NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Grupo Lamosa, S. A. B. de C. V. and Subsidiaries
For the years ended December 31, 2022 and 2021
(In thousands of Mexican pesos)

1. ACTIVITIES

Grupo Lamosa, S.A.B. de C.V. and its subsidiaries (the "Company") are engaged in the manufacture and commercialization of ceramic products for floor and wall coverings, and adhesive for ceramic tiles and from 2022 manufacture expanded polystyrene. 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. BUSINESS COMBINATIONS

a. Acquisition of "Roca" – On September 1, 2021, the Company acquired 100% of the shares representing the common stock of Tiles Investments and Holding, S.L. ("Roca"), the holding company of a group of entities primarily engaged in the manufacture and sale of ceramic and floor coverings in the United States, Brazil, and Spain. The Company made this acquisition to expand its market, diversify risks and strengthen its industry leadership.

As this acquisition qualified as a business combination according to the requirements of International Financial Reporting Standard ("IFRS") 3, *Business combinations*, the purchase method was applied to measure the assets acquired and liabilities assumed as a result of the transaction. The acquisition payment amount, on a cash free, debt free basis, was $4,884,112 (US$241 million), thereby generating preliminary goodwill of $2,240,291, which was recognized in the statement of financial position as of December 31, 2021. The acquisition was financed by a combination of cash flows generated by existing businesses and bank loans.

As the allocation of the purchase price was concluded in 2022; subsequently, the preliminary figures recognized in 2021 have been adjusted to reflect the fair value of the acquired assets and assumed liabilities. In the purchase price allocation process, goodwill was adjusted by the amount of $2,050,707, thus resulting in a final goodwill amount of $189,584. As of September 1, 2021, the fair value of the assets acquired and liabilities assumed as a result of this acquisition were as follows:

	Preliminary figures	Adjustments	Final figures
Transferred payment, net of cash received	$ 4,884,112	$ -	$ 4,884,112
Identifiable acquired assets and assumed liabilities:			
Current assets	$ 2,367,589	$ -	$ 2,367,589
Noncurrent assets [1]	2,232,732	3,196,239	5,428,971
Total assets	**$ 4,600,321**	**$ 3,196,239**	**$ 7,796,560**
Current liabilities [2]	$ 1,304,015	$ 33,623	$ 1,337,638
Noncurrent liabilities [3]	652,485	1,111,909	1,764,394
Total liabilities	**$ 1,956,500**	**$ 1,145,532**	**$ 3,102,032**
Net of identifiable assets and liabilities	$ 2,643,821	$ 2,050,707	$ 4,694,528
Goodwill	**$ 2,240,291**	**$ (2,050,707)**	**$ 189,584**

(1) The adjustment of noncurrent assets is composed by $2,059,559, $952,925 and $183,755 for property, plant and equipment, intangible assets and right-of-use assets, respectively.

(2) The adjustment of current liabilities is composed by $33,623 for lease liabilities.

(3) The adjustment of noncurrent liabilities is composed by $985,362 and $126,547 for deferred income tax and lease liabilities, respectively.

The main adjustments to the consolidated statement of financial position as of December 31, 2021 to allocate the purchase price were as follows:

	Reported figures	Adjustments	Final figures
Property, plant and equipment, net	$ 9,532,195	$ 2,128,827	$ 11,661,022
Right-of-use assets, net	800,001	73,701	873,702
Intangible assets, net	8,279,269	(1,165,019)	7,114,250
Deferred income taxes	1,131,708	(989,587)	142,121
Current portion of lease liability	167,849	47,922	215,771

The adjustments to the consolidated statement of income for the year ended December 31, 2021 were insignificant.

The sales and net profit of the period from September 1, 2021 through December 31, 2021 and which contributed the acquired business were $1,597,495 and $132,726, respectively.

The results of the acquired operations have been included in the accompanying financial statements as of the acquisition date. Accordingly, the consolidated financial statements as of and for the year ended December 31, 2021 are not comparable with those of prior years. The consolidated statement of cash flows for the year ended December 31, 2021 presents the expense incurred to acquire Roca on a single line item under investment activities, net of acquired cash.

b. Acquisition of "Fanosa" – On January 4, 2022, the Company acquired 100% of the shares representing the common stock of Empresas Ruibal, S.A. de C.V. ("Fanosa"), the holding company of a group of entities that are primarily engaged in the manufacture and sale of Expanded Polystyrene ("EPS") products. The Company made this acquisition in order to expand its market, diversify risks and strengthen its leadership of the construction industry.

As this acquisition qualified as a business combination according to the requirements of IFRS 3, *Business combinations*, the purchase method was applied to measure the assets acquired and liabilities assumed as a result of the transaction. The acquisition payment, cash free, debt free, was $1,884,328, thereby generating goodwill of $582,311. The acquisition was financed through a combination of cash flows generated by existing businesses and bank loans.

The fair value of the acquired assets and assumed liabilities, the transferred payment and the goodwill generated as a result of this acquisition are as follows:

Transferred payment, net of received cash:	$ 1,884,328
Identifiable acquired assets and assumed liabilities:	
Current assets [1]	$ 620,190
Noncurrent assets [2]	1,615,612
Intangible assets [3]	224,729
Total assets	$ 2,460,531
Liabilities	
Current liabilities [4]	$ 615,154
Noncurrent liabilities[5]	543,360
Total liabilities	$ 1,158,514
Net of identifiable assets and liabilities	$ 1,302,017
Goodwill	$ 582,311

(1) Current assets are composed by cash, accounts receivables , other assets and inventories for the amount of $77,343, $113,112, $154,550 and $275,185, respectively.

(2) Noncurrent assets are composed by property, plant and equipment, right-of-use assets and other assets for the amount of $1,460,060, $81,275 and $74,277, respectively.

(3) Intangible assets are composed by customers and trademarks for the amount of $176,066 y $48,663, respectively.

(4) Current liabilities are composed by bank loans, other accounts payable and other liabilities for the amount of $210,000, $369,775 and $35,379, respectively.

(5) Noncurrent liabilities are composed by deferred income taxes and other liabilities for the amount of $405,642 and $137,718, respectively.

Sales and the net profit of the period ended December 31, 2022 and which contributed the acquired business are $3,032,938 and $205,567, respectively.

The results of acquired operations have been included in the accompanying consolidated financial statements as of the acquisition date. Accordingly, the consolidated financial statements as of and for the year ended December 31, 2022 are not comparable with those of prior years. The consolidated statement of cash flows for the year ended December 31, 2022 presents the expense incurred to acquire Fanosa on a single line item within investment activities, net of acquired cash.

3. BASIS OF PRESENTATION AND CONSOLIDATION

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

b. Explanation for translation into English – The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. Certain accounting practices applied by the Company that conform with IFRS may not conform with accounting principles generally accepted in the country of use.

c. Application of new or revised International Financial Reporting Standards ("IFRS" or "IAS") which are mandatory for the present or prior years and/or are not yet effective.

During the current year, the Company has applied a series of modified interpretations issued by the IASB, which are of mandatory application for the accounting period starting on or as of January 1, 2022. The conclusions related to their adoption are described below:

Amendments to IFRS 3, Business Combination – Reference to the conceptual framework

The amendments update IFRS 3 to allow it to refer to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. Another requirement was added to IFRS 3 whereby, for obligations covered by the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the buyer must apply IAS 37 to determine whether a present obligation exists as a result of past events at the acquisition date. In the case of a levy included within the scope of IFRIC 21, *Levies*, the buyer must apply IFRIC 21 to determine whether the obligating event giving rise to a levy payment liability has occurred at the acquisition date.

The Company applied the amendments to the business combinations performed during the year ended December 31, 2022, which are described in Note 2, without affecting its consolidated financial information.

Amendments to IAS 16, Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit companies from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The entity measures the cost of these elements according to IAS 2, *Inventories*.

The amendments also clarify the meaning of testing whether an asset is functioning properly'. IAS 16 now specifies that it evaluates whether the technical and physical performance of the asset is such that it can be utilized in the production or supply of goods or services, may be rented to others or used for administrative purposes.

The Company evaluated the amendments to IAS 16 and determined that the application of these amendments did not affect its consolidated financial information because it has not sold products before property, plant and equipment are ready for use.

Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the “costs of fulfilling” a contract include the “costs related directly to the contract”. Costs that are directly related to a contract consist of incremental costs and the costs of fulfilling a contract (e.g., labor or materials) and the allocation of other costs that are directly related to fulfilling a contract (such as the allocation of the depreciation of items of property, plant and equipment to fulfill the contract).

The Company evaluated the amendments to IAS 37 and determined that the application of these amendments did not affect its consolidated financial information because it has no onerous contracts.

Annual Improvements to IFRSs 2018-2020 Cycle

The Company has adopted the amendments included in the annual improvements to IFRSs 2018-2020 Cycle during the current year. The Annual Improvements include amendments to four standards, which did not affect the Company’s consolidated financial information because their applicability is not significant:

- Amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- Amendments to IFRS 9, *Financial Instruments*
- Amendments to IFRS 16, *Leases*
- Amendments to IAS 41, *Agriculture*

i. New and revised IFRS in issue, but not yet effective

The Company has not applied the following new and revised IFRS in issue, but not yet effective. However, it does not expect the adoption of these standards to have a material effect on the consolidated financial statements of future periods because their applicability is not significant:

- IFRS 17, *Insurance Contracts* (1)
- Amendments to IAS 1 and Practice Statement 2 – Disclosure of accounting policies (1)
- Amendments to IAS 8 – Definition of accounting estimates (1)
- Amendment to IAS 12, Income taxes - Deferred income taxes related to assets and liabilities arising from a single transaction (1)
- Amendments to IAS 1 – Classification of liabilities as current or noncurrent (1)
- Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate/joint venture (2)
- Amendments to IAS 1 – Classification of debt with covenants (2)
- Amendments to IFRS 16 - Lease liability in a sale with leaseback (3)

(1) In effect for annual periods starting on or as of January 1,2023.

(2) In effect for annual periods starting on or as of January 1,2024.

(3) Effective date still pending definition by the IASB.

d. Basis of preparation – The consolidated financial statements were prepared based on the historical cost, except for the net assets and the results of the operations of the Company in Argentina, an economy that is considered hyperinflationary, which are expressed in terms of the unit of current measurement to date of the end of the reporting period. In general, the historical cost is based on the fair value of the consideration given in exchange for the assets.

e. Local, functional and reporting currency – The individual financial statements of each subsidiary of the Company are prepared in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of these consolidated financial statements, the income statement and financial position of each entity are shown in Mexican pesos, which is the presentation currency of the consolidated financial statements. Subsidiaries that operate abroad whose functional currency is different from the presentation currency of the consolidated financial statements convert their financial statements using the following exchange rates: 1) closing for assets and liabilities and 2) historical for equity and 3) the date of the transaction for revenue, costs and expenses. Moreover, if the functional currency in which a foreign subsidiary operates corresponds to a hyperinflationary economy, its financial statements are restated by applying the requirements of IAS 29, *Financial Report in Hyperinflationary Economies*, using the price index of the country of origin of the functional currency, and subsequently converted using the closing exchange rate for all items for consolidation purposes. The conversion effects arising from the consolidation of the Company's subsidiaries are recorded in stockholders' equity, within the other comprehensive income items.

The following table shows the functional currencies of the main foreign operations of the Company, which are the same as their recording currency:

Country	Currency
Argentina	Argentinian Peso (ARS)
Chile	Chilean Peso (CLP)
Colombia	Colombian Peso (COP)
United States	U.S Dollar (USD)
Peru	Peruvian Sol (PEN)
Guatemala	Quetzal (GTQ)
Brazil	Brazilian Real (BRL)
Spain	Euro (EUR)

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

For the years ended December 31, 2022 and 2021, inflation in Argentina was 94.8% and 50.9%, respectively.

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

h. 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
Cerámica Belcaire, S.A. (8)
Cerámica Cordillera, S. A.
Cerámica San Lorenzo Colombia, S. A. S.
Cerámica San Lorenzo, I. C. S. A.
Cerámica San Lorenzo Industrial de Colombia, S. A.
Cerámica San Lorenzo, S. A. C.
Eurocerámica, S.A.S.
Estudio Cerámico México, S. A. de C. V. (2)
Cerámica Cordillera, S.A. (previously Inversiones San Lorenzo, S. A.)
Incepa Revestimientos Cerámicos, Ltda. (8)
Italaise, S. A. de C. V.
Lamosa Revestimientos, S. A. de C. V.
PLG Ceramics, Inc.
Porcelanite Lamosa, S. A. de C. V. (3)
Lamosa Energía de Monterrey, S. A. de C. V.
Roca Tiles Inc. (8)
Roca Tiles Spain, S.L. (8)
Servigesa, S. A. de C. V. (2)
Tiles Investments and Holding, S.L. (8)
United States Ceramic Tile, Inc. (8)
Ladrillera Monterrey, S.A. de C.V.

Adhesives Business
Adhesivos Perdura, S. A. de C. V. (4)
Crest Norteamérica, S. A. de C. V. (5)
Niasa México, S. A. de C. V. (6)
Solutek Chile, S.p.A.
Tecnocreto, S.A.
Empresas Fanosa, S.A. de C.V. (antes Empresas Ruibal, S.A. de C.V.) (1)
Fanosa, S.A. de C.V. (1)
Naves y Edificios, S.A. de C.V. (1)
Edificios y naves del Norte, S.A. de C.V. (1)

Corporate and others
Lamosa Servicios Administrativos, S. A. de C. V. [7]
Inmobiliaria Revolución, S. A. de C. V.
Grupo Inmobiliario Viber, S. A. de C. V.
Servicios de Administración el Diente, S. A. de C. V.

(1) Companies acquired on January 4, 2022.

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

(3) Surviving Company after the merger of July 30, 2021 with 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., Mercantil de Pisos y Baños, S. A. de C. V., Pavillion, S. A. de C. V., Porcel, 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. and Servicios Comerciales Lamosa, S. A. de C. V.

(4) Surviving Company after the merger of July 30, 2021 with Adhesivos de Jalisco, S. A. de C. V., Soluciones Técnicas para la Construcción, S. A. de C. V. and Soluciones Técnicas para la Construcción del Centro, S. A. de C. V.

(5) Surviving Company after the merger of July 30, 2021 with Crest, S. A. de C. V.

(6) Surviving Company after the merger of July 30, 2021 with Industrias Niasa, S. A. de C. V.

(7) Surviving Company after the merger of July 30, 2021 with Servicios Administrativos Lamosa, S. A. de C. V. and Servicios Industriales Lamosa, S. A. de C. V.

(8) Company acquired on September 1, 2021.

4. SIGNIFICANT ACCOUNTING POLICIES

a. Cash and cash equivalents – Cash and cash equivalents include 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 –The Company classifies and subsequently measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

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

Amortized cost and effective interest method

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

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

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

Classes of financial assets

i. Financial assets at amortized cost

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

ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on both collecting contractual cash flows and selling the financial assets; and their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2022, and 2021, the Company does not hold financial assets to be measured at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

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

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

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

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

As of December 31, 2022 and 2021, the Company has not made any of the irrevocable designations described above.

Foreign exchange gains and losses

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

Impairment of financial assets

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

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

Significant increase in credit risk

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

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

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

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

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

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

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

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

The Company considers that a financial asset has low credit risk when the asset has an "investment grade" external credit rating, according to the globally accepted definition, or if an external rating is not available, that the asset has an internal "achievable" rating. Achievable means that the counterparty has a strong financial position, and there are no outstanding past amounts.

For financial Guaranteed contracts, the date on which the Company becomes part of the irrevocable commitment is considered to be the date of initial recognition for the purpose of assessing the impairment of the financial instrument. In assessing whether there has been a significant increase in credit risk since the initial recognition of financial Guaranteed contracts, the Company considers changes in the risk that the specified debtor will default the contract.

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

Definition of default

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

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

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

Credit-impaired financial assets

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

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another company or where there is information indicating that the debtor is in serious financial difficulty and there is no realistic prospect of recovery, when the debtor has been placed in liquidation or has entered a bankruptcy process, or in the case of receivables, when legal procedures that allow their recovery are exhausted, whichever comes first. Financial assets written off may still be subject to compliance activities under the Company's recovery procedures, taking into account legal advice where appropriate. When a financial asset measured at amortized cost is written off, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognized in income.

Measurement and recognition of expected credit losses

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

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

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 of the Company and are valued at the lower of cost or net realizable value.

e. Property, plant and equipment – Property, plant and equipment are initially recorded at their cost of acquisition net of accumulated depreciation and/or accumulated impairment losses, if any. The borrowing costs related to the acquisition of qualifying asset are capitalized as part of the cost of that asset, according to the policy of the Company. 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 revenue 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 profit or loss, 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 its share on profit or loss and other comprehensive income of the associate. When its share of losses of an associate exceeds its 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 acquisition cost over its share on the net fair value of the identifiable assets, liabilities and contingent liabilities of an associated company recognized at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment. 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.

When necessary, the impairment test of the total carrying value of the investment (including goodwill) in accordance with IAS 36, Impairment of Assets, as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost of sales) against its carrying value. Any impairment loss recognized is part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

h. Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Company uses incremental rates.

Lease payments included in the measurement of the lease liability consist of:

- Fixed lease payments (including fixed in-substance payments), less any lease incentives received;
- Variable annuity payments that are dependent on an index or rate, initially measured using the index or rate at the commencement date;
- The expected amount to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- Penalty payments resulting from lease termination if the lease term reflects the exercise of a lease termination option.

Lease liabilities are presented as a separate item in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest accrued on the lease liability (using the effective interest method) and reducing the carrying amount to reflect lease payments made.

The Company revalues the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term is changed or there is a significant event or change in the circumstances of the lease resulting in a change in the assessment of the exercise of the purchase option, in which case the lease liability is measured by discounting the discounted lease payments using an updated discount rate.

- Lease payments are changed as a result of index or rate changes or a change in the expected payment under a guaranteed residual value, in which case the lease liability is revalued by discounting the updated lease payments using the same discount rate (unless the change in lease payments is due to a change in a variable interest rate, in which case an updated discount rate is used).

- A lease is amended, and the lease amendment is not accounted for as a separate lease, in which case the lease liability is revalued based on the lease term of the amended lease, discounting the updated lease payments using a discount rate updated to the effective date of the amendment.

The Company did not make any of the aforementioned adjustments in the periods presented.

Rights-of-use assets consist of the initial measurement of the related lease liability, lease payments made on or before the commencement date, less any lease incentives received and any initial direct costs. The subsequent valuation is the cost less accumulated depreciation and impairment losses.

If the Company incurs an obligation arising from the costs of dismantling and removing a leased asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37 should be recognized. To the extent that costs are related to a right-of-use asset, the costs are included in the related right-of-use asset, unless such costs are incurred to generate inventories.

Rights-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company plans to exercise a purchase option, the right-of-use asset is depreciated over its useful life. Depreciation begins at the commencement date of the lease.

Rights-of-use assets are presented as a separate item in the consolidated statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any impairment loss identified as described in the 'Property, plant and equipment' policy.

As a practical report, IFRS 16 permits not separating the non-lease components and instead accounting for any lease and its associated non-lease components as a single arrangement. The Company has not used this practical report. For contracts containing lease components and one or more additional lease or non-lease components, the Company allocates contract consideration to each lease component under the method of the relative independent selling price of the lease component and the relative independent selling price aggregated for all non-lease components (see Note 17).

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 Company's main intangible assets are trademarks, goodwill, mining concessions, customer relations and investments in software.

The estimated useful life of intangible assets is as follows:

	Years
Trademarks	15
Mining concessions	130
Customer relations	17
Investments in software	10

j. Goodwill – Goodwill arising from a business combination and recognized as an asset at the date that control is acquired (the acquisition date).

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. When an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimated value at its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined if an impairment loss had not been recognized for that asset (or cash-generating unit) in prior years. The reversal of an impairment loss is immediately recognized in profit or loss.

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

Financial liabilities at FVTPL

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

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

Debt and other financial liabilities measured at amortized cost

This classification includes loans with banking institutions, and other financial liabilities, which are initially recognized at fair value net of the transaction costs and are subsequently measured at amortized cost using the effective interest rate method, recognizing the interest expenses on an effective yield basis.

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

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

Derecognition

The Company derecognizes financial liabilities only when the Company's obligations are fulfilled, cancelled, or have expired. When the Company exchanges with the existing lender one debt instrument in another with substantially different terms, this exchange is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. Similarly, the Company considers the substantial modification of the terms of an existing liability or part of it as an extinction of the original financial liability and recognition of a new liability. It is assumed that the terms are substantially different if the present discounted value of the cash flows under the new terms, including any net paid rate of any rate received and discounted, using the original effective rate, is at least 10% different from the remaining cash flows of the original financial liability. The costs incurred in the refinancing are recognized immediately in results at the date of termination of the previous financial liability.

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

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

The fair value of these instruments is determined based on the present value of cash flows. This method involves estimating future cash flows of derivatives according to the fixed rate of the derivative and the forward curve at that date to determine the variable cash flows, using the appropriate discount rate to estimate the present value. All derivatives of the Company are classified in Level 2 of the fair value hierarchy.

Fair value measurements in Level 2 are those derived from different information than quoted prices included within Level 1 (fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities) that can be seen for the asset or liability, either directly (e.g., as prices) or indirectly (e.g., derived from prices).

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

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

The Company applies hedge accounting to foreign exchange risk arising from its investments in foreign operations due to changes in exchange rates originating between the functional currency of such operation and the functional currency parent company, regardless of whether the investment is maintained directly or through a sub-holder. The change in exchange rates is recognized in the other comprehensive income as a part of the foreign translation effect when the foreign operation is consolidated.

Therefore, the Company designates as a hedging instrument the debt denominated in a foreign currency, so the foreign exchange effects arising from such debt are recognized in the other comprehensive income, in the translation effects, to the extent that the hedging is effective. When the hedge accounting is not effective, exchange rate differences are recognized in results.

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

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

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

The Company The Company primarily uses currency forwards, currency swaps, call spreads and interest rate swaps to manage its exposure to foreign currency and interest rate fluctuations, respectively.

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.

Labor Reform as regards Vacations

On December 27, 2022, a decree was published to reform articles 76 and 78 of the Mexico's Federal Labor Law ("LFT"), which will be effective as of January 1, 2023. The main changes resulting from this labor reform focus on the increased minimum annual vacation period granted to workers with more than one year's service.

The Company evaluated the accounting effects generated by this labor reform and determined that the increased provision for vacations and vacation premium due to the higher number of vacation days were insignificant as of December 31, 2022.

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 $36,995 in 2022 and $28,150 in 2021.

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.

Additionally, for certain employees who are not subject to the pension plan, the Company recognizes, as specific benefits plan, an implicit obligation derived from the practices that are usually carried out, where it grants certain employees, when they have a retirement, an equivalent benefit to three months plus 20 days of salary for each year of service. This implicit obligation is related to the period of time in which an employee provided his services to the Company.

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

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

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

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

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

Revenue from the sale of goods and products

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

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

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

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

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

Current tax

Current tax corresponds to income tax (“ISR”) and is recorded in the income of the year when incurred. Taxable profit differs from profit as reported in the consolidated statements of income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

The Company’s liability for current tax is calculated using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax

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

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

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

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

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

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

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

u. Foreign currency transactions – Foreign currency transactions are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise, except for capitalization of borrowing costs during the construction of assets, exchange rate differences arising from transactions related to foreign currency risk hedges. Management has determined that the functional currency of its Mexican operations is the Mexican peso and in the main foreign operations is the U.S. dollar, Argentine peso, Chilean peso, Colombian peso, Peruvian sol and quetzal, which do not differ of the record currency.

For the purposes of presenting the consolidated financial statements, the Company's assets and liabilities in foreign currency and its foreign currency transactions are expressed in Mexican pesos, using the foreign exchange rates in effect at the end of the period. Income and expense items are translated into the average exchange rates in effect of the period, unless they fluctuate significantly during the period, in which case the exchange rates at the transaction date are used. Differences arising in foreign exchange rates, if any, are recognized in other comprehensive income, and are accumulated in stockholders' equity.

The main closing exchange rates as of December 31, 2022 and 2021 for the consolidated statement of financial position and approximate average of 2022 and 2021 of the accounts of the consolidated statement of income, are as follows:

	As of December 31, 2022	
Currency	Closing	Average
U.S. Dollar	19.3615	19.5690
Colombian Peso	0.0040	0.0041
Peruvian Sol	5.0858	5.1119
Argentinian Peso	0.1093	0.1135
Chilean Peso	0.0225	0.2235
Quetzal	2.4657	2.4871
Euro	20.7810	20.7339
Brazilian real	3.7107	3.7383

	As of December 31, 2021	
Currency	Closing	Average
U.S. Dollar	20.5835	20.9853
Colombian Peso	0.0051	0.0052
Peruvian Sol	5.1574	5.1942
Argentinian Peso	0.2003	0.2059
Chilean Peso	0.0242	0.0247
Quetzal	2.6053	2.6053

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 355,165,100 and 361,226,483 weighted average shares outstanding during 2022 and 2021, 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 makes judgments, estimates and assumptions about certain amounts of assets and liabilities of the consolidated 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.

Discount rate estimation to calculate the present value of future minimum rent payments

The Company estimates the discount rate to be used in determining the lease liability, based on the incremental loan rate (“IBR”).

The Company uses a three-level model, with which it determines the three elements that make up the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In said model, Management also considers its policies and practices to obtain financing, distinguishing between that obtained at the corporate level (that is, by the holding company), or at the level of each subsidiary. Finally, for real estate leases, or in which there is significant and observable evidence of their residual value, the Company estimates and evaluates an adjustment for the characteristics of the underlying asset, taking into account the possibility that said asset may be granted as collateral or guarantee against the risk of default.

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

The Company assigns to customers with whom it maintains an account receivable at each reporting date, either individually or as a group, an estimate of the probability of default on the payment of accounts receivable and the estimated recovery rate, with the purpose of reflecting the cash flows expected to be received from the outstanding balances on said date. See Note 8.

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 and 4.i.

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 with 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 18.

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

Significant influence

The Company holds a 49% interest in both Estudio Cerámico México, S.A. de C.V. and Servigesa, S.A. de C.V., but since it does not hold the majority of the substantive rights in these entities and does not have the power and the ability to affect variable returns, it has concluded that it does not have control over them. See Note 3g. The balances of these investments in associates as of December 31, 2022 and 2021 were $37,481 and $37,481, respectively.

Identification of a general Price index in Argentina

Beginning July 1, 2018, the Company reflects the effects of hyperinflation on the financial information of its subsidiary in Argentina using price indexes that are considered appropriate in accordance with Resolution 539/19 JG ("the Resolution") of the Argentine Federation of Professional Councils of Economic Sciences. This resolution establishes that a combination of price indexes should be used in the calculation of the effects of restatement of financial statements. Therefore, the Company has decided to use the CPI (Consumer Price Index) to restate balances and transactions.

The price indexes used to restate the financial statements of the subsidiary in Argentina were as follows:

Year	Index
2022	1,134.5875
2021	582.4575
2020	385.8826

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 as follows: 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:

	December 31, 2022	December 31, 2021
Financial assets:		
Cash and cash equivalents [1]	$ 2,037,110	$ 3,413,435
Accounts receivable [1]	5,007,424	4,762,991
Derivative financial instruments [2]	264,494	131,396
Financial liabilities:		
Amortized cost liabilities [1][3]	$ 14,177,614	$ 13,879,231
Derivative financial instruments [2]	12,861	2,055

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

(2) Instruments measured at fair value through profit or loss.

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

		2022		2021
Financial asset	US$	64,985	US$	47,978
Financial liabilities		(480,189)		(458,669)
Liability position	US$	(415,204)	US$	(410,691)
Equivalent in Mexican pesos	$	(8,038,972)	$	(8,453,454)

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

As of December 31, **2022**	As of December 31, 2021
$ 19.3615	$ 20.5835

At January 31, 2023, the interbank exchange rate established by Banco de Mexico was $18.7872 Mexican pesos per U.S. dollar.

Sensitivity analysis of exchange risk

Because the Company has a borrowing position in foreign currency, mainly due to debt and finance leases in US dollars it is exposed to variations in exchange rates. In this position in foreign currency, if the exchange rate increases or decreases, the exchange effects would be against or in favor, respectively. Therefore, if as of December 31, 2022, the Mexican peso/U.S. dollar ratio increased by $3.00 Mexican pesos, then the amount of net monetary position in foreign currency would have increased by $1,245,612 impacting income before taxes and the Company's stockholders' equity would have resulted in an exchange loss. If additionally, such ratio had decreased by $3.00 Mexican pesos, the effect would have been the opposite. Both scenarios represent the amount that management considers reasonably possible to occur in a year given current market volatility.

Derivative financial instruments to hedge the exposure to the exchange rate, interest rate and translation effect

As of December 31, 2022 and 2021, the Company has a USD/MXN exchange rate call spread strategy to mitigate the exchange rate risk for a portion of its USD financing payments. In addition, the Company has designated seven Cross Currency Swaps (CCS) as accounting hedges, four of them with USD/MXN exchange rates and three of them with USD and various Latin American currencies (USD/COP, USD/PEN and USD/CLP). The objective of these hedges is to mitigate the exchange rate risk (USD/MXN) and the interest rate risk (Libor) derived from the payment of interest and principal of its foreign currency financing scheme. Another objective for the Latin American currency swaps is to hedge the translation effect of the net investment in its subsidiaries in Colombia, Peru and Chile. Both the CCS are in the Parent Company; therefore, the Company has formally documented these hedging relationships at the individual entity and consolidated level.

The strategy is classified as a cash flow accounting hedge.

Furthermore, the Company has designated three CCS as exchange rate hedges denominated in US dollars and different Latin American currencies (COP, PEN and CLP) as cash flow hedges and for the net investment abroad to mitigate risks involving the interest rate, financing scheme exchange rate fluctuations and the translation effect resulting from the net investment in its subsidiaries in Colombia, Peru and Chile because its functional currency differs from the functional currency of the holding company. As the Company contracted each CCS to decrease transaction costs, for accounting and hedge evaluation purposes, it divides derivatives into synthetic derivatives to individually cover each hedged item (financing and net investment scheme). Even when the economic relationship of the strategy is clear, its characteristics are not closely aligned.

The characteristics of the CCS designated as accounting hedges of exchange rate, interest rate and translation effect risk (USD/COP, USD/PEN, USD/CLP) are as follows:

2022

Characteristics	CCS BBVA 175577	CCS BBVA 175137	CCS BBVA 177169	CCS Scotiabank C63496/ C63495
DFI heading in BS				
Currency	USD	USD	USD	USD
Notional	$21,960	$21,960	$20,404	$21,960
Coupon receives	Libor 3M	Libor 3M	Libor 3M	Libor 3M
Currency	MXN	MXN	MXN	MXN
Notional	$465,420	$472,030	$428,494	$463,136
Coupon pays	1.978%	2.00%	1.939%	1.925%
Maturity	17-oct-24	17-oct-24	17-oct-24	17-oct-24
Amortization MXN	$170,385	$172,819	$156,880	$169,563
Amortization USD	$8,040	$8,040	$7,470	$8,040
Book value	$16,568	$14,058	$17,065	$17,582
Change in fair value to measure ineffectiveness	$16,148	$13,615	$16,671	$17,221
Effect recognized in IS for reclassifications	$(12,907)	$(15,376)	$(10,493)	$(12,141)
Recognized in OCI, net of reclassifications	$20,633	$20,604	$19,291	$20,806
Ineffectiveness recognized in results	-	-	-	-
Change in fair value of the hedged item to measure ineffectiveness	$(16,186)	$(13,648)	$(16,715)	$(17,389)

Characteristics	CCS Citibank C8TV20693368	CCS Citibank C9IB20693210	CCS Citibank C9IK20693365
DFI heading in BS			
Currency	USD	USD	USD
Notional	$17,110	$54,900	$6,405
Coupon receives	Libor 3M	Libor 3M	Libor 3M
Currency	COP	PEN	CLP
Notional	$65,721,430	$197,091	$5,104,785
Coupon pays	1.445%	0.69%	0.452%
Maturity	17-oct-24	17-oct-24	17-oct-24
Amortization USD	$6,264	$20,100	$2,345
Amortization COP/PEN/CLP	$24,061,944	$72,159	$1,868,965
Book value	$50,777	$101,694	$12,663
Change in fair value to measure ineffectiveness	$52,203	$101,236	$12,727
Effect recognized in IS for reclassifications	$(13,102)	$(43,014)	$(5,018)
Recognized in OCI, net of reclassifications	$44,716	$101,295	$12,377
Ineffectiveness recognized in results	-	-	-
Change in fair value of the hedged item to measure ineffectiveness	$(51,800)	$(101,701)	$(12,776)

2021

Characteristics	CCS BBVA 175577	CCS BBVA 175137	CCS BBVA 177169	CCS Scotiabank C63496/ C63495
DFI heading in BS				
Currency	USD	USD	USD	USD
Notional	$23,640	$23,640	$21,965	$23,640
Coupon receives	Libor 3M	Libor 3M	Libor 3M	Libor 3M
Currency	MXN	MXN	MXN	MXN
Notional	$501,026	$508,142	$461,275	$498,568
Coupon pays	1.978%	2.00%	1.939%	1.925%
Maturity	17-oct-24	17-oct-24	17-oct-24	17-oct-24
Amortization MXN	$205,991	$208,931	$189,661	$204,995
Amortization USD	$9,720	$9,720	$9,031	$9,720
Book value	$4,656	$1,465	$6,490	$6,386
Change in fair value to measure ineffectiveness	$4,400	$1,247	$6,235	$5,984
Effect recognized in IS for reclassifications	$(7,840)	$(10,817)	$(5,477)	$(6,774)
Recognized in OCI net of reclassifications	$8,747	$8,597	$8,378	$9,212
Ineffectiveness recognized in results	-	-	-	-
Change in fair value of the hedged item to measure ineffectiveness	$(4,360)	$(1,181)	$(6,216)	$(5,992)

Characteristics	CCS Citibank C8TV20693368	CCS Citibank C9IB20693210	CCS Citibank C9IK20693365
DFI heading in BS			
Currency	USD	USD	USD
Notional	$18,419	$60,000	$7,000
Coupon receives	Libor 3M	Libor 3M	Libor 3M
Currency	COP	PEN	CLP
Notional	$70,749,299	$215,400	$5,579,000
Coupon pays	1.445%	0.69%	0.452%
Maturity	17-oct-24	17-oct-24	17-oct-24
Amortization USD	$7,573	$24,300	$2,835
Amortization COP/PEN/CLP	$29,089,813	$87,237	$2,259,495
Book value	$15,958	$83,993	$9,648
Change in fair value to measure ineffectiveness	$17,505	$80,927	$9,669
Effect recognized in IS for reclassifications	$(9,834)	$(32,589)	$(3,802)
Recognized in OCI, net of reclassifications	$18,055	$81,607	$9,415
Ineffectiveness recognized in results	-	-	-
Change in fair value of the hedged item to measure ineffectiveness	$(17,429)	$(81,043)	$(9,683)

As of December 31, 2022, CCS hedge effectiveness results confirm that the hedging relationship is highly effective because changes in the fair value and cash flows of the hedged item are offset in the effectiveness range established by the Company. The prospective effectiveness test produced an average result of 98.01% for exchange rate and interest rate hedges, and 99.49% for the hedge contracted for the net investment abroad, thus confirming the economic relationship between hedging instruments and the hedged item. As of December 31, 2021, the results of the effectiveness test were 98.99% for exchange rate and interest rate hedges, and 99.61% for the hedge contracted for the net investment abroad, respectively. Effectiveness is evaluated by modeling a hypothetical derivative with the characteristics of each hedged item. In the case of derivatives hedging two risks (USD/COP, USD/PEN and USD/CPL), hypothetical derivatives are individually modeled for each risk in order to directly evaluate them according to each synthetic derivative. The coverage ratio as of December 31, 2022 and as of December 31, 2021 was an average of 100% and 100%, respectively, for the hedged risk of the financing scheme and 36%, 59% and 8% for the net investments in Colombia, Peru and Chile, respectively, in December 2022 and 39%, 64% and 8% in December 2021.

In the hedging relationships described above, ineffectiveness may arise for three reasons: the difference at the settlement date between the derivatives and hedged item, credit risk, synthetic derivative modeling and the definition of market rates. As of December 31, 2022 and at the December 2021 close, results did not indicate any ineffectiveness.

The Call Spread strategies that the Company had designated during 2020 in a cash flow hedge were early terminated during 2021 due to the prepayment of the hedged item (financing denominated in USD.).

As of December 31, 2022, the Company had eight USD/MXN exchange rate Call Spread strategies to mitigate the exchange rate risk for future financing payments denominated in USD.

As the Company maintains different liabilities in US dollars, during 2022 it contracted eight Call Spread strategies to cover the 2025 payments of two different liabilities denominated in USD. The characteristics of the derivative financial instruments and considerations concerning their respective valuations as hedging instruments are detailed below:

2022

Characteristics	Call Spreads	Call Spreads
Currency	USD/MXN	USD/MXN
Notional	$50,400	$13,800
Maturity	January, April, July and October 2025	March, June, September and December 2025
Average strike	$27	$27
Average strike	$25	$25
Book value of assets	$12,946	$3,590
Effect recognized in results	-	-
Recognized in other comprehensive income, net of taxes and reclassifications	$299	$401

For accounting purposes, the Company has designated the operations described above as cash flow hedging relationships used to hedge the future payments of two different liabilities in 2025. These relationships have been formally documented, while also establishing the objectives and the risk hedging strategy adopted by management, identifying hedging instruments, hedged items, the nature of the risk to be hedged and the effectiveness evaluation methodology.

According to the characteristics of the hedged items and hedging instruments, the economic relationship is clear because the characteristics are perfectly aligned for the established hedging relationships. For this reason and in conformity with the standard, a qualitative method is applied based on the evaluation of critical terms. In the event of a substantial or critical change that could modify the economic relationship, a quantitative evaluation must be performed for the period for which doubt exists by using a cash flow offsetting method that includes a hypothetical derivative.

As of December 31, 2022, hedge effectiveness test results are 100%, thus confirming that the hedging relationship is highly effective. According to the described amount and the manner in which derivative cash flows are exchanged, for hedging strategies the average hedge ratio is 22% at the December 2022 yearend close. In these hedging relationships, ineffectiveness is essentially associated with the credit risk.

As of December 31, 2022 and 2021, the Company has currency forwards contracts for a nominal amount of its supplier invoice commitment, which all involve import hedges. The characteristics of these contracts are as follows:

Characteristics	2022	2021
Currency	USD/CLP	USD/CLP
Notional	$7,108	$6,165
Maturity	January, February, March and April 2023	January, February, March and April 2022
Average strike	$927.35	$837.03
Asset book value	$4,267	$2,800
Effect recognized in results	$-	$1,913
Recognized in other comprehensive income, net of taxes and reclassifications	$(3,115)	$647

Characteristics	2022	2021
Currency	EUR/MXP	USD/BRL
Notional	$1,302	$3,000
Maturity	January and March 2023	March and April 2023
Average strike	$21.889	$5.2588
(Liability) asset book value	$(1,096)	$1,342
Effect recognized in results	$-	$-
Recognized in other comprehensive income, net of taxes and reclassifications	$767	$(886)

As of December 31, 2022 and 2021, the Company has futures contracts for a nominal amount equal to the amount of supplier invoices denominated in foreign currency. The characteristics of these contracts are as follows:

Characteristics	2022	2021
Currency	USD/ARS	USD/ARS
Notional	$14,670	$24,394
Maturity	January 2023	January 2023
Average strike	$191.33	$107.13
Asset book value (liability)	$177	$(2,055)
Recognized in other comprehensive income, net of taxes and reclassifications	$(115)	$(1,337)

6.2.2 Interest rate risk

As of December 31, 2022, 62% of the bank debt has been contracted at a variable rate, which exposes the Company to the interest rate risk. This risk exposure is essentially related to possible fluctuations in the interest rate benchmark used in Mexico (Interbank Interest Rate or “TIIE”), in the US (the three-month London InterBank Offered Rate or “LIBOR” and the three-month Secured Overnight Financing Rate or “SOFR”), in Europe (Euro InterBank Offered Rate or “EURIBOR” and in Brazil (the Special System for Settlement and Custody “SELIC”).

The Company monitors the trends of these interest rates, the value of which increased during 2022. As of December 31, 2022, the Company maintains a debt balance of $2,000,000 denominated in local currency at a fixed 9.12% rate, together with $500,000 at a 91 day TIIE rate plus a 1.18% surcharge. It also has a debt of US$165 million denominated in US dollars at the three-month LIBOR rate plus a 1.60% surcharge; US$82 million at a fixed rate of 5.24%; US$115 million at a three-month SOFR rate plus a fixed adjustment factor of 0.26161% and a surcharge of 1.40%; US$ 13.0 million at a 7.99% fixed rate; US$ 22 million based on a SOFR rate plus a maximum surcharge of 3.5%. Likewise, the Company has a debt of EUR 5.0 million at a EURIBOR rate plus a surcharge of between 0.40% and 1.50%. It also has a debt of BRL 23 million at a SELIC rate plus a surcharge of 2.5%.

Sensitiveness analysis of the interest rate risk

If, as of December 31, 2022, the interest rates of the Company’s debt instruments varied by 2.0 percentage points, which represents a percentage that management considers reasonably possible in a one-year period, the effect on the Company’s profit before taxes and stockholders’ equity would be $98,582. A rate increase would adversely affect profit, while a rate decrease would generate a benefit.

6.2.3 Natural gas price risk

The Company is exposed to fluctuations in the price of natural gas. During the years ended December 31, 2022 and 2021, the Company consumed natural gas of approximately 18,239,364 and 15,245,198 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. As of December 31, 2022 and 2021, the Company does not have hedges for natural gas.

As of December 31, 2022 and 2021, and January 31, 2023, the issuance date of the consolidated financial statements, the market price of natural gas was US$6.38, US$5.54 and US$4.78, U.S. dollars of MMBTUS respectively.

Sensitivity analysis of natural gas price risk

If as of the December 31, 2022, 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 $213,956, having an effect on stockholders’ equity of $149,769. If additionally, such ratio had decreased by 10%, then the effect would be the opposite.

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 16 and 17. 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 as of December 31, 2022, are fully available.

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 client portfolio is comprised mostly of entities with experience in construction finishes and with a considerable track record in the distribution of the products of the Company’s brands, which generally constitute an important source in their business lines.

For its credit risk Management, the Company carries out a thorough review of customers interested in purchasing its products, as well as the annual evaluation of existing customers, considering both qualitative and quantitative variables and by establishing credit limits. The portfolio is based on the characteristics and conditions of customers, supported with promissory notes when necessary.

In addition, no customer individual or with affiliated companies represent more than 10% of sales or account receivables for the reported years in these consolidated financial statements.

7. CASH AND CASH EQUIVALENTS

	2022	2021
Cash and bank deposits	$ 371,775	$ 823,414
Cash equivalents - investments in money market fund	1,665,335	2,590,021
	$ 2,037,110	$ 3,413,435

8. ACCOUNTS RECEIVABLE, NET

	2022	2021
Accounts receivable	$ 5,128,036	$ 4,888,144
Expected credit loss	(120,612)	(125,153)
	$ 5,007,424	$ 4,762,991

The following is the movement in the evolution due to the loss of customers on December 31, 2022 and 2021, with the model of losses expected by the Company:

2022 Customer groups	Accounts receivable [1]	Secured accounts receivable	Unsecured accounts receivable	Default probability range	Loss given default range	Opening balance Impairment allowance	Increases in the allowance	Cancellations in the allowance	Ending balance Impairment allowance
Construction / Ceramic	$4,770,617	$1,191,059	$3,579,558	.02% - .05%	1.0	$ (112,681)	$ (20,044)	$ 22,857	$ (109,868)
Construction / Adhesives	836,958	328,688	508,270	.03% - .05%	1.0	(12,472)	-	1,728	(10,744)
Total						$ (125,153)	$ (20,044)	$ 24,585	$ (120,612)

2021 Customer groups	Accounts receivable	Secured accounts receivable	Unsecured accounts receivable	Default probability range	Loss given default range	Opening balance Impairment allowance	Increases in the allowance	Cancellations in the allowance	Ending balance Impairment allowance
Construction / Ceramic	$4,796,021	$1,480,868	$3,315,153	.02% - .05%	1.0	$ (107,161)	$ (40,975)	$ 35,455	$ (112,681)
Construction / Adhesives	711,011	258,982	452,029	.03% - .05%	1.0	(20,467)	-	7,995	(12,472)
Total						$ (127,628)	$ (40,975)	$ 43,450	$ (125,153)

(1) The total portfolio is presented on a gross basis as regards the allowance for volume discounts granted by the Company to its customers.

The increase in the allowance for doubtful accounts were derived by an application consisting of the probability of default on recurring sales to the Company's customers. Moreover, with respect to cancellations, these were made by recovering the amount previously considered uncollectible and, to a lesser extent, by considering some accounts receivable that are legally irrecoverable. The Company has guaranteed its portfolio for $175,839 and $164,254 as of December 31, 2022 and 2021, respectively.

9. INVENTORIES

	2022	2021
Finished goods	$ 2,569,273	$ 1,896,306
Work in process	276,250	195,259
Raw materials	1,167,590	859,290
Accessories and spare parts	367,199	402,444
	$ 4,380,312	$ 3,353,299

The amount of the inventories consumed and recognized as part of cost of sales for the years ended December 31, 2022 and 2021, amounted to $8,941,463 and $7,955,490, respectively.

Inventories recognized as an expense for the years ended December 31, 2022 and 2021 include $16,962 and $(6,033), respectively, for write-off of inventory to their net realizable value.

10. OTHER CURRENT ASSETS

	2022	2021
Recoverable taxes	$ -	$ 13,862
Advance to suppliers	97,686	220,311
Advance to sundry creditors	67,479	76,168
Derivative financial instruments	86,645	24,661
Other	107,203	167,046
	$ 359,013	$ 502,048

11. REAL ESTATE INVENTORIES

	2022	2021
Real estate for sale	$ -	$ 20,856
Undeveloped land	80,155	77,346
	$ 80,155	$ 98,202

12. PROPERTY, PLANT AND EQUIPMENT, NET

	2022	2021
Land	$ 2,729,475	$ 2,169,632
Building and constructions	5,345,286	5,045,137
Machinery and equipment	12,619,035	12,411,148
Furniture and equipment	119,235	108,736
Vehicles	149,856	13,153
Computers	293,840	218,430
Investment in process	1,794,395	503,681
	23,051,122	20,469,917
Accumulated depreciation	9,224,279	8,808,895
	$ 13,826,843	$ 11,661,022

	Balances as of December 31, 2021	Acquisition	Translation effect	Inflationary effect	Additions	Depreciation	Disposals	Capitalization	Balance as of December 31,2022
Investments:									
Land	$ 2,169,632	$ 611,457	$ (70,127)	$ 3,506	$ 15,007	$ -	$ -	$ -	$ 2,729,475
Buildings and constructions	5,045,137	296,504	(170,967)	35,173	115,362	-	72	24,149	5,345,286
Machinery and equipment	12,411,148	424,147	(636,074)	175,311	330,275	-	218,208	132,436	12,619,035
Furniture and equipment	108,736	5,089	(20,212)	-	7,268	-	7,395	25,749	119,235
Transport equipment	13,153	128,451	(892)	816	9,797	-	7,002	5,533	149,856
Computer equipment	218,430	8,319	(14,029)	7,200	15,300	-	14,359	72,979	293,840
Investments in process	503,681	3,160	(28,851)	9,072	1,599,652	-	31,473	(260,846)	1,794,395
Total investments	20,469,917	1,477,127	(941,152)	231,078	2,092,661	-	278,509	-	23,051,122
Depreciation:									
Buildings and constructions	1,955,145	-	(53,620)	10,618	-	399,406	198,327	-	2,113,222
Machinery and equipment	6,592,043	-	(296,441)	-	-	450,455	30,901	-	6,715,156
Furniture and equipment	73,419	-	(14,262)	-	-	17,973	6,001	-	71,129
Transport equipment	6,575	-	(503)	354	-	31,539	16,591	-	21,374
Computer equipment	181,713	-	(6,083)	2,628	-	127,342	2,202	-	303,398
Total accumulated depreciation	8,808,895	-	(370,909)	13,600	-	1,026,715	254,022	-	9,224,279
Investments, net	$ 11,661,022	$ 1,477,127	$ (570,243)	$ 217,478	$2,092,661	$(1,026,715)	$ 24,487	$ -	$ 13,826,843

	Balances as of December 31, 2020	Acquisition	Translation effect	Inflationary effect	Additions	Depreciation	Disposals	Capitalization	Balance as of December 31,2021
Investments:									
Land	$ 1,452,882	$ 798,277	$ (61,422)	$ 3,007	$ 12,391	-	$ 35,503	-	$ 2,169,632
Buildings and constructions	4,546,376	690,246	(115,983)	30,582	8,594	-	115,824	1,146	5,045,137
Machinery and equipment	10,932,928	1,584,968	(325,876)	196,947	76,654	-	263,027	208,554	12,411,148
Furniture and equipment	82,761	31,350	(7,124)	-	8,321	-	7,594	1,022	108,736
Transport equipment	8,268	1,856	(185)	1,051	6,268	-	7,179	3,074	13,153
Computer equipment	205,331	15,640	(4,559)	5,282	15,163	-	29,142	10,715	218,430
Investments in process	95,255	135,025	(10,687)	10,313	504,823	-	6,537	(224,511)	503,681
Total investments	17,323,801	3,257,362	(525,836)	247,182	632,214	-	464,806	-	20,469,917
Depreciation:									
Buildings and constructions	1,875,136	-	(39,496)	6,562	-	117,433	4,490	-	1,955,145
Machinery and equipment	6,507,501	-	(176,220)	19,694	-	481,955	240,887	-	6,592,043
Furniture and equipment	78,545	-	(5,271)	-	-	7,481	7,336	-	73,419
Transport equipment	4,346	-	(141)	649	-	8,934	7,213	-	6,575
Computer equipment	177,131	-	(2,208)	1,891	-	29,513	24,614	-	181,713
Total accumulated depreciation	8,642,659	-	(223,336)	28,796	-	645,316	284,540	-	8,808,895
Investments, net	$ 8,681,142	$ 3,257,362	$ (302,500)	$ 218,386	$ 632,214	$ (645,316)	$ 180,266	$ -	$ 11,661,022

During the years ended December 31, 2022 and 2021, the Company had unused capacity of 9.48% and 5.08%, respectively. On the other hand, the interest costs related to qualifying fixed assets as of December 31, 2022 and 2021 were not significant.

During the years ended December 31, 2022 and 2021, the Company impaired property, plant and equipment amounting to $25,065 and $45,430, respectively, of assets that were removed from use.

13. INTANGIBLE ASSETS, NET

	2022	2021
Intangible assets:		
Brands	$ 5,485,855	$ 5,576,814
Goodwill	1,411,599	847,207
Mining concessions	296,444	301,878
Customer relations	165,709	-
Amortized intangible assets	337,350	388,351
	$ 7,696,957	$ 7,114,250

Cost	Brands	Goodwill	Total Unamortized Intangibles	Brands	Mining concessions	Customer Relations	Other assets amortizable	Amortized Intangibles	Total
Balances as of December 31, 2020	$ 4,942,282	$ 786,114	$ 5,728,396	$ -	$ -	$ -	$ 421,145	$ 421,145	$ 6,149,541
Acquisitions	-	2,240,291	2,240,291	-	-	-	34,091	34,091	2,274,382
Reclassification by purchase price assignment	413,855	(2,149,994)	(1,736,139)	269,242	301,878	-	-	571,120	(1,165,019)
Conversion effect	(48,565)	(29,204)	(77,769)				-	-	(77,769)
Amortization	-	-	-	-	-	-	(66,885)	(66,885)	(66,885)
Balances as of December 31, 2021	5,307,572	847,207	6,154,779	269,242	301,878	-	388,351	959,471	7,114,250
Acquisitions	48,663	582,311	630,974	-	-	176,066	30,840	206,906	837,880
Conversion effect	(118,060)	(17,919)	(135,979)	-	-	-	(5,919)	(5,919)	(141,898)
Amortization	-	-	-	(21,562)	(5,434)	(10,357)	(75,922)	(113,275)	(113,275)
Balances as of December 31, 2022	$ 5,238,175	$ 1,411,599	$ 6,649,774	$ 247,680	$ 296,444	$ 165,709	$ 337,350	$ 1,047,183	$ 7,696,957

As of December 31, 2022 and 2021, intangible assets with finite useful lives mainly refer to expenses of the Company related to the implementation of an enterprise resource planning (ERP) system and mining concessions which began amortization in the corresponding exercise that was put into operation.

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

	2022	2021
North America ceramic tiles	$ 3,946,296	$ 3,946,296
South America ceramic tiles:		
Chile	517,819	524,054
Peru	55,997	47,347
Colombia San Lorenzo	375,621	482,485
Colombia Eurocerámica	243,351	212,879
Argentina	226,357	209,769
Roca Ceramic Tiles:	425,561	504,151
Adhesives	227,798	227,798
Fanosa	630,974	-
	$ 6,649,774	$ 6,154,779

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

- Market share and expected price levels.
- Size of the market where the CGU operates for estimation of recoverable value purposes.
- Behavior of primary costs of raw materials and input, and the necessary expenses to maintain fixed assets in conditions to be used.
- Future cash flows discounted at present value based on 5-year financial projections and growth in perpetuity from the last year, considering estimations as of the valuation date based on the budget approved by the administration, including the latest known trends in the business and industry. The discount rate based on the weighted capital cost and the market participants' variables to be considered.
- Perpetuity growth rate estimated based on the inflation of the economy where the Company operates.

The discount and perpetuity growth rates used for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Discount rate		
North America ceramic tiles	11.4%	8.77%
Adhesives	11.8%	8.77%
Fanosa	11.8%	-
South America ceramic tiles:		
Chile	10.4%	7.91%
Peru	10.4%	7.60%
Colombia San Lorenzo	11.3%	8.93%
Colombia Eurocerámica	11.3%	8.93%
Argentina	50.8%	55.20%
Roca	9.15%	-
Perpetuity growth rate		
North America ceramic tiles and Adhesives	3.0%	3.0%
South America ceramic tiles:		
Chile	3.5%	3.5%
Peru	3.0%	3.0%
Colombia	3.0%	3.0%
Argentina	20.8%	20.8%
Roca	3.5%	-

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

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

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

14. OTHER NON-CURRENT ASSETS

	2022	2021
Recoverable taxes	$ 67,684	$ 35,683
Other assets	105,150	123,145
Investments in shares	37,481	37,481
Account receivable selling part	45,569	49,144
Long-term advances	247,807	-
Expenses to be amortized	164,250	86,617
	$ 667,941	$ 322,070

15. OTHER CURRENT LIABILITIES

	2022	2021
Contributions and taxes payable	$ 122,058	$ 199,958
Freights payable	603,165	561,538
Energy payable	367,975	350,463
Statutory employee profit sharing (PTU)	306,689	244,213
Provisions	239,091	279,610
Dividends payable	128,037	105,400
Derivative financial instruments	12,861	2,055
Sundry creditors	1,090,962	852,935
Other accounts payable	477,975	365,193
	$ 3,348,813	$ 2,961,365

16. BANK DEBT

a. According to established credit contracts, the bank debt as of December 31, 2022 and 2021 is composed as follows:

	2022	2021
Syndicated bank loan (2019 "Club-Deal") denominated in US dollars and with a variable interest rate based on the 3-month LIBOR rate. The maximum surcharge paid was 1.60% in 2021, with principal maturities on different dates until 2026.	$ 3,188,839	$ 3,649,455
Stock Certificates denominated in Mexican pesos and with a fixed interest rate of 9.12% based on the M-10 Bond rate and with principal maturity in 2029.	2,000,000	2,000,000
Syndicated bank loan denominated in US dollars and with a variable interest rate based on the 3-month LIBOR rate. The maximum surcharge paid was 1.85% in 2021, with principal maturities at different dates until 2026. (1)	-	4,116,760
Bilateral bank loan contracted with BBVA, denominated in Mexican pesos and with a variable interest rate based on the 91 day TIIE rate. The maximum surcharge paid in 2022 was 1.18%, with principal maturities at different dates until 2028	500,000	-
Bank loan ("Club-Deal 2022") denominated in US dollars and with a variable interest rate based on the three-month SOFR rate. The maximum surcharge paid in 2022 was 1.40%, with principal maturities at different dates until 2029.	2,226,573	-
Private placement denominated in US dollars with a fixed interest rate of 5.24% and the annual maturity of principal from 2031 through 2034.	1,587,643	-
Unsecured loan denominated in Brazilian reales and with a variable interest rate based on the SELIC plus a maximum surcharge of 2.5%, with maturities on different dates until 2023.	83,596	165,981
Unsecured loan denominated in US dollars and with a variable interest rate based on the SOFR rate plus a maximum surcharge of 3.5% with maturities on different dates until 2025.	668,921	-
Unsecured revolving loan denominated in euros with a variable interest rate based on the Euribor rate plus a surcharge of between 0.40% and 1.50% and with maturities on different dates until 2023.	108,923	30,944
Total bank debt	10,364,495	9,963,140
Costs incurred to issue and obtain debt	(52,622)	(84,864)
Total bank debt, net	10,311,873	9,878,276
Current portion	(918,204)	(409,853)
Long term debt	$ 9,393,669	$ 9,468,423

(1) During 2022, the Company utilized the funds of the private placement and a syndicated loan to settle the financing obtained during 2021 ahead of time, thereby enhancing its maturity profile and debt conditions. As a result of this advance payment, the unapplied costs of $45,690 incurred to issue and obtain debt were recognized in the consolidated statement of income.

These loans are unsecured and are guaranteed by a group of Company subsidiaries, which represent approximately 70% of total assets and consolidated EBITDA. EBITDA is defined as operating profit, plus depreciation, amortization and impairment of long-lived assets.

As of December 31, 2022, the maturities of the noncurrent debt, net of the costs incurred to issue and obtain debt are as follows:

Year	Principal	Unaccrued interest [1]
2024	$ 976,475	$ 654,303
2025	1,444,871	571,695
2026	1,523,224	462,025
2027	694,481	382,799
2028	595,394	327,594
2029	2,574,940	283,775
2030	-	83,192
2031	395,951	72,793
2032	395,951	51,995
2033	395,951	31,197
2034	396,431	10,399
	$ 9,393,669	$ 2,931,767

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

SELIC, TIEE, LIBOR, SOFR and EURIBOR interest rates were as follow:

Year	SELIC %	TIIE %	LIBOR %	SOFR %	EURIBOR %
2022	13.75	10.761	4.767	4.872	3.018
2021	9.25	5.715	0.214	0.091	(0.502)

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 as of December 31, 2022 and 2021.

17. LEASES

Right-of-use assets, net

The Company leases certain fixed assets, including buildings, machinery, transportation equipment, and computer equipment. The average term of the leases is 7 years.

a) The right-of-use recognized in the consolidated statement of financial position as of December 31, 2022 and 2021 is integrated as follows:

	Transport equipment	Buildings	Computer equipment	Machinery and equipment	Total
Initial balance as of January 1, 2020	$ 30,195	$ 77,204	$ 4,510	$ 202,281	$ 314,190
Acquisition of Roca	2,616	491,012	-	608	494,236
New contracts	21,241	136,004	788	47,373	205,406
Depreciation of the year	(13,376)	(58,213)	(3,796)	(64,745)	(140,130)
Balance as of December 31, 2021	40,676	646,007	1,502	185,517	873,702
Acquisition of Fanosa	-	81,275	-	-	81,275
New contracts	28,844	34,043	-	402	63,289
Depreciation of the year	(18,318)	(94,431)	(484)	(56,687)	(169,920)
Final balance as of December 31, **2022**	$ 51,202	$ 666,894	$ 1,018	$ 129,232	$ 848,346

b) Amounts recognized in the condensed consolidated statement of income for the year ended December 31, 2022 and 2021:

	2022	2021
Low value lease rent expense	$ 14,618	$ 14,217
Short-term lease rent expense	$ 28,368	$ 50,248

As of December 31, 2022 and 2021, the changes in the lease liability that derive from financing activities according to the cash flow are integrated as follows:

	2022	2021
Initial balance	$ 846,547	$ 305,897
Interest expense on lease liabilities	37,337	18,806
Lease payments	214,396	(135,769)
Acquisition of Roca	-	500,129
Acquisition of Fanosa	81,275	-
New contracts	140,453	205,406
Final balance	$ 891,216	$ 894,469

Total future minimum lease payments, which includes unearned interest, are analyzed as follows:

	December 31, 2022	2021
- Less than 1 year	$ 233,036	$ 222,598
- More than 1 year	791,648	762,248
Total	$ 1,024,684	$ 984,846

18. EMPLOYEE BENEFITS

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

	2022	2021
Discount of projected benefit obligation at present value	9.50%	8.00%
Salary increase	5.50%	5.50%

The sensitivity analysis of the discount rate used to determine defined-benefit labor obligations, while considering that all other assumptions remain constant, is as follows:

	2022	2021
Discount rate - .50%	$ 680,885	$ 617,650
Discount rate + .50%	(641,276)	(576,495)

The determination of the discount rate applied to the Company's labor obligations utilizes estimated future annual cash flows as its basis, which are determined by using zero coupon rate government M bonds for a period of 20 years, while also considering workers' average working life.

b) The effects recognized in the consolidated statements of other comprehensive income ("OCI") for 2022 and 2021 are as follows:

	Net income		Other comprehensive items
2022	Current service cost	Net interest	Actuarial remeasurements (1)
Pension and retirement plans	$ 14,016	$ 18,953	$ 20,879
Seniority premium	16,531	21,876	(2,974)
Total	$ 30,547	$ 40,829	$ 17,905

2021		Current service cost		Net interest		Other comprehensive items Actuarial remeasurements [1]
			Net income			
Pension and retirement plans	$	14,117	$	16,884	$	3,044
Seniority premium		20,859		19,457		(4,933)
Total	$	34,976	$	36,341	$	(1,889)

(1) The actuarial re-measurements of the defined benefit liability are presented net of income tax.

For the years ended in December 31, 2022 and 2021, $30,547 and $34,976 of costs for services, respectively, have been included in the consolidated statements of 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:

		2022		2021
Amount accumulated in OCI items at the beginning of the period, net of taxes	$	158,241	$	160,130
Actuarial remeasurements		25,579		(2,699)
Tax effect		(7,674)		810
Amount accumulated in OCI income items at the end of the period, net of taxes	$	176,146	$	158,241

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

Pension and retirement plan		2022		2021
Opening balance	$	319,440	$	309,430
Acquisition of Fanosa		4,592		-
Service cost		14,016		14,117
Interest cost		18,953		16,884
Actuarial losses		29,828		4,349
Benefits paid		(16,315)		(25,340)
Ending balance	$	370,514	$	319,440

Seniority Premium		2022		2021
Opening balance	$	275,931	$	257,658
Acquisition of Fanosa		1,482		-
Service cost		16,531		20,859
Interest cost		21,876		19,457
Actuarial gains		(4,249)		(7,048)
Benefits paid		(11,798)		(14,996)
Ending balance	$	299,773	$	275,930
Total liability for defined benefits	$	670,287	$	595,370

The average of the benefit obligation at December 31, 2022 and 2021 is 6.02 and 8.10 years, respectively.

19. STOCKHOLDERS' EQUITY

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

	2022	2021
	Number of shares	
Minimum fixed capital stock	360,000,000	360,000,000
Variable capital	25,843,423	25,843,423
	385,843,423	385,843,423

b. According to the current stock market regulations in effect and the Company's by-laws, each year the Annual Ordinary Stockholders' Meeting 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 2022 and 2021 at the Annual Stockholders' Meetings held on March 16, 2022 and March 10, 2021 amounted to $2,000 million Mexican pesos for 2022 and 2021. In relation to the years ended December 31, 2022 and 2021 the Company carried out operations with shares of its capital stock balance, corresponding to the Purchase of treasury stock of 33,521,189 and 27,911,125 representative shares of its capital stock, respectively.

c. At the general stockholders' meetings held on March 16, 2022, dividends were declared for $411,148 from the net tax income account (CUFIN), equivalent $1.15 Mexican pesos per share.

d. At the general stockholders' meetings held on March 10, 2021, dividends were declared for $333,470, from the net tax income account (CUFIN), equivalent $0.91 Mexican pesos per share.

e. Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the Company is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2022 and 2021, the legal reserve, in historical pesos, was $480.

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

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

	2022	2021
Contributed capital account	$ 502,745	$ 466,325
Net tax income account (CUFIN)	38,397,181	32,966,630
Total	$ 38,899,926	$ 33,432,955

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 financial obligations as a result of having contracted certain loans. The main obligations contained in these contracts are described below [1]:

The Company must comply with certain financial ratios, which have the same parameters for the following loans:

- 2019 ("Club-Deal") Loan denominated in US dollars.
- 2022 ("Club-Deal") Loan denominated in US dollars.
- 2022 Bilateral Loan with BBVA denominated in Mexican pesos.
- 2022 Private Placement denominated in US dollars.

Coverage Ratio of consolidated interest (EBITDA financial ratios (2) /Financial Expenses) Greater than or equal to 3.0 times.

Consolidated Leverage Ratio (Net Debt / EBITDA financial ratios (2)) Less than or equal to 3.5 times.

To calculate these ratios, the amounts are translated into US dollars using the average exchange rate for the corresponding period.

(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 2022 and 2021, the Company carried out the Management of its capital by observing those requirements, fully complying with all its financial commitments and showing ratios with better performance to those previously described.

The Company is not subject to financial obligations derived from the issuance of stock certificates ("CEBURES").

Below are some of the major items that are considered for the Management of the Company's capital as of December 31, 2022; a prior year comparison is presented below.

	2022	2021
Total debt	$ 11,203,089	$ 10,772,745
Cash and cash equivalents	2,037,110	3,413,435
Net debt	9,165,979	7,359,310
Stockholders' equity	15,873,350	13,358,197
Leverage measured as net debt to stockholders' equity	0.58	0.55
Total debt main items:		
Long-term debt	$ 10,364,495	$ 9,963,140
Lease liability	891,216	894,469
Debt issuance costs	(52,622)	(84,864)
Total debt	$ 11,203,089	$ 10,772,745

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

20. OPERATING EXPENSES

	2022	2021
Selling	$ 5,962,226	$ 4,436,114
Administrative	2,331,148	1,648,294
Total	$ 8,293,374	$ 6,084,408

21. CONTINGENCIES AND COMMITMENTS

The Company's assets are not subject to any pending legal proceedings that could result in a contingency, except for certain regular or incidental legal actions filed against its business and for which it is either adequately insured or the amounts in question are immaterial.

22. INCOME TAXES

a. The Company is subject to ISR, with a tax rate of 30% in Mexico for 2022 and 2021, and 20% in the northern border strip, 35% in Colombia and 15% in duty free zones, 29.5% in Peru and 27% in Chile. For the United States, the applicable rate is 21%, 34% in Brazil and 25% in Spain. For Argentina, the applicable rate as of December 31, 2022 and 2021 is 35%.

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

At the same time that the 2014 Mexican Law repealed the fiscal consolidation regime, an option was established to calculate the income tax jointly in groups of companies (tax integration regime). The new regime allows for the case of integrated companies owned directly or indirectly by more than 80% by an integrating company, to have certain benefits in the tax payments (when within the group of companies there are entities with profits or losses in the same year), which may be deferred for three years and be up-to-date, on the date on which the declaration corresponding to the fiscal year following the one in which the aforementioned period ends is to be filed.

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

Reconciliation of income tax assets and liabilities balances as of December 31, 2022, and 2021, are as follows:

Item:	ISR liabilities 2022	2021
Recognition of:		
Income tax	$ 118,908	$ 638,917
Liabilities from losses on sale of shares	219,795	342,657
Liabilities from tax integration regime	-	20,581
Balance	$ 338,703	$ 1,002,155

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

Year	ISR liabilities
2023	$ 338,703

c. Income taxes for 2022 and 2021 consist of the following:

		2022		2021
Current income tax	$	1,978,333	$	1,973,304
Deferred income tax		(51,387)		314,080
Total	$	1,926,946	$	2,287,384

d. The reconciliation of the statutory and effective income tax rates, expressed as a percentage of income before income taxes in 2022 and 2021 is:

	2022	%	2021
Effective rate	31.4		40
Effect of inflation	(1.1)		(2.6)
Non-deductibles	(0.2)		(4.5)
Others	(0.1)		(2.9)
Statutory rate	30.0		30.0

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

		Amount before income taxes		Income taxes in OCI		Amount net of income taxes
As of December 31, 2022:						
Derivative financial instruments	$	142,560	$	(42,768)	$	99,792
Remeasurement of defined benefits obligation		(25,579)		7,674		(17,905)
Cumulative translation adjustment		(705,399)		-		(705,399)
	$	(588,418)	$	(35,094)	$	(623,512)
As of December 31, 2021:						
Derivative financial instruments	$	241,970	$	(72,591)	$	169,379
Remeasurement of defined benefits obligation		2,699		(810)		1,889
Cumulative translation adjustment		(543,388)		-		(543,388)
	$	(298,719)	$	(73,401)	$	(372,120)

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

	2022	2021
Allowance for doubtful accounts	$ 11,687	$ 29,858
Provisions	121,556	404,488
Employee benefits	64,807	88,350
Tax loss carryforwards	639,701	929,959
Interest to be deducted	204,598	221,551
Other	305,681	-
Inventories	(5,779)	(8,013)
Real estate property	-	(12,345)
Property, plant and equipment	(55,357)	(922,413)
Intangible assets	(12,758)	(435,699)
Financial instruments	(125,063)	(75,867)
Cost of obtaining debt	(10,782)	(20,158)
Other	(169,483)	(57,590)
Deferred tax asset, net	$ 968,808	$ 142,121
Allowance for expected credit losses	$ 18,777	$ -
Provisions	280,348	-
Employee benefits	89,513	-
Others	182,035	-
Benefits from tax loss carryforwards	396,761	(7,885)
Property, plant, and equipment	(737,906)	(283,885)
Inventories	(36,470)	-
Intangible assets	(949,414)	-
Prepaid expenses	(264,538)	-
Others	(454,513)	(116,452)
Deferred income tax liability, net	$ (1,475,407)	$ (408,222)

The benefits of restated tax loss carryforwards for which the deferred income tax asset has been recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2022 are:

Year	Amount
2023	$ 364,625
2027	244,438
2028	1,104,398
2029	879,110
2030	552,167
2031 and subsequent years	592,858
	$ 3,737,596

23. RELATED PARTY BALANCES AND TRANSACTIONS

a. The transactions with related parties as of December 31, 2022 and 2021 were as follows:

		2022		2021
Sales of finished goods	$	21,236	$	19,061
Lease income		8,623		8,032
Other operating income, net		7,592		4,674

b. For the years ended December 31, 2022 and 2021, the direct short-term benefits granted to the key management personnel of the Company for $177,666 and $133,255, respectively.

24. LONG-TERM PROVISIONS

Long-term provisions shown in the Company's financial position mainly represent legal affairs with third parties and authorities to the detriment of one of the subsidiaries in Argentina, which will probably give rise to outflow of economic resources, which are not expected to be realized in the following twelve months. Once these issues are entirely solved, the Company will be indemnified by the seller under the share purchase-sale agreement for the shares of Cerámica San Lorenzo and Cordillera.

25. 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 and insulating materials (1)	Adhesives for floors and walls, and manufacture of EPS

(1) Following the acquisition of Fanosa during the year ended December 31, 2022, its main products were included within this operating segment; changes are included for the year ended December 31, 2022, without altering the information of the comparative period.

Corporate division and others: include the remaining companies operating in services businesses and other segments that are not reportable because they do not fulfill the quantitative limits of the years presented and are therefore presented in an aggregate manner.

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

December 31, 2022:	Ceramic	Adhesive	Corporate and other	Consolidated
Net sales to third parties	$ 26,383,251	$ 8,980,890	$ 47,773	$ 35,411,914
Operating income (loss)	5,227,926	1,596,511	(57,639)	6,766,798
Depreciation and amortization	1,026,834	219,521	88,620	1,334,975
EBITDA	6,254,760	1,816,032	30,981	8,101,773
Other expenses (income) without flow use	289,177	88,004	(38,915)	338,266
Acquisition of property, plant and equipment and intangible assets	1,918,124	158,862	46,515	2,123,501
Total assets	25,956,484	4,904,895	5,189,379	36,050,758
Total liabilities	8,617,832	2,098,031	9,461,545	20,177,408

December 31, 2021:	Ceramic	Adhesive	Corporate and other	Consolidated
Net sales to third parties	$ 21,610,043	$ 5,576,714	$ -	$ 27,186,757
Operating income (loss)	5,230,318	1,334,627	(129,113)	6,435,832
Depreciation and amortization	751,299	66,841	79,621	897,761
EBITDA	5,981,617	1,401,468	(49,492)	7,333,593
Other non-cash expenses	158,101	24,206	22,502	204,809
Acquisition of property, plant and equipment and intangible assets	568,397	62,488	3,948	634,833
Total assets	24,009,068	1,611,442	6,739,365	32,359,875
Total liabilities	7,609,721	1,180,558	10,211,399	19,001,678

Information by geographic region

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

	Revenues from third parties		Non-current assets	
	2022	2021	2022	2021
North America	$ 25,176,390	$ 18,955,312	$ 19,248,963	$ 15,663,834
Central America	287,523	249,403	16,490	23,744
South America	9,160,566	7,613,836	4,515,706	4,115,043
Europe	787,435	368,206	485,740	525,481
	$ 35,411,914	$ 27,186,757	$ 24,266,899	$ 20,328,102

26. SUBSEQUENT EVENTS

In preparing the consolidated financial statements, the Company has evaluated events and transactions for their subsequent recognition or disclosure as of December 31, 2022 and until January 31, 2023 (date of issuance of the consolidated financial statements) and aside from the events mentioned below, no other significant subsequent events have been identified:

On January 1, 2023, the merger of Compañías Edificios y Naves del Noreste, S.A. de C.V., Naves y Edificios, S.A. de C.V., Empresas Fanosa, S.A. de C.V (formerly Empresas Ruibal, S.A. de C.V.) and Fanosa, S.A. de C.V. took place, with the latter remaining as the absorbing company.

27. AUTHORIZATION OF FINANCIAL STATEMENTS

On January 31, 2023, the issuance of the consolidated financial statements was authorized by Federico Toussaint Elosúa, Chief Executive Officer, and Jorge Antonio Touché Zambrano, Chief Financial Officer. These consolidated financial statements are subject to the approval of the ordinary stockholders' meeting, where they may be modified, based on the provisions set forth by the General Corporate Law.