



CHANGING PARADIGMS

2015 ANNUAL REPORT

Grupo Lamosa is a company with a track record of more than a century of successful operations. Over the past few years, it has implemented initiatives that have made it not only Mexico's number one ceramic producer, but also one of the largest in the world.

The company, which manufactures and markets ceramic tiles and adhesives, has a significant presence in Mexico and across the Americas, exporting to the United States and more than 15 countries in Central and South America.

125 years serving the construction market guarantee the quality and performance of Grupo Lamosa's high-value products.

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New technologies have changed the perspectives of the ceramics industry, transforming it and, at the same time, demanding innovative solutions.

Grupo Lamosa's 125 years of operations in the industry constitute a platform that has driven its differentiated market presence. Continuous innovation, the development of new capabilities to serve the changing marketplace, and the ability to

renew and reinvent itself again and again ensure the company will continue to grow, not only today, but also going forward.

A capacity to think and act out of the box, breaking paradigms, has positioned Grupo Lamosa to consolidate its leadership across the markets where it operates and to leverage the opportunities that will present themselves in the near future.



COMPANY BUSINESSES

WALL AND FLOOR TILES

COMPETITIVE ADVANTAGES

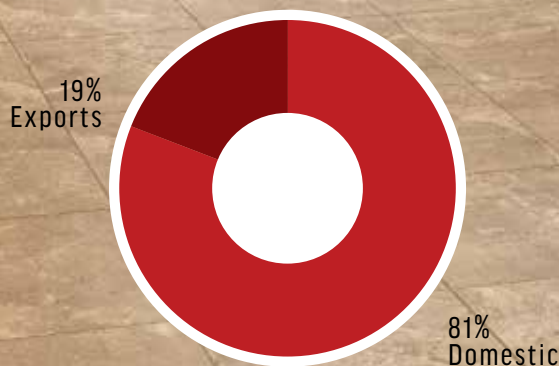
- Innovative, market-leading, world-class products
- Ceramic tiles that contribute to sustainable construction by providing points for Leadership in Energy and Environmental Design (LEED) Certification
- First Mexican producer to have its products certified under the Green Squared sustainable standard of the Tile Council of North America (TCNA)
- Strategically located to serve all the Americas
- State-of-the-art production platform.

PRODUCTS AND SERVICES

- Floor tiles
- Wall tiles
- Baseboards
- Porcelain enamel tiles
- Special pieces



SALES BREAKDOWN
(Values)



10 production centers strategically located across Mexico for better market coverage



ADHESIVES

COMPETITIVE ADVANTAGES

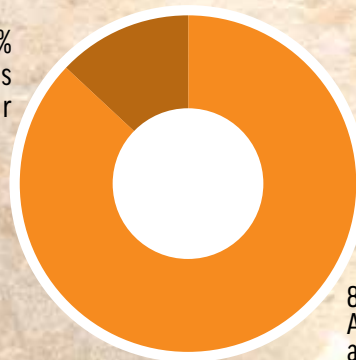
- Products with the most outstanding characteristics, performance and quality standards in the market
- Comprehensive portfolio of products with extensive geographic coverage across Mexico
- Customer-oriented organization
- Technological leadership through the research and development of specialized products for the construction industry
- Environmentally-friendly product line.

PRODUCTS AND SERVICES

- Adhesives for installing wall and floor tiles
- Grouts
- Stuccos
- Texturized finishes
- Waterproofing materials
- Specialized products
- Specialized mortars for construction industry needs

SALES BREAKDOWN
(Values)

12%
Stuccos
and other



88%
Adhesives
and grouts

13 production facilities strategically located across Mexico placing the company close to the customer



FINANCIAL HIGHLIGHTS

| | 2014 | 2015 | VAR % |
|---|--------|--------|-------|
| RESULTS¹ | | | |
| Net sales | 8,971 | 10,636 | 19 |
| Export sales | 1,387 | 1,594 | 15 |
| Export sales / Net sales | 15% | 15% | |
| Operating income | 1,566 | 1,779 | 14 |
| Operating income / Net sales | 17% | 17% | |
| Comprehensive financing cost | 603 | 629 | 4 |
| Consolidated net income | 442 | 701 | 59 |
| FINANCIAL POSITION | | | |
| Total assets | 15,077 | 15,776 | 5 |
| Total liabilities | 9,105 | 9,305 | 2 |
| Stockholders' equity | 5,972 | 6,471 | 8 |
| Book value per share ² | 15.6 | 16.9 | 8 |
| CASH FLOW | | | |
| Operating cash flow (EBITDA) ³ | 2,011 | 2,325 | 16 |
| Capital expenditures | 295 | 975 | 231 |
| NUMBER OF EMPLOYEES | | | |
| Total personnel ⁴ | 5,600 | 4,663 | (17) |

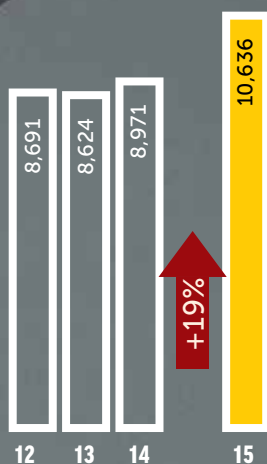
(1) In accordance with applicable International Financial Reporting Standards, the results consider Sanitaryware operations as discontinued operations.

(2) On a total of 382.1 million shares.

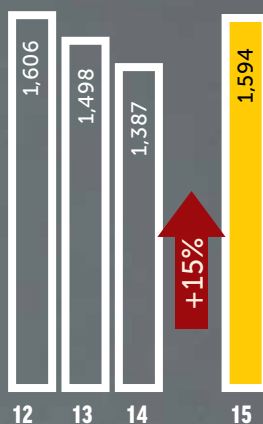
(3) Operating income plus depreciation and amortization and other virtual items.

(4) 2015 figures exclude personnel of Sanitaryware, which was divested during the second quarter.

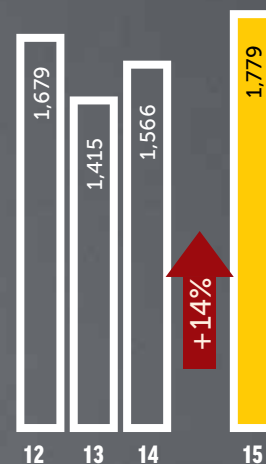
NET SALES
(millions of pesos)



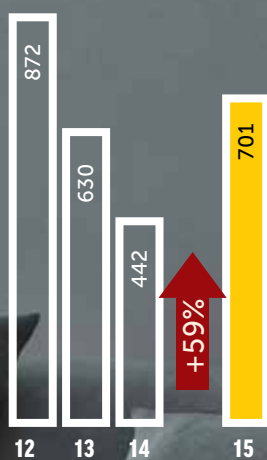
EXPORT SALES
(millions of pesos)



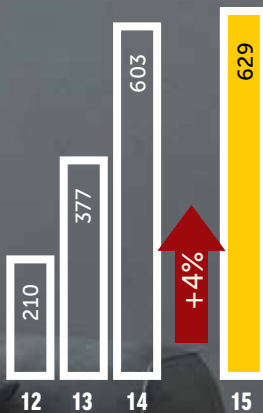
OPERATING INCOME
(millions of pesos)



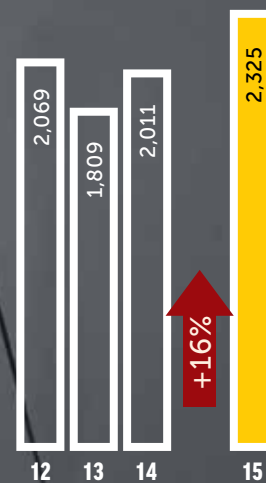
CONSOLIDATED NET INCOME
(millions of pesos)



COMPREHENSIVE FINANCING COST
(millions of pesos)



OPERATING CASH FLOW (EBITDA)
(millions of pesos)



NOTE: For comparative purposes in accordance with International Financial Reporting Standards, figures exclude Sanitaryware operations.

TO OUR STOCKHOLDERS



2015 WAS, WITHOUT DOUBT, ONE OF THE BEST YEARS IN LAMOSA'S RECENT HISTORY. DESPITE THE VOLATILITY RESULTING FROM UNCERTAINTY OVER OIL PRICES AND INTEREST RATES AND DECREASING EXPECTATIONS FOR ECONOMIC GROWTH THROUGHOUT THE YEAR, AT YEAREND THE COMPANY POSTED SIGNIFICANT EARNINGS GROWTH AND AN IMPROVED MARKET POSITION.

During the year, Grupo Lamosa was able to leverage the recovery of construction in Mexico and the growing use of ceramic products in building works because of the new applications that advancing technology has brought. This translated into growth.

Total sales reached \$10,636 million pesos, 19% above 2014. The company's revenues were favorably affected by the sustained growth of the construction sector, enhanced mortgage origination and the expansion of export sales. 2015 EBITDA was \$2,325 million pesos, 16% more than the previous year, with a sales margin of 22%.

The achievements of the year, combined with the company's efforts to expand its stockholder base and analyst coverage, resulted in an annual return of 37% for investors in Grupo Lamosa shares through the Mexican Stock Exchange (BMV), directly reflecting the company's performance.

The company managed its financial resources effectively in 2015, ensuring that it could face the challenges of the volatile and uncertain environment and that its financial robustness remained unaffected.

During the year, Grupo Lamosa implemented major initiatives as part of its growth strategy and in order to focus its efforts on its core business lines and thereby assure its capacity to continue expanding, not just in Mexico, but also in other regions across the Americas. One of these initiatives was the selling of Grupo Lamosa's Sanitaryware Business in the second quarter of the year. Additionally, a large investment plan was implemented to incorporate new manufacturing centers with leading-edge technology. These facilities will make products with characteristics and designs in accordance with the latest market trends and specific consumer needs.

Grupo Lamosa also continued the efforts it had been making over the past several years to assure its position as a company focused on innovation and design, introducing programs to bring it closer to an increasingly younger end user who is today characterized by diverse and changing purchasing habits and patterns.



In 2015, the company celebrated 125 years of operations in the construction sector in Mexico, an outstanding achievement that very few Mexican companies can boast. This market permanence reflects Grupo Lamosa's capacity to evolve, to reinvent itself and to adapt to the changing conditions in the markets it serves.

Going forward, Grupo Lamosa will continue to strengthen its presence in Mexico and also make a concerted effort to expand its operations outside the country, largely throughout the Americas, through acquisitions and/or alliances with participants in these markets.

Grupo Lamosa would like to thank its shareholders once again for their trust, its people for their efforts, and its creditors, suppliers, distributors, customers and friends for their vital support.

FEDERICO TOUSSAINT ELOSÚA

Chairman of the Board of Directors and Chief Executive Officer



CONTINUOUS

Technology has driven radical changes in the ceramic tile industry, creating new opportunities that would have been inconceivable only a short while ago. Because of this, continuous innovation is increasingly important.



A top-down view of a wooden desk. In the top left corner, there is a color calibration chart with a grid of colored squares. In the top right corner, a silver mesh pencil holder is filled with various colored pencils. In the bottom left corner, a piece of light-colored paper with a grey and green swirling pattern is visible. In the bottom right corner, another color calibration chart is partially visible, showing various color patches and their corresponding codes.

INNOVATION

In addition to the ongoing use of tiles to cover walls and floors, advancing technology now allows ceramic products to be used in novel applications, such as in ceramic wood, kitchen countertops and building facades.

Innovation is one of Grupo Lamosa's key differentiators. To ensure that the company continues one step ahead of the market, it has invested significantly in the technology it needs to break paradigms, continuously exploring and developing new ways to serve its markets.



DEVELOPING NEW

Grupo Lamosa has transformed the focus of its business. In the past, a ceramic product company concentrated its efforts on production. More than anything, it saw itself as a manufacturer.



CAPABILITIES

However, over the last few years, the industry has been moving so fast that companies are now required to develop new capabilities, to focus not just on producing, but also on creating and offering innovative solutions in a market that is increasingly extensive, diverse, sophisticated and changing.

Product life cycles are now shorter, making design and fashion fundamental aspects of the business. This requires multidisciplinary, multicultural teams permanently focused on studying the latest international trends in order to foresee the tastes, needs and habits of the consumer in a market that is in constant flux and an industry that is continuously producing new and surprising products.





Grandes Colecciones
Stucco
Monocolor



EVER CLOSER TO THE

Continuous innovation brings its own challenges, one of which is the correct management of the complexity associated with an ongoing rollout and marketing of new products.



CONSUMER

In 2015, more than 20% of the company's high-end portfolio comprised products with one year or less in the market. This achievement reflects extraordinary efforts from the Grupo Lamosa team that have translated into successful results and increased sales.

Coming ever closer to consumers, understanding their preferences, life styles and changing purchasing habits, is essential for assuring that Grupo Lamosa's products and brands are always at the top of their minds. New formulas of operation are being continuously designed to enable this, ranging from joint training efforts with the distributor network, to the exploration of new purchasing channels. Electronic media are of particular importance, creating experiences for consumers and interactions that give them more information about the diverse products available and thereby influencing their purchasing decisions.



GROWTH AND NEW

The concentration on two key core businesses: ceramic tiles and ceramic adhesives, and the company's robust financial position have allowed it to return to an ambitious growth program.





| | | | |
|--|------|------|------|
| | 7.42 | 8.52 | 6.47 |
| | 5.42 | 0.58 | 6.02 |
| | 9.42 | 3.56 | 7.43 |

HORIZONS

As well as the investment in technology and design, during the year ground was broken for the building of a new plant that will come on line in 2016 and work begun on several production lines. These initiatives will expand Grupo Lamosa's production capacity, positioning it to satisfy the growing demand.

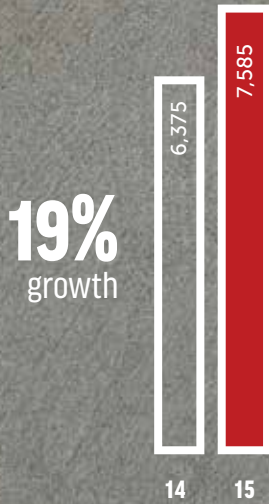
Grupo Lamosa has the size and market positioning that is needed to take on new challenges in foreign markets. The time is right, so the company is seeking opportunities to expand its operations, particularly in the Americas where there are many growth opportunities.

Thus, focused on innovation and breaking paradigms, Grupo Lamosa is favorably positioned to begin a new period of challenges and growth.

WALL AND FLOOR TILES

The recovery of the Mexican construction sector, which showed consistent growth throughout 2015, resulted in the tile industry expanding more than over the past few years.

NET SALES
(millions of pesos)



Sales of the Wall and Floor Tiles Business increased 19% year-over-year, driven not only by domestic market growth, but also enhanced export sales, which represented 19% of the segment's 2015 revenues.

One of the factors boosting the Wall and Floor Tiles Business's revenues was the growing use of ceramic products in non-traditional applications which would have previously been inconceivable. For example, "ceramic wood" flooring, using ceramic or porcelain tiles with shapes, textures and finishes like natural wood, has become a real and desirable option for consumers because of its simple maintenance and superior durability.

2015 was characterized by a number of market trends, including the migration of consumer preferences to larger, more expensive tiles. The business capitalized on this tendency because of an ongoing strategy that anticipates consumer needs, providing them with a forward-looking portfolio of innovative products manufactured with state-of-the-art technology.

The Wall and Floor Tiles Business was able to effectively adapt its production capacity to the new product mix, a significant achievement of the year that demonstrates that Grupo Lamosa has the operating flexibility to satisfy changing market demands.

The premium "Firenze" line performed particularly well in 2015, consolidating its position as an attractive, differentiated option in a range of innovative designs with outstanding quality, price and service characteristics. One of the exclusive "Firenze" product launches in the Great Mexican Collections line was a series of products inspired by the geography, environment and culture of the state of Nuevo León (Grupo Lamosa's home location). This range was very well received both in Mexico and abroad.



The segment's focus on new technologies in order to offer the latest fashions and designs has benefitted consumers with the development and rollout of new tile lines with increasingly shorter lifespans and a continuous renovation of the product portfolio.

Some of the significant innovations launched in 2015 were: "Biology," a 20cm X 120cm porcelain tile that looks like wood; and "Park," a ceramic tile that looks like granite in a range of sizes and finishes. Such offerings satisfy different usage requirements in residential and commercial projects.

The Wall and Floor Tiles Business took part in a number of fairs and exhibitions during the year, rolling out new products there. These included: "Coverings 2015" in Orlando, Florida, and "ExpoCIHAC" in Mexico City.





During the year, the segment invested in its different production centers, in order to continue incorporating new technologies and expanding its production capacity, thereby positioning it to continue serving its markets in a timely manner and grow as planned.

Over the past two years, Grupo Lamosa has authorized capital expenditures of \$2,400 million pesos to optimize capacity and increase it by more than 15%. The investment will be particularly focused on enhancing large-tile production capacity and the construction of a new porcelain-tile plant to better serve market needs both in Mexico and abroad. The new plant is expected to come on line during the second half of 2016.

The segment has worked over the past few years to continue developing operations both in Mexico and abroad. New technologies are creating new possibilities for ceramic products which, combined with the company's innovation strategy, will open up new avenues for growth going forward.



ADHESIVES

The Adhesives Business performed well in 2015 in an environment where market growth surpassed the expectations of the beginning of the year.

Sales increased 18% compared to the previous year, reflecting the segment's leveraging of a more dynamic Mexican adhesives industry, the introduction of specialized products and increased exports.

One of the challenges that the business faced during the year was a significant rise in the cost of its main feedstock as a result of the depreciation of the Mexican pesos vis-à-vis the U.S. dollar, as well as new price formulas in the cement industry, with increases unseen since the times of high inflation in Mexico. However, the Adhesives Business was largely able to partially offset the increases and grow its operating results.

In 2015, the Adhesives Business moved forward with its growth strategy by enhancing its product portfolio and entering the specialized mortars market, gaining experience in the area of the new product line that will drive future growth.

Aware of the importance of the business's brand value, during the year advertising campaigns were launched to further strengthen its image among consumers. Such initiatives included the "Cada uno a su función" (Each one according to its use) campaign for Crest, implemented in Mexico's main cities and at all points of sale. The main objective of the initiative was to promote Crest's different reinforced adhesives and to underscore the need for them to be used properly according to the specific application.

NET SALES
(millions of pesos)

18%
growth



During the year, the Adhesives Business took part in fairs and exhibitions in Mexico and abroad, such as “Expo CIHAC” and “Expo Ferretera” in Mexico City and Guadalajara respectively, and “Expo Coverings” in Orlando, Florida.

Products rolled out during the year included: “Crest Pega Mármol,” a specialized adhesive for installing natural stone; and “Membrana Impermeabilizante Perdura” which is specially formulated to protect structures such as swimming pools, fountains and terraces. “Junta Crest Madera,” designed for installing ceramic wood, was also launched in a wide range of colors to match diverse wood-like tiles.

The Adhesives Business held a series of events across Mexico in 2015 in order to continue promoting consumer preference for its different product lines, offering workshops and seminars for installers and celebrating “Installer Day” in Mexico City, an event which hosted more than 2,100 participants.

Going forward, although the Adhesives Business will surely face important challenges, it will maintain its growth strategy.

**Junta
CREST
MADERAS**

**Boqui
CREST
Glass**

**Boqui
CREST
Quarzo**



FINANCIAL PERFORMANCE

Grupo Lamosa's robust financial structure and increasing earnings permitted investments close to \$1,000 million pesos in 2015 as part of one of the most aggressive growth plans implemented since the crisis of 2008.

During the year, the impact of the approximately 17% devaluation of the Mexican peso vis-à-vis the U.S. dollar was minimized because Grupo Lamosa had refinanced its debt at the end of 2014, significantly reducing its dollar exposure.

Debt at the close of 2015 was \$4,939 million pesos, a year-over-year growth of only 4%. This appropriate debt management, combined with the company's cash flow generation, allowed it to reduce leverage considerably, from a net debt to EBITDA ratio of 2.2 times as of yearend 2014 to 1.5 times as of the close of 2015.

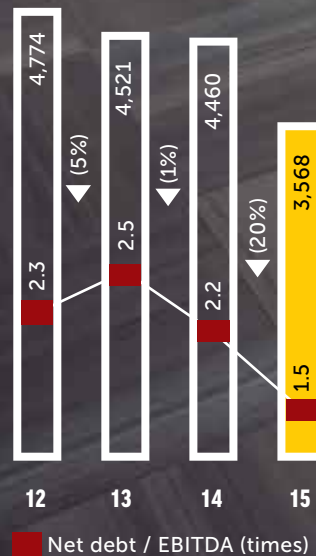
Grupo Lamosa decreed dividend payments in cash and shares for the third consecutive year.

In 2015, Grupo Lamosa once again took part in the Mexican Stock Exchange's Independent Analyst Program, maintaining analyst coverage of the company and thereby benefitting current and potential investors in Mexico and abroad.

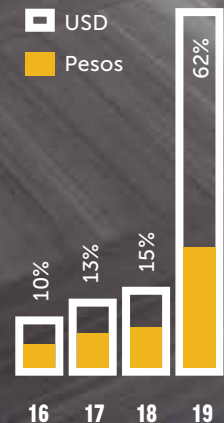
During the year, the company made no transactions with the shares representing its capital stock.



NET DEBT
(millions of pesos)



DEBT PROFILE
(Dec. 2015)





CORPORATE GOVERNANCE

Members of the Audit Committee

CARLOS ZAMBRANO PLANT

Chairman

EDUARDO PADILLA SILVA

EDUARDO GARZA T FERNÁNDEZ

MAXIMINO JOSÉ MICHEL GONZÁLEZ

Members of the Corporate Practices Committee

EDUARDO ELIZONDO BARRAGÁN

Chairman

BERNARDO ELOSÚA ROBLES

ARMANDO GARZA SADA

In 2015, Grupo Lamosa complied with applicable rules and regulations in all areas, promoting a culture of legality across the entire organization.

The Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) has a department of supervision which periodically evaluates companies' timely and effective compliance with information disclosure requirements. This department gave the company a favorable rating for its performance.

During the year, progress was made with the implementation of information protection and security practices in accordance with international standards through the Grupo Lamosa Information Security Program. This initiative has reduced risks and enhanced the confidentiality, integrity and availability of company information.

The Audit and Corporate Practices Committees of the Board of Directors carried out their activities in accordance with company statutes and applicable rules and regulations.

In 2015, 100% of the complaints received through the company's Transparency Line were dealt with, and employees were trained in topics related to the Grupo Lamosa Code of Ethics.

SUSTAINABILITY



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

This message to Grupo Lamosa's diverse stakeholders presents the company's main 2015 objectives in the area of sustainability and the achievements made during the year. Grupo Lamosa's commitment to sustainability is reflected in its incorporation of economic, social and environmental objectives into its business strategy, disseminating them across the entire organization in order to assure their implementation and management.

For 125 years, Grupo Lamosa has been dedicated to manufacturing and marketing products which, because of their characteristics and the processes involved in their production, make the ceramic tile industry one of the sectors that most contributes to sustainability and the environment.

The company's products offer significant advantages for green and sustainable projects. Additionally, the technological advances that have been made over the past few years in their manufacture are making it possible for ceramic tiles to be used in new applications in an increasingly environmentally friendly way.

Grupo Lamosa reiterates its permanent commitment to voluntarily complying with the principles of the United Nations Global Compact, always seeking to support actions that promote human and labor rights, protect the environment, combat acts of corruption and disseminate a culture of legality across the organization.

ACTION AREAS

ECONOMIC DEVELOPMENT

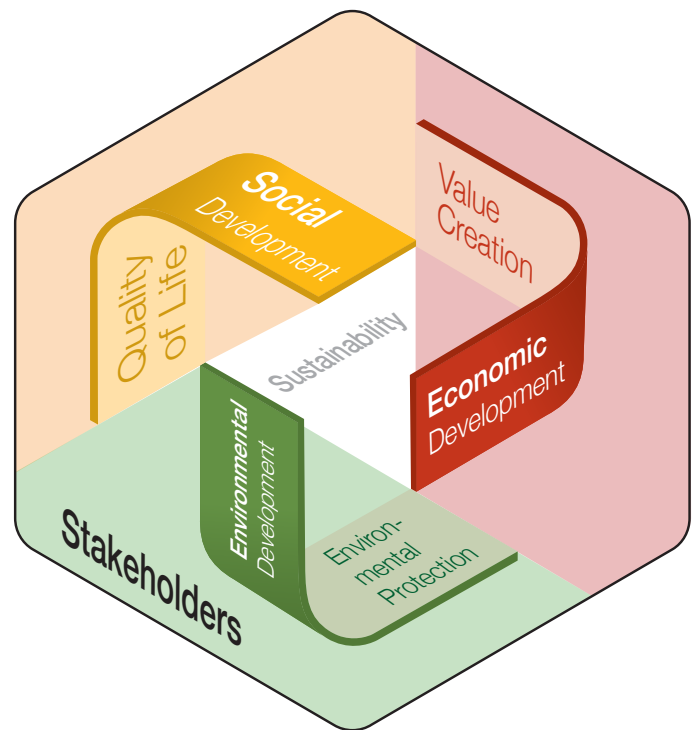
- Business model, product and process innovation
- Economic value creation
- Local supplier development
- Investment in the community

SOCIAL DEVELOPMENT

- Quality of life for associates and their families
- Respect for human rights and diversity
- Anti-corruption actions
- Social investment

ENVIRONMENTAL DEVELOPMENT

- Innovation
- Energy
- Water
- Emissions reduction
- Product recovery



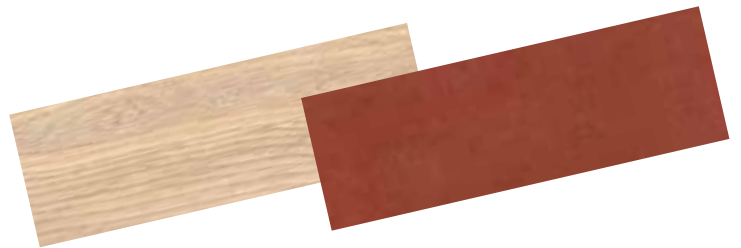
STAKEHOLDERS

| Stockholders/Investors | Customers | Associates | Suppliers |
|--|---|--|---|
| <ul style="list-style-type: none"> • Stockholders' Assembly • Investor relations area • Transparency line • Meetings with analysts • Reports on results | <ul style="list-style-type: none"> • Focus groups • Transparency line • Visits of commercial advisors • Internet page | <ul style="list-style-type: none"> • Labor climate evaluation • Transparency line • Development plans | <ul style="list-style-type: none"> • Transparency line • Signing of agreements and clauses protecting human rights and promoting sustainability • Development of local suppliers and SMEs (Small and Medium-sized Enterprises) |
| Community | Government | Academia | Communication media |
| <ul style="list-style-type: none"> • Transparency line • Donations program • Dialog with neighbors • Volunteer projects | <ul style="list-style-type: none"> • Participation in meetings and forums on relevant topics • Relations with government entities | <ul style="list-style-type: none"> • Agreements for research projects • Plant visits • Work experience opportunities for students | <ul style="list-style-type: none"> • Press conferences • Participation in interviews and reports |

LAMOSA PRODUCTS CONTRIBUTING TO THE ENVIRONMENT

Ceramic Tiles

1. **High Durability:** Offering the expectation of a useful life at least as long as that of the building where they are installed.
2. **Content of Recycled Materials:** Manufactured with processes that responsibly incorporate waste products.
3. **Cleanliness and Easy Maintenance:** Eliminating the environmental impact of aggressive chemicals.
4. **Hygiene and Sterility:** With technical characteristics that make them inhospitable to mites, fungi, bacteria and other microbes.
5. **Regional Availability:** Made from materials found close to the company's production centers, thereby promoting local suppliers and reducing the fuel consumption and atmospheric emissions associated with shipping.
6. **Energy Reduction:** Contributing to the energy efficiency of a building, because of their slow heat dissipation characteristics and therefore insulating capacity.



Ceramic Adhesives

Innovation and development of sustainable products

Crestuco Ecológico
an environmentally friendly product requiring less water



Perdura Pega Porcelánico Ecotech
an environmentally friendly, water-saving ceramic adhesive



Crest Blanco Ecológico
an environmentally friendly product requiring less water



Imperdura Ecotech
an environmentally friendly, water-based exterior waterproofing material that reflects the sun's radiation, reducing electricity consumption



ImperCrest Reductor
an ultra-heat-reducing exterior waterproofing material, which decreases heat transfer, lowering interior temperatures and energy consumption



Perdura Sellacril Ecotech
a water-based joint sealant that does not contain organic solvents



SOURCING

During 2016, Grupo Lamosa continued to develop Small and Medium-sized Enterprises (SMEs) as suppliers, incorporating them into the company's supply chain, promoting their strengths and helping them to overcome their weaknesses through company-organized advisory services and professionalization programs.

| | 2013 | 2014 | 2015 | Main Topics |
|-------------------|------|------|------|---|
| Diploma courses | 10 | 6 | 5 | Organizational culture, strategy, planning and innovation |
| Advisory services | 21 | 27 | 35 | Administration, markets, finances, business operating processes and human resources |

▀ Grupo Lamosa has a relationship with more than 1,000 SME suppliers across Mexico.



▀ In 2015, more than 90% of Grupo Lamosa's suppliers were Mexican.

HEALTH AND SAFETY

During 2015, Grupo Lamosa promoted an environment of health and safety, offering training sessions on accident prevention at its different production centers. All businesses implemented Safety Week events with activities such as fire and evacuation simulations in the presence of emergency services and government agencies.

▀ 81 simulation-related events and Safety Weeks at plants and offices.



▀ Participation of emergency and government services in the company's different safety events (police, fire brigade, DIF (child services), emergency medical, etc.).



Safety Week topics and activities:

- Response to poisoning and smoke inhalation
- Use of fire extinguishers
- Burn prevention
- Ergonomics
- Caring for the environment
- Medical examinations

34 sporting events with the participation of more than 2,200 employees.



TRAINING

In order to improve the performance of the company's associates in the workplace, in 2015 Grupo Lamosa implemented a range of training and development programs, organized on the basis of individualized plans and according to the specific needs of the company's diverse administrative and operating areas.

| | 2013 | 2014 | 2015 |
|-------------------------------------|---------|---------|--------|
| Hours of training | 115,726 | 133,451 | 61,040 |
| Amount invested (millions of pesos) | \$9.4 | \$4.9 | \$6.1 |

Training included areas such as competencies, techniques, management and academic topics.



DIVERSITY

Grupo Lamosa's operations at 23 production centers in different parts of Mexico give it a heterogeneous workforce comprising workers from very diverse communities with disparate customs, skills and talents.

| | 2015 | | | 2014 | 2013 |
|--------------------------|---------------|-----------|-------|-------|-------|
| | Non-unionized | Unionized | Total | Total | Total |
| Sex | | | | | |
| Total | 2,120 | 2,543 | 4,663 | 5,600 | 5,521 |
| Men | 1,586 | 2,314 | 3,900 | 4,768 | 4,762 |
| Female | 534 | 229 | 763 | 832 | 759 |
| Age range (years) | | | | | |
| Less than 20 | - | 21 | 21 | 46 | 44 |
| 20 - 29 | 326 | 767 | 1,093 | 1,613 | 1,518 |
| 30 - 39 | 907 | 960 | 1,867 | 2,299 | 2,106 |
| 40 - 49 | 624 | 585 | 1,209 | 1,221 | 1,364 |
| 50 - 59 | 246 | 199 | 445 | 387 | 461 |
| More than 60 | 17 | 11 | 28 | 34 | 28 |
| Nationality | | | | | |
| Mexican | 2,108 | 2,543 | 4,651 | 5,588 | 5,517 |
| Other | 12 | - | 12 | 12 | 4 |

During the year, Grupo Lamosa promoted a culture of inclusion, integrating, wherever possible, the handicapped into its workforce. Moreover, the company's strategy to expand its operations outside Mexico will eventually give it a more plural and diverse workforce.

| Handicapped at Grupo Lamosa | | |
|-----------------------------|---------------|------------------|
| Business/Work Area | No. of People | Type of Handicap |
| Adhesives/Sales | 1 | Motor |
| Tiles/Enameling | 2 | Motor |
| Tiles/Furnaces | 2 | Visual/Motor |
| Tiles/Maintenance | 1 | Visual |
| Tiles/Classification | 1 | Speech/Hearing |
| TOTAL | 7 | |

CORRUPTION

In accordance with Grupo Lamosa’s commitment to following the principles of the United Nations Global Compact, the company continues to promote the principles and values in its Code of Ethics.

Strengthening of the company’s internal controls through careful attention to complaints received.

| | Complaints resolved through the Transparency Line | Complaints related to corruption |
|------|---|----------------------------------|
| 2013 | 101 | 34 |
| 2014 | 97 | 27 |
| 2015 | 60 | 20 |

1,045 people trained in topics related to the Code of Ethics.

Participation of 4,267 employees and operators in the Grupo Lamosa Culture of Legality Program “Let’s Do It Right” (Hagámoslo Bien).



HUMAN RIGHTS

During 2015, Grupo Lamosa continued to promote respect for human rights in all the company’s activities, reviewing different areas in order to promote and prevent any discriminatory acts.

Audits during the year confirmed that there were no discriminatory acts committed within the company.

Additionally, through its legal department and internal working procedures, Grupo Lamosa ensured that any new supply contracts contained clauses protecting human rights, such as the forbidding of forced and child labor.

Grupo Lamosa supports its workers’ freedom to associate and has a variety of collective contracts with diverse labor organizations in Mexico.

All Grupo Lamosa plants operate with collective labor contracts.

SOCIAL INVESTMENT

During 2015, the company made donations in cash and kind, benefitting 42 non-profit, educational and religious institutions.

In 2015, Grupo Lamosa’s businesses presented a list of objectives related to the implementation of voluntary social investment projects to help its neighboring communities. The diverse initiatives implemented were adapted to the specific needs of the different locations, with a continuously rising number of participants and families.



Lamosa personnel getting together with children from CAYAM (Center to help children at risk)

In 2015, 22 voluntary projects were carried out, including:

| Business | Plant/Offices | Volunteer Project | Activities |
|-------------------------|---|--|--|
| Tiles | Mexico City Offices | Support for AMANC (Mexican Association to Help Children with Cancer) | Visiting children and giving them clothes, toys and food |
| Tiles | Tlaxcala Pavilion Plant | Improvement of sports facilities | Cleaning and painting football fields in San Luis Teolocholco |
| Tiles | Tlaxcala Pavilion Plant | Grocery donations | Handing out food and grocery packages to the needy in San Luis Teolocholco |
| Tiles | Tlaxcala Gres Plant | School maintenance | Cleaning and maintenance of three schools in Magdalena Tlatelulco |
| Tiles | San Luis Potosi Plant | Support for CEMUVA (SLP Multidisciplinary Rehabilitation Center, Vallarta) | Participating in the Kilometrón and donating resources to handicapped children, young people and adults |
| Tiles | Tlaxcala Porcel Plant | Work experience program | Implementing a program to support students in coordination with the Universidad Iberoamericana in Puebla |
| Adhesives | Guadalajara Niasa Plant | Reforestation | Carrying out tree planting activities at the Centinela Forest in Zapopan, Jalisco |
| Adhesives | Chihuahua Crest Plant | Maintenance and improvement of children's home | Improving and repairing the facilities of the Guardian Angel Children's Home |
| Adhesives | Navojoa Niasa Plant | Improvement of hospital family accommodation building | Maintenance of the Holy Trinity Home in Huatabampo, Sonora |
| Adhesives and Corporate | Santa Catarina Crest Plant and San Pedro Garza García Offices | Support for children from CAYAM (Children's support center) | Supporting more than 50 CAYAM children with clothes, toys and social events |



Support for families in San Luis Teolocholco, Tlaxcala



"Committed to the Student Community" program



Improvements at the Guardian Angel Children's Home



Maintenance work at the Holy Trinity Home

PRODUCT RECOVERY

During the year, Grupo Lamosa continued to promote a culture of collecting and recycling products such as paper, cardboard, wood and PET, in order to optimize the use of these resources and protect the environment.

| | 2013 | 2014 | 2015 |
|--------------------------------|-----------|-----------|-----------|
| Wood | 1,104,626 | 898,790 | 1,217,213 |
| Cardboard/ Paper | 932,750 | 832,961 | 986,712 |
| Metal | 540,895 | 424,451 | 738,158 |
| Plastics | 242,400 | 225,623 | 268,432 |
| Other | 55,668 | 30,213 | 26,269 |
| Total material recovered (Kg.) | 2,876,339 | 2,412,038 | 3,236,783 |

ENERGY, WATER AND CO₂ EMISSIONS

In 2015, Grupo Lamosa built a cogeneration plant in the state of Nuevo León in order to continue increasing the energy efficiency of its wall and floor tile production facilities.

More than US\$12 million invested in cogeneration projects.

During the year, the company acted on the results of energy diagnostics, implementing initiatives such as the change of lighting to more efficient technology and the optimization of the power factor of company plants.

"Green Squared" recertification of Grupo Lamosa's tile plants in Benito Juárez, N.L., San Luis Potosí, S.L.P, and Querétaro, Qro.

Grupo Lamosa continues its interest in operating with Clean Industry Certification from the Mexican Environmental Protection Agency (PROFEPA) and made important progress during the year, underscoring its commitment to caring for the environment. This certification covers topics related to water, the control of emissions and environmental management systems, as well as others.

Clean Industry Certification for Grupo Lamosa's Porcel Tile Plant in Tlaxcala.



For the second consecutive year, Grupo Lamosa implemented its "Ponte las Pilas" battery collecting and disposal campaign. This initiative is designed to avoid the pollution of rivers and lakes by collecting and correctly confining batteries from the homes of employees and workers from its offices and plants in the state of Nuevo León.

| Year | Total number of batteries recovered | Environmental impact (millions of liters of water * not contaminated) |
|------|-------------------------------------|---|
| 2014 | 4,892 | 817 |
| 2015 | 4,696 | 784 |

* Estimate assuming that an alkaline battery contaminates 167 thousand liters of water.

During 2015, Grupo Lamosa worked on a pallet-recycling program with a home centers channel client at the company's plants in the State of Tlaxcala.

1,749 pallets recycled, resulting in approximately 625 trees saved from the woodchopper's axe.

BOARD OF DIRECTORS

FEDERICO TOUSSAINT ELOSÚA

Chairman of the Board and
Chief Executive Officer of Grupo Lamosa
Member since 1989
Related

BERNARDO ELOSÚA ROBLES

Independent Consultant
Member since 1993
Related
Corporate Practices Committee

GUILLERMO BARRAGÁN ELOSÚA

CEO of Hidrobart
Member since 1993
Related

JAVIER SAAVEDRA VALDÉS

Professional Painter
Member since 1998
Related

JOSÉ MANUEL VALVERDE VALDÉS

CEO of Financiera Educativa de México,
SOFOM
Member since 1998
Related

MARÍA DEL CARMEN ELOSÚA GONZÁLEZ

Director of María Elosúa Diseño
Member since 2013
Related

EDUARDO ELIZONDO BARRAGÁN

Chairman of the Board and
CEO of CRIOTEC and Subsidiaries
Member since 1992
Independent
Corporate Practices Committee

ARMANDO GARZA SADA

Chairman of the Board of ALFA
Member since 1997
Independent
Corporate Practices Committee

CARLOS ZAMBRANO PLANT

Consultant
Member since 1991
Independent
Audit Committee

EDUARDO PADILLA SILVA

CFO of FEMSA
Member since 2004
Independent
Audit Committee

EDUARDO GARZA T. FERNÁNDEZ

President of Grupo Frisa Industrias
Member since 2012
Independent
Audit Committee

MAXIMINO JOSÉ MICHEL GONZÁLEZ

Operations Manager of Liverpool
Member since 2009
Independent
Audit Committee

*Classification of Board Members
as "Related" or "Independent" in
accordance with the Ordinary
Annual Stockholders' Meeting of
March 12, 2015.*

IN MEMORIUM: MAX MICHEL SUBERVILLE



Grupo Lamosa would like to recognize the outstanding legacy of Don Max Michel Suberville, an extraordinary human being, friend, businessman and esteemed member of the company's Board of Directors for fifty uninterrupted years. His valuable contributions, vision and leadership, and the way he shared his vast experience for the company's benefit, are without doubt reflected in what Grupo Lamosa is today.

Grupo Lamosa Board Member 1958-2008

MAIN COMPANY OFFICERS



From left to right:

JORGE MANUEL ALDAPE LUENGAS

Adhesives Vice-President

FEDERICO TOUSSAINT ELOSÚA

Chief Executive Officer and Chairman of the Board of Directors of Grupo Lamosa

JULIO RAFAEL VARGAS QUINTANILLA

Human Resources Vice-President

SERGIO NARVÁEZ GARZA

Wall and Floor Tiles Vice-President

TOMÁS LUIS GARZA DE LA GARZA

Chief Financial Officer

AUDIT

COMMITTEE REPORT

February 26, 2016

To the Board of Directors of
Grupo Lamosa, S.A.B. de C.V. ("the Company")

As Chairman of the Audit Committee, I would like to present to you the report on this Committee's activities in relation to the financial year ended December 31, 2015, pursuant to Company Statutes and the current Law:

1. We reviewed the reports of the external auditor and on the results of the internal audit for the year of 2015.
2. To date, this Audit Committee has no knowledge of any incompliance with the operating and accounting guidelines and policies of the Company and its Subsidiaries.
3. This Committee has met with the representative of the firm of external auditors and evaluated the performance both of the firm and the auditor responsible therefor. The firm is responsible for expressing an opinion on the fairness of the Company's financial statements and their compliance with International Financial Reporting Standards. At the current time, we believe the performance of the firm and its auditors to be satisfactory.
4. This Committee authorized payment to the firm that supplied external auditing and additional services to the Company for the fiscal year of 2015.
5. We analyzed the modifications to the Mexican Tax Law.
6. We reviewed the survey and report on the operations of the Grupo Lamosa Transparency Line, ensuring that the cases received are being treated in accordance with the principles set out in the Company's Code of Ethics.
7. During the year, nothing worthy of note was observed with regard to the accounting, internal controls, or internal and external auditing, nor were there any complaints relating to irregularities on the part of Management. In the opinion of this committee, the Company continues to make significant progress with its corporate governance and internal control systems.
8. This Committee gave the Board of Directors a favorable opinion on the Annual Report of the Chief Executive Officer and on the report on operations and activities in which the Board was involved, corresponding to the fiscal year of 2015.
9. On the basis of the external auditors' report, this Committee believes that the accounting and information policies and criteria followed by the Company are adequate and sufficient, and have been applied consistently in the information presented by the Chief Executive Officer and by the Board of Directors, reflecting fairly the Company's financial position and results.



Carlos Zambrano Plant
Chairman

CORPORATE PRACTICES

COMMITTEE REPORT



February 26, 2016

To the Board of Directors of
Grupo Lamosa, S.A.B. de C.V. ("the Company")

As Chairman of the Corporate Practices Committee, I would like to present to you the report on this Committee's activities in relation to the financial year ended December 31, 2015 pursuant to Company Statutes and the current Law.

1. We reviewed the previously defined goals, individual and Company performance during the year and, where applicable, any observations on the performance of Company officers.
2. We reviewed the conditions and structure used to determine the total salary and benefit packages of the Chief Executive Officer and Company Officers on the basis of market trends.
3. This Committee gave no authorization for any board member, Company officer or person in a position of command to take advantage of business opportunities – either for themselves or for third parties – that correspond to the Company or its Subsidiaries, and is not aware that the Board of Directors or any other Committee has done so.
4. The Corporate Practices Committee will continue carrying out all the actions necessary to comply with the legal and statutory requirements that govern it.

Eduardo Elizondo Barragán
Chairman

CONSOLIDATED FINANCIAL STATEMENTS

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Independent AUDITORS' REPORT

To the Board of Directors and Stockholders of Grupo Lamosa, S. A. B. de C. V.

We have audited the accompanying consolidated financial statements of Grupo Lamosa, S.A.B. de C.V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the consolidated statements of income, other comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Lamosa, S. A. B. de C. V. and its subsidiaries as of December 31, 2015 and 2014, and their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the IASB.

Galaz, Yamazaki, Ruiz Urquiza, S. C.

Member of Deloitte Touche Tohmatsu Limited



C.P.C. A. Alejandra Villagómez G.

Lazaro Cardenas Ave. 2321 Residencial San Agustin

February 2, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2015 and 2014
(In thousands of Mexican pesos)

| | NOTES | 2015 | 2014 |
|--|----------|----------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 7 | \$ 1,371,456 | \$ 290,270 |
| Accounts receivable, net | 8 | 2,313,318 | 2,310,886 |
| Inventories | 9 | 1,476,496 | 1,366,338 |
| Other current assets | 10 | 664,080 | 857,818 |
| Assets classified as held for sale | 19 | | 804,109 |
| Current assets | | 5,825,350 | 5,629,421 |
| Real estate inventories | 11 | 126,314 | 155,759 |
| Property, plant and equipment, net | 12 | 4,759,419 | 4,467,479 |
| Intangible assets, net | 13 | 4,419,253 | 4,396,039 |
| Deferred income taxes | 22 | 573,043 | 353,976 |
| Other non-current assets | | 72,187 | 74,292 |
| Total | | \$ 15,775,566 | \$ 15,076,966 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of long-term debt | 15 | \$ 448,987 | \$ 141,872 |
| Current portion of finance lease liability | 16 | 36,474 | 33,030 |
| Current portion of derivative financial instruments | 6.2.5 | 79,598 | 93,394 |
| Trade accounts payable | | 1,104,941 | 939,072 |
| Income taxes for tax consolidation | 22 | 837,246 | 157,621 |
| Other current liabilities | 14 | 605,715 | 658,400 |
| Liabilities associated with assets classified as held for sale | 19 | | 267,428 |
| Current liabilities | | 3,112,961 | 2,290,817 |
| Long-term debt | 15 | 4,352,983 | 4,412,310 |
| Finance leases | 16 | 100,193 | 107,294 |
| Employee benefits | 17 | 315,219 | 281,593 |
| Derivative financial instruments | 6.2.5 | 139,861 | 63,283 |
| Income taxes for tax consolidation | 22 | 1,283,287 | 1,949,393 |
| Total liabilities | | 9,304,504 | 9,104,690 |
| Stockholders' equity: | | | |
| Capital stock | 18 | 203,028 | 203,003 |
| Additional paid-in-capital | 18 | 139,386 | 139,386 |
| Retained earnings | | 6,373,332 | 5,780,845 |
| Other comprehensive income items | 6.2.5,17 | (244,684) | (150,958) |
| Total stockholders' equity | | 6,471,062 | 5,972,276 |
| Total | | \$ 15,775,566 | \$ 15,076,966 |

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2015 and 2014
(In thousands of Mexican pesos, except for the earning per share, which is in Mexican pesos)

| | NOTES | 2015 | 2014 |
|---|-------|-------------------|-------------------|
| Continuing operations: | | | |
| Net sales | 24 | \$ 10,636,180 | \$ 8,970,883 |
| Cost and expenses: | | | |
| Cost of sales | | 6,310,074 | 5,380,952 |
| Operating expenses | 20 | 2,575,906 | 2,069,045 |
| Other income, net | | (28,967) | (44,835) |
| | | 8,857,013 | 7,405,162 |
| Operating income | | 1,779,167 | 1,565,721 |
| Interest expense | | 247,203 | 296,086 |
| Interest income | | (17,148) | (24,541) |
| Exchange loss, net | | 399,418 | 331,633 |
| | | 629,473 | 603,178 |
| Income before income taxes | | 1,149,694 | 962,543 |
| Income taxes | 22 | 383,993 | 319,727 |
| Income from continuing operations | | 765,701 | 642,816 |
| Loss from discontinued operations, net of income taxes | 19 | 64,376 | 200,359 |
| Net income of the year | | \$ 701,325 | \$ 442,457 |
| Earnings per basic and diluted share from continuing operations | 4v | 2.03 | 1.73 |
| Earnings per basic and diluted share from discontinued operations | 4v | (0.17) | (0.54) |
| Earnings per basic and diluted share | 4v | \$ 1.86 | \$ 1.19 |

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2015 y 2014
(In thousands of Mexican pesos)

| | NOTES | 2015 | 2014 |
|--|-------|-------------------|-------------------|
| Net income of the year | | \$ 701,325 | \$ 442,457 |
| Other comprehensive income items: | | | |
| Item that can be potentially reclassified to net income of the year from continuing operations, net of taxes: | | | |
| Valuation of derivative financial instruments | 6.2.5 | (38,250) | (100,714) |
| Exchange differences on translation of foreign operations | 18 h) | (36,581) | |
| Item that can be potentially reclassified to net income of the year from discontinued operations, net taxes: | | | |
| Valuation of derivative financial instruments | | | (5,043) |
| | | (74,831) | (105,757) |
| Item that cannot be potentially reclassified to net income of the year from continuing operations, net of taxes: | | | |
| Actuarial remeasurements of defined benefits obligation | 17 | (18,895) | (15,245) |
| Item that cannot be reclassified to net income of the year from continuing operations, net of taxes: | | | |
| Actuarial remeasurements of defined benefits obligation | 17 | | (1,455) |
| | | (18,895) | (16,700) |
| Total other comprehensive items | | (93,726) | (122,457) |
| Total comprehensive income of the year | | \$ 607,599 | \$ 320,000 |

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2015 y 2014
(In thousands of Mexican pesos)

| | Capital Stock | Additional Paid-In Capital | Retained Earnings | Valuation of Derivative Financial Instruments | Remeasurement of Defined Benefits Obligation | Effects of foreign currency translation | Total Stockholders' Equity |
|----------------------------------|------------------|----------------------------------|----------------------|--|---|--|----------------------------------|
| Balances as of January 1, 2014 | \$ 202,978 | \$ 139,386 | \$ 5,438,701 | \$ (9,614) | \$ (18,887) | \$ - | \$ 5,752,564 |
| Capital increase | 25 | | | | | | 25 |
| Dividends declared | | | (100,313) | | | | (100,313) |
| Comprehensive income | | | 442,457 | (105,757) | (16,700) | | 320,000 |
| Balance as of December 31, 2014 | 203,003 | 139,386 | 5,780,845 | (115,371) | (35,587) | | 5,972,276 |
| Capital increase | 25 | | | | | | 25 |
| Dividends declared | | | (108,838) | | | | (108,838) |
| Comprehensive income | | | 701,325 | (38,250) | (18,895) | (36,581) | 607,599 |
| Balances as of December 31, 2015 | \$ 203,028 | \$ 139,386 | \$ 6,373,332 | \$ (153,621) | \$ (54,482) | \$ (36,581) | \$ 6,471,062 |

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 y 2014
(In thousands of Mexican pesos)

| | 2015 | 2014 |
|--|--------------|-------------|
| Cash flows from operating activities | | |
| Income before taxes | \$ 1,149,694 | \$ 962,543 |
| Adjustment for: | | |
| Depreciation and amortization | 365,950 | 331,356 |
| Other provisions | 143,803 | 83,770 |
| Interest income | (17,148) | (24,541) |
| Interest expense | 247,203 | 296,086 |
| Exchange loss, net | 399,418 | 331,633 |
| Disposal of property, plant and equipment | 36,000 | 30,000 |
| | 2,324,920 | 2,010,847 |
| Changes in working capital: | | |
| Increase in customers | (71,754) | (72,377) |
| Increase in inventories and real estate inventories | (87,271) | (115,197) |
| Increase in suppliers | 165,868 | 110,863 |
| Other liabilities | (106,829) | (157,486) |
| Income taxes paid | (225,518) | (413,587) |
| Operating activities of discontinued operations | | (136,726) |
| Net cash flows provided by operating activities | 1,999,416 | 1,226,337 |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (926,045) | (184,996) |
| Interest income | 17,148 | 24,541 |
| Acquisition of intangible assets | (48,882) | (109,971) |
| Proceeds from sale of business | 544,735 | |
| Investing activities of discontinued operations | | (24,076) |
| Net cash flows used in investing activities | (413,044) | (294,502) |
| Cash flows from financing activities: | | |
| Payments for bank liabilities | (237,221) | (828,002) |
| Interest paid | (205,759) | (288,868) |
| Dividends paid | (102,791) | (95,147) |
| Other financing activities | | (67,959) |
| Net cash flows used in financing activities | (545,771) | (1,279,976) |
| Net increase (decrease) in cash and cash equivalents | 1,040,601 | (348,141) |
| Cash and cash equivalents at beginning of year | 290,270 | 626,945 |
| Effects from changes in cash value | 40,585 | 11,466 |
| Cash and cash equivalents at end of the year | \$ 1,371,456 | \$ 290,270 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 y 2014
(In thousands of Mexican pesos)

1. Activities

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

2. Relevant events

On May 4, 2015, the Company completed the sale of 100% of its interest in its Sanitaryware business after meeting applicable regulatory approvals, including the Federal Competition Commission. This transaction was announced on December 19, 2014, and as result, the Company classified the assets and liabilities to be disposed as held for sale and as a discontinued operation (see Note 19).

3. Basis of presentation and consolidation

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

b. New accounting pronouncements – The Company has not applied the following new, revised and issued IFRS, which are not yet effective as of December 31, 2015:

IFRS 9, Financial Instruments

IFRS 9, "Financial Instruments" issued in July 2014, is the replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this face of the project was separated from the IFRS 9 project.

The Company is in the process of evaluating the potential impacts in its consolidated financial statements that could derive from the adoption of this standard.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers," was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time. The standard also outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance.

The Company is in the process of evaluating the potential impacts in its consolidated financial statements that could derive from the adoption of this standard.

IFRS 16, Leases

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

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

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

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

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

Amendments to IAS 12, Income Taxes

Amendments to IAS 12 Income Taxes, clarify that unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. Additionally, they specify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and when comparing deductible temporary differences with future taxable profits, these exclude tax deductions resulting from the reversal of those deductible temporary differences. These amendments are effective for annual periods beginning on January 1, 2017 with retrospective application, although earlier application is permitted. The Company is in the process of determining the potential impacts that will derive in its consolidated financial statements from the adoption of these amendments.

The Company is in the process of evaluating the potential impacts in its consolidated financial statements that could derive from the adoption of this standard.

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

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

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

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

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

Ceramic Business

Administradora Lamosa, S.A. de C.V. Sofom E. N. R.
 Estudio Cerámico México, S.A. de C.V. ⁽¹⁾
 Gres, S.A. de C.V.
 Gresaise, S.A. de C.V.
 Inmobiliaria Porcelanite, S.A. de C.V.
 Ital Gres, S.A. de C.V.
 Italaise, S.A. de C.V.
 Lamosa Revestimientos, S.A. de C.V.
 Mercantil de Pisos y Baños, S.A. de C.V.
 Pavillion, S.A. de C.V.
 PLG Ceramics, Inc.
 PL Ceramics Group, Inc.
 Porcel, S.A. de C.V.
 Porcelanite Lamosa, S.A. de C.V.
 Lamosa Energia de Monterrey, S.A. de C.V.
 (previously Productos Cerámicos de Querétaro, S.A. de C.V.)
 Revestimientos Lamosa México, S.A. de C.V.
 Revestimientos Porcelanite, S.A. de C.V.
 Revestimientos y Servicios Comerciales, S.A. de C.V.
 Servicios Administrativos Porcelanite, S.A. de C.V. ⁽²⁾
 Servicios Comerciales Lamosa, S.A. de C.V.
 Servigesa, S.A. de C.V. ⁽¹⁾

Adhesives Business

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

Real Estate Business

Fideicomiso de actividades empresariales para el desarrollo de inmuebles No. 851-00103⁽³⁾
 Grupo Inmobiliario Viber, S.A. de C.V.
 Servicios de Administración el Diente, S.A. de C.V.
 Servicios Industriales Lamosa, S.A. de C.V.
 Inmobiliaria Revolución, S.A. de C.V.

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

⁽²⁾ Entity merged with Lamosa Servicios Administrativos S.A. de C.V. on November 10, 2014

⁽³⁾ On August 4, 2015, the Company liquidated the Trust.

Corporate and others

Lamosa Servicios Administrativos, S.A. de C.V.
 Servicios Administrativos Lamosa, S.A. de C.V.
 Servicios Lamosa S.A. de C.V. Sofom E. N. R.

Subsidiaries that form part of the discontinued operations of Glasa, are as follows:

Ceramic Business

Activos Inmobiliarios Sanitarios Lamosa, S.A. de C.V.⁽¹⁾
 North American Plumbing Products, Inc.
 Sanitarios Azteca, S.A. de C.V.
 Sanitarios Lamosa, S.A. de C.V.

⁽¹⁾ Company was created in June 2014.

4. Significant accounting policies

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

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

Effective interest method

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

Held to maturity investments

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

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

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

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

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

Accounts receivable and other receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company as lessee

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

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

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Company has no finance leases as lessor.

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

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

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

j. Goodwill – Goodwill arising from a business combination and recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

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

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

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

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

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

Financial liabilities at FVTPL

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

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

Debt and other financial liabilities measured at amortized cost

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

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

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

Derecognition

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

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

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

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

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

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

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

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

The Company uses interest rate swaps, foreign exchange and natural gas hedges, to manage its exposure to fluctuations in interest rates, foreign exchange, and market prices of natural gas, respectively (see Note 6.2.5).

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

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

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

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

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

Legal defined contribution plan – The Company makes contributions equivalent to 2% of the salary of their workers to their plan defined contribution plan based on the retirement savings requirements established by law. The expense recognized for this item was \$20,125 in 2015 and \$22,388 in 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

v. Earnings per share (“EPS”) – EPS is calculated by dividing the consolidated net income by the weighted average number of shares outstanding during the period. Earnings per share are based on 376,800,627 and 373,037,305 weighted average shares outstanding during 2015 and 2014, respectively. The Company does not have potentially dilutive instruments.

5. Critical accounting judgments and key uncertainty sources in estimates

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

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

Useful lives of fixed and intangible assets

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

Valuations to determine the recoverability of deferred tax assets

As part of the tax analysis that the Company makes, on an annual basis it determines the projected taxable income based on the judgements and estimates of future operations, to conclude on the probability of recoverability of deferred tax assets, such as including tax losses and other tax credits. See Note 22.

Impairment of long lived assets

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

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

Assumptions made in defined benefit plan obligations

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

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

Significant influence

The Company holds a 49% interest in both Estudio Cerámico México, S.A. de C.V. and Serviges, S.A. de C.V., but since it does not hold the majority of the substantive rights in these entities and does not have the power and the ability to affect variable returns, it has concluded that it does not exercise control over them. See Note 3.f.

Classification of an operation to be disposed as held for sale

The Company’s management assesses whether a group of assets and liabilities can be classified as held for sale, considering if their carrying amount will be recovered through a sale transaction rather than its continued use. For this to be the case, the disposal group must be available for immediate sale in its present conditions, subject only to usual transaction terms and the sale must be considered by management as highly probable to occur. See Note 19.

Contingencies

The Company is subject to transactions or contingent events on which it uses professional judgment in the development of estimates of probability of occurrence. The factors considered in these estimates are the legal situation at the date of the estimate, and the opinion of legal advisors. See Note 21.

6. Objectives of risk management in financial instruments

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

6.1 Categories and fair value of financial instruments

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

| | 2015 | December 31, 2014 |
|---|--------------|----------------------|
| Financial Assets: | | |
| Cash and cash equivalents ⁽¹⁾ | \$ 1,371,456 | \$ 290,270 |
| Accounts receivable ⁽¹⁾ | 2,313,318 | 2,310,886 |
| Financial liabilities: | | |
| Derivative financial instruments ⁽²⁾ | 219,459 | 156,677 |
| Amortized cost liabilities ^{(1) (3)} | 6,043,577 | 5,633,578 |

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

⁽²⁾ Instruments measured at fair value

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

6.2 Market risk

6.2.1 Foreign Exchange risk

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

| | 2015 | 2014 |
|-----------------------------|----------------|----------------|
| Financial assets | US\$ 30,957 | US\$ 35,307 |
| Financial liabilities | (222,621) | (220,601) |
| Liability position | US\$ (191,664) | US\$ (185,294) |
| Equivalent in Mexican pesos | \$ (3,297,867) | \$ (2,731,493) |

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

| | As of December 31, 2015 | As of December 31, 2014 |
|--|----------------------------|----------------------------|
| | \$ 17.21 | \$ 14.74 |

At February 2, 2016, the interbank exchange rate established by Banco de Mexico was \$18.49 Mexican pesos per U.S. dollar.

6.2.2. Sensitivity analysis of exchange risk

Because the Company has a borrowing position in foreign currency, mainly due to debt and finance leases in US dollars it is exposed to variations in exchange rates. Therefore, if as of December 31, 2015, the Mx. peso/U.S. dollar ratio increased by \$3.00 Mexican pesos, then the amount of net monetary position in foreign currency would have increased by \$574,991 impacting income before taxes and the Company's stockholders' equity would have resulted in an exchange loss. If on the other hand, such ratio had decreased by \$3.00 Mexican pesos, the effect would have been the opposite. Both scenarios represent the amount that management considers reasonably possible to occur in a year given current market volatility.

6.2.3. Interest rate risk

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

The Company monitors trends in such interest rates. In recent years the trend of 28-day TIIE and 3 month LIBOR has gone down; the 28-day TIIE was at its lowest level in September 2014 (3.29%), while 3 month LIBOR was at its lowest level in January 2015 (0.25%). As of December 31, 2015, the Company held debt balance denominated in Mexican pesos of \$2,157,012, with a 28-day TIIE rate plus 1.75% and \$28,861 with a 28-day TIIE rate plus between 5% and 2.75%, and in U.S. dollars of \$163,974, with a 3 month LIBOR rate plus 1.90%, and \$6,229 with a 3 month LIBOR rate plus 2.24%. The interest expense recorded during 2015 and 2014 was \$198,619 and \$250,767, respectively

6.2.4. Sensitivity analysis of interest risk

If as of December 31, 2015, the interest rates on the Company's debt instruments had increased one percentage point, which represents the percentage that management considers reasonably possible to occur in the coming year, the impact in income before income taxes and the Company's stockholders' equity would be an expense of \$53,932. The increase of interest rates would generate a decrease of the income while a decrease in such rates would generate a benefit to the income.

6.2.5. Natural gas price risk

The Company is exposed to fluctuations in the price of natural gas. During the years ended December 31, 2015 and 2014, the Company consumed natural gas of approximately 9,542,653 and 8,774,732 million British Thermal Units ("MMBTUS"), respectively. Based on the guidelines established by the Finance Committee to hedge the risk of the rise in the price of gas, a strategy to hedge this input has been implemented by contracting derivative financial instruments that have been classified as cash flow hedges.

During the years ended December 31, 2015 and 2014, a total of 5,385,000 and 6,900,000 MMBTUS were hedged, respectively. The effect for the aforementioned hedging transaction represented expenses of \$140,867 and \$11,739 in the 2015 and 2014 consolidated statements of income, respectively, which was presented within cost of sales.

As of December 31, 2015 and 2014, the Company has derivatives that hedge the natural gas price of approximately 7,740,000 and 12,360,000 MMBTUS, respectively. At the same date, the fair value of such hedges was as follows:

| Type of Transaction | Notional MMBTU in Effect | Maturity | Average Price ⁽¹⁾ | Fair Value Liability |
|---------------------|--------------------------|----------|------------------------------|----------------------|
| In 2015: | | | | |
| Swaps | 2,580,000 | 2016 | 4.23 | \$ (79,598) |
| Swaps | 2,580,000 | 2017 | 4.50 | (74,921) |
| Swaps | 2,580,000 | 2018 | 4.23 | (64,940) |
| | 7,740,000 | | | \$ (219,459) |
| In 2014: | | | | |
| Swaps | 5,160,000 | 2015 | 4.23 | \$ (93,394) |
| Swaps | 2,400,000 | 2016 | 4.23 | (26,875) |
| Swaps | 2,400,000 | 2017 | 4.50 | (22,794) |
| Swaps | 2,400,000 | 2018 | 4.50 | (13,614) |
| | 12,360,000 | | | \$ (156,677) |

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

As of December 31, 2015 and 2014 and February 2, 2016, the issuance date of the consolidated financial statements, the market price of natural gas was US\$2.1575, US\$4.1320 and US\$2.1372, U.S. dollars of MMBTUS, respectively.

The valuation of the effective portion of derivative financial instruments recognized in other comprehensive income for the years ended December 31, 2015 and 2014 is as follows:

| Activity of the year: | 2015 | 2014 |
|------------------------------|---------------------|---------------------|
| Opening balance | \$ (115,371) | \$ (9,614) |
| Changes during the year | (54,643) | (151,081) |
| Tax effect | 16,393 | 45,324 |
| Ending balance | \$ (153,621) | \$ (115,371) |

6.2.6 Sensitivity analysis of natural gas price risk

If as of the December 31, 2015, the gas price had increased by 10%, which represents the percentage that management considers reasonably possible to occur in the coming year, the Company's income before taxes would have decreased by \$62,468, having an effect in stockholders' equity of \$43,728. If on the other hand, such ratio had decreased by 10%, then the effect would be the opposite. Such effects consider the aforementioned hedging strategy and the effect of the corresponding derivative financial instruments

6.3 Liquidity risk

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

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

6.4 Credit risk

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

7. Cash and cash equivalents

| | 2015 | | 2014 |
|--|--------------|----|---------|
| Cash and bank deposits | \$ 151,515 | \$ | 194,101 |
| Cash equivalents- investments in money market fund | 1,219,941 | | 96,169 |
| | \$ 1,371,456 | \$ | 290,270 |

8. Accounts receivable, net

| | 2015 | | 2014 |
|---------------------------------|--------------|----|-----------|
| Trade accounts receivable | \$ 2,385,566 | \$ | 2,343,999 |
| Allowance for doubtful accounts | (72,248) | | (33,113) |
| | \$ 2,313,318 | \$ | 2,310,886 |

Age of due portfolio, not uncollectible:

| | 2015 | | 2014 |
|----------------|------------|----|---------|
| 60 to 90 days | \$ 44,189 | \$ | 49,587 |
| 90 to 120 days | 36,099 | | 42,507 |
| Over 120 days | 149,238 | | 147,566 |
| | \$ 229,526 | \$ | 239,660 |

Movements in the doubtful account estimate:

| | 2015 | | 2014 |
|---|-------------|----|----------|
| Opening balance | \$ (33,113) | \$ | (33,018) |
| Allowance for doubtful accounts of the year | (69,851) | | (14,519) |
| Write-offs | 30,716 | | 14,424 |
| Ending balance | \$ (72,248) | \$ | (33,113) |

9. Inventories

| | 2015 | | 2014 |
|-----------------------------|--------------|----|-----------|
| Finished goods | \$ 948,066 | \$ | 902,641 |
| Work in process | 85,953 | | 83,375 |
| Raw materials | 285,507 | | 256,731 |
| Accessories and spare parts | 156,970 | | 123,494 |
| Merchandise in transit | | | 97 |
| | \$ 1,476,496 | \$ | 1,366,338 |

The amount of the inventories consumed and recognized as part of cost of sales for the years ended December 31, 2015 and 2014, amounted to \$3,661,266 and \$2,938,474, respectively.

Inventories recognized as an expense for the years ended December 31, 2015 and 2014 include \$6,555 and \$3,428, respectively, for write-downs of inventory to their net realizable value.

10. Other current assets

| | 2015 | | 2014 |
|----------------------|------------|----|---------|
| Recoverable taxes | \$ 287,351 | \$ | 632,850 |
| Advance to suppliers | 304,044 | | 108,392 |
| Other | 72,685 | | 116,576 |
| | \$ 664,080 | \$ | 857,818 |

11. Real estate inventories

| | 2015 | | 2014 |
|----------------------|------------|----|---------|
| Real estate for sale | \$ 32,483 | \$ | 59,595 |
| Undeveloped land | 93,831 | | 96,164 |
| | \$ 126,314 | \$ | 155,759 |

12. Property, plant and equipment, net

| | 2015 | | 2014 |
|-----------------------------|--------------|----|------------|
| Land | \$ 595,421 | \$ | 583,392 |
| Buildings and constructions | 3,168,124 | | 3,150,689 |
| Machinery and equipment | 7,950,608 | | 7,799,995 |
| Furniture and equipment | 58,704 | | 66,805 |
| Vehicles | 94,903 | | 99,691 |
| Computers | 93,154 | | 111,949 |
| Investment in process | 456,318 | | 84,895 |
| | 12,417,232 | | 11,897,416 |
| Accumulated depreciation | 7,657,813 | | 7,429,937 |
| | \$ 4,759,419 | \$ | 4,467,479 |

| | Balances as of December 31, 2014 | Additions | Deprecia- tion | Divestitures | Capitalization | Assets held for sale | Balances as of December 31, 2015 |
|-----------------------------|--|-----------|-------------------|--------------|----------------|-------------------------|--|
| Investment: | | | | | | | |
| Lands | \$ 583,392 | \$ 12,029 | | | | | \$ 595,421 |
| Buildings and constructions | 3,150,689 | 127 | | | \$ 17,308 | | 3,168,124 |
| Machinery and equipment | 7,799,995 | 7,383 | | \$ 71,828 | 215,058 | | 7,950,608 |
| Furniture and equipment | 66,805 | 350 | | 12,524 | 4,073 | | 58,704 |
| Vehicles | 99,691 | 22,306 | | 27,094 | | | 94,903 |
| Computers | 111,949 | 1,494 | | 32,401 | 12,112 | | 93,154 |
| Investments in process | 84,895 | 637,547 | | 17,573 | (248,551) | | 456,318 |
| Total investment | 11,897,416 | 681,236 | | 161,420 | | | 12,417,232 |

Depreciation:

| | | | | | | | |
|--------------------------------|--------------|------------|------------|-----------|------|--|--------------|
| Buildings and constructions | 1,368,650 | | \$ 65,463 | 2,060 | | | 1,432,053 |
| Machinery and equipment | 5,852,740 | | 239,386 | 87,016 | | | 6,005,110 |
| Furniture and equipment | 52,842 | | 3,142 | 819 | | | 55,165 |
| Vehicles | 76,242 | | 16,960 | 19,381 | | | 73,821 |
| Computers | 79,463 | | 15,402 | 3,201 | | | 91,664 |
| Total accumulated depreciation | 7,429,937 | | 340,353 | 112,477 | | | 7,657,813 |
| Investment, net | \$ 4,467,479 | \$ 681,236 | \$ 340,353 | \$ 48,943 | \$ - | | \$ 4,759,419 |

| | Balances as of December 31, 2013 | Additions | Deprecia- tion | Divestitures | Capitalization | Assets held for sale | Balances as of December 31, 2014 |
|----------------------------|--|-----------|-------------------|--------------|----------------|-------------------------|--|
| Investment: | | | | | | | |
| Land | \$ 745,655 | | | | | \$ 162,263 | \$ 583,392 |
| Building and constructions | 3,273,912 | \$ 1,930 | | | \$ 28,520 | 153,673 | 3,150,689 |
| Machinery and equipment | 8,034,011 | 97,288 | | \$ 574 | 169,694 | 500,424 | 7,799,995 |
| Furniture and equipment | 77,275 | 573 | | 356 | 1,007 | 11,694 | 66,805 |
| Vehicles | 103,208 | 25,610 | | 24,935 | 606 | 4,798 | 99,691 |
| Computers | 129,080 | 4,199 | | 25 | 8,714 | 30,019 | 111,949 |
| Investment in process | 134,498 | 180,218 | | | (208,541) | 21,280 | 84,895 |
| Total investment | 12,497,639 | 309,818 | | 25,890 | | 884,151 | 11,897,416 |

Depreciation:

| | | | | | | | |
|-----------------------------|--------------|------------|------------|-----------|------|------------|--------------|
| Buildings and constructions | 1,305,427 | | \$ 70,281 | 334 | | 6,724 | 1,368,650 |
| Machinery and equipment | 5,930,131 | | 252,697 | 644 | | 329,444 | 5,852,740 |
| Furniture and equipment | 59,703 | | 2,959 | 373 | | 9,447 | 52,842 |
| Vehicles | 68,903 | | 21,031 | 10,134 | | 3,558 | 76,242 |
| Computers | 85,344 | | 15,667 | 10 | | 21,538 | 79,463 |
| Accumulated depreciation | 7,449,508 | | 362,635 | 11,495 | | 370,711 | 7,429,937 |
| Investment, net | \$ 5,048,131 | \$ 309,818 | \$ 362,635 | \$ 14,395 | \$ - | \$ 513,440 | \$ 4,467,479 |

During the years ended December 31, 2015 and 2014, the Company had idle capacity of 5.87% and 14.13%, respectively. Borrowing costs related to fixed assets were not significant. During the years ended December 31, 2015 and 2014, the Company wrote-off property, plant and equipment amounting to \$36,000 and \$30,000, respectively, of assets that were removed from use.

13. Intangible assets

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Unamortizable intangible assets: | | |
| Brands | \$ 3,791,459 | \$ 3,791,459 |
| Goodwill | 382,636 | 382,636 |
| | 4,174,095 | 4,174,095 |
| Amortizable intangible assets | 245,158 | 221,944 |
| | \$ 4,419,253 | \$ 4,396,039 |

| Cost | Brands | Goodwill | Total Unamortized | Amortized Intangibles | Total |
|---|---------------------|-------------------|--------------------------|------------------------------|---------------------|
| Balances as of December 31, 2013 | \$ 3,791,459 | \$ 365,368 | \$ 4,156,827 | \$ 122,510 | \$ 4,279,337 |
| Acquisitions | | 17,268 | 17,268 | 109,971 | 127,239 |
| Amortization | | | | (10,537) | (10,537) |
| Balances as of December 31, 2014 | 3,791,459 | 382,636 | 4,174,095 | 221,944 | 4,396,039 |
| Acquisitions | | | | 48,882 | 48,882 |
| Amortization | | | | (25,668) | (25,668) |
| Balances as of December 31, 2015 | \$ 3,791,459 | \$ 382,636 | \$ 4,174,095 | \$ 245,158 | \$ 4,419,253 |

As of December 31, 2015 and 2014, intangible assets with finite useful lives mainly refer to expenses of the Company related to the implementation of an enterprise resource planning (ERP) system which began amortization in 2014, when it was deemed to be ready for its intended use.

For the years ended December 31, 2015 and 2014, borrowing costs related to intangible assets were not significant.

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

| | 2015 | 2014 |
|---------------|---------------------|---------------------|
| Ceramic tiles | \$ 3,946,296 | \$ 3,946,296 |
| Solutek | 227,799 | 227,799 |
| | \$ 4,174,095 | \$ 4,174,095 |

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

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

The discount and perpetuity growth rates used for the years ended December 31, 2015 and 2014, are as follows:

| | 2015 | 2014 |
|------------------------|-------------|-------------|
| Discount rate | | |
| Ceramic tiles | 10.91% | 11.63% |
| Solutek | 10.60% | 11.43% |
| Perpetuity growth rate | | |
| Ceramic tiles Solutek | 3.00% | 3.70% |

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

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

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

14. Other current liabilities

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Contributions and taxes payable | \$ 152,516 | \$ 204,194 |
| Freights payable | 189,056 | 181,125 |
| Energy payable | 63,035 | 84,334 |
| Statutory employee profit sharing (PTU) | 14,479 | 11,922 |
| Other accounts payable | 186,629 | 176,825 |
| | \$ 605,715 | \$ 658,400 |

15. Long-term debt

a. According to the long-term loan agreements, the bank debt as of December 31, 2015 and 2014, is as follows:

| | 2015 | 2014 |
|---|--------------|--------------|
| Secured bank loans denominated in U.S. dollars, bearing variable interest based on LIBOR plus a maximum rate of 2.65% for 2015 and 2014 with principal maturities at different dates through 2019. | \$ 2,821,414 | \$ 2,497,912 |
| Secured bank loan denominated in Mexican pesos, bearing variable interest based on the interbank equilibrium interest rate ("TIIE") plus a maximum surcharge interest rate of 2.50% for 2015 and 2014. The principal matures at different dates through 2019. | 2,157,012 | 2,279,780 |
| Total financial debt | 4,978,426 | 4,777,692 |
| Debt issuance costs | (176,456) | (223,510) |
| Total net financial debt | 4,801,970 | 4,554,182 |
| Current portion | (448,987) | (141,872) |
| Long-term debt | \$ 4,352,983 | \$ 4,412,310 |

Long-term debt maturities as of December 31, 2015 are as follows:

| Year | Principal | Interest ⁽¹⁾ |
|------|--------------|-------------------------|
| 2017 | \$ 635,269 | \$ 104,983 |
| 2018 | 690,515 | 88,161 |
| 2019 | 3,027,199 | 52,950 |
| | \$ 4,352,983 | \$ 246,094 |

⁽¹⁾ Interest is determined based on variable rates at the end of the period.

TIIE and LIBOR interest rates were as follows:

| Year | TIIE % | LIBOR % |
|------|-----------|------------|
| 2015 | 3.420 | 0.6127 |
| 2014 | 3.300 | 0.2556 |

b. The debt is guaranteed by a group of subsidiaries of the Company

c. Certain restrictions are included in some clauses of the long-term debt agreements of the Company as well as the obligation to maintain certain financial ratios. Such restrictions have been met at December 31, 2015.

During 2014, the Company made prepayments on long-term debt of \$518,931.

16. Finance leases

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

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Finance lease denominated in US dollars, bearing variable interest based on LIBOR plus an interest rate of 2.24% for 2015 and 2014, with maturities of principal on different dates through 2019. | \$ 107,170 | \$ 113,033 |
| Finance lease denominated in U.S. dollars, bearing variable interest based on LIBOR plus an interest rate of 2.83% in 2015 and 2.24% in 2014. The principal matures at different dates through 2016. | 636 | 3,126 |
| Finance lease denominated in Mexican pesos, bearing variable interest based on TIIE plus an interest rate between 5.00% and 2.75% for 2015 and 2014. The principal matures at different dates through 2018. | 28,861 | 24,165 |
| Total net finance lease | 136,667 | 140,324 |
| Current portion | (36,474) | (33,030) |
| Long-term finance lease | \$ 100,193 | \$ 107,294 |

| | Minimum rent payments | | Present value of minimum lease payments | |
|--|-----------------------|-------------------|---|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Less than one year | \$ 41,358 | \$ 37,056 | \$ 36,474 | \$ 33,030 |
| More than one year | 106,189 | 113,154 | 100,193 | 107,294 |
| | \$ 147,547 | 150,210 | \$ 136,667 | \$ 140,324 |
| MinusLess amounts representing future interest expense | (10,880) | (9,886) | | |
| Present value of minimum lease payments | \$ 136,667 | \$ 140,324 | | |

The expiration of long-term finance leases as of December 31, 2015 is as follows:

| Year | Principal | Interest (1) |
|------|-------------------|-----------------|
| 2017 | \$ 34,772 | \$ 3,215 |
| 2018 | 33,009 | 1,748 |
| 2019 | 32,412 | 1,033 |
| | \$ 100,193 | \$ 5,996 |

⁽¹⁾ Interest is determined based on variable rates at the end of the period.

These contracts are denominated in U.S. dollars and in Mexican pesos with variable interest rates based on the LIBOR and TIIE. The average effective interest rate was approximately 3.79% in 2015 and 2014.

17. Employee benefits

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

| | 2015 | 2014 |
|---|-------|-------|
| Discount of the projected benefit obligation at present value | 6.50% | 6.75% |
| Salary increase | 4.50% | 4.50% |

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

b) The amounts included in the consolidated statements of financial position arising from the Company's obligations related to the defined benefit plans are:

| | 2015 | 2014 |
|-----------------------------------|-------------------|-------------------|
| Vested benefit obligation | \$ 122,225 | \$ 119,591 |
| Non-vested benefit obligation | 192,994 | 162,002 |
| Defined benefit obligation | \$ 315,219 | \$ 281,593 |

c) The effects recognized in the consolidated statements of other comprehensive income for 2015 and 2014 are as follows:

| | Net income | | | | | | Other comprehensive income | |
|------------------------------|-----------------------|-------------------------|------------------|--|-------------------------|-----------------|----------------------------|--|
| | Current service cost | | Total | Net interest defined benefit liability | | Total | Actuarial remeasurements | |
| | Continuing Operations | Discontinued operations | | Continuing operations | Discontinued operations | | | |
| 2015 | | | | | | | | |
| Pension and retirement plans | \$ 3,864 | \$ 88 | \$ 3,952 | \$ 1,361 | \$ 52 | \$ 1,413 | \$ 7,418 | |
| Seniority premium | 9,295 | 723 | 10,018 | 7,764 | 666 | 8,430 | 11,477 | |
| Total | \$ 13,159 | \$ 811 | \$ 13,970 | \$ 9,125 | \$ 718 | \$ 9,843 | \$ 18,895 | |

| | Net income | | | | | | Other comprehensive income | |
|------------------------------|-----------------------|-------------------------|------------------|--|-------------------------|------------------|----------------------------|--|
| | Current service cost | | Total | Net interest defined benefit liability | | Total | Actuarial remeasurements | |
| | Continuing Operations | Discontinued operations | | Continuing operations | Discontinued operations | | | |
| 2014 | | | | | | | | |
| Pension and retirement plans | \$ 3,617 | \$ 320 | \$ 3,937 | \$ 6,696 | \$ 199 | \$ 6,895 | \$ 2,173 | |
| Seniority premium | 7,398 | 2,677 | 10,075 | 7,447 | 2,580 | 10,027 | 14,527 | |
| Total | \$ 11,015 | \$ 2,997 | \$ 14,012 | \$ 14,143 | \$ 2,779 | \$ 16,922 | \$ 16,700 | |

For the years ended in December 31, 2015 and 2014, \$13,159 and \$11,015 respectively, costs for services have been included in the statements of comprehensive income as part of cost of sales and operating expenses.

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

| | 2015 | 2014 |
|--|------------------|------------------|
| Amount accumulated in other comprehensive income items at the beginning of the period, net of taxes | \$ 35,587 | \$ 18,887 |
| Actuarial remeasurements | 26,992 | 23,857 |
| Tax effect | (8,097) | (7,157) |
| Amount accumulated in other comprehensive income items at the end of the period, net of taxes | \$ 54,482 | \$ 35,587 |

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

| Pension and retirement plan | 2015 | 2014 |
|---|-------------------|-------------------|
| Opening balance | \$ 148,602 | \$ 142,299 |
| Service cost | 3,864 | 3,937 |
| Interest cost | 1,361 | 6,895 |
| Actuarial losses and gains | 10,597 | 3,103 |
| Benefits paid | (7,691) | (4,321) |
| Obligation associated with assets classified as held for sale | | (3,311) |
| Ending balance | \$ 156,733 | \$ 148,602 |

| Seniority premium | 2015 | 2014 |
|---|-------------------|-------------------|
| Opening balance | \$ 132,991 | \$ 141,450 |
| Service cost | 9,295 | 10,075 |
| Interest cost | 7,764 | 10,027 |
| Actuarial losses and gains | 16,395 | 20,753 |
| Benefits paid | (7,959) | (5,757) |
| Obligation associated with assets classified as held for sale | | (43,557) |
| Ending balance | \$ 158,486 | \$ 132,991 |

The average of the benefit obligation at December 31, 2015 and 2014 is 8.8 years and 8.2, respectively.

18. Stockholders' equity

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

| | 2015 | 2014 |
|-----------------------------|-------------------------|--------------------|
| | Number of shares | |
| Minimum fixed capital stock | 360,000,000 | 360,000,000 |
| Variable capital | 22,053,769 | 18,301,614 |
| | 382,053,769 | 378,301,614 |

b) According to the current stock market regulations in effect and the Company's by-laws, each year the Annual Ordinary Stockholders' Meeting of Grupo Lamosa, S.A.B. de C.V. approves the maximum amount of resources that the Company can allocate to the acquisition of shares of its capital stock. The maximum amount of resources approved for 2015 and 2014 at the Annual Stockholders' Meetings held on March 12, 2015 and March 13, 2014 amounted to \$ 90 million Mexican pesos for each of the aforementioned years. In relation to the year ended December 31, 2015 and 2014, the Company did not conduct transactions with shares of its capital stock.

c) At the general stockholders' meetings held on March 12, 2015, dividends were declared for \$108,813, from the net tax income account (CUFIN), equivalent 0.29 Mexican pesos per share; in addition, dividends were declared of 1%, equivalent to a new share for every 100 shares in circulation. This dividend resulted in an increase in a variable portion of capital stock, amounting to \$25 issuing 3,75215,175025 shares.

d) At the general stockholders' meetings held on March 13, 2014, dividends were declared for \$100,313, from the net tax income account (CUFIN), equivalent 0.27 Mexican pesos per share; in addition, dividends were declared of 1%, equivalent a new share for every 100 shares in circulation. This dividend resulted in an increase in a variable portion of the capital, amounting to \$25 issuing 3,715,025 shares.

e) Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2015 and 2014, the legal reserve, in historical pesos, was \$480.

f) Stockholders' equity, except restated paid-in capital and tax-retained earnings, will be subject to income tax payable by the Company at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

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

| | 2015 | 2014 |
|------------------------------------|----------------------|----------------------|
| Contributed capital account | \$ 365,184 | \$ 357,568 |
| Net tax income account (CUFIN) (1) | 14,684,159 | 13,936,505 |
| Total | \$ 15,049,343 | \$ 14,294,073 |

⁽¹⁾ As a result of the elimination of the tax consolidation regime, the balance presented in 2015 and 2014, corresponds to the CUFIN of each of the companies individually.

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

Derivative financial instruments valuation

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

Actuarial remeasurements of defined benefit obligations

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

Effects of foreign currency translation

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

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

The Company is subject to obligations arising from contacting a secured loan, whose balance as of December 31, 2015 amounted to \$4,978,426 (a combination of U.S. dollars and Mexican pesos).. (combinación de dólares y pesos)The main obligations contained in such agreements include the following financial covenants ¹:

- Debt service coverage (EBITDA² / Net Financial Expenses plus the current portion of long-term debt) greater than or equal to 1.25.
- Leverage of total debt (total debt / EBITDA) less than or equal to 3.50.
- Minimum stockholders' equity greater than or equal to \$5,052,564.

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

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

During 2015, the Company was in compliance with all of its financial commitments and required ratios.

Below are some of the major items that are considered for the management of the Company's capital as of December 31, 2015 and 2014.

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Total debt | \$ 4,938,637 | \$ 4,694,506 |
| Cash and cash equivalents | 1,371,456 | 290,270 |
| Net debt | 3,567,181 | 4,404,236 |
| Stockholders' equity | 6,471,062 | 5,972,276 |
| Leverage measured as net debt to stockholders' equity | 0.55 | 0.74 |
| | 2015 | 2014 |
| Total debt main items: | | |
| Secured loan | \$ 4,978,426 | \$ 4,777,692 |
| Other | 136,667 | 140,324 |
| Debt issuance costs | (176,456) | (223,510) |
| Total debt | \$ 4,938,637 | \$ 4,694,506 |

The increase in the total debt of \$197,077 during 2015 arose mainly from the devaluation of the Mexican peso against the U.S. dollar.

The generation of operating cash flows helped the Company meet its debt maturities scheduled for the year. During 2014 In addition, were made debt prepayments of \$518,931 were made, which helped to reduce the Company's level of leverage and improve its financial structure.

19. Discontinued operations and assets classified as held for sale

As mentioned in note 2 a) the Company on May 4, 2015, the Company finalized the sale of its Sanitaryware business. The amount received on this transaction was \$544,735 and as a result of that, the Company recognized a loss of \$71,411 in 2015. In 2014, the Company had recognized an impairment loss of \$147,951 generated by recognizing the value of its investment in such business less the fair value of the consideration expected to be received, which are shown in the statement of income within the loss from discontinued operations line item.

The main activity of the Sanitaryware business, that was part of the Ceramic operating segment was the design, manufacturing and sale of bathroom ceramic furniture.

Below it is shown the condensed financial information of the statement of financial position and income statement, whose operations have been reclassified and identified separately as discontinued operations.

Statement of financial position as of December 31, 2014:

| Assets: | | |
|---|--|-------------------|
| Cash and cash equivalents | | \$ 9,234 |
| Accounts receivable | | 124,912 |
| Inventories | | 206,291 |
| Other accounts receivable | | 63,632 |
| Property, plant and equipment, net | | 302,081 |
| Deferred income taxes | | 97,475 |
| Other non-current assets | | 484 |
| Total asset | | 804,109 |
| Liabilities: | | |
| Current portion of long-term debt | | 595 |
| Trade accounts payable | | 173,104 |
| Other current liabilities | | 38,143 |
| Current portion of derivative financial instruments | | 5,434 |
| Long-term portion of finance leases | | 580 |
| Employee benefits | | 46,868 |
| Derivative financial instruments | | 2,704 |
| Total liabilities | | 267,428 |
| Net assets | | \$ 536,681 |

Statements of income corresponding to the discontinued operation for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|--------------------|---------------------|
| Net sales | \$ 356,659 | \$ 853,777 |
| Cost of sales | 286,640 | 793,583 |
| Gross profit | 70,019 | 60,194 |
| Operating expenses | 69,142 | 130,771 |
| Income (loss) before other income | 877 | (70,577) |
| Other income (loss), net | (363) | 2,831 |
| Operating income (loss) | 514 | (67,746) |
| Finance cost, net | 1,997 | 8,223 |
| Loss before income taxes | (1,483) | (75,969) |
| Income taxes | 8,518 | 23,561 |
| Net income (loss) | 7,035 | (52,408) |
| Loss on the disposal process, net of income taxes | (71,411) | (147,951) |
| Loss from discounted operations, net | \$ (64,376) | \$ (200,359) |

Cash flows related to discontinued operations are shown in the consolidated statements of cash flows in operating, investing and financing activities.

20. Operating expenses

| | 2015 | 2014 |
|----------------|---------------------|---------------------|
| Selling | \$ 1,871,549 | \$ 1,557,774 |
| Administration | 704,357 | 511,271 |
| Total | \$ 2,575,906 | \$ 2,069,045 |

21. Contingencies and commitments

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

22. Income taxes

a. The Company is subject to ISR, with a tax rate of 30%.

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

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

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

Reconciliation of ISR assets and liabilities balances as of December 31, 2015, derived from such tax reforms, are as follows:

| Item: | Deferred tax assets | ISR liabilities |
|--|------------------------|-----------------------|
| Recognition of: | | |
| Assets and liabilities from tax losses | \$ 641,934 | \$ (163,772) |
| Assets and liabilities from losses on sale of shares | | (1,573,024) |
| Liabilities from tax integration regime | | (144,731) |
| Balance after the tax reform | \$ 641,934 | \$ (1,881,527) |

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

| Year | ISR liabilities |
|---------------------|---------------------|
| 2016 | \$ 598,240 |
| 2017 | 198,818 |
| 2018 | 298,826 |
| 2019 | 163,897 |
| 2020 and subsequent | 621,746 |
| | \$ 1,881,527 |

b. Income taxes for 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|--------------|-------------------|-------------------|
| Current ISR | \$ 563,132 | \$ 278,749 |
| Deferred ISR | (179,139) | 40,978 |
| Total | \$ 383,993 | \$ 319,727 |

c. The reconciliation of the statutory and effective ISR rates, expressed as a percentage of income before income taxes in 2015 and 2014 is:

| | 2015 | 2014 |
|--|-------------|-------------|
| | % | |
| Effective rate | 33.0 | 33.0 |
| Effect of permanent differences, mainly nondeductible expenses | (3.00) | (3.00) |
| Statutory rate | 30.0 | 30.0 |

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

| | Amount before income taxes | Income taxes | Amount net of income taxes |
|--|---------------------------------------|---------------------|---|
| As of December 31, 2015: | | | |
| Derivative financial instruments | \$ (54,643) | \$ 16,393 | \$ (38,250) |
| Remeasurement of defined benefits obligation | (26,992) | 8,097 | (18,895) |
| Translation effect | (52,259) | 15,678 | (36,581) |
| | \$ (133,894) | \$ 40,168 | \$ (93,726) |
| As of December 31, 2014: | | | |
| Derivative financial instruments | \$ (151,081) | \$ 45,324 | \$ (105,757) |
| Remeasurement of defined benefits obligation | (23,857) | 7,157 | (16,700) |
| | \$ (174,938) | \$ 52,481 | \$ (122,457) |

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

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Deferred ISR asset: | | |
| Allowance for doubtful accounts | \$ 21,246 | \$ 6,580 |
| Derivative financial instruments | 65,838 | 47,003 |
| Provisions | 169,505 | 58,431 |
| Employee benefits | 75,155 | 86,866 |
| Tax loss carryforwards | 641,934 | 536,445 |
| Other | 29,317 | 83,103 |
| Total | 1,002,995 | 818,428 |
| Deferred income tax liability: | | |
| Inventories | (84,999) | (68,500) |
| Real estate inventories | (20,494) | (15,206) |
| Property, plant and equipment | (323,576) | (337,250) |
| Commissions paid for debt restructuring | (23,750) | (67,039) |
| Total | (452,819) | (487,995) |
| Tax on assets | 22,867 | 23,543 |
| Deferred income tax asset, net | \$ 573,043 | \$ 353,976 |

The benefits of restated tax loss carryforwards for which the deferred ISR asset has been recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2015, are:

| Year | Amount |
|------|------------|
| 2020 | \$ 285 |
| 2021 | 745 |
| 2022 | 23,656 |
| 2023 | 29,796 |
| 2024 | 116,246 |
| 2025 | 471,206 |
| | \$ 641,934 |

23. Related party balances and transactions

a. The accounts receivables as of December 31, 2015 and 2014 were as follows:

| | 2015 | 2014 |
|--|----------|----------|
| Accounts receivable - Estudio Cerámico de México, S.A. de C.V. | \$ 1,108 | \$ 7,965 |

b. The transactions as of December 31, 2015 and 2014 were as follows:

| | 2015 | 2014 |
|----------------------------|----------|----------|
| Sales of finished goods | \$ 8,114 | \$ 6,275 |
| Lease income | 5,852 | 5,582 |
| Other income, net | 4,217 | 1,236 |
| Purchase of finished goods | | 1,636 |

c. For the years ended December 31, 2015 and 2014, the direct short-term benefits granted to the key management personnel of the Company for \$80,950 and \$ 83,362 respectively. The Company does not have agreements or programs share-based payments.

d. On August 4, 2015 the reversal of the ownership of various properties in full execution of the Trust created on December 30, 1998 was held, a subsidiary member of the real estate business segment, through contract No. 851-00103 established before the fiduciary institution Banco Regional de Monterrey, SA, with the character of Settlor "A" and Trustee, an irrevocable Trust agreement of business activities (Fideicomiso "Fidudisa") to another company (U-Calli Capital, SA de CV), which is a related party and who acts in the capacity of Settlor "B" and Trustee. The Trust's purpose is to serve as a vehicle to facilitate the operation and commercial development of real estate.

The result from the operations of the trust will be fully distributed among the trustees in accordance with the provisions of the Trust agreement.

The share of profit of the Business Trust Fidudisa's trustees was as follows:

| | 2015 | 2014 |
|--|----------|------------|
| Grupo Inmobiliario Viber, S.A. de C.V. | \$ (341) | \$ (7,181) |
| U-Calli Capital, S.A. de C.V. | (86) | 5,750 |
| | \$ (427) | \$ (1,431) |

24. Information by operating segments

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

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

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

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

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

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

| December 31, 2015: | Ceramic | Adhesive | Real estate | Corporate and other | Consolidated |
|--|----------------|-----------------|--------------------|----------------------------|---------------------|
| Total net sales | \$ 7,584,720 | \$ 3,032,013 | \$ 30,531 | \$ 2,222,214 | \$ 12,869,478 |
| Intersegment sales | | (11,084) | | (2,222,214) | (2,233,298) |
| Net sales to third parties | 7,584,720 | 3,020,929 | 30,531 | | 10,636,180 |
| Operating income (loss) | 1,136,517 | 687,967 | 322 | (45,639) | 1,779,167 |
| Depreciation and amortization | 282,684 | 31,936 | | 51,330 | 365,950 |
| Loss from discounted operations, net of taxes | 64,376 | | | | 64,376 |
| Other provisions | 60,525 | 15,352 | | 67,926 | 143,803 |
| Acquisition of property, plant and equipment and intangible assets | (887,180) | (32,127) | | (55,620) | (974,927) |
| Assets | 7,756,772 | 1,919,631 | 97,990 | 6,001,173 | 15,775,566 |
| Liabilities | 1,642,035 | 702,689 | 4,411 | 6,955,369 | 9,304,504 |

| December 31, 2014: | Ceramic | Adhesive | Real estate | Corporate and other | Consolidated |
|--|----------------|-----------------|--------------------|----------------------------|---------------------|
| Total net sales | \$ 6,374,927 | \$ 2,558,698 | \$ 39,392 | \$ 2,500,298 | \$ 11,473,315 |
| Intersegment sales | | (2,134) | | (2,500,298) | (2,502,432) |
| Net sales to third parties | 6,374,927 | 2,556,564 | 39,392 | | 8,970,883 |
| Operating income (loss) | 952,110 | 592,644 | (3,145) | 24,112 | 1,565,721 |
| Depreciation and amortization | 255,965 | 28,000 | | 47,391 | 331,356 |
| Loss from discounted operations, net of taxes | 200,359 | | | | 200,359 |
| Other provisions | 15,419 | 14,739 | | 53,612 | 83,770 |
| Acquisition of property, plant and equipment and intangible assets | (152,866) | (30,784) | | (111,317) | (294,967) |
| Assets | 8,015,955 | 1,807,196 | 180,177 | 5,073,638 | 15,076,966 |
| Liabilities | 1,738,876 | 513,094 | (3,070) | 6,855,790 | 9,104,690 |

25. Approval of financial statements

On February 2, 2016, the issuance of the consolidated financial statements was authorized by Federico Toussaint Elosúa, Chief Executive Officer, and Tomás Luis Garza de la Garza, Chief Financial Officer. These consolidated financial statements are subject to the approval at the ordinary stockholders' meeting, where they may modify the consolidated financial statements, based on the provisions set forth by the Mexican General Corporate Law.

DESIGN: signi.com.mx



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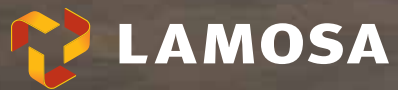
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