75 YEARS

Consolidating our history

2018 ANNUAL REPORT

CORPORACIÓN MOCTEZUMA®

MISSION

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

VISION

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

VALUES

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

The 75th anniversary of Cementos Moctezuma can be summarised in what we are today:

- *3 cement plants with a production capacity of 8.0 million tons.*
- *Efficient operation with the most up-to-date technology, low emission levels and optimum energy consumption.*
- *Our cement is present in 29 of Mexico's 32 states.*
- *IT platforms providing speedy attention to clients, suppliers and stakeholders.*
- *A network of concrete plants in the states with highest economic growth.*
- *Infrastructure which keeps us close to our clients: Distribution Centres, cement hoppers, railway terminals, concrete plants, cement mixing units.*
- *Transparency, ethics, legality and values that regulate our relations with clients, suppliers, workers, authorities and neighbouring communities.*

Contents

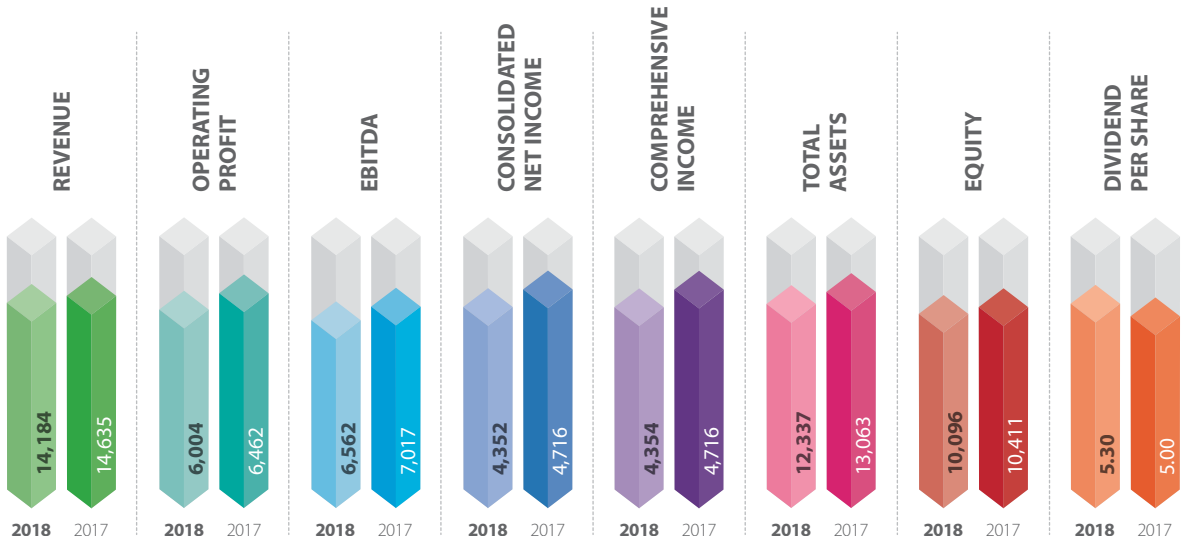
1 *Relevant Figures*
4 *Message to our Shareholders*
7 *Cement Division*
14 *Concrete Division*
20 *Logistics*
27 *Human Resources*
33 *Finance*
36 *Sustainability*
44 *Corporate Governance*
48 *Comments and Analysis of the Results*
52 *Consolidated Financial Statements*

Relevant Figures

Figures in millions of Mexican pesos, except dividends which are expressed in pesos.

	2018	2017	Variation %
Total Assets	12,337	13,063	(5.6%)
Total Liabilites	2,241	2,651	(15.5%)
Equity	10,096	10,411	(3.0%)
Revenue	14,184	14,635	(3.1%)
Gross Profit	6,661	7,138	(6.7%)
Gross Margin	47.0%	48.8%	
Operating Profit	6,004	6,462	(7.1%)
Operating Margin	42.3%	44.2%	
EBITDA *	6,562	7,017	(6.5%)
EBITDA Margin	46.3%	47.9%	
Consolidated Net Income	4,352	4,716	(7.7%)
Consolidated Net Income Margin	30.7%	32.2%	
Consolidated Comprehensive Income	4,354	4,716	(7.7%)
Consolidated Comprehensive Income Margin	30.7%	32.2%	
Dividend per Share	5.30	5.00	6.0%

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



MENTO
CTEZUMA
MORT
MOCT

A Successful History

1943

Our history of success began in 1943 in Jiutepec, Morelos and continues to form part of "A New Mexico in Construction". For more than 75 years we have dedicated ourselves to producing and supplying the construction market with the best cement, above and beyond Mexican official regulations and international quality standards.

MESSAGE TO OUR SHAREHOLDERS

Celebrating our 75th anniversary implies facing great, new challenges and in Corporación Moctezuma we have also overcome those which have been experienced in Mexico and the rest of the world. As has rarely happened, during 2018 we faced a combination of political and economic, national and international factors which created an environment of uncertainty which increased risks and generated volatility in global financial markets.

The renegotiation of the North America Free Trade Agreement, the elections in Mexico and the United States, the tariff war between the United States and China, as well as four increases in interest rates by the Federal Reserve, were some of the factors which affected economic activity. But we were also affected by cost increases for raw materials and energy during the first three quarters of the year, prolonged and ineffective Brexit negotiations, as well as a fall in stock market and raw material prices in the last quarter of the year.

In the case of Mexico, the effects were felt as the fifth year of low federal investment, caution or halting of national and international private investment, along with large variations in the value of the Mexican Peso in relation to the US Dollar, a slowdown in construction activity, as well as cost increases due to higher fuel, electricity and input prices.

In our previous three annual reports we warned of the difficulty in maintaining double digit growth in financial results, either due to the highly unlikely coincidence of favourable conditions which occurred in some periods, or, the complexity of unfavourable emerging circumstances in others. During 2018, our operations were put under pressure by the environment described above.

Faced with the effects of the economic environment and the markets, we committed ourselves to continue improving our processes of client services, maintaining the quality of the products, as well as developing strategies that allow us to maintain our position in the market. This will doubtless ensure our own profitability and the competiveness of our clients.

With strict adherence to our corporate vision, we oriented the efforts and dedication of our employees to overcoming challenges, consolidating progress, keeping up our cash-flow level, maintaining the profitability levels we are known for, rewarding our shareholders and always focussing our attention on the market.

In order to achieve this, we put special attention on renovating and strengthening our cost and spending control programmes as well as optimizing operational processes, both of which allowed us to cope with large increases in the price of electricity, petcoke, cement sacks, diesel and operating costs.

At the same time, we focussed extra attention on consolidating a culture of industrial safety for our own personnel and for providers, as well as strengthening our processes of continuous improvement and our search for excellence. Special mention should be given to the need to align the operations of our transport providers to our safety criteria and policies, fulfilling regulations, caring for the environment and our vision of social responsibility, at the same time as generating flexible conditions to ensure the viability of our transport providers' businesses and the quality of the services to our clients.

We thank our clients, workers, providers, shareholders and other stakeholders for their support during 2018, the year we celebrated the 75th year of Corporación Moctezuma's history.

To complement the above, we made important investments in order to keep our plants in optimal conditions of efficiency, caring for the environment, fulfilling the relevant regulations and improving industrial safety. Another two major investments were made with the aim of providing better services to our clients, the first through an IT platform and the second in railway infrastructure in order to transport cement in an efficient and timely manner.

Our environmental care and attention to stakeholder programmes continued thanks to our approach of support for education, health and job training in communities surrounding our production installations. We have also established closer and improved relations with our suppliers.

For 75 years, the different generations of Mexicans who have worked for the Company are proud of our outstanding achievements. For example, in 1997 we opened the Tepetzingo Plant, but for the 54 years prior to this we operated a single plant in Jiutepec. Now we have three plants, having added the modern Cerritos and Apazapan plants both of which have state of the art technology which permits optimum energy consumption as well as clean and efficient operation. Together with these three plants, we have six production lines and the cement is distributed in 29 of Mexico's 32 states. We also have a network of concrete plants located in the county's zones of highest growth. Over the past 21 years we have achieved higher sales and increased our production capacity thanks to investments made with our own resources. We offer high quality products at competitive prices, maintain a healthy financial situation without acquiring debt and have consistently paid dividends to our shareholders.

We are optimistic about the potential of the infrastructure investment projects which aim to make the country's economic development and growth viable, as well as the new United States-Mexico-Canada Agreement (USMCA) agreed by these three countries in 2018. We are sure that Mexico is a great country that will continue its dynamics of development.

We thank our clients, workers, providers, shareholders and other stakeholders for their support during 2018, the year we celebrate the 75th year of Corporación Moctezuma's history.

Juan Molins Amat
Chairman of the Board

José María Barroso Ramírez
Chief Executive Officer

A history of good
MANAGEMENT

75 years after our history began, we proudly showcase our achievements and declare ourselves ready to take advantage of the opportunities that the coming years will bring.

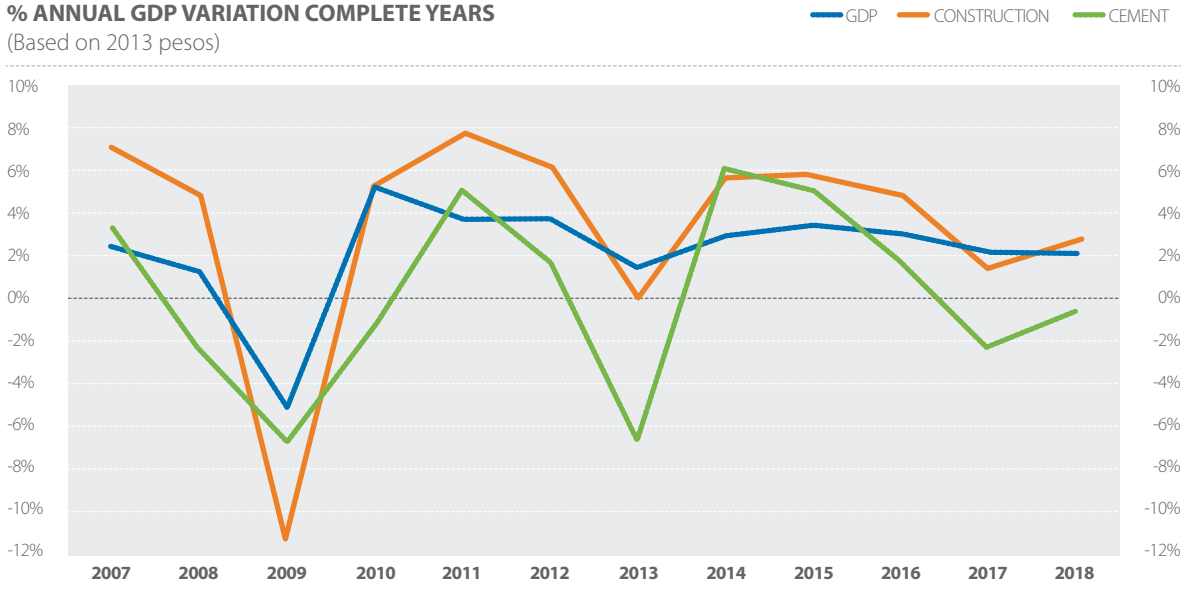
From 1943 to 1997 we operated one cement plant in Jiutepec, Morelos. Today we have three modern cement plant, with 6 production lines and a production capacity of more 8.0 million tons per year. We distribute our cement in 29 of Mexico's 32 states.

CEMENT DIVISION

For the past two years the construction industry in Mexico has not performed as well as the rest of the economy due to important differences in its component parts.

According to Gross Domestic Product figures, overall the Mexican economy grew 4.1% in 2018 with respect to the figure for 2016, while the value of production in the construction sector fell by 0.2%. With respect to its component parts, we can observe that private investment rose 1.7%, civil engineering works identified within public investment fell 15.3% while specialized work increased 13.1%.

% ANNUAL GDP VARIATION COMPLETE YEARS
(Based on 2013 pesos)



Source: *figures published by INEGI*

1. Published by INEGI on 25 February 2019, constant pesos 2013.

We have maintained our profitability level which, for 75 years, has distinguished us in Mexico's cement market.

YEAR	OVERALL GDP	CONSTRUCTION	BUILDING	CIVIL ENG. WORKS	SPECIAL WORKS	CEMENT & CONCRETE
2016	17,788,824	1,297,488	879,466	255,500	162,523	23,748
2017	18,157,002	1,286,427	882,687	229,591	174,149	23,215
2018	18,519,090	1,294,461	894,393	216,307	183,761	23,075

Millions of pesos at 2013 prices

Source: *INEGI*

There is no doubt that over recent years, private investment in housing and commercial building along with individual home construction has been of great help in overcoming the dramatic fall in infrastructure works as it has generated relatively stable cement consumption.

However, in 2018 demand weakened noticeably. In this context, the value of cement and concrete product manufacturing (in terms of GDP) fell 1.6% with respect to December 2016.

In particular, the business environment was affected by the emergence of considerable risks originating from political, economic and financial events in Mexico and the rest of the world during 2018, which caused an increase in the cost of money, greater volatility in Peso-Dollar parity, cost increases, as well as falls in stock market prices. This led investors to slow down investment and adopt an attitude of greater caution in the face of new risks that appeared.

In Cementos Moctezuma we faced the challenge of maintaining our sales levels in a market affected by weak demand and the suspension of authorization of new public works due to changes in government and inflation of construction material prices. We overcame this challenge and maintained the high profit levels that have distinguished us in the Mexican cement industry for 75 years.

We have three modern cement plants.

Apazapan Plant
Veracruz.

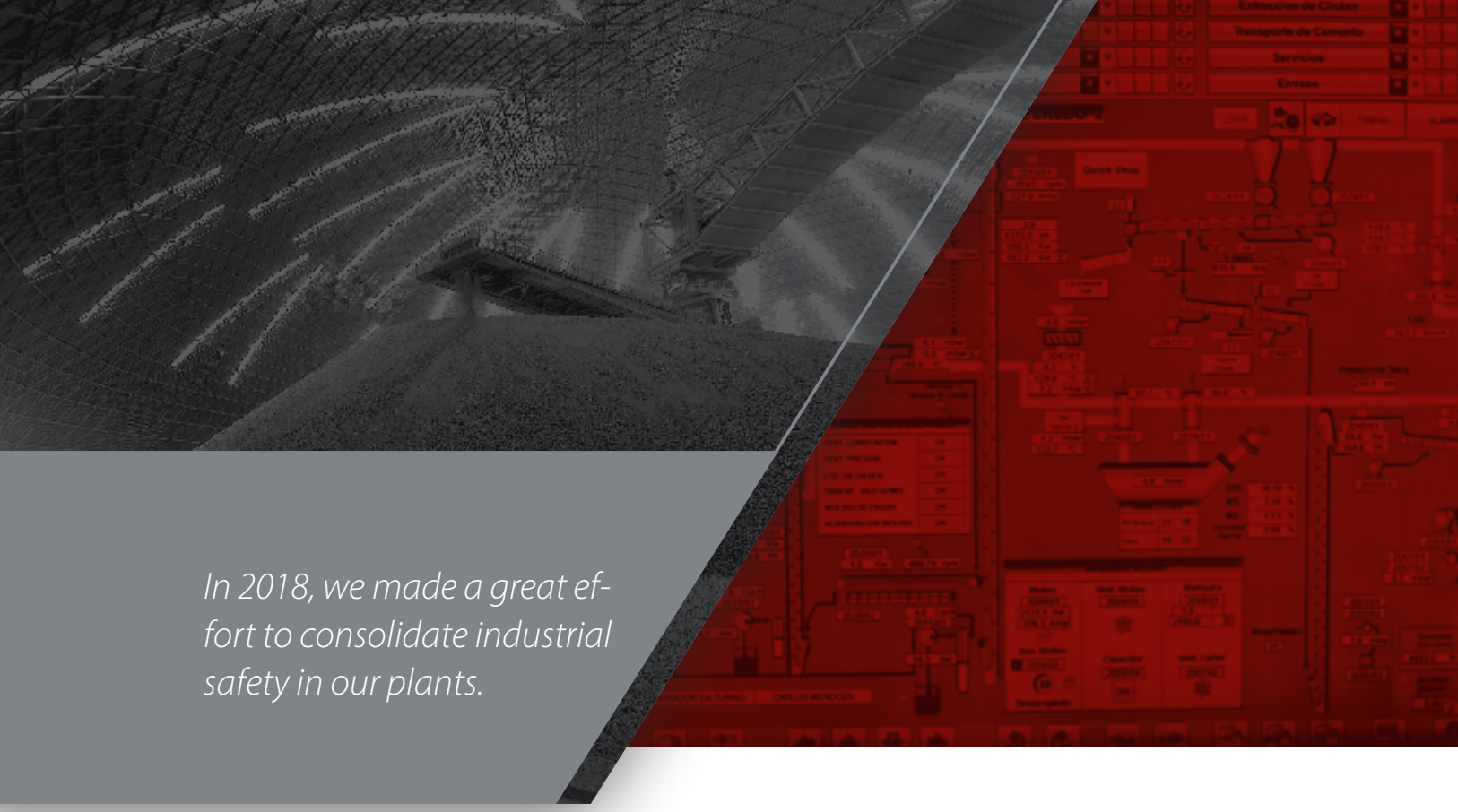
We operate three plants, improving synchronization with market demand, working with more flexibility and making improvements to achieve programmed production costs.

To achieve this we concentrated our efforts on strategic areas, implementing the following activities:

- We made changes within the organization focussing on our network of distributors. We improved client services through personalized attention and the implementation of support mechanisms aimed at strengthening the network to make it more solid and robust.
- We chose the profitability of the business and limited credit risks, rather than moving greater volumes of our products.
- We provided better accessibility and contact through digital channels, making our relations with our clients even closer.
- We supported the search for sustainability in our results.

Concerning production, we kept our three plants operating by improving the synchronization with market demand, making our actions more flexible and making improvements to achieve the programmed production costs.

We have advanced with the STOP Programme and are working to obtain the Industria Segura (Safe Industry) certification.



In 2018, we made a great effort to consolidate industrial safety in our plants.

Like the cement industry in general, we experienced significant increases in costs and spending associated with energy; cases like that of electricity which increased by 40% and petcoke which went up 20% along with price increases for diesel and paper sacks. This panorama led us implement projects aimed at making our manufacturing processes more efficient.

One aspect that we made great efforts with in 2018 was the consolidation of industrial safety in our plants. We made progress with the application of the STOP programme (Seguridad en el Trabajo a través de la Observación Preventiva) and we worked to obtain the Industria Segura (Safe Industry) certification. With the participation of the Company's team of directors, we set up a semester long programme to award our personnel for achieving the objective of Zero Disabling Accidents and, for the first time, we celebrated Safety in the Family Day held in April in our three cement plants, with the aim of raising awareness of the importance of safety in the Company amongst workers' families. In our modern plants we carry out preventive maintenance to keep them in optimum conditions and make their operations even more efficient.

We updated the Distributed Control System in the Tepetzingo Plant in order to remain up to date with new technologies.

We updated the Distributed Control System in the Tepetzingo Plant in order to remain up to date with new technologies.

We adopted regulatory changes in a timely manner and fully comply with them, including those related to the environment.

Our main investments in cement production infrastructure have aimed to continue incorporating state of the art technology to control operations, getting our products to clients and amply fulfilling our environmental responsibilities.

75 years after our history began we proudly showcase our achievements and declare ourselves ready to take advantage of the opportunities that the coming years will bring.

Tepetzingo Plant
Morelos.

Our main cement production infrastructure investments were aimed at incorporating the most advanced operational control technology, getting the product to the client and amply complying with environmental standards.

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

CENTRAL REGION
Estado de México
Ciudad de México
Hidalgo

BAJÍO REGION
Sonora
Sinaloa
Nayarit
Jalisco
Colima
Michoacán
Guanajuato
Querétaro

SOUTHERN REGION
Puebla
Tlaxcala
Guerrero
Morelos
Oaxaca

SOUTH-EAST PENINSULA REGION
Campeche
Chiapas
Quintana Roo
Tabasco
Veracruz
Yucatán

In 2018 Concretos Moctezuma celebrated its 40th anniversary with presence in nine of Mexico's states with the highest levels of economic development. Here we have modern concrete production plants and have implemented our Sales Force platform to improve client service.

CONCRETE DIVISION

Within the economic and political environment described above, in 2018 the premixed concrete market faced its own specific conditions.

The elections to renew the federal government, the government of Mexico City and the heads of the city's municipal authorities were held in July. However, the increasing probability of a new political force replacing the governing parties caused officials to suspend the authorization of construction permits for fear of criticism due to irregularities. This situation continued after the change of government.

Mexico City also suffered a cut in water supply that lasted for approximately a week, due to repairs in the feeder system, affecting 13 municipalities and 480 neighbourhoods and which meant that water use was restricted to basic needs.

These events, one cyclical and the other extraordinary, impacted construction activities and concrete demand in one of our main geographical markets.

During 2018 the Company decided not to participate in the construction of the airport in Texcoco, which was later cancelled. We prioritized medium sized projects because there were few large scale projects up for tender and the high level of competition to obtain them. The sales force concentrated its efforts on the most profitable projects.

We dedicated our human and financial resources to developing the IT platform for attention to clients within the Sales Force system now operating within Cementos Moctezuma. This platform focusses on client services, generation of sales, invoicing as well as follow

We dedicated human and financial resources to developing the IT platform to attend clients using the Sales Force system which now operates in Cementos Moctezuma.

Maintaining **STABILITY** *over the years*

In recent years we have reinforced our presence in the markets with greatest potential for the construction industry.

We work permanently to ensure our employees' safety.

An essential element is cost control – variable and fixed – as well as operating costs, which is why we took advantage of economies of scale from input acquisition onwards. Simultaneously we worked on optimizing the human and material resources available.

up and programming orders. With this system the client can calculate prices, discounts and authorizations. They have greater control over their orders and the Concretos Moctezuma sales staff are able to provide personalized follow up and attention at the same time as handling the process, including the client portfolio. By the end of the year the first modules of the system were in place and operating.

Internally we strengthened the business structure and reviewed the production process to make it more efficient, robust and flexible. An essential element is cost control – fixed and variable – as well as operating costs which is why we take advantage of economies of scale beginning with the supply chain.

Simultaneously we worked to optimize the human and material resources available.

Over recent years we have consolidated and optimized our network of concrete plants, locating them in the markets that offer the best opportunities for growth and profitability of our assets.

Internally we strengthened the business structure and reviewed the production process in order to make it more efficient, stronger and more flexible.

We invested in a new high capacity, mobile concrete plant.

During 2018 we also worked on consolidating the Aggregates business, with the aim of guaranteeing the quality and supply of this important input, given the relevance of this raw material to the quality of our concrete and we continue to invest in this area.

We invested in a new high capacity mobile plant, the design of which is harmonically integrated with the urban landscape. The plant has been equipped with systems to recoup concrete, mortar and water. This plant supplied an important project that demands a large part of its capacity, but the most important thing is that there is an attractive market to keep it at a high level of utilization and profitability.

Reinforcing workplace safety in our plants, as well as in vehicles and on clients' sites has been of great importance. We continued implementing the STOP programme which we began in 2017, through a programme of training, information, communication, talks on safety in plant operations and highway safety for our mixing trucks *en route* to clients' sites, thus making great savings on insurance policies.

Thanks to these actions, we ended 2018 with a stronger and more flexible business structure. We made important progress with our communication and client service IT platform and reinforced operating and financial controls.

We reinforced workplace safety in our plants, vehicles and clients' sites. We continued to implement the STOP programme which we began in 2017.

During 2018 we participated in major projects.

We are well prepared to overcome the challenges of the years to come, whatever their dimensions and demands may present.

CENTRAL-SOUTH REGION

Ciudad de México
Estado de México
Morelos
Puebla
Veracruz

BAJÍO-PACIFIC REGION

Guanajuato
Querétaro
Tamaulipas
Jalisco

We have expanded our rail infrastructure and increased the use of railway, an efficient, lower cost mean of transport. We have made progress in the professionalization of transport providers in order to align their operations with the criteria and values of Corporación Moctezuma

LOGISTICS

We maintained our presence in 29 of Mexico's 32 states, supplying cement from our three plants, covering great distances to ensure sufficient and timely supply for our clients on the national market.

The costs and spending associated with the distribution of our products are a sensitive issue for the cement industry. The fuel price policy of the federal government during 2018 caused the price of diesel to increase constantly during 11 months of the year, which raised the cost of transporting merchandise by road and put operating cost margins under pressure for both cement producers and transport companies.

For Cementos Moctezuma logistics costs are a sensitive issue, especially because of the wide areas we cover and which are established according to geographic location to our plants. This means that on average our products travel long distances to reach their final destination.

Faced with the challenges for the year, the Company restricted itself to the strategy of orienting the business in line with our corporate vision of efficiency and profitability, which led us to make improvements to our processes, outstanding ones of which include:

- Better coordination between the areas of Logistics, Operations and Finance. We developed a joint programme to plan cement production, commercialization and distribution at an optimum cost, using criteria of integrated efficiency. As a result, working capital improved in the area of inventories.
- New criteria applied to the savings programme in costs, spending, efficiency and optimizing resource management. With these guidelines, Logistics maintained a control on costs, creating value for our stakeholders.
- Increase in cement distribution thanks to investments in railway infrastructure, which has allowed

We worked constantly to improve our processes, which in turn permits us more efficient operations.

We maintain our ***PRESENCE*** *in Mexico*

We are present in 29 of Mexico's 32 states where we deliver Cementos Moctezuma from our three plants and cover great distances to maintain a sufficient and timely supply to our clients nationwide.

We focussed on maintaining our leadership in efficency and profitability.

Thanks to greater use of the railway, our cement can cover greater distances at lower cost.

us to compensate for the effects on road transport resulting from increases in diesel costs. We adopted more robust safety systems for hoppers and trucks to avoid vandalism.

- Creation of a Logistics Attention Centre specialized in orienting our internal and external clients, thus allowing us to provide better client services as well as optimizing processes and human resources. During 2018 we attended 89 thousand calls, with a client satisfaction rate of 98%.

Providers

We paid special attention to reviewing and improving the relation with our road transport providers with the aim of aligning their operations with Corporación Moctezuma standards.

Truck operatives are a scarce human resource, which is why we need to take care of them. At the same time it is important to tell providers that we are a responsible company and make it clear that there is a need to align these values as part of our long term relationship with

The Logistics Attention Centre attended more than 89 thousand calls.

We developed mobile platforms to increase the productivity of transportation units, the profitability of the vehicles and the highest possible level of delivery to our clients.

them so as to provide our clients with excellent service. This year we implemented the following measures:

- We changed the operating rules for transport cost tariffs so that the increases in fuel costs did not affect the profitability of the transport providers and also, to avoid renegotiations that would be inefficient for both sides. This measure contributed to greater certainty for the transport providers.
- We continued the diploma course created in 2017 for truck operatives and transport providers covering preventative topics such as health, safety, truck driving, transport regulations, and addictions. This five year programme includes testing of the knowledge and skills acquired and is taken by those who transport both raw materials and our finished products. The project involves the training of 2,500 drivers each year and as a result, damage and accident figures have notably decreased.
- We developed mobile platforms to increase the productivity of the vehicles that provide us with services, monitoring each vehicle's highway route and validating with the suppliers route traceability systems, thus permitting us better follow up of our product deliveries. The APP Cemosa application, which is still in process of implementation, aims to increase the productivity of transport equipment, improve loading times at plants, manage the fleet more efficiently, improve vehicle profitability and delivery service levels for our clients. Now all our operators have this App on their mobile phones and the aim for 2019 is to reach an implementation level of 100%.
- We implemented physical vehicle inspections at our plants so as to maintain a high safety standard of our own assets, benefitting both the service provider and Corporación Moctezuma.

Tepetzingo Plant
Morelos.

- We increased our efforts to comply with the new Transport Ministry permits and regulations applying to the circulation of double trailer freight vehicles. We also updated the connectivity permits required to use different types of highways.

All these measures are aimed at generating and providing the tools needed for the professionalization of the services to transport providers, in order to maintain their profitability and provide them with benefits at an accessible cost.

Our aim is to generate and provide the necessary tools for the professionalization of the transport service providers, maintaining their profitability and capacity to provide excellent service to the client.

A team with solid
EXPERIENCE

The prestige and recognition of Corporación Moctezuma has been built by various generations of professionals who have contributed their enthusiasm, energy and dedication over these first 75 years.

We formed a team of professionals with a high level of technical qualifications, recognized experience and solid abilities to foster an efficient management, with respect for the environment of our cement and concrete plants and production installations, recognized for their modernity and state of the art technology internationally. At the centre of our human capital management is industrial security and training.

HUMAN RESOURCES

The productive, commercial, logistical, financial and administrative operation of Corporación Moctezuma demands a team of professionals with a high level of technical qualifications, recognized experience and solid skills to ensure efficient management. However, it is also important to respect the environment within our installations, both of our offices and our cement and concrete production plants which are recognized internationally for their modernity and state of the art technology.

2018 was a year of changes inside the Company, with the appointment of Mr. José María Barroso as new CEO. Four new directors were also appointed and took over the following important areas: the Department of Finance and Administration, the Legal Affairs Department, the Commercial Department and the Procurement Department.

All of them have long and successful professional backgrounds, some in the Moctezuma family and others in international companies in the same sector. These new leaders add to the experience and solid performance of the directors with most seniority, in order to maintain the business philosophy of Corporación Moctezuma: firm and fired up with new enthusiasm. In the context of a difficult business environment, the Company's personnel have responded to the challenges faced, strengthening their management, improving their control processes and reinforcing their communication links to create and improve synergies.

The strategic focus on the profitability of our operations, the strengthening of a culture of workplace safety, improvements in efficiency as well as cost and spending controls, are the elements that guided the performance of our team.

2018 was a year of changes inside the Company. Four new directors were appointed and took over areas as important as the Department of Finance and Administration, the Legal Affairs Department, the Commercial Department and the Procurement Department, in addition to the appointment of Mr. José María Barroso as new Chief Executive Officer.

Commited employees have written 75 years history.

We continued to develop a culture of workplace safety with specialized programmes and awards for our employees.

We generated synergies that improved the coordination and synchronization between the areas of production, marketing, logistics and finance, which was translated into significant benefits for our corporate performance.

The emphasis on developing a culture of solid and deep-rooted workplace safety was constantly present in all parts of the Company and was backed up with specialized programmes and awards for our employees who have always participated enthusiastically, as well as the commitment of Head Office and all the area department heads.

We periodically measure labour relations and the resulting climate and systematically implement ways to improve it. In 2018 we took the decision to change the frequency of our surveys and to carry them out every two years, beginning with year we are reporting here. In consequence, from 2019 onwards we will establish more far-reaching programmes which will result in a greater and more deeply rooted improvement in the labour environment. For this reason we hired the AON consultancy firm which carried out a labour environment survey, guaranteeing the total confidentiality and anonymity of those who participated in the exercise. On the basis of the results, we will put in place a two-year programme of intervention and improvement of the organizational climate.

We periodically measure labour relations and the resulting climate. We implemented measures to improve the workplace climate.

Corporación Moctezuma's values and principles are contained in the Code of Ethics.

The Universidad Moctezuma project continues to benefit our personnel, supporting the formation of executives and managers, and which serves to take advantage of the opportunities for professional growth and cover the natural handover from one generation to another. Through our university we continue to promote the support required by staff and workers who decide to study an undergraduate or postgraduate degree.

The communication channel ALZA LA VOZ (Speak Out) has been consolidated as a secure means by which workers, suppliers, clients, the community, public investors and authorities have the opportunity to make proposals, suggestions or even to denounce occasional violations of their rights. ALZA LA VOZ allows the Company to objectively deal with all types of complaints and suggestions, with the guarantee that a managing body, entirely independent from the Company management, receives, filters, processes and follows up on all the queries presented, until the process ends.

The values and principles of Corporación Moctezuma are contained in the Code of Ethics, the main point of reference used to orient our personal and professional conduct, as well as for the appropriate use of the ALZA LA VOZ channel. During 2018 there were no major controversies related to the respect for human rights which are protected by law and which our Code of Ethics promotes.

The communication channel ALZA LA VOZ (Speak Out) has been consolidated as a secure means by which workers, suppliers, clients, the community, public investors and authorities have the opportunity to make proposals, suggestions or even to denounce occasional violations of their rights.

Teamwork is an essential element in Corporación Moctezuma.

Communication, coordination and commitment was extended to our suppliers, especially transport providers, with whom we aligned values, criteria and policies on operational aspects , workplace safety, compliance with regulations, care for the environment and social responsibility.

We continue our institutional programmes which support the communities that surround us, putting special emphasis on aspects related to education, work training and improving community health. We have also intensified our participation in different organizations representing our industry.

The prestige and recognition of Corporación Moctezuma has been built by various generations of professionals who have contributed enthusiasm, energy and dedication over 75 years. This has allowed us to overcome the challenges derived from political, social, economic and technological changes which have completely transformed the face of the world.

Those of us who make up the Moctezuma family at present, recognize those who came before us and assume the responsibility and commitment to give the best of ourselves every day, with the aim of preserving the achievements obtained and posing new aims which correspond to our present and future.

Consistent and with a ***RESPONSIBLE*** *attitude*

Thanks to the measures adopted during the year and the history of success behind us, we declare ourselves ready to confront the challenges to come and to take advantage of the business opportunities that will doubtless present themselves in the future.

The financial position of Corporación Moctezuma has remained solid, healthy and strong. Over the whole year we kept intact the financial qualities that have made us outstanding in the industry for so long.

FINANCE

In the three years prior 2018 we achieved double digit growth in percentage terms in sales, cash flows and profits, all of which was favoured by the growth of the Mexican economy and the structural reforms passed, as well as increasing national and foreign investments which contributed to a firm and sustained development of Mexico's construction industry, especially in the private sector while public investment decreased considerably.

The investments we made to increase our cement production capacity with a second line in the Apazapan Plant, as well as our focus on improved efficiency in operations and strict control on cost and spending also helped to achieve the strong results of the three previous years.

Consistent with our responsible attitude, we pointed out in an opportune manner that the simultaneous presence of so many positive elements in the environment would not easily repeat itself and we prepared ourselves to cope with the slowdown that would eventually occur.

2018 was this period of change as a number of elements coincided which were quite unfavourable to the economy and the construction industry due to the political uncertainty which permeated the economic environment and international trade and had repercussions both in Mexico and the rest of the world. The constant increases in raw material prices increased the costs of production inputs and put intense pressure on profit margins, in a context of reduced market demand.

Investments to increase our production capacity, as well as focussing on greater operational efficiency and a strict control on spending helped to improve our results over the three previous years.

We invested in a new concrete plant equipped with the most advanced technology and designed to reduce emissions.

Despite these obstacles, the financial position of Corporación Moctezuma remained solid, healthy and strong at the end of 2018. During the year we kept intact the financial qualities that have made us outstanding for a long time in the construction materials industry:

- No financial debt
- Strong operating cash flows
- High profitability
- Payment of dividends that generate value for shareholders and optimize our capital structure.

Maintaining the generation of cash flows and profitability has not been an easy task this year. It is enough to remember that during the year electricity prices for industrial consumption increased between 10% and 13% in the months of July and August, while internationally, the price of petcoke and the cost of paper sacks for packing cement also increased considerably during 2018. These increases put pressure on our production costs and operational spending.

To counteract the increases we reviewed and updated our control programmes with the intention of reducing fixed and variable costs. We developed initiatives to optimize processes and synchronize them within an overall vision which would permit us, for example, to improve the coordination of cement production with demand, with orders and the programming shipments. By doing this, investment in inventories was lowered and working capital improved.

We centralized our activities in order to maintain the profitability that characterizes us rather than displacing greater volumes, which also allowed us to maintain the cash flow practically unchanged.

Investments

After the increase in production capacity of the Apazapan Plant which began operating in 2017, the resources for capital investments have been concentrated on optimizing processes, maintenance, reducing the environmental footprint as well as improving workplace safety. At the same time, we are investing in adapting the packing areas for 25 kg cement sacks to the new standard that will come into force from 2023 onwards, thus allowing us comply fully with the new regulations.

Apazapan Plant
Veracruz.

Another investment was made in a new high capacity mobile plant, the design of which blends harmonically with the urban landscape and has been equipped with systems to recoup concrete, mortar and water.

We have also continued to invest in improving client services. The Sales Force attention platform is an important tool now being used in the Cement Division and in 2018 the development of an equivalent system started in Concretos Moctezuma. This will strengthen relations with clients, improve our service, response time as well as the management of invoicing.

With respect to Logistics, we invested in improving our infrastructure so as to transport cement by railway. In addition, we generated platforms for communication, planning, supervision and monitoring of highway vehicles that distribute cement to our clients, thus reducing costs, losses and spending.

Together, the amounts invested are almost insignificant when compared to the resources needed for the growth of installed capacity.

Dividends

The stockholders meeting of Corporación Moctezuma authorized total cash dividend payments of $5.30 per share, which were made in 3 payments in the months of April, June and December 2018. It is important to point out that even in an adverse environment, the amount paid in 2018 was, for the moment, the highest payment in our history. The Company has consistently made payments to its shareholders depending on the investment programmes in new production capacity which are funded totally with resources generated by operations. As there are no new projects aimed at increasing installed capacity, the cash flow generated in 2018 has allowed us to reward shareholders with a sum higher than that of 2017.

Due to the measures adopted during the year and the history of success that endorses us, we can say that we are ready to face the challenges that occur, as well as to take advantage of the business opportunities that will doubtless present themselves in the future.

Since their construction, we have been committed to operating production plants with state of the art technology that care for the environment and comply with current regulations and we constantly invest in keeping them up to date. We carry out social programmes that support education, health and work training in the communities surrounding our installations. We have developed even closer and better relations with our providers.

ENVIRONMENTAL SUSTAINABILITY

ENVIRONMENTAL SUSTAINABILITY

In 2018 we invested in the maintenance of our three cement plants, thus ensuring that they operate in optimal conditions, significantly improving our production processes and of course, improving our environmental control equipment.

As part of these cement production processes, at the end of 2017 we replaced the electro-filter in Kiln 2 of the Second Production Line at the Tepetzingo Plant with a bag filter, which does not use water for gas conditioning, but increases the collection of suspended solid particles. The rewards for this improvement were reaped in 2018. At the same time, in order to improve suspended particle collection, we changed the bags in the principal collector of the calcination line of Kiln 1 in the Apazapan Plant and changed the bags in the principal collector of the Cement Mill 4 at the Cerritos Plant. These actions ensure our compliance with Mexico's Official Standards.

Optimizing production processes contributed significantly to a reduction in fuel consumption and gas emissions, and allows us to reduce calcination parameters, with the aim of lowering heat consumption and NO_x emissions. In addition, we have also implemented a method to improve clinker reactivy, directly reducing the proportion used in cement production thus lowering CO_2 emissions for every ton of cement produced.

With the change of calcination technology on Line 2 at the Tepetzingo Plant, we have reduced water consumption, thus complimenting the operation of the treatment plants, the water from which is used to irrigate green areas and avoiding the use of well water.

We invested in the maintenance of our plants and installations to keep them operating in optimum production conditions, making the processes more efficient and of course, improving the environmental control equipment.

COMMITMENT
to our surroundings

We operate production plants with state of the art technology that protect the environment and comply with current regulations.
We carry out social programmes that support education, health and work training in the communities surrounding our plants.

We worked to reduce emissions on a number fronts, not only in our production processes.

The measures taken to reduce emissions are not limited to our production processes, as they also include logistics. A clear example of this is an increase in the use of rail transport for cement distribution which reduces fuel consumption in conventional highway transport. Another measure was to increase the efficiency of cement transportation by road through the implementation of a platform that includes traceability systems along our transport providers' routes, thus allowing us to improve planning and reduce fuel consumption.

Concretos Moctezuma invested in order to maintain our concrete plants in an optimum state, so now they operate with high levels of production, flexibility and efficiency, minimizing environmental impact. This is important considering that some of them are located in urban centres. Greater efficiency is reflected in our installations which are clean, well-organized and in harmony with the environment.

During 2018 we acquired 20 new mixing units and carried out preventative maintenance on our fleet of vehicles. We also have a programme to renew the oldest mixing units in order to ensure cleaner and safer operations. These measures contributed to an 18% reduction in CO_2 emissions.

We continue to increase investments in the safe storage of additives and avoiding spills and dispersion caused by natural factors such as wind.

We set up the Coordinación de Cumplimiento Normativo de Concretos Moctezuma (Legal Compliance Coordination), a multidisciplinary team working with the Safety and Environmental supervisors to keep our environmental permits up-to-date, thus permitting responsible operations, without leaving aside the supervision of compliance with environmental and safety standards, using integrated criteria.

In the three cement plants we consolidated the STOP system.

In 2018, the Vallejo, Eulalia Guzmán and Central Plants were awarded with the Green Seal Certification. This authentication, issued by the Environment Ministry (SEDEMA), demonstrates our discipline in complying with environmental protection regulations.

Concretos Moctezuma has reduced levels of water consumption by 21% compared to the previous year and electrical energy by 3%.

SOCIAL RESPONSIBILITY

Workers

One of the main strategic guidelines was the focus on industrial safety, which formed the basis for all operations carried out. We carried out important and intensive campaigns in all our cement and concrete plants and obtained an excellent response from our collaborators and suppliers.

In the three cement plants we consolidated the STOP programme, covering 100% of the personnel involved in safety observations. This programme provides a formal and systematic scheme for the identification and immediate correction of unsafe actions as well as promoting greater contact between leaders and their collaborators in the field. We are in the process of obtaining the Industria Segura (Safe Industry) certification for all the cement plants and we continue to implement various programmes to strengthen our safety system the aim of which is Zero Accidents for both our own personnel and the providers who have access to our operating centres. This programme contemplates the investigation and solution of each accident by a team made up of the Technical Director, the plant manager and the Corporate Safety Promotor who issue the corrective measures required.

To reinforce our safety culture a twice yearly scheme of awards was implemented for Zero Disabling Accidents, and these are presented by the CEO and a group of corporate directors. In addition, in April 2018 we celebrated Family Safety Day for the first time in all our plants.

Tepetzingo Plant
Morelos.

We continued our institutional programmes to support the communities around us, putting emphasis on education and improving community health.

Corporación Moctezuma began implementing the STOP programme in the concrete plants with training sessions, talks, reports and a scheme of constant communication that covers operations in all our plants, transport and concrete delivery which has resulted in significantly fewer accidents. Accidents in the mixing units fell by 20% thus generating savings in insurance premiums. We continue to provide training and opportunities for professional development for our workers and employees, as well as for a large group of our providers' workers.

Throughout the year we provided 42,742 hours of training for Company personnel as well as opportunities within the Corporación Moctezuma University framework; 3 of our employees finished master'se degree studies and 10 began postgraduate programmes.

Community

In 2018 we continued the institutional programmes to support the communities that surround us, emphasising education and improving community health. We gave scholarships to 266 students from communities near our

We provided 42,742 hours of training for the Moctezuma family.

We celebrated World Environment Day at the three cement plants with the participation of pupils from nearby schools.

main production sites and distributed 7,450 packages of school supplies in the same communities. We kept up initiatives that help to improve and train the local labour force through education programmes. We held the traditional Health Fairs which aim to contribute to improving community health in the areas near our main production sites and at which we attended 968 people while Concretos Moctezuma distributed 2,000 packages of school supplies.

We held two Open Doors days, one at Tepetzingo and the other at Apazapan to which we invited members of neighbouring communities, authorities, providers and Company personnel. This year about 4,000 people came to each event.

We celebrated World Environment Day in the three cement plants, with the participation of pupils from local schools and environmental authorities.

Providers and Clients

What marked 2018 out was a much closer relationship with all our providers, especially transport providers (companies and operatives), with whom we worked on issues such as safety at work, highway safety, responsibility towards the environment and society.

Based on Corporación Moctezuma's values and ethical principles, we worked together to align our objectives and strengthen our commercial synergy. In addition, we promoted and supervised their compliance with standards and that their vehicles were operating in the best conditions possible. Together we developed IT tools for the care of vehicles and cargo loads along their distribution routes.

We maintain our installations in optimum conditions.

In parallel, we dedicated effort and resources to maintaining the close relationship with our clients and to providing them excellent service by means of IT platforms as well as developing additional rail and highway transport infrastructure.

With the outstanding performance of our own team and the support of providers and clients, we jointly cared for our business environment and stakeholders, thus ensuring long term continuity.

We worked together to align our objectives and strengthen our commercial synergy. In addition, we promoted and supervised their compliance with standards and that vehicles were operating in the best conditions possible.

CORPORATE GOVERNANCE

During the year we achieved a higher level of Internal Control through the separation of functions and strengthening corporate policies. By means of coordination between Internal Audit and the operational areas of the Company, the necessary procedures and policies were generated and updated in order to give certainty to the functions that permit us to manufacture high quality products and to deliver them to our clients in a timely and efficient manner, thus optimizing our cost structure.

Institutionalizing tasks is an objective and a route that is followed permanently; it demands commitment on the part of the upper management. In this sense, the procedures and policies generated are drawn up with the participation of those directly responsible and validated by the CEO as well as the directors of Internal Auditing, Finance and Administration in order to ensure that they comply with corporate objectives and strategy.

We made progress towards updating the main risk factors that can impact on Corporación Moctezuma's operations, assets and markets, which is why we dedicated human resources to this end and strengthened controls to ensure their dissemination, anticipation and attention.

Aligning the operations of providers with the values, principles, policies and procedures of the Company required an analysis of the processes, the implementation of controls and a major effort of dissemination to achieve the necessary commitment.

Internal Auditing is involved in most of the activities carried out in the Company, in all areas and at all levels. We have a 360° approach which facilitates the formalization of new relations and later changes, taking into account the effects on different functions.

The support and commitment of the Board of Directors and the CEO have been vital for the move toward strengthening Internal Control, an essential element in the optimization of processes, reduction of costs and spending, sustaining the level of profitability and the creation of value for our stakeholders.

The institutionalization and adoption of corporate best practice generates its own business dynamics and culture, causing the operational areas to demand, with increasing frequency, support to improve procedures, establish and update controls and avoid non-transparent or ambiguous dealings.

Corporación Moctezuma has grown a lot, fast and will continue to do so. We invested resources, hard work and attention focussed on increasing production, attending new clients and opening up routes to reach new markets. Now, we also deal with the control and supervision of operations; we update the risk factors that threaten us, we evaluate them and anticipate the best way to deal with them when they occur; we transmit our values and principles to providers so that they adopt the same degree of commitment to standards compliance, human capital development, care for the environment, social responsibility and professionalization.

Corporación Moctezuma has grown a lot, fast and will continue to do so. We invested resources, hard work and attention to increasing production, attending new clients and opening up routes to reach new markets.

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

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

We made progress towards updating the main risk factors that can impact on Corporación Moctezuma's operations, assets and markets.

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

As of December 31, 2018

Apazapan Plant
Veracruz.

Comments and Analysis
OF THE RESULTS

Figures expressed in millions of Mexican pesos, except those for dividend payments which are expressed in Mexican pesos..

In 2018 business activity in Mexico experienced many events, situations and conditions that significantly affected operations and financial results.

In the international environment, the United States government fixed harsh negotiating positions, demanding from its main trading partners what, from their point of view, would be fairer terms. President Donald Trump's administration imposed tariffs on products imported from Canada, Mexico, Europe and especially, from China, in order to force a renegotiation of improved commercial terms which brought into question the economic and financial ground rules that had been considered solid, thus surprising and worrying investors, financial markets and their economies.

In parallel, the prices of raw materials continued to rise during the first nine months of the year, causing an increase in production costs and a reduction of margins. At the same time, the United States central bank raised its reference interest rate consistently making it seem there was an upward trend which pushed investors into massive share sales in the world's main stock exchanges and to adjust their portfolios during the last quarter.

In Mexico, the first semester was characterized by an intense electoral campaign, in which the movement of a left wing opposition candidate gradually took the lead, with a fight against corruption as his main objective. The forced renegotiation of NAFTA which resulted in the new USMCA deal slowed the flow of direct foreign investment to Mexico over the period over which there was still no final agreement.

In the face of an imminent political transition, the Federal Government and a number of state governments suspended the granting of construction permits, thus slowing down this important sector of the economy, particularly during the second semester of 2018. In addition, price increases affecting producers caused inflation of 10.3% for the construction sector, when the overall national price index for producers went up 6.1%.

The Bank of Mexico reacted to the interest rate increase in the United States by raising its own reference interest rate by the same number of base points as the Federal Reserve.

Owing to these conditions, the construction industry in Mexico underwent a deterioration in business and investment conditions, lower demand, an increase in construction costs and higher finance costs, which in turn lowered demand for cement and concrete.

In this unpromising scenario, the financial results of Corporación Moctezuma are evidence of the strategy used during 2018: consolidate the progress achieved in previous years, strengthen business ties with clients and providers, keep the cash flow level unchanged, maintain profitability levels and pay dividends to our shareholders.

Sales

In 2018, Corporación Moctezuma's income was $14,184, which represented a decrease of 3.1% with respect to the income of 2017. This was a result of weak demand which slowed down the construction sector, particularly public infrastructure works, which was partially compensated for the private sector construction and individual home building.

The financial results of Corporación Moctezuma are evidence of the strategy used during 2018: consolidate the progress achieved in previous years, strengthen business ties with clients and providers, keep the cash flow level unchanged, maintain profitability levels and pay dividends to our shareholders.

Gross Profit

The large increases in input prices such as petcoke, electrical energy and cement sacks, made it hard to adjust production costs in the proportion of the income during the year, so sales cost increased 0.4% this year. The Company's team of employees carried out important programmes and made an extra effort to improve efficiency and reduce the volume of inputs and associated costs.

For this reason, our gross profit was $6,661 in 2018, a reduction of 6.7% with respect to that of $7,138 previous year. The gross margin in 2018 was 47.0%, lower than the 48.8% obtained in 2017.

Operating Profit

Another important area for management was the reduction and orientation of operational spending. Administrative spending was reduced by 3.6% during the year, while sales costs grew to a rate of 8.8%, due to which we dedicated more resources to promoting and publicizing the Moctezuma brand in order to maintain our presence in a competitive market.

Considering the above, the operating profit in 2018 was $6,004, which when compared to the figure of $6,462 in 2017 represented a decrease of 7.1%. The operating margin fell from 44.2% in 2017 to 42.3% in 2018.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the year 2018 were $6,562, a reduction of 6.5% in relation to the figure of $7,017 achieved in 2017. This lower figure was a consequence of the factors mentioned above. The EBITDA margin fell from 47.9% in 2017 to 46.3% in 2018.

Despite the fall in the Company's margins, they continued to be amongst the highest in Mexico's cement industry and higher than many other issuers.

Interest earned, interest paid and currency fluctuations

Both interest paid and exchange fluctuations registered slight differences in 2018 with respect to the previous year, which is why they had very little effect on the year's profits. This was not the case of interest earned, which went up 76.5%, an increase of $64 for the year, due to a rise in interest rates during the period in question.

Consolidated Net Income and Consolidated Comprehensive Income

Income tax for 2018 was $1,764, a decrease of 2.2%, lower than the reduction of sales and operating profits, which is why consolidated net income fell by 7.7% from $4,716 in 2017 to $4,352 in 2018. The consolidated net income margin for the year we are reporting here was 30.7%, lower than the margin of 32.2% obtained the previous year.

Consolidated comprehensive income reached a figure of $4,354 in 2018, a decrease of 7.7% with respect to the previous year. The consolidated comprehensive margin was 30.7% in 2018 compared to 32.2% in 2017.

Dividends

In 2018, two shareholders' meetings approved cash dividend payments for $3.50 per share in the form of two pay-

In 2018, we paid dividends of $5.30 pesos per share. This is the highest payment in the history of Corporación Moctezuma.

ments of $2.00 and $1.50 at the first meeting and a single payment of $1.80 at the second meeting. Thus, Corporación Moctezuma's shareholders received a total payment of $5.30 per share. The sum of payments to shareholders was the highest annual dividend in the Company's history, measured in Mexican pesos.

While the amount paid to shareholders was considerable, the Company maintained a solid financial position in which cash and equivalents represent 22.9% of total consolidated assets and on balance has practically no financial liabilities.

The challenges for 2018 were many and varied. In order to overcome them Corporación Moctezuma's team of employees and management applied their talent, experience and creativity to put in place measures which controlled the effects of input prices felt everywhere and to achieve operating improvements reflected in lower costs, spending as well as optimizing the use of working capital, the benefits of which can be appreciated in the results we are now presenting to our shareholders.

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

Report of Independent Auditors and Consolidated Financial Statements 2018 and 2017

Contents

Report of Independent Auditor	**52**
Consolidated Statements of Financial Position	**56**
Consolidated Statements of Income and Other Comprehensive Income	**57**
Consolidated Statements of Changes in Equity	**58**
Consolidated Statements of Cash Flows	**59**
Notes to Consolidated Financial Statements	**60**

Tepetzingo Plant
Morelos.

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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 31 December 2018, and the consolidated statement of income and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Corporación Moctezuma, S.A.B. de C.V. and subsidiaries as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards

Basis for audit opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *"Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code")*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Assessment of general information technology controls

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

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

Other information

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

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

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

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

Responsibilities of Management and of those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

C.P.A. Fernando Ruiz

Mexico City
February 21, 2019

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

Consolidated Statements of Financial Position

As at 31 December 2018 and 2017
(Amounts in thousands of Mexican pesos)

	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	7	Ps. 2,821,661	Ps. 3,366,585
Accounts receivable, net	8	1,080,333	1,127,572
Other accounts receivable	9	115,560	162,897
Inventories, net	10	1,045,151	913,894
Prepayments		70,722	64,848
Total current assets		**5,133,427**	**5,635,796**
Non-current assets			
Equity investments	26	12,837	32,217
Property, plant and equipment, net	11	6,852,719	7,067,731
Deferred income tax asset	20b	145,159	130,111
Intangibles and other assets, net		192,971	196,727
Total non-current assets		**7,203,686**	**7,426,786**
Total assets		**Ps. 12,337,113**	**Ps. 13,062,582**
Liabilities and equity			
Liabilities			
Current liabilities			
Accounts payable to suppliers		Ps. 463,839	Ps. 672,461
Other accounts payable and accrued liabilities	13	669,592	599,058
Short-term finance leases	12	11,063	12,232
Taxes payable		258,620	443,235
Income tax on tax consolidation and Deconsolidation		-	11,931
Employee profit sharing		10,812	9,832
Total current liabilities		**1,413,926**	**1,748,749**
Non-current liabilities			
Deferred income tax liability	20b	802,279	875,884
Income tax on tax consolidation and deconsolidation and deferred income tax		68	68
Employee benefits	14	9,934	10,861
Long-term finance leases	12	14,510	15,649
Total non-current liabilities		**826,791**	**902,462**
Total liabilities		**Ps. 2,240,717**	**Ps. 2,651,211**
Equity			
Share capital		Ps. 607,480	Ps. 607,480
Share premium		215,215	215,215
Reserve for share buybacks		150,000	150,000
Retained earnings		4,750,312	4,697,504
Comprehensive income for the year		4,351,677	4,718,460
Equity holders of the parent		10,074,684	10,388,659
Non-controlling interest		21,712	22,712
Total equity		**Ps. 10,096,396**	**Ps. 10,411,371**
Total liabilities and equity		**Ps. 12,337,113**	**Ps. 13,062,582**

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

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

Consolidated Statements of Income and Other Comprehensive Income

For the Years Ended December 31, 2018 and 2017
(Amounts in thousands of Mexican pesos, except basic and diluted earnings per share, which are expressed in Mexican pesos)

	Notes	2018	2017
Net sales		Ps. 14,184,301	Ps. 14,634,645
Cost of sales	22a	7,523,318	7,496,211
Administrative expenses	22b	282,206	292,598
Selling expenses	22b	367,662	338,076
Other operating expenses, net	22c	6,626	46,217
Total operating costs and expenses		8,179,812	8,173,102
Operating income		**6,004,489**	**6,461,543**
Interest expense		(18,098)	(17,811)
Interest income		148,067	83,882
Foreign exchange (loss)/gain, net		(28,443)	(25,088)
Share of profit/(loss) of joint venture		10,620	17,165
Income before income tax		**6,116,635**	**6,519,691**
Income tax	20a	1,764,301	1,803,439
Consolidated net income		**4,352,334**	**4,716,252**
Other comprehensive income, net of income tax:			
Items not to be reclassified to profit or loss			
(Loss)/gain of defined benefit obligation	14	1,608	(76)
Consolidated comprehensive income		**Ps. 4,353,942**	**Ps. 4,716,176**
Consolidated net income attributable to:			
Equity holders of the parent		Ps. 4,350,069	Ps. 4,718,536
Non-controlling interest		2,265	(2,284)
		Ps. 4,352,334	**Ps. 4,716,252**
Consolidated comprehensive income attributable to:			
Equity holders of the parent		Ps. 4,351,677	Ps. 4,718,460
Non-controlling interest		2,265	(2,284)
		Ps. 4,353,942	**Ps. 4,716,176**
Basic and diluted earnings per ordinary share, equity holders of the parent	27	Ps. 4.94	Ps. 5.36
Weighted average number of outstanding shares (thousands of shares)	21	880,312	880,312

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

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

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2018 and 2017
(Amounts in thousands of Mexican pesos)

	Contributed capital		Earned capital		Components of other	Total equity		
	Share capital	Share premium	Reserve for share buybacks	Retained earnings	comprehensive (loss)/income	holders of the parent	Non-controlling interest	Total equity
Balance as at 1 January 2017	**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**
Capital contribution	-	-	-	47	-	47	(18,274)	(18,227)
Dividends paid	-	-	-	(4,401,559)	-	(4,401,559)	-	(4,401,559)
Consolidated comprehensive income	-	-	-	4,718,536	(76)	4,718,460	(2,284)	4,716,176
Balance as at 31 December 2017	**607,480**	**215,215**	**150,000**	**9,453,043**	**(37,079)**	**10,388,659**	**22,712**	**10,411,371**
Capital contribution/(reduction)	-	-	-	-	-	-	(3,265)	(3,265)
Dividends paid	-	-	-	(4,665,652)	-	(4,665,652)	-	(4,665,652)
Consolidated comprehensive income	-	-	-	4,350,069	1,608	4,351,677	2,265	4,353,942
Balance as at 31 December 2018	**Ps. 607,480**	**Ps. 215,215**	**Ps. 150,000**	**Ps. 9,137,460**	**Ps. (35,471)**	**Ps. 10,074,684**	**Ps. 21,712**	**Ps. 10,096,396**

The accompanying notes are an integral part of these financial statements

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

Consolidated Statements of Cash Flows

For the Years Ended 31 December 2018 and 2017
(Amounts in thousands of Mexican pesos)

	2018	2017
Operating activities:		
Consolidated net income	Ps. 4,352,334	Ps. 4,716,252
Adjustments for:		
Foreign exchange loss on cash and cash equivalents	15,659	18,303
Income tax recognized in the income statement	1,764,301	1,803,407
Depreciation, amortization and impairment allowance	557,475	555,189
(Gain) on sale of property, plant and equipment	(1,135)	(13,045)
Loss on sale of other assets	2,250	4,073
Share on the results of joint ventures	(10,620)	(17,164)
Interest income	(148,067)	(83,882)
Interest expense	2,851	5,082
	6,535,048	**6,988,215**
Changes in working capital:		
Decrease/(increase)in:		
Accounts receivable	47,239	167,776
Inventories	(131,257)	(109,639)
Prepaid expenses	(5,874)	(19,096)
Other assets	(27,906)	40,577
Increase/(decrease) in:		
Accounts payable to suppliers	(208,622)	113,461
Other accounts payable and accrued liabilities	70,534	56,625
Taxes payable	(1,969,307)	(2,187,632)
Employee profit sharing	980	(925)
Retirement benefits	1,370	486
Net cash flows from operating activities	**4,312,205**	**5,049,848**
Investing activities:		
Sale of shares of subsidiaries	(3,265)	(18,275)
Decrease (increase) in joint ventures	30,000	(50,000)
Purchase or property, plant and equipment	(363,736)	(592,388)
Sale of property, plant and equipment	31,847	41,876
Purchase of other assets	(22,892)	(9,823)
Sale of other assets	9,320	10,963
Interest received	145,216	78,800
Net cash flows used in investing activities	**(173,510)**	**(538,847)**
Financing activities:		
Dividends paid	(4,665,652)	(4,401,559)
Increase in finance lease liabilities	13,601	6,658
Payment of finance leases	(15,909)	(9,535)
Net cash flows used in financing activities	**(4,667,960)**	**(4,404,436)**
Net (decrease) increase in cash and cash equivalents	**(529,265)**	**106,565**
Cash and cash equivalents at beginning of year	3,366,585	3,278,323
Net foreign exchange differences on cash and cash equivalents	(15,659)	(18,303)
Cash and cash equivalents at end of year	**Ps. 2,821,661**	**Ps. 3,366,585**

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

1. Activities

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

Corporación Moctezuma, S.A.B de C.V. is a Mexican entity controlled by a joint investment of 66.67% of Buzzi Unicem S.p.A. (Italian Entity) and Cementos Molins, S.A. (Spanish entity).

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

2. Compliance Statement

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

3. Basis of Preparation

a. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Entity applied IFRS 15 Revenue from contracts with customers and IFRS 9 Financial Instruments for the first time in 2018. The nature and effect of the changes resulting from the adoption of these new accounting standards are described below.

Several other interpretations are applied for the first time, but do not have an impact on the Entity's consolidated financial statements.

I. IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts

with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

This standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Entity adopted IFRS 15 using a modified retrospective approach, there was no obligation under this method to restate the financial information for the years ended December 31, 2017 and 2016, nor to adjust the amounts that arose because of accounting differences. between the current accounting standard IAS 18 and the new standard IFRS 15.

The Entity concluded the analysis on the totality of the income lines in the different business units that could have been affected by the adoption effects of the new standard, which were not significant.

II. IFRS 9 *Financial Instruments*

IFRS 9, which replaces IAS 39 Financial Instruments: valuation and classification and all previous versions of IFRS 9. This standard compile the three phases of the financial instruments project: classification and valuation, impairment and hedge accounting. IFRS 9 allowed its early application, except for hedge accounting, which requires its retroactive application, but it is not necessary to modify the comparative information. For hedge accounting the requirements are generally applied prospectively, except for limited exceptions.

The Company adopted the standard using a modified retrospective approach, and did not restate the comparative information. During 2018, it made a detailed evaluation of the information available for the adoption of IFRS 9. In general, the Company did not identify changes in its statement of financial position. and in equity, based on the analysis, it is concluded that there were no significant effects on the financial information due to the adoption of IFRS 9 that significantly impacted the Company's consolidated financial statements

(a) Classification and measurement

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

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognized in profit or loss during prior periods for these investments. The application of IFRS 9 have not a significant impact.

(b) Impairment

IFRS 9 requires the Entity to record the expected credit losses of all its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Entity applies the simplified model and recorded the expected losses in the life of all commercial debtors. Based on the evaluation, it is concluded that there are no significant effects on the financial information due to the adoption of IFRS 9 that have an important impact on the consolidated financial statements of the entity.

(c) Hedge accounting

The Company does not have any covered elements related to a transaction or effective hedging periods, therefore there is no impact as a result of the application of this standard.

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

The IASB has issued amendments to IFRS 2 Share-based Payment that are intended to eliminate diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company consolidated financial statements.

b. Standards issued but not yet effective

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

IFRS 16 *Leases*

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

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

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

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The Company plans to adopt IFRS 16 modified retrospectively to each prior reporting period presented. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified.

The Company will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

To date, the Entity has completed the analysis of all lease contracts that could be impacted by the effects of adopting the new standard.

Based on the preliminary assessment, it is concluded that the impact of the adoption of IFRS 16 will be $ 173 million pesos in its statement of financial position.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

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 recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

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

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint

venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associates or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associates or joint venture first becomes a parent.

The amendments must be applied retroactively and are effective from January 1, 2018, allowing early application. If an entity applies these changes in an exercise that starts earlier, it must break it down. These modifications are not applicable to the Entity.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments will apply on future business combinations of the Company.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of

dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its consolidated financial statements.

4. Summary of Significant Accounting Policies

a. Basis of preparation

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

i. Historical cost

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

ii. Fair value

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

b. Basis of consolidation of financial statements

The consolidated financial statements include the financial statements of Corporación Moctezuma and those of its subsidiaries as at and for the year ended 31 December 2018. The Company controls an investee if, and only if, the Company has:

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

The Company re-assesses if it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Entity has less than most of the voting rights of an investee, the Entity has power over it when the voting rights are sufficient to grant it the practical ability to direct its relevant activities, unilaterally. The Entity considers all relevant facts and

circumstances to assess whether the Entity's voting rights in an investee are sufficient to grant it power, 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 are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

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

As at 31 December 2018 and 2017, the Company's equity interest in its subsidiaries and associates is as follows:

Entity	2018	2017	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
Cemoc Servicios Especializados, S.A de C.V.	100%	100%	Logistics services
Latinoamericana de Concretos, S.A. de C.V. and subsidiaries	100%	100%	Production of ready-mix concrete
Concretos Moctezuma de Xalapa, S.A.de C.V.	60%	60%	Production of ready-mix concrete
Concretos Moctezuma del Pacífico, S.A. de C.V.	100%	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%	Real state renting
Latinoamericana de Comercio, S.A. de C.V.	100%	100%	Administrative services
Lacosa Concretos, S.A. de C.V.	100%	100%	Technical services

c. Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the agreement on the rights to the net assets of the joint venture. Joint control is the contractual agreement to share the control, it exists when the decisions on the relevant activities require the unanimous consent of the parties that share the control.

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

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

Under the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the joint venture. The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets, as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment in the joint venture. Accordingly, any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

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

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

d. Current non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

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

e. Financial Instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument.

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

financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

f. Financial assets

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

i. Effective interest method

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

ii. Loans and receivables

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

iii. Impairment of financial assets

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

Objective evidence of impairment may include:

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

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

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

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

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

iv. Derecognition of financial assets

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

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

g. Inventories and cost of sales

Inventories are valued at the lower of cost and net realizable value. The costs, including a portion of the fixed and variable indirect costs, are allocated to inventories using the

absorption costing method and valued using the average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

h. Property, plant and equipment

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

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

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

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

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

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

i. Intangible assets

a. Intangible assets acquired separately

Intangible assets acquired separately are carried at cost, net of accumulated amortization and accumulated impairment losses, if any. Amortization is determined on a straight-line basis over the estimated useful lives of the assets. The residual

values, useful lives and methods of amortization are reviewed at the end of each financial year and adjusted prospectively, if appropriate. Intangible assets with indefinite useful lives are not amortized, but are separately tested for impairment on an annual basis. The Company has determined that the residual values of its assets are immaterial.

b. Derecognition of intangible assets

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

j. Impairment of tangible and intangible assets

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

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to each asset.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

k. Non-current assets held-for-sale

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

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

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

l. Cash and cash equivalents

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

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

m. Leases

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

The Company as a lessee

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

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

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

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

n. Provisions

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

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured based on the estimated cash flows required to settle the present obligation, its carrying amount represents the present value of these cash flows.

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

o. Financial liabilities

i. Financial liabilities

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

ii. Derecognition of financial liabilities

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

p. Employee benefits

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

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

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

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

q. Taxes

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

Current income tax

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

Deferred taxes

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that taxable profit will be available against which the deductible temporary difference can be utilized.

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

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes

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

r. Revenue recognition

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

Sale of goods

Revenues from the sale of goods are recognized in profit or loss when the customer takes possession of the goods or when the goods have been delivered to the customer at their home, during which time the following conditions are considered to be fulfilled:

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

Interest income

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

s. Transactions in foreign currency

The Company's functional currency is the Mexican peso. Transactions in foreign

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

t. Reserve for share buybacks

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

u. Basic earnings per share

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

5. Significant accounting judgments, estimates and assumptions

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

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

a. Critical accounting judgments

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

Litigation contingencies

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

b. Key sources of estimation uncertainty

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

✓ **Useful life estimates**

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

✓ **Allowance for doubtful accounts**

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

✓ **Environmental provision**

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

✓ **Provision for labor obligations**

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

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

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

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

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

6. Non-cash Transactions

In 2018 and 2017, the Company acquired equipment under finance leases in the amount of Ps.12,536 and Ps. 6,757, respectively (not including VAT). This non-cash activity is reflected in the financing activities section of the Company's consolidated statements of cash flows.

7. Cash and cash equivalents

The Company maintains its cash and cash equivalents in its functional currency Mexican pesos as well as in foreign currency euros and US dollars invested in instruments not greater than three months placed in Mexico, the United States and Spain; It is integrated as follows:

	2018	2017
Cash and cash in banks	Ps. 907,773	Ps. 927,969
Mexican Treasury Certificates	562,207	1,112,998
Certificates of deposit	924,662	817,423
Bank paper	427,019	508,195
Total	**Ps. 2,821,661**	**Ps. 3,366,585**

8. Accounts Receivable, net

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

	2018	2017
Trade receivables	Ps. 1,176,188	Ps. 1,239,160
Allowance for doubtful accounts	(95,855)	(111,588)
Accounts receivable, net	**Ps. 1,080,333**	**Ps. 1,127,572**

Accounts receivable are measured at amortized cost.

There is no charge for interest on accounts receivable, because the collection and recovery of past due debts is monitored according to the parameters of their seniority, in order to identify doubtful accounts in a timely manner. The due debts of difficult recovery, are sent to lawyers for collection through the courts.

Procedure for estimating allowance for doubtful accounts

- The Company records an allowance for credit losses, with the effects of the allowance reported in the consolidated income statement.
- Based on the Company's past collection experience in the construction industry in Mexico, management determines risk percentages to be applied to the balance of the Company's trade receivables. These risk percentages are determined based on the ages of the trade receivables.
- Management determines what risk percentages should be applied to the balances of trade receivables based on the ages of the balances. For trade receivables that are more than 180 days past due, management identifies conducts a collectability analysis applying the following considerations:

  ✓ Professional judgment that considers the Company's past collection experience.
  ✓ Status of related legal proceedings and the likelihood of favorable rulings.
  ✓ Guarantees obtained and management's expectations regarding their recovery.

- Whenever the Company loses a lawsuit associated with a past due account receivable, the account receivable is immediately written off, ensuring that the Company meets all legal requirements for the income tax deduction of the bad debt.
- On a quarterly basis (March, June, September and December of each year), Company management reviews the aging parameters of the Company's accounts receivable and determines whether the amount of the allowance is reasonable. Any adjustment to the allowance resulting from this analysis must be authorized by the Credit Committee.

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

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

In the Cement division, accounts receivable guaranteed as of December 31, 2018 amounted to $ 40,000 and as of December 31, 2017, it was $ 47,000; Accounts receivable in the Concrete division as of December 31, 2018 and 2017 are guaranteed for $ 1,550 and $ 374 respectively.

As at 31 December 2018 and 2017, the cement division has approximately 675 and 709 customers, respectively; 90% and 80% of the total accounts receivable of this division are concentrated respectively in 610 customers as at 31 December 2018 and 2017.

As at 31 December 2018 and 2017, the concrete division has approximately 2,295 and 1,733 customers, respectively; however, as at 31 December 2018 and 2017, 56% of the total accounts receivable of this division are concentrated in 14 and 20 customers.

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

	2018	2017
1-60 days	Ps. 88,580	Ps. 16,382
61-90 days	13,183	15,744
91-180 days	10,066	44,359
More than 180 days	105,134	140,303
Total	**Ps. 216,963**	**Ps. 216,788**

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

b. Movement in the allowance for doubtful accounts

	2018	2017
Balance at beginning of year	**Ps. 111,588**	**Ps. 53,720**
Write off amounts deemed uncollectible during the year	(41,881)	(23,306)
Impairment losses recognized on accounts Receivable	26,148	92,266
Cancellation due to sale of shares of subsidiaries	-	(11,092)
Balance at end of year	**Ps. 95,855**	**Ps. 111,588**

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

9. Other Accounts Receivable

The other accounts receivable are integrated as follows:

	2018	2017
Related party receivables (Note 16)	Ps. 249	Ps. 8,714
Recoverable taxes	43,111	93,453
Sundry debtors	61,772	49,057
Security deposits	9,666	10,475
Other accounts receivable	762	1,198
Total	**Ps. 115,560**	**Ps. 162,897**

10. Inventories, net

The inventories are integrated as follows:

	2018	2017
Finished products	Ps. 108,440	Ps. 94,119
Production in process	199,609	171,557
Raw materials	58,017	56,950
Spare parts and operating materials	411,032	389,949
Fuel	103,640	67,667
Allowance for obsolete and slow-moving inventories	(1,927)	(3,914)
	878,811	**776,328**
Merchandise in transit	166,340	137,566
Total	**Ps. 1,045,151**	**Ps. 913,894**

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

	2018	2017
Opening balance	**Ps. 3,914**	**Ps. 632**
Increase in the allowance	-	3,282
Charges to the allowance	(1,987)	-
Ending balance	**Ps. 1,927**	**Ps. 3,914**

11. Property, Plant and Equipment, net

The carrying amounts of property, plant and equipment at the beginning and end of 2018 and 2017 are as follows:

	Balance as at 31 December 2017	Additions	Disposals	Other movements	Balance as at 31 December 2018
Cost:					
Buildings	**Ps. 2,724,414**	**Ps. -**	**Ps. $(4,025)**	**Ps. 46,200**	**Ps. 2,766,589**
Machinery and equipment	9,278,096	50,875	(43,150)	490,253	9,776,074
Automotive equipment	24,689	197	(870)	(347)	23,669
Equipment acquired under finance leases	45,196	12,536	(12,380)	347	45,699
Computer equipment	43,579	7,715	(217)	6,926	58,003
Office furniture and equipment	34,272	-	-	700	34,972
Construction in process	546,702	291,088	(113)	(548,183)	289,494
Land	868,407	1,325	(3,639)	7,293	873,386
Total	**Ps. 13,565,355**	**Ps. 363,736**	**Ps. (64,394)**	**Ps. 3,189**	**Ps. 13,867,886**

	Balance as at 31 December 2017	Depreciation expense	Fully depreciated	Other movements	Balance as at 31 December 2018
Depreciation and impairment:					
Buildings	**Ps. (1,405,857)**	**Ps. (116,135)**	**Ps. 2,343**	**Ps. -**	**Ps. (1,519,649)**
Machinery and equipment	(4,839,950)	(412,264)	15,554	-	(5,236,660)
Automotive equipment	(16,944)	(3,969)	385	-	(20,528)
Equipment acquired under finance leases	(23,353)	(10,008)	9,086	-	(24,275)
Computer equipment	(43,321)	(1,086)	174	-	(44,233)
Office furniture and equipment	(27,638)	(1,623)	-	-	(29,261)
Total	**Ps. (6,357,063)**	**Ps. (545,085)**	**Ps. 27,542**	**Ps. -**	**Ps. (6,874,606)**
Impairment losses on tangible assets	**Ps. (140,561)**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. (140,561)**
Net investment	**Ps. 7,067,731**	**Ps. (181,349)**	**Ps. (36,852)**	**Ps. 3,189**	**Ps. 6,852,719**

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

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

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

	Average 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%

12. Finance Leases

The balance of accounts payable are as follows:

	2018	**2017**
Finance lease for vehicles denominated in Mexican pesos with Element Fleet Management Corporation México, S.A. de C.V., bearing average annual interest of 9.93% with an interest rate at the end of 2018 of 11.41%.	Ps. 24,931	Ps. 26,524
Finance lease for vehicles denominated in Mexican pesos with BBVA Leasing, S.A. de C.V., bearing average annual interest of 6.71%% with an interest rate at the end of 2017 of 7.50%.	642	1,357
Total finance leases	**Ps. 25,573**	**Ps. 27,881**
Short-term portion of finance leases	Ps. 11,063	Ps. 12,232
Long-term portion of finance leases	Ps. 14,510	Ps. 15,649

Due to maturities long-term are as follows:

	2018
2020	Ps. 7,873
2021	4,695
2022	1,925
2023	17
Total	**Ps. 14,510**

13. Other Accounts Payable and Accrued Liabilities

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

	2018	2017
Trade advances	Ps. 395,814	Ps. 448,126
Expense provisions	82,326	82,298
Sundry creditors	156,923	34,945
Labor obligations and bonuses	34,529	33,689
Total	**Ps. 669,592**	**Ps. 599,058**

14. Employee Benefits

In 2018 and 2017, the Company has a provision that covers it obligation related to the payment of seniority premiums, which consists of a onetime payment equal to 12-days' salary of each year worked calculated based on the employee's final monthly salary (capped at twice the legal minimum daily wage established in the Federal Labor Law). The related liability and the annual cost of benefits are calculated by an independent actuary using the projected unit credit method.

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

	2018	2017
Discount rate	9.11%	7.20%
Salary increase rate	5.50%	5.50%
Inflation	4.00%	4.00%

The amounts recognized in the consolidated income statement for the seniority premium provision in 2018 and 2017 are:

	2018	2017
Current year service cost	Ps. 1,029	Ps. 1,022
Interest cost	794	765
Effect of curtailments and settlements	(13)	606
Net periodic benefit expense	**Ps. 1,810**	**Ps. 2,393**

An analysis of the actuarial (remeasurements)/gains on seniority premiums recognized in other comprehensive income in 2018 and 2017 is as follows:

	2018	2017
Actuarial (remeasurements)/gains on the obligation	Ps. 2,297	Ps. (109)
Deferred income tax	(689)	33
Defined benefit cost items in other items	**Ps. 1,608**	**Ps. (76)**

The amount recognized in the consolidated statement of financial position in respect of the Company's obligation regarding the seniority premiums for 2018 and 2017 is as follows:

	2018	2017
Present value of defined benefit obligation for seniority premiums	Ps. 9,934	Ps. 10,861
Net liability generated by seniority premium	**Ps. 9,934**	**Ps. 10,861**

Changes in the present value of the seniority premium provision in 2018 and 2017 is as follows:

	2018	2017
Opening balance of defined benefit obligation	**Ps. 10,861**	**Ps. 10,266**
Current year service cost	1,029	1,022
Interest cost	794	765
Actuarial loss/(gain)	(2,297)	109
Effect of curtailments or settlements of labor obligations	(13)	606
Benefits paid	(440)	(1,907)
Ending balance of defined benefit obligation	**Ps. 9,934**	**Ps. 10,861**

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.

2018 analysis

If the discount rate had been 0.5% higher and all other variables had remained constant, the Company's equity and consolidated comprehensive income for the years ended 31 December 2018 would have increased by Ps.38.

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 of Ps.42.

2017 analysis

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

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

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

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

15. Foreign currency balances and transactions

a. The monetary position in foreign currency as at December 31, 2018 and 2017 is:

	2018		2017	
Thousands of U.S. dollars:				
Monetary assets	USD	72,690	USD	60,124
Monetary liabilities		(5,559)		(10,044)
Long/(short) position	**USD**	**67,131**	**USD**	**50,080**
Thousands of euros:				
Monetary assets	€	12,435	€	12,435
Monetary liabilities		(1,181)		(1,581)
Long/(short) position	**€**	**11,254**	**€**	**10,854**

b. In the years ended 31 December 2018 and 2017, 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:

	2018		2017	
	(In thousands of U.S. dollars)			
Interest income	**USD**	**953**	USD	57
Purchases		**(87,762)**		(134,447)
	(In thousands of euros)			
Purchases	**€**	**(6,982)**	€	(10,455)

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

	2018	2017
U.S. dollar	Ps. 19.6566	Ps. 19.7354
Euro	Ps. 22.4753	Ps. 23.6933

16. Related party balances and transactions

a. Commercial transactions

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

	2018	2017
Revenue from product sales, interest income, etc.	Ps. 1,492	Ps. 135,164
Sale of fixed assets	-	1,895
Expenses for services received	(11,464)	(37,458)
Total	**Ps. (9,972)**	**Ps. 99,601**

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

	2018	2017
Receivables:		
CYM Infraestructura, S.A.P.I. de C.V.	Ps. -	Ps. 8,417
Total	**Ps. -**	**Ps. 8,417**
Payables:		
Buzzi Unicem S.p.A.	Ps. 3,551	Ps. 1,986
Promotora Mediterránea-2, S.A.	-	2,483
Cemolins Internacional S.L.	828	1,972
Total	**Ps. 4,379**	**Ps. 6,441**

b. Loans to related parties

The Company has granted loans to key personnel at a rate that is comparable to standard commercial average interest rates:

	2018	2017
Loans to key personnel	Ps. 279	Ps. 297
Total	**Ps. 279**	**Ps. 297**

Due to their immateriality, the balance receivable from the related party are presented as part of other accounts receivable.

c. Compensations of key management personnel

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

	2018	2017
Short-term employee benefits	Ps. 58,379	Ps. 71,809
Total	**Ps. 58,379**	**Ps. 71,809**

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

17. Financial Instruments

a. Capital risk management

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

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

	2018	2017
Finance leases	Ps. 25,573	Ps. 27,881
Equity	10,096,396	10,411,371
	Ps. 10,121,969	**Ps. 10,439,252**
%	0.25%	0.27%
Finance leases	Ps. 25,573	Ps. 27,881
Operating cash flows	4,312,205	5,049,848
%	0.59%	0.55%

b. Categories of financial instruments

	2018	2017
Financial assets:		
Cash and cash equivalents	Ps. 2,821,661	Ps. 3,366,585
Trade receivables and other accounts receivable	1,152,782	1,197,017
Financial liabilities:		
Accounts payable	Ps. 1,133,431	Ps. 1,271,519
Short-term finance leases	11,063	12,232
Long-term finance leases	14,510	15,649

c. Objectives of financial risk management

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

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

d. Management of foreign currency risk

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

If the Mexican peso/U.S. dollar exchange rate had been 10% higher and all of the other variables had remained constant, the Company's equity and income after taxes as at 31 December 2018 and 2017 would have increased by Ps.131,957 and Ps. 98,834, respectively. A decrease of 10% with all other variables held constant would have resulted in a decrease in the Company's equity and income after taxes by the same amount.

If the Mexican peso/euro exchange rate had been 10% higher and all of the other variables had remained constant, the Company's equity and income after taxes as at 31 December 2018 and 2017 would have increased by Ps.25,294 and Ps. 25,716, respectively. A decrease of 10% with all other variables held constant would have resulted in a decrease in the Company's equity and income after taxes by the same amount.

e. Management of interest rate risk

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

f. Management of commodity price risk

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

g. Management of liquidity risk

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

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

h. Management of credit risk

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

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

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

18. Fair Value Measurement of Financial Instruments

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

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

In addition, for purposes of financial reporting, fair value measurements are classified in Level 1, 2 or 3 based on the degree to which observable inputs are included in the measurements and their importance in determining fair value in their totality, which are described as:

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

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Assets measured at fair value:				
Cash and cash equivalents	Ps. 2,821,661	Ps. 2,821,661	Ps. 3,366,585	Ps. 3,366,585
Assets measured at amortized cost:				
Accounts receivable	1,152,782	1,136,174	1,197,016	1,164,823
Financial liabilities				
Liabilities measured at amortized cost:				
Accounts payable	Ps. 1,133,431	Ps. 1,133,431	Ps. 1,271,519	Ps. 1,271,519
Current portion of finance leases	11,063	11,063	12,232	12,232
Long-term finance leases	14,510	14,510	15,649	15,649

19. Derivative financial instruments

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

In accordance with article 104, section VI Bis, of the Securities Market Act, it may be concluded that as at 31 December 2018, the Company does not have any transactions with derivatives.

20. Income Tax

The Company is subject to the payment of income tax.

ISR - The rate was 30% for 2018 and 2017, in accordance with the new ISR 2017 Law (it will continue at 30% for subsequent years).

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

	2018	2017
Current income tax	Ps. 1,832,653	Ps. 1,960,761
Annual income tax from prior years	20,990	(9,856)
Deferred income tax	(89,342)	(147,466)
Total	**Ps. 1,764,301**	**Ps. 1,803,439**

b. Deferred tax assets and liabilities

Income tax.- The main items that originate the deferred asset and liability deferred balance are:

	2018	2017
Assets:		
Reserves and estimations	Ps. 15,750	Ps. 17,562
Property, plant and equipment and intangibles and immediate deduction	(14,943)	(22,593)
Trade advances	26,717	37,448
Provisions and reserves	51,761	45,914
Prepaid expenses	(5,553)	(3,518)
Tax losses of subsidiaries	71,427	55,298
Total assets	**Ps. 145,159**	**Ps. 130,111**

	2018	2017
(Liabilities):		
Reserves and estimations	Ps. 26,144	Ps. 27,470
Inventories	(109,928)	(111,199)
Property, plant and equipment and intangibles and immediate deduction	(833,527)	(914,719)
Trade advances	92,452	97,594
Provisions and reserves	27,916	28,720
Prepaid expenses	(7,396)	(7,680)
Tax losses of subsidiaries	2,060	3,930
Total liabilities	**Ps. (802,279)**	**Ps. (875,884)**
Net total	**Ps. (657,120)**	**Ps. (745,773)**

To determine its deferred income tax as at 31 December 2018 and 2017, the Company applied the income tax rate that will be in effect when the temporary differences giving rise to deferred taxes are expected to reverse.

c. Tax consolidation

i. The last portion of the Company's income tax liability related to its tax consolidation was remitted in full in 2018.

ii. A reconciliation of the statutory income tax rate to the effective income tax rate expressed as a percentage of pretax income is as follows:

	2018	2017
Statutory income tax rate	**30.00%**	**30.00%**
Plus/(less):		
Effects of inflation	(0.90)%	(1.18)%
Non-deductible	0.37%	0.31%
Income tax from prior years	0.34%	(0.15)%
Other	(0.97)%	(1.32)%
Effective income tax rate	**28.84%**	**27.66%**

21. Equity

a. Contributed capital

The share capital as at 31 December 2018 and 2017 is as follows:

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

Serial Number	*
Current cupon	**34**

b. Earned capital

I. At a regular shareholders' meeting held on April 12, 2018 a dividend was approved for Ps.3,081,091,286 from accumulated profits for the years 2014 to 2017.

Payment of the dividend in cash of Ps. 3.50 (Three pesos 50/100 M.N.) per share will be paid through S.D. Indeval, Institution for the Deposit of Securities, S.A. of C.V. in two exhibitions:

- The first exhibition for an amount of Ps. 2.00 per share, that is, a total amount of Ps. 1, 760, 623,592.00, will be paid to from April 23, 2018 against the delivery of Coupon No. 31.
- The second exhibition, for an amount of Ps. 1.50 per share, that is, a total amount of Ps. 1, 320, 467,694.00, will be paid as of June 18, 2018 against the delivery of Coupon No. 32

II. At a regular shareholders' meeting held on November 30, 2018, the payment of a cash dividend was o for approved for total amount of Ps.1,584,561,232.80 (One thousand five hundred and eighty-four million five hundred sixty-one thousand two hundred and thirty-two pesos 80/100 MN), from:

- Net Fiscal Income for the 2013 financial year and previous ones for Ps.107,037,268.31 (One hundred and seven million thirty-seven thousand two hundred and sixty-eight pesos 31/100 M.N.)

- Net Fiscal Income for 2014 and subsequent amounts of Ps. 1,477,523,964.49 (One thousand four hundred and seventy-seven million five hundred twenty-three thousand nine hundred and sixty-four pesos 49/100 M.N.).

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

- Net Fiscal Income for the 2013 financial year and previous amounts of Ps.11,348,294.00 (Eleven million three hundred and forty-eight thousand two hundred and ninety-four pesos 00/100 M.N.).

- Net Fiscal Profit for the 2015 and 2016 fiscal year, the amount of Ps.3,509,898,890.00 (Three thousand five hundred nine million eight hundred ninety-eight thousand eight hundred ninety pesos 00/100 M.N.).

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

- The first installment of Ps.3 per share, totaling Ps.2,640,935,388, will be available for payment as of 24 April 2017 upon delivery of Cupon No. 28.

- The second installment of Ps.1 per share, totaling 880,311,796, will be available for payment as of 10 July 2017 upon delivery of Coupon No. 29.

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

The Company's legal reserve is included in its retained earnings. In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. The legal reserve may be capitalized but may not be distributed to the shareholders unless the Company is dissolved. Also, the legal reserve must be replenished if it is reduced for any reason. The legal reserve as at 31 December 2018 and 2017 is Ps.130,024.

The distribution of net assets, except for the updated amounts of the social capital contributed and retained earnings, will cause the tax 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 ISR of the fiscal year paid for the dividend tax and in the following two immediate fiscal years, against the fiscal year tax and the provisional payments of the same.

The balances of the fiscal accounts of equity are:

	2018	2017
Consolidated restated contributed capital account	Ps. 2,265,218	Ps. 2,160,849
Consolidated net taxed profits account	1,674,332	2,230,685
Total	**Ps. 3,939,550**	**Ps. 4,391,534**

22. Costs and expenses based on their nature

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

Cost of sales	2018	2017
Raw materials, freight, fuel and maintenance	Ps. 5,681,164	Ps. 5,657,741
Depreciation and amortization	532,175	531,714
Other costs	1,309,979	1,306,756
Total	**Ps. 7,523,318**	**Ps. 7,496,211**

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

Selling and administrative expenses	2018	2017
Wages, benefits and fees	Ps. 343,036	Ps. 354,134
Depreciation and amortization	25,300	23,475
Other expenses	281,532	253,065
Total	**Ps. 649,868**	**Ps. 630,674**

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

Other operating expenses/(income)	2018	2017
Inflation restatement and surcharges on tax difference	Ps. (3,249)	Ps. 1,124
Asset reserves	14,505	(11,480)
Clearing and adjusting of accounts	(214)	(8,321)
Allowance for doubtful accounts	23,389	90,038
Gain on sale of fixed assets and other assets	1,115	(8,972)
Insurance recovery	(4,938)	(5,773)
Gain on sale of shares	-	(4,125)
Other	(23,982)	(6,274)
Total	**Ps. 6,626**	**Ps. 46,217**

23. Segment information

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

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

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

2018	Net sales	Total assets	Equity investments	Depreciation and amortization
Cement	Ps. 11,989,653	Ps. 10,765,937	Ps. 220,704	Ps. 480,565
Concrete	2,194,102	1,423,683	116,664	69,355
Corporate	546	147,493	26,368	7,555
Total	**Ps. 14,184,301**	**Ps. 12,337,113**	**Ps. 363,736**	**Ps. 557,475**

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

24. Contingencies

The Entity has pending lawsuits as a result of the normal course of its operations. Such judgments involve uncertainties and in some cases, they may be resolved in favor or against. Although it is not possible to determine the amounts involved in the pending lawsuits, the management considers that based on the known elements, any resulting liabilities would not significantly affect the financial situation or operating results of the Entity.

25. Operating leases

a. Lease agreements

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

Payments recognized as expenses:

	2018	2017
Annual cost	Ps. 76,902	Ps. 72,079
Average monthly payments	6,408	6,007

b. Commitments under operating leases

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

Year agreed	Amount
2019	Ps. 32,193
2020	448
Total agreed payments	**Ps. 32,641**

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 2018 and 2017, management is not aware of any failure by the Company to comply with the terms and conditions established in these agreements that would give rise to any contractual penalties, and the consolidated statement of financial position therefore does not include any liabilities related to these commitments.

26. Joint ventures

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

Joint venture	Activity	Location of incorporation	Interest and voting rights held by the Company (50%)	
			2018	2017
CYM Infraestructura, S.A.P.I. de C.V.	Construction of streets, highways, roads and bridges	Mexico City	**Ps. 12,837**	Ps. **32,217**

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

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

	2018	2017
Current assets	Ps. 30,538	Ps. 83,613
Current liabilities	Ps. 4,864	Ps. 34,558
Non-current liabilities	Ps. -	Ps. (15,379)

The assets and liabilities indicated above include the following:

	2018	2017
Cash and cash equivalents	Ps. 17,524	Ps. 51,681
Current financial liabilities (not including accounts payable to suppliers, other accounts payable and provisions)	Ps. -	Ps. 8,417

	2018	2017
Sales	Ps. (642)	Ps. 451,304
Net gain/(loss) for the year	Ps. 21,240	Ps. 34,329

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

	2018	2017
Depreciation	Ps. -	Ps. 30,959
Interest expense	Ps. -	Ps. 4,068
Gain fixed assets sales	Ps. (39,081)	Ps. -
Income tax expense/(benefit)	Ps. 12,863	Ps. 14,708

27. Basic Earnings Per Share

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

	2018	2017
Net income attributable to equity holders of the parent	Ps. 4,350,069	Ps. 4,718,536
Weighted average number of outstanding shares (thousands of shares)	880,312	880,312
Basic earnings per ordinary share, equity holders of the parent	Ps. 4.94	Ps. 5.36

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

28. Authorization of the Consolidated Financial Statements

On February 21, 2019, the accompanying consolidated financial statements and these notes were authorized by the Company's Board of Directors and Audit Committee, for their issue and subsequent approval by the shareholders, who have the authority to modify the Company's consolidated financial statements in accordance with Mexican Corporations Act.

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TYPE OF SHARES

Ordinary

MARKETS

Bolsa Mexicana de Valores S.A.B. de C.V.

TICKER SYMBOL

CMOCTEZ*

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