeholders and using our own resources to grow organically, guided by our long term vision.

SOLID RESULTS

At the beginning of 2016, we knew it would not be easy to improve on the extraordinarily good results of 2015, an outstanding year for Mexico's cement industry which made it possible for us to report that Cementos Moctezuma had broken records that year. However, thanks to the recovery of cement prices and the efficiency of our teams of employees, we again achieved record results for the Company during 2016.

The team work at Cementos Moctezuma has enabled us to report outstanding performance in 2016. Hard work in the production area, talent in the commercial area, optimal distribution by the logistics area, allow us to manufacture, sell and distribute top quality cement to 29 states in Mexico, and has also made it possible for us to continue exporting our product.

Cementos Moctezuma's progress means we need to make an extra effort to improve on our earlier performance. We have solid foundations, top quality cement, a strong market position and a success story which endorse us. All these elements and our client services are the best calling cards to establish and maintain long-lasting, win-win business relationships.

EFFICIENT OPERATIONS

At the beginning of the year we envisaged a market with a lower demand for cement. However, the market remained extremely active and our plants worked at full capacity in order to provide our clients with the highest quality cement.

The challenge of operating cement plants that were working at maximum capacity was again overcome thanks to the dedication and professionalism of our teams that operate the modern equipment installed in our production plants. These were the key factors that permitted us to respond successfully to the highly demanding market conditions without neglecting either safety or the quality of our product.

WE ARE BIGGER

In 2014 the Board approved the construction of the second production line in our plant in Apazapan, Veracruz. Today we are pleased to say that this new line is a reality, as at the end of 2016 clinker production got under way and milling operations for cement production began.

Cerritos Plant, San Luis Potosí





8.0

Our annual
cement
production
capacity is 8.0
million tons.

Apazapan Plant, Veracruz



1.4

The new production line in Apazapan plant has a capacity of 1.4 million tons per year.

Cerritos Plant, San Luis Potosí

The second production line in Apazapan is a clear sign of our evolution as a company. It was financed with our own resources and has up-to-date technology which means that our operations are clean, efficient and in harmony with the environment. Thanks to this new line, we were able to install a vertical Ledge mill which will make our operations more efficient. Our cement production capacity in the Apazapan plant will increase from 1.4 million tons per year to 2.75 million tons, meaning that our total production capacity will go up to 8.0 million tons a year.

The start of operations of this second cement production line in Apazapan will help to lighten the burden on our other plants and allow us provide better service to our existing clients, and also satisfy future demand.

GREATER INTERACTION

During 2016 we made great strides with the strategy in place since the previous year which involves strengthening ties with our different groups of stakeholders, using our materiality matrix which identifies relevant issues, thus permitting a closer relationship with each group.

For the first time we held open days at our plants, where thousands of visitors, both authorities and inhabitants from nearby communities, had the opportunity to go round our installations, express their concerns and take part in an enriching exchange of ideas, a practice which is totally new in the cement sector in Mexico. At the same time, we set out to strengthen the direct dialogue with the authorities which helps us work together to improve environmental conditions.

With respect to our clients, our reason for existing, we kept in closer contact by investing in technology which allows us to provide attention in real time through direct means of communication, thus reducing our response time.

We are aware that the relation with our audiences is an on-going process which is why we continue to work, improving our materialities matrix and carrying out activities which show our responsible, pro-active work oriented to serving our different stakeholders.

CONTINUOUS SUSTAINABLE EVOLUTION

We are firmly committed to continuous improvement as we are convinced that it is a process in which we do not stop learning and in which all of us who are part of the Cement Division share the same objective: sustainable growth. The Board has authorized investments to be made over the coming year aimed at increasing and improving our environmental performance.

2017 looks as if it will be a year of great challenges, under conditions very different from those that allowed us to report the outstanding results that we present here. To confront them we will continue to develop, now putting special emphasis on ethics and transparency as well as the factors that have made us a solid company: the experience and knowledge of the directors; a team of expert and committed employees; installations equipped with up-to-date technology; a solid chain of distributors who sell our product all over the country. To this we should add the determination to improve personally, professionally and in the way we do business in order to contribute to the development of the modern Mexico that is taking shape. This is the reason why we stay firm to our process of Continuous Sustainable Evolution.



Apazapan Plant, Veracruz





“The start of operations of the second production line in Apazapan equipped with the most modern and efficient technology, will allow us to increase our total capacity by 20% and supply our markets better.”

José María Barroso
Director Comercial Cemento



Apazapan Plant, Veracruz



Port area, Veracruz



CONCRETE

D I V I S I O N

During 2016 we finished our process of optimization begun in 2013 when we decided to give priority to efficiency rather than size or geographical expansion. This process involved closing a number of plants and withdrawing from some areas we considered non-strategic. With the same strategic vision, during the financial year we are reporting here, we have opened new plants in zones of great potential for the construction industry.



Vehicular bridge, Querétaro, Qro.

WE ARE EVOLVING

This phase in our evolution put more emphasis on the private construction market, a decision that has been beneficial for us in the face of cuts in Federal Government spending which have affected public works investment. The positive performance of the construction sector in Mexico is, to a great extent, due to private sector investments.

Along with our focus on the private construction sector, we identified and served market niches that offered higher profitability, such as the supply of concrete for foundations and construction of very high buildings and the casting of large scale industrial flooring all of which require complying with rigorous specifications. The help of our team of professionals has meant that Concretos Moctezuma has been able to comply with the high demands of specialization, the capacity to handle large volumes, the logistics and services demanded by large-scale projects.

These decisions led to our positive performance during 2016 and will allow us to achieve better results than the previous year despite having a smaller number of plants and a lower sales volume.

WE OVERCAME CHALLENGES

In September 2016, we overcame a challenge for Concretos Moctezuma as we provided the product required for a massive area of cast concrete in an urban complex in Polanco.

The Miyana development in Mexico City was a challenge in various ways as it is one of the zones with most traffic. We had very little space to operate and this implied mobilizing and coordinating a large number of employees, preparation processes in our plants, operating mixers and pumping equipment in a short period of time.

The overall figures give an idea of the magnitude and importance of this project which required laying more than 8,500m³ of concrete, a new record for the Concrete Division. The massive casting of foundations required 8 concrete plants, 6 pumps, 110 mixer trucks, equipment for washing tyres and trucks to minimize the impact on the community and of course, a talented and committed team of employees who worked for 29 hours non-stop with the same objective, the complete satisfaction of our client.

At the end of 2016, we can proudly say that we overcame the challenge with flying colours, providing our clients with the highest quality concretes, without any accidents or discomfort to the neighbours due to our operations.

The Miyana development, which was completed on time, shows the qualities and capacities developed in Concretos Moctezuma thanks to the team work of our personnel. This fine result has encouraged us to look for new projects and overcome even greater challenges.



Homes, Celaya



More than
8,500 M³

of concrete were cast in the
Miyana development project,
in 29 hours non-stop.

Miyana development project, Ciudad de México



2016

the year in which
we focussed on
business niches
that generated the
highest profits.

DRY AGGREGATES

Participating in specialized niches in the market means ensuring that our product is always of the highest quality. The concrete we make must comply with the high standards required by our clients, and for this reason it is fundamental that our aggregates are also excellent. This is why we have continued to strengthen our aggregates business which allows us to guarantee supply, but more importantly, guarantee the quality of this important input in the production of high specification concretes.

THE ENVIRONMENT

As a result of the decision to make our production more efficient, we have strengthened our presence in the geographical zones of greatest economic development where the important constructions that require our products and services are being built.

Our concrete plants are located in or near major cities, which is why it is important for our installations to take all possible measures to care for the environment in order to reduce negative impacts on the surroundings. In the construction and equipping of our concrete plants, we fully comply with the regulations (Norma 21) in Mexico City. While it is true that these regulations are only obligatory in Mexico City, the gradual adoption of these strict guidelines in all our installations gives greater certainty to the continuity of our operations.

In keeping with the philosophy of Corporación Moctezuma, we are committed to the environment. For this reason in the Central and Eulalia plants in Mexico City we installed a concrete recycler which permits us to reuse water and also those materials that were previously considered waste and which now are inputs that are recycled for concrete production.

We are modernizing our plants with systems to wash trucks and tyres, paving all surfaces, ensuring adequate covering of aggregates and systems of emissions controls.

SAFETY IN THE WORKPLACE

We should highlight our safety results for 2016. These were good thanks to actions aimed at improving safety measures in our installations, vehicles and our clients' construction sites, closer plant supervision in addition to workshops for our workers and their families.

As well as our own activities, the key to safety at work are the workers themselves as long as they always put into practice the safety policies and measures we have designed, that they are aware of the importance of prevention and that they are convinced that their own welfare is the most important thing for themselves, their families and for the Company. It is in this way that we have achieved good safety results.



International Museum of the Baroque, Puebla



Line 6 of the Metrobus, Ciudad de México

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In Concretos Moctezuma we aim to be a good neighbour, maintaining a constant, direct dialogue with the communities around our installations, responding to their concerns and petitions in relation to our operations.





2016

was the year we consolidated our presence in highly specialized niches such as extremely high buildings.

Diana Tower, Cd. de México





“2016 was a year in which we worked to improve the quality of the aggregates and we reinforced our presence in highly specialized markets such as very tall buildings, high requirement industrial flooring and large scale casting like that needed for the Miyana development. Overcoming these challenges allows us to look for new ones in the future.”

Jaime Prieto
Director, Concrete Division



Bansi Building, Querétaro, Qro.



TRANSPARENT, RESPONSIBLE AND PROFITABLE

MANAGEMENT



In 1997, Corporación Moctezuma began a new stage during which we have included the most up-to-date technology in our production processes.



Cerritos Plant, San Luis Potosí



Apazapan Plant, Veracruz

MATURITY

Today, with three modern cement plants, six production lines and a Concrete Division, participating in major real estate projects in the cities and regions undergoing most development, we are a young modern company, at the technological forefront, full of energy, with long term objectives as well as the experience accrued over 19 years of learning since the opening of Tepetzingo. This process of Continuous Sustainable Evolution involves both immediate results and actions which permit the continuity of the Company.

Over this period we have reported growing sales, we have made investments with our own resources, we have maintained a healthy financial position, we have constantly paid dividends to our shareholders, we have consolidated the Company as an institution, we have strengthened our internal control systems and are now an important participant in the cement sector.

We consider that we are now at a stage of maturity, with a strategic vision, a proactive approach and tending towards continuous improvement, giving the best of ourselves in all our activities and administrative processes.

THE HIGHEST PROFIT MARGINS

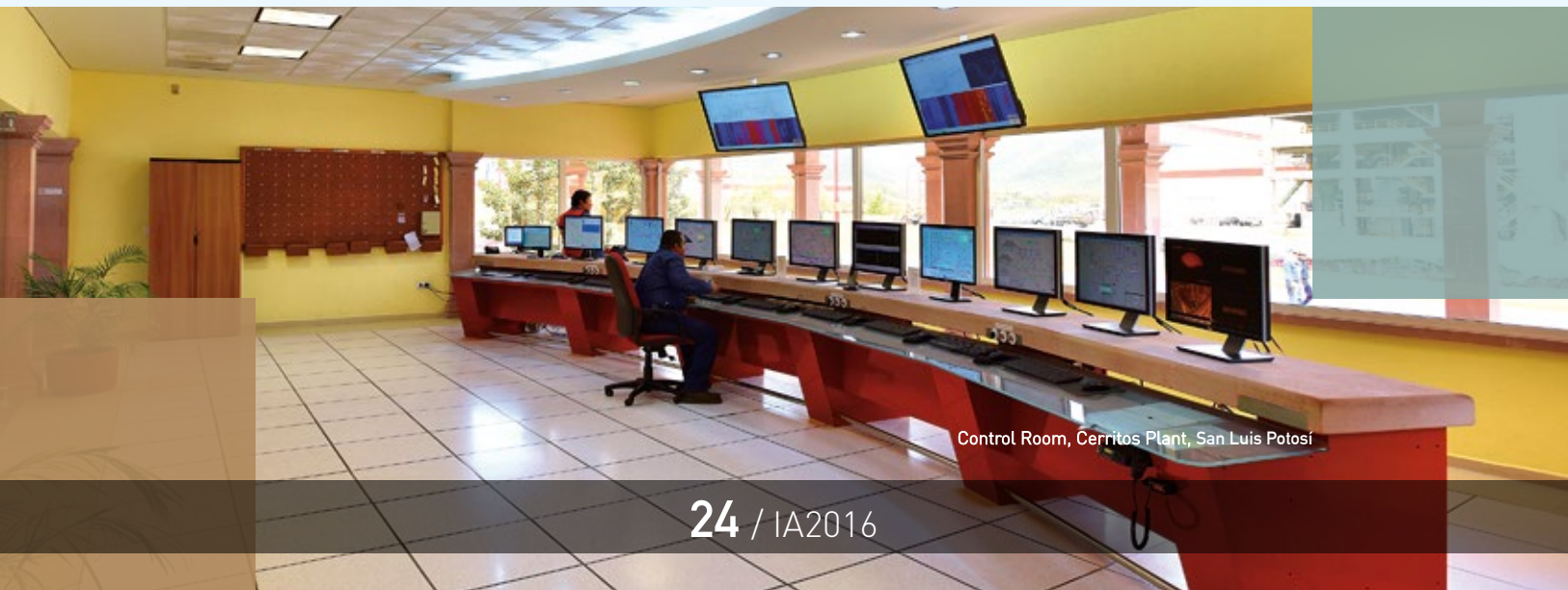
2016 was a year which presented major macroeconomic challenges as due to the initial fall and later partial recovery of international oil prices, the Federal Government announced a number of budget cuts, a situation which had a negative impact on economic activity in Mexico. The construction sector, which is extremely sensitive to changes in government spending, was affected by the cancellation of important public works projects. On the other hand, the private sector remained active and compensated for this fall in public spending with the construction of various real estate projects in different parts of the country.

In 2015, the conjunction of a high demand for cement, a fall in energy costs along with the hard work and good management of Corporación Moctezuma, made it possible for us to set a record with the best results in the Company's history.

After this record high, we worked hard in 2016 to produce, distribute and sell prime quality cement and concrete, giving our clients personalized attention, maintaining efficient production processes and adhering to strict ethical behaviour. The activities carried out and the recovery of cement prices enabled us to improve on the results we reported the previous year.

	Var %	2016	2015
Sales	14.2%	12,587	11,026
Operating profit	34.7%	5,411	4,016
Operating margin		43.0%	36.4%
EBITDA	34.4%	6,062	4,512
EBITDA Margin		48.2%	40.9%
Consolidated Net Income	41.7%	4,051	2,859
Consolidated Net Income margin		32.2%	25.9%
Dividends per share	100.0%	4.00	2.00

Figures in millions of pesos except for Dividends per share which are given in pesos



Control Room, Cerritos Plant, San Luis Potosí



41.7%



Our net profit in 2016
was 41.7% higher than
the previous year.

Apazapan Plant, Veracruz

\$ 4.00

In 2016 we paid
our shareholders a
dividend of \$4.00 per
share.



Tepetzingo Plant, Morelos

Since 2015 the cement industry had benefited from the fall in electricity and petcoke prices. As energy represents a considerable part of cement production costs and during the first half of 2016 it continued to fall. However, over the second half of the year this trend began to change with price increases in both energy sources due to an increase in international demand for oil and its derivatives. In the face of this new scenario, we continued to control costs and spending, and worked to detect and reduce inefficiencies in our production processes and maintaining cost-generating liabilities at an insignificant level.

Good management continued to pay off: at the end of 2016 we again reported the highest profit margins in the industry in Mexico, reaching 43.0% for operating margins, an increase on the margin of 36.4% in 2015; the EBITDA margin increased to 48.2 % in 2016, from 40.9% the previous year and the net margin for 2016 reached a total of 32.2 % which represented an increase of 63 base points compared with 2015.

CONTINUOUS GROWTH AND EFFICIENCY

During the financial year we are reporting here, we finished the construction of the second production line at the Apazapan Plant, a project financed with our own resources and which began its trial phase at the end of 2016 and allowed for an annual 1.4 million ton increase in our cement production capacity. The opening of the new production line is clearly a relevant event for Corporación Moctezuma, with the added advantage that was built with an investment lower than the 200 million US dollars that we announced in 2014. This was possible due to our expert technical team who, as always, worked to the highest standards and successfully finished the project on time.

CHALLENGES FOR THE FUTURE

2017 has begun in an environment of national and international uncertainty. The political changes in the United States, the UK's decision to leave the European Union, the growing support for political parties advocating protectionism in a number of developed countries all threaten the advances of a globalized economy with economic effects that are hard to predict.

The opening of the second cement production line at Apazapan will help us to lighten the load on our installations that have worked to full capacity for two years. Its proximity to the port of Veracruz and its connection to the railway network provide us with the opportunity to transport cement at low cost and give us access to the zones of high growth potential for the construction industry.

We expect a year of challenges but we have given our structure strong foundations, we have a responsible management, good control systems and firm ethical values which guide our conduct inside and outside the Company.

We will continue to work at improving every day, providing continuity to Corporación Moctezuma's tireless process of Continuous Sustainable Evolution.

Apazapan Plant, Veracruz





Cerritos Plant, San Luis Potosí



“Moctezuma’s recent history of continuous and sustainable success means we are in a strong financial position opening up the opportunity to look for alternative options for business growth in order to consolidate our financial resources.”


Luiz Camargo

Director of Finance
and Administration



HUMAN

RESOURCES



Today Corporación Moctezuma is the product of the constant, professional and dedicated efforts of our personnel. Thanks to their invaluable work, our Continuous Sustainable Evolution has been possible. This has positioned us as a company with advanced technology, nationwide presence, solid finances, outstanding results and which distinguishes itself with its commitment to ethical conduct.



Tepetzingo Plant, Morelos



Apazapan Plant, Veracruz

A GREAT PROJECT BY GREAT PEOPLE

At the end of 2016, the second production line in the Apazapan Plant began operations. It is Corporación Moctezuma's most important investment project which was finished this year. This was only possible thanks to the efforts of the different areas involved working in coordination with the precision required for a project of this magnitude and at the same time paying attention to the inherent workplace safety issues.

At the same time as this project was going ahead, our teams again had to keep up with the performance required of them during 2016 due to continuing high demand by the cement market which meant keeping our plants working at almost full capacity. Today we can say that this challenge was successfully overcome.

SAFE EVOLUTION

The issue of safety in the workplace has been a major consideration in the evolution of our cement production operations as well as in the preparation and delivery of concretes. With this in mind, we at Corporación Moctezuma believe that the most important thing is to create a safety culture in which every worker is convinced of the importance of the rigorous implementation of safety-related policies, procedures and actions as well as their commitment and dedication, first and foremost to safeguard their own welfare as well as that of their colleagues.

With the explicit aim of generating a greater commitment from the workers, the STOP programme was implemented. Its essential feature is the creation of a safety culture in the organization, as each member of our personnel becomes a safety inspector, firstly in measures related to their own personal safety but also indicating activities carried out unsafely by their workmates, given that if one member of the team is careless in their work, it puts the whole environment at risk.

Corporación Moctezuma provides their employees with everything they need to work safely, by installing the signs required and investing in the necessary safety measures in our installations and equipment. At the same time, we carry out awareness campaigns on the importance of safety in our factories, in the operation of our mixers, on the construction sites of our clients and also in our office buildings as our aim is to have no accidents in the Company.

There can never be too much effort made to ensure workplace safety as it is a day-to-day activity that involves all members of the Company. The starting point is the awareness that carelessness can have serious consequences and we will never tire of reminding our employees that their families are always waiting for them to return home in good health.

CONTINUOUS COMMITMENT

In Corporación Moctezuma we implement actions to benefit our personnel and in 2016 we continued with the campaigns aimed at keeping our workers in a good state of health.



Tepetzingo Plant, Morelos



STOP

We began the STOP programme in 2016 to improve safety in the workplace.

Apazapan Plant, Veracruz

3 0 7



employees benefited
from Corporación
Moctezuma University
during 2016.



Apazapan Plant, Veracruz

During 2016 we kept a telephone line open in order to provide psychological support for our workers and their families. We also continued our campaign to encourage healthy eating and we followed up on the health of each of our employees.

With the aim of contributing to personal and professional growth, Corporación Moctezuma University produced valuable fruits, providing our workers with greater opportunities to develop new and better capacities.

To get the best from the Corporación Moctezuma University programme, we established the prerequisite of taking part in the Citizenship, Ethics and Values Programme, a course through which we reinforce our business philosophy based on the principles that we want to be a factor of change in each of the Company environments that our employees work in. In addition, this programme allows us to strengthen the concept of our University as an entity which as well as providing knowledge, disseminates philosophical concepts.

Number of Employees benefited	
23	Master's programme
158	Development of Supervision Skills Programme
25	Participants from the Concrete Division aiming to earn their High School certificate.
101	Graduates in B-1 on the Workplace Risk Prevention in Cement Production Plants Diploma Course (in partnership with Structuralia)

A COMPANY WITH VALUES

To build a Company with Values, it is indispensable to unite upright people, professionals who share the values and principles that underpin Corporación Moctezuma; values which we constantly disseminate through campaigns in all our installations. We also keep various communication channels open in order to receive information about any unacceptable conduct which occurs in the course of our operations.

In 2016, for the second year running, we received certification as Súper Empresas en Expansión: el Lugar en Donde Todos Quieren Trabajar, putting us in 19th place in the ranking of the best companies to work for in Mexico, in the category of less than 500 employees. This is recognition by and for our employees, as they are the ones who create the working environment and make us to keep our standards high, as the real importance of this award is the road we have taken to achieve it.

We have taken measures to establish effective communications with our employees which is why at the end of 2016 we set up the new "Canal de Vinculación con las Partes Interesadas y Recepción de Quejas y Sugerencias" (a reception channel for complaints and suggestions), operated by a specialist third party, which helps to ensure the anonymity and appropriate follow up of any complaint.

Up until now we have received no reports of human rights violations. However, we continue to work proactively, providing the necessary tools to receive the complaints and suggestions of our workers and maintain an environment free of violence and discrimination in which ethics are strictly upheld.

CONTINUOUS EVOLUTION IN 2017.

Talking about Continuous Sustainable Evolution implies the obligation to improve every day, not to be satisfied with ourselves and to keep encouraging better individual performance, so that the sum of each one of us produces a team that leads to a better Company.

We have up-to-date technology in our plants, efficient processes, but the main difference which makes our company outstanding is the human factor which has enabled Corporación Moctezuma to report the best results in the sector we work in.

We know that in 2017 we will continue in evolution, investing in our team of employees, providing a work environment that encourages their development, supporting their personal and professional growth and above all, encouraging and maintaining a strong emphasis on ethics.

Tepetzingo Plant, Morelos





“We began the STOP programme, the essential feature of which is the creation of a safety culture in the organization involving the commitment of every worker.”

Manuel Rodríguez
Human Resources Director





Apazapan Plant, Veracruz

SUSTAINABLE

EVOLUTION

During the 19 years of this new era for Corporación Moctezuma, along with important and constant investment in modern plants and information technology, we have received a lot of encouragement from our partners and worked the issues of sustainability, social responsibility and good corporate governance.



Apazapan Plant, Veracruz



Tepetzingo Plant, Morelos

SUSTAINABLE EVOLUTION

Corporación Moctezuma adheres to and builds from day to day a business conscience that complies with the justifiable global dissemination of international initiatives and standards that promote best practice to reduce our environmental footprint and strengthen responsible corporate behaviour with a long term vision of the future.

In this sense, for a number of years, the Company has carried out important actions in the spheres of social responsibility, environmental care and economic development.

Since the end of 2015, we have begun to set out a more structured strategic vision which will have a greater impact on our beneficiaries within the framework of an approach based on honesty and ethics, in keeping with the Company's values. Our commitment to Sustainable Evolution involved emphasizing this approach throughout 2016.

SOCIALLY RESPONSIBLE

Our efforts in the social sphere have evolved, centring our efforts on three major areas which we consider to be essential for the development of the people from the communities that we interact with on a daily basis:

- **Education**
- **Health**
- **Work training**

A good schooling is the starting point for better living conditions in the future, which is why we have continued to support the education of children and young people by donating packages of school supplies. It is of great importance to us to encourage the recognition of personal merit and for this reason we reward effort by giving scholarships to outstanding students to help them fulfil their goals.

In the area of health, we continue to organize our now traditional "Feria de Salud" (Health Fair), an event which has achieved great acceptance and recognition from the inhabitants of the communities in the vicinity of our main installations. We have learned from past experiences, so our approach to health care at each event is defined on the basis of the policies and programmes established by national and local health care agencies at different times of year in order to give more force to our own actions in this important area. In the Health Fair members of our neighbouring communities receive specialist medical consultations and educational talks highlighting the importance of prevention.

Also in the area of health, it is important to point out that we encourage sports by supporting our soccer team "Las 3 T's". In addition, during 2016 we took an important step forward in gender equality by sponsoring the women's soccer team with such good results that the girls won the championship in their own category.

We kept up the work training programmes for the communities around our plants. Through these courses we aimed to help the beneficiaries to acquire the skills needed for productive activities that benefit themselves and their families. We provided courses on

Health Fair, Coacalco, Estado de México



The 3 MAIN



areas that guide us
in the field of Social
Responsibility:
Education, Health
and Job Training.



Tepetzingo Plant, Morelos

5,500



We welcomed 5,500
visitors to our Open
Days.



Tepetzingo Plant, Morelos

manicure, and making preserves, sandals and piñatas amongst others. With these courses we help the families to achieve a higher standard of living as well as generating a virtuous circle in the communities by strengthening local economic activity.

ENVIRONMENTAL PERFORMANCE

Following the example of the Tepetzingo Plant, our cement plants have been built and equipped with up-to-date technology, which is why their environmental performance is outstanding. Evidence of this is that they have received a number of awards for optimal energy consumption and continue to receive ISO 14001 and “Clean Industry” accreditation.

Due to the modernization and efficiency of our cement plants, the annual improvement in our environmental performance is still notable. Our philosophy of continuous improvement obliges us to continue to improve and during 2016 we managed to increase our already efficient ratio of clinker per ton of cement and in consequence, reduce gas emissions into the environment.

We continue to modernize our concrete plants, being mindful to pave the sites, to cover aggregates to avoid dust emissions as well as installing troughs for washing tyres and vehicles and opening a concrete recycling facility in the Eulalia Plant similar to the one that began operations in the Central Plant, both of which are located in Mexico City. In addition, we installed our new concrete plants in compliance with the regulations in force in Mexico City (Norma 21) which establish the minimum requirements for equipment and technical specifications in the making of our premixed concrete in the City and aimed at controlling the total emissions of suspended particles into the atmosphere that is, PM10 and smaller particles.

Our environmental conduct is responsible, and involves optimal water consumption, outstandingly low thermal and electrical energy consumption, strict emissions controls, well maintained installations, adequate waste treatment and a fleet of vehicles in constant renewal that permit us fulfil the requirements of current legislation.

MORE COMMUNICATION, MORE TRANSPARENCY

We set ourselves the task of establishing a direct dialogue with our stakeholders which is why we have established closer relations with the communities, suppliers, clients and of course the authorities. The Company is interested in these groups being familiar with our operations, visiting our installations, establishing and maintaining closer relations of trust with them. This allows us to consolidate our knowledge of the aspects of our operations that most concern our different audiences, providing them with information to improve their knowledge of our activities and clarify inaccurate perceptions and ideas that do not correspond to the real situation.

In 2016 we held Open Days in our three cement plants and invited the different audiences to visit us and see the whole cement production process first hand. We should point out that this was the first time that we have held events of this kind in Mexico and it was a challenge to host thousands of people from neighbouring communities, to talk to them directly, tell them about our production processes, address their concerns as well as generating an enriching atmosphere, as along with the visit and informative talks, we offered a number of games and fun activities, food and raffles.

A SUSTAINABLE FUTURE

In 2016 we were happy to have achieved a lot but we are still not satisfied, as talking about Continuous Sustainable Evolution means learning from the past, performing well in the present and keeping our eyes on the future. Our course of action is clear. We want to maintain closer relations with our stakeholders, as thanks to their support we are able to take firmer measures that benefit them all.

We anticipate that 2017 will be a year of challenges during which we must continue to generate positive impacts in the communities and provide their members with the tools necessary to build a better environment. We know that we interact with different groups of people and that with the trust and participation of all of those who form part of the Moctezuma Family: shareholders, employees, clients, suppliers, authorities and neighbouring communities, we will keep up our Continuous Sustainable Evolution and create a better future for everyone.

Tepetzingo Plant, Morelos





Tepetzingo Plant, Morelos



“Corporación Moctezuma adheres to and builds from day to day a business conscience that complies with international initiatives and standards that promote best practice in order to reduce our environmental footprint and strengthen responsible corporate behaviour with a long term vision of the future.”

Ignacio Machimbarrena
Director of Operations



CORPORATIVE

G O V E R N A N C E



Strategic decision making and businesses management respecting internationally recognized management practices has been another essential ingredient which has allowed Corporación Moctezuma to grow and evolve.

Along with the major investments made in the construction of three modern cement plants and concrete plants with up-to-date technology, Corporación Moctezuma has worked to develop and adopt systems, policies, procedures and criteria that provide a solid basis for a long term operational vision that is efficient, transparent, ethical and profitable.

CONTINUAL EVOLUTION WITH TRANSPARENCY

For many years we have taken measures aimed at strengthening our Corporate Governance in order to consolidate a more institutionalized business which promotes the values of high levels of performance, the application of efficient and timely internal controls as well as respect, honesty and integrity.

EFFICIENT CONTROLS

Today we regularly apply the control procedures established in the Buzzi and Molins guidelines, and implemented to safeguard the interests of both majority and minority shareholders according to international criteria of good corporate governance. These controls are extremely detailed and they help to determine whether the Company's behaviour is of the highest standard and the results are presented to the Auditing Committee. These criteria and procedures complement and comply with the internal control regulations established in the Ley de Mercado de Valores (Mexican Securities Market Law) and the general dispositions emitted by the Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission).

In 2016 we reinforced our internal auditing department which has carried out important tasks in different areas of both the Cement and Concrete Divisions. We also paid more attention to procedures that we consider to be of key importance in the running of our business and which ensure greater transparency.

EXPERIENCE AND HONESTY

We have a number of collegiate bodies made up of professionals with ample experience in the construction sector and who contribute their knowledge to Corporación Moctezuma's results.

We are a Company that complies with current legislation, acts with transparency and respect for corporate best practice.

Our Board is made up of 8 members and their corresponding substitute members, 4 of whom are independent, a greater proportion than that demanded by law. This administrative body meets at least 4 times a year and its functions and faculties follow the those established in the Ley del Mercado de Valores.

An Ordinary Annual General Shareholders' Assembly held on 7 April 2016 elected the proprietary and substitute Board members for the financial year 2016:

CORPORACION MOCTEZUMA, S.A.B. DE C.V.	
Board of Directors	
Non-independent members	
Proprietary Members	Substitute Members
Juan Molins Amat (Presidente) Civil Engineer with 51 years' experience in the cement industry, and 28 years on the Board.	Carlos Martínez Ferrer
Enrico Buzzi Civil engineer with 53 years' experience in the cement industry and 25 years on the Board.	Luigi Buzzi
Pietro Buzzi Chartered Accountant with 34 years' experience in the cement industry and 14 years as a Board member.	Benedetta Buzzi
Julio Rodríguez Izquierdo Engineer with 21 years' experience in Schneider electric and since July 2015 has been technical adviser of the Cementos Molins group. He was appointed as a Board member at the Assembly of 7 April, 2016.	Salvador Fernández Capo
Independent Board members	
Proprietary Members	Substitute members
Roberto Cannizzo Consiglio Lawyer with 35 years' experience as a consultant to the cement industry and has been a Board member for 28 years.	Adrián Enrique García Huerta
Antonio Cosío Pando Licenciado en Derecho. Tiene amplia experiencia en el sector y una antigüedad de 14 años como consejero de La Emisora.	Antonio Cosío Pando
Guillermo Simón Miguel Industrial Engineer with 15 years' experience in the construction industry and 4 years on the Board.	
Carlo Cannizzo Reniú Lawyer with great experience in the construction sector and has been a Board member for 14 years.	Stefano Amato Cannizzo
Marco Cannizzo Sietta (*) Secretary of the Board (*) Not a Board member.	

Company oversight is carried out by the External Auditor and the Company Practices and Auditing Committee, the functions of which comply with the Ley del Mercado de Valores. The Committee's Chairman is directly appointed by the Shareholders' Assembly which meets at least four times a year prior to the Board meeting and is made up of the following members.

Comité de Prácticas Societarias y de Auditoría	
Antonio Cosío Ariño	Chairman
Roberto Cannizzo Consiglio	Member
Carlo Cannizzo Reniú	Member

Our team of directors is made up of professionals with great experience and proven ability in the industry.

For 22 years, Pedro Carranza made an outstanding contribution to Corporación Moctezuma, especially over the last seven years during which he was the Company's CEO. On 3 October, 2016 Mr. Carranza ended his period as the Company's CEO in order to retire. Corporación Moctezuma would like to thank him for his valuable contribution to the evolution of the Company.

On 8 June, 2016 the Board voted unanimously to appoint Mr. Fabrizio Donegà as CEO and he took up his post on 3 October, 2016.


Fabrizio Donegà studied Mechanical Engineering at the University of Genoa and later postgraduate studies in Finance and Accounting at Cranfield University in the United Kingdom, Corporate Finances in the SDA Bocconi Institute in Milan and Development Management at Harvard Business School. He has 26 years' experience in the cement industry.

CORPORACION MOCTEZUMA, S.A.B. DE C.V.			
Executive Directors 31 December 2016			
Fabrizio Donegà	Chief Executive Officer	Ignacio Machimbarrena	Director of Operations
Manuel Rodríguez	Director of Human Resources	Octavio Adolfo Senties	Director, Cerritos Plant
Luiz Camargo	Director of Finances and Administration	Secondino Quaglia	Director, Tepetzingo Plant
Jaime Prieto	Director, Concrete Division	Isidro Ramírez	Director, Apazapan Plant
José María Barroso	Commercial Director, Cement Division	Mario Festuccia	Technical Director
Alejandro Del Castillo	Logistics Director	Marco Grugnetti	Internal Auditing Director

LOOKING TOWARDS THE FUTURE

We have built the foundations on which to consolidate and strengthen Corporación Moctezuma in order to benefit our clients, employees, suppliers, shareholder and all our stakeholders. The construction materials of our foundations are responsible and professional management, full and timely compliance with the laws which apply to us, productive, honest and ethical relations. However, we are constantly trying to improve in these areas.

Ethical values and transparency play, and will continue to play a central role in our corporate philosophy and guide our strategic vision and our day-to-day operations. We will continue to disseminate them and encourage their adoption by every group with which we interact.



“Taking into consideration the expansion stage of the Company, we are reinforcing the functions of internal control and working to improve our systems with a stronger auditing team to safeguard the resources that are entrusted to us.”

Marco Grugnetti

Internal Auditing Director



Apazapan Plant, Veracruz

COMMENTS AND ANALYSIS OF THE FINANCIAL RESULTS CORPORACIÓN MOCTEZUMA AND SUBSIDIARIES

Figures expressed in millions of pesos, except in cases where a different unit is indicated).



ECONOMIC ENVIRONMENT

During 2016 the economic environment posed a number of challenges, the greatest of which was the rise in the value of the US dollar, the Mexican peso being one of the currencies worst affected by this situation. The sale price of 17.3398 pesos per dollar at the end of 2015 reached 20.6640 pesos at the end of 2016. Security issues and the referendum which led to the UK's decision to leave the European Union caused periods of turbulence on the financial markets in Europe.

International oil prices fell considerably during the first half of the year to the lowest level for more than 10 years, a situation which affected oil producing countries but which recovered during the second semester. The Mexican Government felt the effects of this situation and on the one hand increased its level of debt and on the other made budget cuts, directly affecting its investment in construction, halting or cancelling practically all the public works projects it had announced except for the construction of Mexico City's new airport and the intercity Mexico-Toluca passenger train.

As happened in 2015, the private sector compensated for the fall in public spending with the construction of a number of major real estate projects in different parts of the country.

OUR RESULTS

After Corporación Moctezuma's record results in 2015, we were able to improve on them in 2016, again achieving historically high figures despite a complex and uncertain environment.

SALES

Our consolidated sales in 2016 rose to \$12,587, a 14.2% increase on the results reported the previous year, as the demand for cement remained high thanks to private sector investment and a price recovery.

GROSS PROFIT

The cost controls applied were reflected in our sales costs which remained practically the same in monetary terms with respect to the previous year, but compared to higher income due to an increase in sales, contributed to the gross profit which increased by 34.3%, reaching a total of \$6,182. The gross margin in 2016 was 49.1%, exceeding the 41.7% for 2015.

OPERATING PROFIT

Cost controls, our efforts to identify and eliminate inefficiencies, in addition to a strategic approach to spending on operations used to strengthen the positioning of our products and consolidated our management processes were essential to enable us to report a 34.7% increase in operating profit with respect to the previous year, reaching a total of \$5,411. The operating margin in 2016 rose to 43.0%, which compared favourably with 36.4% of the year before.



Apazapan Plant, Veracruz

EBITDA

In 2016 increased sales income and control of sales costs which remained the same as the previous year were reflected in an EBITDA increase of 34.4% with respect to 2015, reaching a figure of \$6,062. The EBITDA margin rose from 40.9% to 48.2%.

CONSOLIDATED NET INCOME MARGIN

In 2016 the Consolidated Net Income Margin increased by 41.7% to \$4,051, an improvement on the \$1,192 reported for the previous year. The Consolidated Net Margin rose from 25.9% reaching a figure of 32.2%.

A total of \$4,053 was reported for the Consolidated Comprehensive Income, 41.7% higher than that of 2015. The Consolidated Net Income Margin in 2016 was 32.2%, exceeding the 25.9% for 2015.

DIVIDENDS

The Ordinary Shareholders' General Assembly announced, in two consecutive sessions, payment of two cash dividends during the 2016 financial year. The first at a rate of \$1.50 pesos per share, payable from 8 April, the second at a rate of \$2.50 pesos per share was paid from 16 December. The sum of both shares was \$4.00 pesos per share, the highest dividend payment in the Company's history.

CONTINUOUS SUSTAINABLE EVOLUTION

The low energy costs during 2015 and the first semester of 2016 seem to be a thing of the past as there has been an increase in the price of this important input in the manufacture of cement. It is also possible that in 2017 there will be greater market supply than demand for cement.

We maintain our solid financial position, with a minimum level of cost-generating liabilities and a constant cash-flow generation which we used for the expansion of our production capacity with the second cement production line at our Apazapan Plant and the payment of cash dividends.

We will stay focussed on more efficient operations, on more responsible management that adheres to a strict ethical code and values, as the most important thing for us is to continue Corporación Moctezuma's success story in the long term.



Tepetzingo Plant, Morelos

Corporación Moctezuma, S.A.B. de C.V. and Subsidiaries

Independent auditor's report to the Shareholders and Board of Directors 2016 and 2015

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Independent auditors' 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 December 31, 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 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 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 financial statements.

Evaluation of general information technology controls

We focus on reviewing the Company's general IT controls as it is much dependent on the effective and continuous operation of its IT platform, and an important part has been developed in-house. The IT platform is key and much confidence is placed in many aspects of the process of generating and reporting financial information. The internal development of the system results in different risks, including the integrity of the data used, system accuracy and adequate maintenance in security levels on unauthorized access or alteration in the system. The Company is constantly improving the efficiency and effectiveness of its IT infrastructure as well as the reliability and continuity of electronic data processing.

Our audit procedures include the involvement of internal IT specialists to review the correct segregation of functions, the reliability of changes in the system, and the effectiveness of the design and operation of controls in systems and processes. The reliability and continuity of electronic data processing were assessed only to the extent necessary to perform the audit of the consolidated financial statements.

Long-term assets available for sale.

As mentioned in Note 4.i to the consolidated financial statements, the Company has certain assets, principally real estate, available for sale that have been awarded as part of the recovery of its accounts receivable. Such assets must be subject to impairment tests. Management uses external experts to value real estate and this process is considered complex as it requires judgments and assumptions that are affected by future market conditions.

Our audit procedures included the involvement of internal experts in valuations for the review of appraisals, the hypotheses, methodology and technical capacity of the external management experts. We also verify the reconciliation of the accounting records against the detailed integration of the assets available for sale and selectively against the corresponding supporting documentation. Finally, we evaluate the disclosures made by management on these assets.

OTHER INFORMATION

Management is responsible for the other information. Other information consists of the information included in the Annual Report presented to the National Banking and Securities Commission ("CNBV" from the acronym in Spanish), the Mexican Stock Exchange ("BMV" from the acronym in Spanish) and the annual report presented to shareholders other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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 presented to the CNBV (from the acronym in Spanish) and the annual report presented to the shareholders, if we conclude that there is a material misstatement, we are required to communicate the matter to those charge with governance and issue the statement on the Annual Report Required by the CNBV (from the acronym in Spanish), in which the matter will be described.

RESPONSIBILITIES OF MANAGEMENT AND 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 IFRS, 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

Our objectives 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 ISA 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 ISA, 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 Company'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 Group 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

Among the matters that have been the subject of communication with those responsible for the Company's governance, we determine the most significant in the audit of the consolidated financial statements of the current period and, consequently, are the key audit matters. We describe such matters in our audit report unless legal or regulatory provisions prohibit disclosure of the matter or, in extremely rare circumstances, we determine that a matter should not be reported in our report when it is reasonably expected that the adverse consequences thereof would exceed to the public interest benefits of that matter. Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version into English for convenience purposes only.

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

Mancera, S.C.
Ernst & Young Global Limited



C.P.A. Fernando Ruiz Monroy
Mexico City March 31, 2017



Consolidated Statements of Financial Position

As at December 31, 2016 and 2015

(Amounts in thousands of Mexican pesos)

	Notes	2016	2015
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents	7	Ps. 3,278,323	Ps. 2,971,681
Accounts receivable, net	8	1,176,402	1,252,461
Other accounts receivable		188,025	162,387
Inventories, net	9	805,475	759,756
Prepaid expenses		45,752	93,289
Total -current assets		5,493,977	5,239,574
<i>Non-current assets:</i>			
Property, plant and equipment, net	10	7,099,466	6,505,573
Intangibles and other assets, net		277,668	273,218
Total non-current assets		7,377,134	6,778,791
Total assets		Ps. 12,871,111	Ps. 12,018,365
LIABILITIES AND EQUITY			
LIABILITIES			
<i>Current liabilities</i>			
Accounts payable to suppliers		Ps. 556,098	Ps. 443,744
Other accounts payable and accrued liabilities	12	582,576	408,183
Short-term finance leases	11	11,590	11,054
Taxes payable		582,951	511,150
Income tax on tax consolidation and deconsolidation	19	11,931	18,616
Employee profit sharing		10,757	9,382
Total current liabilities		1,755,903	1,402,129
<i>Long-term liabilities</i>			
Deferred income tax	19	958,794	985,162
Income tax on tax consolidation and deconsolidation and deferred income tax	19	11,999	25,431
Employee benefits	13	10,266	10,320
Long-term finance leases	11	19,168	19,319
Total long-term liabilities		1,000,227	1,040,232
Total liabilities		2,756,130	2,442,361
EQUITY			
Share capital	20	607,480	607,480
Share premium		215,215	215,215
Reserve for share buybacks		150,000	150,000
Retained earnings		5,049,546	5,710,971
Comprehensive income for the year		4,049,470	2,859,822
Equity holders of the parent		10,071,711	9,543,488
Non-controlling interest		43,270	32,516
Total equity		10,114,981	9,576,004
Total liabilities and equity		Ps. 12,871,111	Ps. 12,018,365

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

Consolidated Statements of Income and Other Comprehensive Income



For the Years Ended December 31, 2016 and 2015

(Amounts in thousands of Mexican pesos, except basic and diluted earnings per share, which are expressed in Mexican pesos)

	Notes	2016	2015
Net sales		Ps. 12,587,025	Ps. 11,026,309
Cost of sales	21	6,404,855	6,424,708
Administrative expenses	21	313,552	252,723
Selling expenses	21	300,418	260,003
Other operating expenses/(income), net	21	157,338	73,091
Total operating costs and expenses		7,176,163	7,010,525
Operating income		5,410,862	4,015,784
Interest expense		(12,328)	(6,921)
Interest income		103,423	68,686
Foreign exchange gain/(loss), net		137,760	9,162
Share of loss of joint venture		(6,652)	(9,125)
Income before income tax		5,633,065	4,077,586
Income tax	19	1,582,491	1,218,269
Consolidated net income		4,050,574	2,859,317
Other comprehensive income, net of income tax:			
<i>Items not to be reclassified to profit or loss:</i>			
Gain/(loss) of defined benefit obligation	13	2,607	186
Consolidated comprehensive income		Ps. 4,053,181	Ps. 2,859,503
Consolidated net income attributable to:			
Equity holders of the parent		Ps. 4,046,863	Ps. 2,859,636
Non-controlling interest		3,711	(319)
		Ps. 4,050,574	Ps. 2,859,317
Consolidated comprehensive income attributable to:			
Equity holders of the parent		Ps. 4,049,470	Ps. 2,859,822
Non-controlling interest		3,711	(319)
		Ps. 4,053,181	Ps. 2,859,503
Basic and diluted earnings per ordinary share, equity holders of the parent	26	Ps. 4.60	Ps. 3.25
Weighted average number of outstanding shares (thousands of shares)	20	880,312	880,312

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



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

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2016 and 2015

(Amounts in thousands of Mexican pesos)

	Contributed capital		Earned capital			Total equity holders of the parent	Non-controlling interest	Total equity
	Share capital	Share premium	Reserve for share buybacks	Retained earnings	Components of other comprehensive income			
Balance as at								
January 1, 2015	Ps. 607,480	Ps. 215,215	Ps. 150,000	Ps. 7,511,391	Ps. (39,796)	Ps. 8,444,290	Ps. 32,835	Ps. 8,477,125
Dividends paid	-	-	-	(1,760,624)	-	(1,760,624)	-	(1,760,624)
Consolidated comprehensive income	-	-	-	2,859,636	186	2,859,822	(319)	2,859,503
Balance as at								
December 31, 2015	607,480	215,215	150,000	8,610,403	(39,610)	9,543,488	32,516	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								
December 31, 2016	Ps. 607,480	Ps. 215,215	Ps. 150,000	Ps. 9,136,019	Ps. (37,003)	Ps. 10,071,711	Ps. 43,270	Ps. 10,114,981

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



Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015
(Amounts in thousands of Mexican pesos)

	2016	2015
OPERATING ACTIVITIES		
Consolidated net income	Ps. 4,050,574	Ps. 2,859,317
Adjustments for:		
Foreign exchange loss on cash and cash equivalents	(178,869)	(28,882)
Income tax recognized in the income statement	1,582,491	1,218,269
Depreciation, amortization and impairment reserve	651,094	496,161
Loss/(gain) on the sale of property, plant and equipment	(3,877)	1,425
Gain on sale of other assets	2,902	4,318
Share of loss of joint venture	6,652	9,125
Interest income	(103,423)	(68,686)
Interest expense	3,190	2,953
	6,010,734	4,494,000
Changes in working capital:		
(Increase)/decrease in:		
Accounts receivable	50,421	184,685
Inventories	(45,719)	(12,869)
Prepaid expenses	47,537	(29,690)
Other assets	72,849	(10,693)
Increase/(decrease) in:		
Accounts payable to suppliers	112,354	40,881
Other accounts payable and accrued liabilities	164,551	107,845
Taxes payable	(1,629,210)	(1,170,967)
Employee profit sharing	1,375	937
Retirement benefits	2,713	1,145
Net cash flows from operating activities	4,787,605	3,605,274
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,279,849)	(780,610)
Sale of property, plant and equipment	24,986	9,563
Purchase of other assets	(7,803)	(35,443)
Sale of other assets	13,230	46,370
Interest received	103,423	68,685
Net cash flows used in investing activities	(1,146,013)	(691,435)
FINANCING ACTIVITIES		
Dividends paid	(3,521,247)	(1,760,624)
Capital contribution	7,043	0
Payments of finance leases	385	16,344
Net cash flows used in financing activities	(3,513,819)	(1,744,280)
Net increase in cash and cash equivalents	127,773	1,169,559
Cash and cash equivalents at beginning of year	2,971,681	1,773,240
Foreign exchange gain on cash and cash equivalents	178,869	28,882
Cash and cash equivalents at end of year	Ps. 3,278,323	Ps. 2,971,681

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



Notes to Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts in thousands of Mexican pesos)

1. Description of the Business



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.

The Company is a joint venture of Buzzi Unicem S.p.A. (an Italian company) and Cementos Molins, S.A. (a Spanish company), which in conjunction hold 66.67% equity interest in the Company.

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

2. Basis of Preparation

Changes to International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) and new interpretations that are obligatory as of 2016

New IFRS and amendments issued but not yet effective

The Company has not adopted the following new IFRS and amendments that have been issued but which are not yet effective:

IFRS 9	Financial Instruments ⁽¹⁾
IFRS 15	Revenue from Contracts with Customers ⁽¹⁾
IFRS 16	Leases ⁽²⁾

(1) Effective for annual periods beginning on or after January 1, 2018, with early adoption permitted

(2) Effective for annual periods beginning on or after January 1, 2019, with early adoption permitted



IFRS 9, Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, Financial Instruments, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. Entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss (FVTPL) without applying the other requirements in the standard. The adoption of this standard is mandatory for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is analyzing what effects the adoption of this standard will have on its financial statements, but it does not expect the effects to be material.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was published in May 2014 and establishes a new five-step model that applies to the accounting of revenue from customer contracts. In accordance with IFRS 15 income is recognized at an amount that reflects the consideration that an entity expects to be entitled to receive in exchange for transferring goods or services to a customer.

This new standard will repeal all previous rules regarding recognition of income. Full retroactive or partial retroactive application is required for years beginning on or after January 1, 2018, allowing early application

The Company is analyzing what effects the adoption of this standard will have on its financial statements, but it does not expect the effects to be material.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which contains the definition of a lease and establishes the accounting treatment applicable to the assets and liabilities arising from leases for both the lessor and the lessee. Lessor accounting under IFRS 16 will result in little change compared to lessor accounting under IAS 17, Leases. However, the new standard requires lessees to recognize assets and liabilities for all leases. Adoption of this standard is mandatory for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that the new standard is adopted together with IFRS 15, Revenue from Contracts with Customers.

The Company is analyzing what effects the adoption of this standard will have on its financial statements, but it does not expect the effects to be material.

IFRS Annual improvements

IAS 28	Investments in Associates and Joint Ventures ⁽¹⁾
IFRS 10	Consolidated Financial Statements ⁽²⁾
IAS 7	Disclosure Initiative
IFRS 12	Disclosure of Interests in Other Entities ⁽¹⁾

(1) Effective for annual periods beginning on or after January 1, 2016, with early adoption permitted

(2) Effective for annual periods beginning on or after January 1, 2016 (to be determined), with early adoption permitted



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 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, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised 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.



IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12

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. 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.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

3. 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).

4. Significant Accounting Policies

A. BASIS OF MEASUREMENTS

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 each reporting date, as explained in the accounting policies below.



i. Historical cost

Historical cost is generally based on the fair value of the consideration paid in exchange 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 comprise the financial statements of the Company and its subsidiaries. The Company controls an investee if, and only if, the Company has:

- Power over 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 intra-group balances and transactions have been eliminated on consolidation.



As at December 31, 2016 and 2015, the Company's equity interest in its subsidiaries and associates is as follows:

Entity	2016	2015	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.	100%	100%	Real estate
Cemoc Servicios Especializados, S.A de C.V.	100%	100%	Logistics services
Comercializadora Tezuma, S.A de C.V.	100%	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.	60%	60%	Production of ready-mix concrete
Concretos Moctezuma de Torreón, S.A. de C.V.	55%	55%	Production of ready-mix concrete
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.	100%	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.	100%	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. 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.

D. 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 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.

E. 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.

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially measured at cost.

Property, plant and equipment held for use in the production or supply of goods or services or for administrative purposes are stated in the 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.

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

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 income statement.

G. INTANGIBLE ASSETS

i. Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less any accumulated amortization and accumulated impairment losses. 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 each financial year-end and adjusted prospectively, if appropriate. Intangible assets with indefinite useful lives acquired separately are carried at cost less any accumulated impairment losses. The Company has determined that the residual values of its assets are immaterial.

ii. Derecognition of intangible assets

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



H. 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.

I. NON-CURRENT ASSETS HELD FOR SALE

The Company classifies a non-current asset (or disposal group) as held for sale if its 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. Management 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.

For non-current assets held for sale, at each financial year-end the Company determines whether there is objective evidence that the asset (or disposal group) is impaired.

J. INVERSIÓN EN NEGOCIOS CONJUNTOS

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. 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.

The Company applies the requirements of IAS 39 to determine 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.



K. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term investments with a maturity 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.

L. CURRENT VERSUS NON-CURRENT CLASSIFICATION

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

An asset is current when it is:

- Intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12 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.

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, and 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 subsequently measured at amortized cost using the effective interest rate 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 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. INCOME TAX

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

Current year income tax

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

Deferred income tax

Deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts of assets and liabilities shown in the balance sheet and their values for purposes of calculating the Company's taxable income, applying the appropriate income tax rate for these differences, and when applicable, the carryforward of unused tax losses and certain unused tax credits. Deferred tax assets or liabilities are recognized for all temporary differences, with certain exceptions. The Company recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred tax assets and liabilities are not recognized when the deductible temporary difference arises from the initial recognition of goodwill or an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The Company recognizes a deferred tax liability 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 probably 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 each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 year and deferred taxes

Current year and deferred tax is recognized as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from: (a) 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; or (b) a business combination. For business combinations, the tax effect is included in the recognition of the business combination.

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 the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction 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 recognized at the prevailing exchange rate on the day of the related transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Mexican pesos using the prevailing exchange 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 is 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 23, the Company is party to a number of pending litigations and in the opinion of Company's legal advisors, it has a good chance of winning these cases. As a result of this expectation, the Company has determined that it is not probable, as defined in IFRS, that an outflow or resources embodying economic benefits will be required to settle the obligation, and it has therefore not recognized any provisions for the lawsuits.

B. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the date of the 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 4f, 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**

For trade receivables, the Company uses estimates to determine the allowance for doubtful accounts, for which it 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. The Company performed an analysis of collectability at the balance sheet date.

- **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 publicly available mortality tables for Mexico.

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. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions as they occur.

6. Non-cash transactions

The Company acquired equipment under finance leases in the amount of Ps. 12,340 and Ps. 26,250 in 2016 and 2015, respectively. This non-cash investment activity is not reflected in the consolidated statements of cash flows.

On October 31, 2015, a section of the land available for sale located in Jiutepec, Morelos valued at Ps. 34,846 was sold by the subsidiary Proyecto Terra Moctezuma, S.A. de C.V. to the subsidiary Latinoamericana de Concertos, S.A. de C.V. This non-cash investment transaction was eliminated in the consolidated financial information and is therefore not reflected in the consolidated statements of cash flows. The Company's legal area is currently seeking third-party buyers for the rest of the land.



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. Is integrated as follows:

	2016	2015
Cash and cash in banks	Ps. 1,747,698	Ps. 974,198
Mexican Treasury Certificates (CETES)	648,900	308,100
Certificates of deposit	25,928	21,761
Bank paper Cash and cash in banks	855,797	1,667,622
Total	Ps. 3,278,323	Ps. 2,971,681

8. Accounts Receivables

An analysis of the Company's accounts receivables in Mexican pesos and foreign currency is integrated as follows:

	2016	2015
Accounts receivables	Ps. 1,230,122	Ps. 1,370,583
Allowance for doubtful accounts	(53,720)	(118,122)
	Ps. 1,176,402	Ps. 1,252,461

Accounts receivables are measured at amortized cost.

The average credit term on the Company's sales is 35 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 determination of the allowance for doubtful accounts

- The Company recognizes an estimation for concept of expected credit losses, affecting current year income
- The Company takes into consideration the historic experience of its operation in the Mexican construction industry and applies risk percentages on the value of accounts receivable according to their age.
- The Company determines that for accounts receivable with an age of more than 180 days a recoverability analysis must be performed, using the following elements:
 - Professional judgement taking into account the historic experience of the organization
 - Legal trials status and success expectations
 - Granted guarantees and recoverability expectations
 - In case of a lost lawsuit, the account receivable is reserved in compliance with tax requisites to take the deduction for income tax purposes
- The Company has established that every month the value of the allowance for doubtful accounts must be adjusted considering the items that have met the aging parameters
- The Company has determined that the reasonableness of the allowance for doubtful accounts must be reassessed twice a year, in June and December

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 December 31, 2016 and 2015, none of the accounts receivable of the concrete division are secured. For the cement division, Ps. 47,000 and Ps. 60,000 of the accounts receivable are secured as at December 31, 2016 and 2015, respectively.

As at December 31, 2016 and 2015, the concrete division has approximately 4,253 and 3,960 customers, respectively, and there is therefore no concentration of credit risk in this division. As at December 31, 2016 and 2015, the cement division has approximately 700 and 1,250 customers, respectively; however, 80% of the total accounts receivable of this division are concentrated respectively in 610 and 750 customers as at December 31, 2016 and 2015.

A. AGING OF TRADE RECEIVABLES THAT ARE PAST-DUE BUT NOT IMPAIRED

	2016	2015
1-60 days	Ps. 28,085	Ps. 87,315
61-90 days	12,843	25,487
91-180 days	7,208	35,547
More than 180 days	183,227	301,480
Total	Ps. 231,363	Ps. 449,829

The Company calculates the aging of accounts receivables 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 receivables 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



Balance at beginning of year

Write off of amounts deemed uncollectible during the year

Impairment losses recognized on accounts receivable

Balance at end of year

2016	2015
Ps. 118,122	Ps. 105,240
(81,125)	(9,896)
16,723	22,778
Ps. 53,720	Ps. 118,122

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. Inventories

Inventories integration:

Finished products
Production in process
Raw materials
Spare parts and production materials
Fuel
Allowance for obsolete and slow-moving inventories

Merchandise in transit

Total

2016	2015
Ps. 61,354	Ps. 58,415
147,515	92,511
66,793	58,015
351,783	362,085
67,027	87,824
(632)	(632)
693,840	658,218
111,635	101,538
Ps. 805,475	Ps. 759,756

An analysis of changes in the allowance for obsolete and slow-moving inventories is as follows:



Opening balance

Increase in the allowance

Charges to the allowance

Ending balance

2016	2015
Ps. 632	Ps. 3,899
237	6,529
(237)	(9,796)
Ps. 632	Ps. 632

10. Property, Plant and Equipment, net

The carrying amounts of property, plant and equipment at the beginning and end of 2016 and 2015 are as follows:

	Balance as at December 31, 2015	Additions	Disposals	Transfers	Balance as at December 31, 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 through finance leases	51,217	10,638	(11,019)	(347)	50,489
Computer equipment	65,703	55	0	(22,182)	43,576
Office furniture and equipment	36,595	0	(22)	(2,158)	34,415
Construction in process	852,271	1,184,884	0	(1,651,471)	385,684
Land	786,700	131	0	88,528	875,359
Total	Ps. 12,025,162	Ps. 1,279,850	Ps. (108,397)	Ps. (26,978)	Ps. 13,169,637

	Balance as at December 31, 2015	Depreciation expense	Fully depreciated	Transfers	Balance as at December 31, 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 through finance leases	(24,832)	(10,349)	11,019	0	(24,162)
Computer equipment	(63,316)	(635)	0	20,631	(43,320)
Office furniture and equipment	(26,386)	(1,722)	15	2,419	(25,674)
Total	Ps. (5,519,589)	Ps. (497,308)	Ps. 87,287	Ps. 0	Ps. (5,929,610)
Impairment Loss	0	(140,561)	0	0	(140,561)
Net investment	Ps. 6,505,573	Ps. 641,981	Ps. (21,110)	Ps. (26,978)	Ps. 7,099,466

	Balance as at December 31, 2014	Additions	Disposals	Transfers	Balance as at December 31, 2015
Cost:					
Buildings	Ps. 2,338,000	Ps. 4,161	Ps. (3,600)	Ps. 33,374	Ps. 2,371,935
Machinery and equipment	7,846,306	37,358	(253,171)	204,127	7,834,620
Automotive equipment	18,216	8,655	(1,454)	704	26,121
Equipment acquired under finance leases	29,020	22,629	(280)	(152)	51,217
Computer equipment	84,125	47	(18,469)	0	65,703
Office furniture and equipment	36,665	0	(391)	321	36,595
Construction in process	546,355	654,130	0	(348,214)	852,271
Land	648,091	53,629	0	84,980	786,700
Total	Ps. 11,546,778	Ps. 780,609	Ps. (277,365)	Ps. (24,860)	Ps. 12,025,162



	Balance as at December 31, 2014	Depreciation expense	Fully depreciated	Transfers	Balance as at December 31, 2015
Depreciation and impairment:					
Buildings	Ps. (960,970)	Ps. (104,847)	Ps. 690	Ps. 0	Ps. (1,065,127)
Machinery and equipment	(4,190,367)	(363,128)	243,156	(11,883)	(4,322,222)
Automotive equipment	(28,318)	(1,249)	1,207	10,654	(17,706)
Equipment acquired through finance leases	(16,277)	(8,835)	280	0	(24,832)
Computer equipment	(80,125)	(1,660)	18,469	0	(63,316)
Office furniture and equipment	(26,130)	(1,876)	391	1,229	(26,386)
Total	Ps. (5,302,187)	Ps. (481,595)	Ps. 264,193	Ps. 0	Ps. (5,519,589)
Impairment Loss	(2,184)	0	2,184	0	0
Net investment	Ps. 6,242,407	Ps. 299,014	Ps. (10,988)	Ps. (24,860)	Ps. 6,505,573





The average depreciation rates applied by the Entity, based on useful lives, 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%
Assembly and installation	10.00%
Intangible assets	33.33%

At December 31, 2016, the Company recognized an amount of \$ 140,561 for impairment due to reduction in the book value of properties.

11. Finance Leases

The account payable balances are as follows:

	2016	2015
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. 28,571	Ps. 29,106
Finance lease for vehicles denominated in Mexican pesos with Facileasing S.A. de C.V., bearing average annual interest of 6.71%	2,187	1,267
Total finance leases	Ps. 30,758	Ps. 30,373
Short-term portion of finance leases	11,590	11,054
Long-term portion of finance leases	Ps. 19,168	Ps. 19,319

The long term payables are as follows:

	2016
2018	Ps. 9,548
2019	7,160
2020	2,364
2021	96
Total	Ps. 19,168

12. Other Accounts Payable and Accrued Liabilities

The balances contained in the caption other accounts payable and liabilities are as follows:

	2016	2015
Trade advances	Ps. 415,852	Ps. 248,302
Related party payables (Note 15)	5,357	6,365
Expense provisions	68,966	69,966
Sundry creditors	19,079	28,615
Labor liabilities and bonuses	33,448	26,639
Losses of joint venture	39,874	28,296
Total	Ps. 582,576	Ps. 408,183

13. Employee Benefits

In 2016 and 2015, the Company has a provision that covers its obligation related to the payment of seniority premiums, which consists of a one-time payment equal to 12-days' salary for 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 cost benefits are calculated by an independent actuary using the projected unit credit method.

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

	2016	2015
Discount rate	7.50%	6.50%
Salary increase rate	5.50%	5.50%

The amounts recognized in the income statement for the seniority premium provision in 2016 and 2015 are:

	2016	2015
Current year service cost	Ps. 3,305	Ps. 1,052
Interest cost	658	604
Anticipated settlement	(40)	-
Net periodic benefit cost	Ps. 3,923	Ps. 1,656



The amounts recognized in the other comprehensive income for actuarial gains (losses) on the seniority premium provision for 2016 and 2015 are as follows:

	2016	2015
Actuarial gain/(loss)	Ps. 2,767	Ps. 266
Deferred income tax	(160)	(80)
Defined benefit cost items in other items	Ps. 2,607	Ps. 186

The amount recognized in the statement of financial position in respect of the Company's obligation regarding the seniority premiums for 2016 and 2015 is as follows:

	2016	2015
Present value of defined benefit obligation for seniority premium	Ps. 10,266	Ps. 10,320
Net liability generated by seniority premium	Ps. 10,266	Ps. 10,320

An analysis of changes in the present value of the seniority premium provision in 2016 and 2015 is as follows:

	2016	2015
Opening balance of defined benefit obligation	Ps. 10,320	Ps. 9,441
Current year service cost	3,305	1,052
Interest cost	658	604
Actuarial (gain)/loss	(2,766)	(266)
Early liquidation	(40)	-
Benefits paid	(1,211)	(511)
Ending balance of defined benefit obligation	Ps. 10,266	Ps. 10,320

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.

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 December 31, 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 Ps. 992

2015 Analysis

If the discount rate had been 1% higher and all other variables had remained constant, the Company's equity and consolidated comprehensive income for the years ended December 31, would have increased by Ps. 898.



A decrease of 1% with all other variables held constant would have resulted in a decrease in the Company's equity and consolidated comprehensive income for Ps. 1,123.

This sensitivity analysis may not reflect a real change in the seniority premium, since it is unlikely that changes in assumptions would occur on an isolated basis.

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 statement of financial position.

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

14. Foreign Currency Balances and Transactions

A. The Company's foreign currency position as at December 31, 2016 and 2015 is as follows:

	2016	2015
Thousands of U.S. dollars:		
Monetary assets	US \$ 47,757	US \$ 27,052
Monetary liabilities	(8,134)	(6,650)
Long/(short) position	US \$ 39,623	US \$ 20,402
Thousands of euros		
Monetary assets	€ 23,705	€ 18,703
Monetary liabilities	(1,039)	(2,522)
Long/(short) position	€ 22,666	€ 16,181

B. In the years ended December 31, 2016 and 2015, 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:

	2016	2015
	(In thousands of U.S. dollars)	
Interest income	US \$ 3	US \$ 1
Purchases	(61,391)	(86,671)
	(In thousands of euros)	
Interest income	€ 0	€ 1
Purchases	(23,810)	(13,252)

- C. The peso to currency exchange rates at the date of the consolidated financial statements and at the date the statements were issued were as follows:

		As at December 31,	
		2016	2015
U.S. dollar	Ps.	20.6640	Ps. 17.3398
Euro	Ps.	21.8005	Ps. 18.8484

15. Related Party Balances and Transactions

A. COMMERCIAL TRANSACTIONS

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

		2016	2015
Revenue from services rendered	Ps.	206	Ps. -
Expenses for services received		(31,144)	(19,774)
Purchase of fixed assets		-	(1,683)

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

		2016	2015
Payable			
Buzzi Unicem S.p.A.	Ps.	2,235	Ps. 2,972
Promotora Mediterránea-2, S.A.		1,954	1,884
Cemolins Internacional S.L.		1,168	1,509
Total	Ps.	5,357	Ps. 6,365

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:

		2016	2015
Loan to CYM Infraestructura, S.A.P.I. de C.V. (CYM Joint venture)	Ps.	136,420	Ps. 97,897
Loans to key personnel		7,289	9,455
Total	Ps.	143,709	Ps. 107,352

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. COMPENSATION OF KEY MANAGEMENT PERSONNEL

An analysis of compensation paid to the Company's Directors and other senior executives during the period is as follows:

	2016	2015
Short-term employee benefits	Ps. 66,307	Ps. 46,359
Total	Ps. 66,307	Ps. 46,359

The compensation of the Company's Directors and senior executives is determined by the Executive Committee based on the individual performance of each executive and market trends.



16. Financial Instruments

A. CAPITAL 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 is 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 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.

	2016	2015
Finance leases	Ps. 30,758	Ps. 30,373
Equity	10,114,981	9,576,004
	Ps. 10,145,739	Ps. 9,606,377
Gearing ratio	0.30%	0.32%
Finance leases	Ps. 30,758	Ps. 30,373
Operating cash flows	4,787,605	3,605,274
Gearing ratio	0.64%	0.84%

B. CATEGORIES OF FINANCIAL INSTRUMENTS

	2016	2015
Financial assets		
Cash and cash equivalents	Ps. 3,278,323	Ps. 2,971,681
Trade receivables and other accounts receivable	1,364,007	1,414,428
Financial liabilities		
Accounts payables	Ps. 1,138,674	Ps. 851,927
Short-term finance leases	11,590	11,054
Long-term finance leases	19,168	19,319





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 14.

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 December 31, 2016 and 2015 and for the years then ended would have increased by Ps. 81,878 and Ps. 35,377, respectively. A decrease of 10% under the same circumstances as described above would have respectively decreased equity and income after taxes by the same amounts.

If the euro/Mexican peso 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 December 31, 2016 and 2015 and for the years then ended would have increased by Ps. 49,413 and Ps. 30,499, respectively. A decrease of 10% under the same circumstances as described above would have respectively decreased equity and income after taxes by the same amounts.

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 petcoke, 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 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 11. 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 a counterparty will not meet its contractual 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.

17. 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 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.

The book value and fair value of financial assets and liabilities are as follows:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
<i>Assets measured at fair value:</i>				
Cash and cash equivalents	Ps. 3,278,323	Ps. 3,278,323	Ps. 2,971,681	Ps. 2,971,681
<i>Assets measured at amortized cost:</i>				
Accounts receivable	1,364,007	1,334,684	1,414,428	1,388,026
Financial liabilities				
<i>Liabilities measured at amortized cost:</i>				
Accounts payables	Ps. 1,138,674	Ps. 1,138,674	Ps. 851,927	Ps. 851,927
Current portion of finance leases	11,590	11,590	11,054	11,054
Long-term finance leases	19,168	19,168	19,319	19,319



18. Derivative Financial Instruments

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

In accordance with article 104, section VI Bis, of the Securities Market Act, it may be concluded that as at December 31, 2016, the Company does not have any transactions with derivatives.

19. 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 2016 and 2015 (and in subsequent years). Until 2013, the Company and its subsidiaries determined their income tax on a consolidated basis. Starting on January 1, 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 December 31, 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 December 7, 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 TAXES RECOGNIZED IN THE INCOME STATEMENT ARE:

	2016	2015
Current year income tax	Ps. 1,747,882	Ps. 1,260,681
Annual income tax from prior years	(66,987)	500
Deferred income tax	(98,404)	(42,912)
Total	Ps. 1,582,491	Ps. 1,218,269

B. DEFERRED TAX ASSETS AND LIABILITIES

Income tax – The main items that gave rise to the deferred income tax liability are as follows:

	2016	2015
Assets:		
Property, plant and equipment and intangibles	Ps. 13,467	Ps. -
Customer prepayments	1,673	-
Provisions and reserves	34,078	-
Prepaid expenses	(1,069)	-
Tax losses of subsidiaries	23,727	-
Total Assets	71,876	-



(Liability):

Inventories
Property, plant and equipment and intangibles
Trade advances
Provisions and reserves
Prepaid expenses
Tax losses of subsidiaries

Total Liability

Total Net

2016	2015
Ps. (97,142)	Ps. (101,574)
(1,104,527)	(1,078,622)
135,349	81,685
79,391	51,908
(5,285)	(5,365)
33,420	66,806
Ps. (958,794)	Ps. (985,162)
Ps. (886,918)	Ps. (985,162)

To determine its deferred income tax as at December 31, 2016 and 2015, 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 income tax liability at December 31, 2016 corresponding to the tax consolidation was totally paid in 2016.
- ii. The income tax liability as at December 31, 2016 corresponding to the effects of the tax deconsolidation will be remitted as follows:

Year	Amount
2017	Ps. 11,931
2018	11,931
Total	Ps. 23,862

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

	2016	2015
Statutory income tax rate	30.00%	30.00%
Plus/(less):		
Effects of inflation	(0.85)%	(0.60)%
Non taxable	0.44%	0.00%
Income tax from prior years	(1.19)%	0.00%
Others	(0.31)%	0.48%
Effective income tax rate	28.09%	29.88%

20. Equity



A. CONTRIBUTED CAPITAL

The share capital at December 31, 2016 and 2015 is as follows:

	Shares	Amount
FIXED		
Common registered shares (with no par value)	80,454,608	Ps. 15,582
VARIABLE		
Common registered shares (with no par value)	804,432,688	155,795
Total shares	884,887,296	171,377
Treasury shares	(4,575,500)	-
Total outstanding shares	880,311,796	Ps. 171,377

B. EARNED CAPITAL

- At the Annual General Ordinary Shareholders' Meeting held on April 7, 2016, a dividend was approved for the amount of \$ 1,320,468 applied to the Net Income Tax Account for the years 2013 and 2014 (CUFIN), equivalent to Ps. 1.50 per share.
- At the General Ordinary Shareholders' Meeting held on December 7, 2016, a dividend was approved for the amount of \$ 2,200,779 applied to the Net Fiscal Income Account related to 2014 and 2015 (CUFIN), equivalent to Ps. 2.50 Per share
- At the General Ordinary Annual Shareholders' Meeting held on April 17, 2015, a dividend was approved for the amount of \$ 880,312 applied to the Net Fiscal Income Account for fiscal years prior to 2014 (CUFIN), equivalent to Ps. 1 per action
- At the General Ordinary Shareholders' Meeting held on November 25, 2015, a dividend was approved for the amount of \$ 880,312 applied to the Net Fiscal Income Account for fiscal years prior to 2014 (CUFIN), equivalent to Ps. 1 per share

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 December 31, 2016 and 2015 is Ps. 130,024.

The distribution of stockholders' equity, except for the updated amounts of the contributed capital and retained earnings tax, will cause the tax to be charged to the Entity at the rate in effect at the time of distribution. The tax paid for such distribution may be credited against the income tax for the year that is paid for the dividend tax and for the next two fiscal years, against the tax for the year and the provisional payments thereof.

The balances of the Company's stockholders' equity tax accounts are:

	2016	2015
Consolidated restated contributed capital account (CUCA)	Ps. 2,023,835	Ps. 1,958,044
Consolidated net taxed profits account (CUFIN)	2,427,324	3,128,194
Total	Ps. 4,451,159	Ps. 5,086,238

21. Costs and Expenses based on their Nature

The cost of sales, selling, administration and other expenses (income) of the operation presented in the consolidated statement of income are integrate down as follows:

Cost of sales:

Raw materials, freight, fuel and maintenance
Depreciation and amortization
Other costs

Total

2016	2015
Ps. 4,671,094	Ps. 4,681,709
485,544	471,667
1,248,217	1,271,332
Ps. 6,404,855	Ps. 6,424,708

Selling and administrative expenses:

Wages, benefits and fees
Depreciation and amortization
Other expenses

Total

2016	2015
Ps. 330,877	Ps. 276,205
24,989	24,495
258,104	212,026
Ps. 613,970	Ps. 512,726

Other operating expenses/(income):

Inflation restatement and surcharges on tax difference
Sundry debtors provision
Clearing and adjusting of accounts
Provisions and expenses in fixed assets
Loss on sale of fixed assets and other assets
Insurance recovery
Others

Total

2016	2015
Ps. 1,186	Ps. (1,831)
(264)	30,963
20,876	17,092
140,638	9,771
(975)	5,743
(5,070)	(5,760)
947	17,113
Ps. 157,338	Ps. 73,091



22. 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:

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

2015	Net sales	Total assets	Equity investments	Depreciation and amortization
Cement	Ps. 8,704,153	Ps. 10,535,623	Ps. 598,610	Ps. 429,685
Concrete	2,321,640	1,415,127	161,805	62,721
Corporate	516	67,615	20,195	3,755
Total	Ps. 11,026,309	Ps. 12,018,365	Ps. 780,610	Ps. 496,161

23. Contingencies

- A.** The company has been notified of the determination of a Tax Credit for \$ 544,722 (historical amount) by the Treasury office of the Tlaltizapan municipality for the payment of duties of use Explosives in Municipal jurisdiction. The company estimates the credit is improper and filed an appeal of revocation before the authority that on May 25, 2016 confirmed the challenged assessments of the tax credits. In view of the above, Judgment of Nullity was filed before the Administrative Court of the State of Morelos and the judgment is pending. The company estimates very high possibility of success in these challenges

Subsequent events

On January 30, 2017, once the procedural stages of rigor were exhausted, the Third Chamber of the TJAM issued a decision declaring the nullity plain of the contested decisions.

- B.** The Entity also has outstanding judgments in favor or against as a result of the normal course of its operations. Such judgments involve uncertainties and in some cases, they may be resolved against.

24. 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:

	2016	2015
Average monthly payments	Ps. 3,791	Ps. 3,808
Annual cost	45,497	45,693



B. COMMITMENTS UNDER OPERATING LEASES

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

Year agreed	Amount
2017	Ps. 9,184
2018- 2020	3,451
Total agreed payments	Ps. 12,635

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 2016 and 2015, 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 statement of financial position therefore does not include any liabilities related to these commitments.

25. Joint Ventures

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



Joint venture	Activity	Location of incorporation	Interest and voting rights held by the Company (50%)	
			2016	2015
CYM Infraestructura, S.A.P.I de C.V.	Construction of streets, highways, roads and bridges	Mexico City, Mexico	Ps. -	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. The financial information highlights shown are the amounts included in the Company's financial statements prepared under IFRS:

	2016	2015
Current assets	Ps. 27,464	Ps. 42,676
Non-current assets	Ps. 29,844	Ps. 36,500
Current liabilities	Ps. 153,454	Ps. 154,923
Non-current liabilities	Ps. (26,250)	Ps. (19,155)

The assets and liabilities indicated above include the following:

	2016	2015
Cash and cash equivalents	Ps. 229	Ps. 596
Current financial liabilities (not including accounts payable to suppliers, other accounts payable and provisions)	Ps. 142,065	Ps. 139,636

	2016	2015
Sales	Ps. 70,427	Ps. 331,856
Net loss of the year	Ps. (13,304)	Ps. (18,250)



The net loss indicated above includes the following:

	2016	2015
Depreciation	Ps. 6,035	Ps. 29,459
Interest expense	Ps. 9,058	Ps. 10,831
Income tax (benefit)	Ps. (7,095)	Ps. (4,023)

26. Basic Earnings per Share

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

	2016	2015
Profit for the year attributable to equity holders of the parent	Ps. 4,046,863	Ps. 2,859,636
Weighted average number of outstanding shares (thousands of shares)	880,312	880,312
Basic earnings per ordinary share, equity holders of the parent	Ps. 4.60	Ps. 3.25

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

27. Authorization of the Consolidated Financial Statements

On February 16, 2017, the accompanying financial statements were authorized for by the Company's Board of Directors and Audit Committee, for their issue and subsequent approval by the Board of Directors and shareholders, who have the authority to modify the Company's financial statements in accordance with Mexican Corporations Act. Accordingly, the accompanying financial statements do not include any information on events occurring after that date.



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TYPE OF SHARES

Ordinary

MARKETS

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S.A.B. de C.V.

TICKER SYMBOL

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