ALTOS HORNOS DE MEXICO

Prolongación Juárez S/N, Colonia La Loma, Monclova,
Coahuila, C.P. 25770, Mexico

Altos Hornos de México, S.A.B. de C.V. and Subsidiaries

Annual Report presented pursuant to the general provisions applicable to securities issuers and other market participants, corresponding to the year ended December 31, 2017.

As of December 31, 2017, capital stock is represented by 585,542,305[1] nominative common shares of a unique series, at no par value, of which 471,387,865 shares are fully subscribed and paid, and 114,154,440[2] shares are pending subscription. Currently, such shares are in the process of restatement and registration with the National Securities Registry ("RNV").

"The registration with the RNV does not imply certification on the value of the securities, solvency of the issuer or the accuracy or veracity of the information contained in this annual report, or validates the acts which, where appropriate, have been carried out in contravention of the laws."

[1] Total capital stock resulting from the increase in variable capital approved by the general ordinary shareholders' meeting of the Company held on April 17, 2015 in the amount of MXN$13,762,229,785.70, through the issuance of 227,669,803 nominative common shares of a unique series, at no par value, plus the 357,872,502 shares previously subscribed and paid.

[2] Shares that might be subscribed as a result of (i) minor adjustments for creditors' subscription, and (ii) eventual right of subscription of shareholders that are able to exercise their preemptive right.

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Chapter 1. Overview

1.1 GLOSSARY OF TERMS AND DEFINITIONS

In this document, the terms "AHMSA" and "Company" refer to Altos Hornos de Mexico, S.A.B. de C.V. and its Subsidiaries, unless the text indicates otherwise. "GAN" refers to Grupo Acerero del Norte, S.A. de C.V. (AHMSA's holding). References to "Mexican pesos" or "MXN$" mean the legal currency of the Mexican United States ("Mexico"), while "U.S. dollars" or "USD$" refer to the legal currency of the United States of America. References to "euros" or "€$" means the legal currency of the countries of the European Union ("EU") and the Eurozone. The term "tonnes" refers to the metric tonnes of 1,000 kilograms.

AHMSA prepares its consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS" or "NIIF" by its initials in Spanish) issued by the International Accounting Standards Board ("IASB").

This document contains translations of certain amounts in Mexican pesos into U.S. dollars, at the specified exchange rates, only for the convenience of the reader. These translations should not be interpreted as if the amounts in pesos truly represent these amounts in U.S. dollars or that can be translated into U.S. dollars at that exchange rate. Unless otherwise stated, when amounts in US dollars are stated, means that they were translated from Mexican pesos at the exchange rate published by Banco de México in the Federal Official Gazette ("DOF" by its initials in Spanish) as of December 31, 2017, 2016 and 2015, which were MXN$19.7354, MXN$20.6640, and MXN$17.2065 per USD$ 1.00 dollar, respectively.

Unless otherwise stated, references to the market shares of AHMSA, the market share of a particular product, and the market share of imports and exports, refer to the share in the apparent Mexican national consumption of steel products (which consists of the sum of domestic production of finished steel goods, plus imports of finished goods less exports of finished goods). With regard to the apparent Mexican national consumption and the information of certain market share not related to AHMSA, is based on information published by the National Chamber of the Iron and Steel Industry ("CANACERO" by its Spanish initials) and 2017 information is based on preliminary amounts published by this entity. The information published by CANACERO is based on information voluntarily provided by Mexican steel producers. Even though AHMSA has no reason to believe that this information provided to CANACERO by Mexican steel producers is incorrect, it cannot be assured that this information is completely correct.

This report contains words such as "grow", "expect" and "anticipate" and similar expressions that identify expectations. The use of these terms reflects our views about future events and financial performance. Actual results may differ from our expectations for the future as a result of various factors which may be beyond our control, including, but not limited, the effects for changes in our relationship with and between our affiliates and related parties, movements in prices of raw materials, competition, significant changes in the economic or political situation in Mexico or other countries situation, or changes in our regulatory environment. As a result, we warn readers not to put an undue trust in these expectations. In any case, these expectations refer solely to the moment they were issued, and the Company does not assume any obligation to update or revise any of them, whether as a result of new information, future events or any other cause.

Particular names and technical terms are used throughout this document. To facilitate their understanding, below is a glossary of the most important ones.

Pig Iron: Virgin iron produced in a Blast Furnace, raw material used in the manufacture of steel.

Billet: Semi-finished steel product used to roll long products such as rod, wire rod, bars and structural products. The billet is different from the steel slab for its external dimensions and its section, which is usually square, and measures between two and seven inches of edge, and the steel slab of the rectangular section measures between 30 and 80 inches wide and 2 to 10 inches thick.

Installed Capacity: Nominal capacity to produce steel in a specific period of time.

Collection Centers: Courtyards for mixing coal from different supply sources for delivery of a single coal according to the customer's specifications.

Continuous Casting ("CC"): Method of casting steel directly from the furnace to a certain mold, either steel slab or billet. The steel in the furnace is casted into pots which are placed on a distributor, which in turn, is located on the top of the continuous casting. While the steel is casted from the distributor into a mold, it solidifies forming a hot steel ribbon. At the end of the continuous casting, a guillotine cuts the continuous flow forming billets or slabs.

Descaling: Process in which the roll of steel is cleaned from rust, impurities and oil for use in subsequent processes. Through a continuous process, the roll is unrolled and goes through a bath of hydrochloric acid to remove oxidation. Later, the blade is rinsed and dried.

Dumping: Unfair trade practice sanctioned by Mexican laws and the World Trade Organization ("WTO"), which consists of selling a product for export at a price lower than that in its domestic market.

ISO: International organization for standardization of operations for the assurance of production quality.

ISO 9001: Certification concerning the standardization and normalization of operations for the assurance of production quality.

ISO 14001: International voluntary certification that allows managing the impacts of an activity, a good or a service in relation to the environment in accordance with the ISO.

Hot Rolled Steel Sheet: Hot steel roll flattened in a mill. It can be sold this way or it can be further processed in other finished goods.

Cold Rolled Steel Sheet: Steel sheet that after being hot rolled, has gone through a descaling process and cold reduction mills. Cold rolled steel sheets have a caliber considerably less than hot sheets; therefore, it is a product of higher value added.

Environmental Laws: Mean the laws, bylaws, ordinances, regulations, criteria, guidelines, federal, state, and municipal official standards and rules currently in force in Mexico concerning to the regulation and protection of human health, safety, environment and natural resources, including air, surface waters, groundwater, wetlands, land, superficial or subsoil strata, flora and fauna, aquatic species and vegetation.

Lims: Magnetic drums.

Ingot: Steel semi-finished good. Liquid steel is poured into moulds or ingot moulds where it solidifies. Once the steel cools, the mold is removed and the ingot is overheated to subsequently go through hot mills.

Iron Ore: A mineral that contains enough iron to be used in the production of steel. The iron is not found freely, but it is trapped in the crust of the soil in the form of iron oxide.

MMBTU: "Million British Thermal Units," which represents the English unit to measure the heating power of a substance.

Hot mill: Reducing mill consisting of several roll-housings that turn steel slab to steel rolls. This mill uses horizontal rollers of decreasing distance between them to push the steel slab and turn it to steel rolls.

Pellet: Particle of iron ore condensed into small spheres in a palletizing drum and hardened by means of heat.

Steel slab: Semi-finished Steel good of flat steel that is laminated in a mill to obtain hot rolled sheets. The slabs are between 30 and 96 inches wide (and an average of 20 feet long), while the continuous thin steel slab is 2 inches thick.

Long products: Classification of steel products which include rods, bars, wire rods and structural products.

UAFIRDA: Earnings before financial income and expenses plus other reserves, plus depreciation and amortization.

1.2 EXECUTIVE SUMMARY

This overview is not intended to contain all the information that could be relevant to make any decision to invest in the securities of the Company, and is complemented with more detailed information and the consolidated financial information included in other sections of this Annual Report, as well as the information contained in the "Risk Factors" section, which should be read carefully by the investing public.

AHMSA, integrated producer of steel in Mexico, in 2017 participated with 12% of the steel market nationwide, 22% of the domestic market for flat products, and 12% of Mexican exports of finished steel goods. Both, its steel plants and its corporate offices are located in the city of Monclova in Coahuila de Zaragoza, 248 kilometers away from the border with the United States of America. With an area of approximately 1,200 hectares, AHMSA operates two steel plants with a total production capacity of 5.5 million tonnes of liquid steel per year.

AHMSA is the owner of its main sources of raw materials and steel production, as well as finishing facilities and a distributor of steel products, in addition to having interests in a company which transports raw materials. Being an integrated producer of steel, it is possible to consider AHMSA as one of the lowest-cost steel producers.

In 2017, 4.39 million of tonnes of liquid steel, and 3.7 million of tonnes of finished steel goods were produced. As a steel producer, it produces a variety of products of flat steel (such as Plate, Hot Rolled Steel Sheet, Cold Rolled Steel Sheet and Tin), as well as certain non-flat products (such as Heavy Sections). In the domestic market, its products serve mainly to the manufacturing, construction, automotive, oil, packaging and household appliances industries. The Company's export sales are carried out directly or through steel distributors to a variety of end users.

Export sales in 2017 sales were 478 thousand tonnes, representing 13% of the sales volume of steel products and 12% of net sales of steel products. AHMSA continuously assesses the domestic and export market, which allows maintaining some flexibility to access the market offering more attractive conditions. Proof of this is the opening of the sales office AHMSA International, Inc., in San Antonio, Texas, which seeks greater presence in the North American market, as well as increasing the value and service of AHMSA products to customers in that market. In 2017, 44% of AHMSA exports were made through this office, compared with the 33% recorded in 2016.

BACKGROUND:

On May 16, 2016, the first judge of the first instance in Monclova issued a statement for lifting the Suspension of Payments of the Company. The sentence is based on the general payment agreement presented by the Company on December 17, 2014, and was approved without opposition by the majority of the creditors. This agreement establishes the payment of 100% of the debts under Suspension of Payments within a period of 3 years from August 3, 2016, date on which the sentence became final. In addition, it establishes that the creditors may capitalize part of the debt into AHMSA shares.

This sentence provides that creditors which have MXN$10,735 in recognised collection rights decided to exchange 69.15% of those rights by a combination of ordinary shares of AHMSA and a payment in U.S. dollars equivalent to MXN$365. The remaining 30.85% of the collection rights that creditors who decided to make this exchange remain unpaid, and must be paid completely, in Mexican pesos, within a period of three years from the date the sentence became final.

AUTHORIZATION OF INCREASE AND CANCELLATION OF CAPITAL STOCK

At the general ordinary shareholders' meeting on November 17, 2014, the shareholders approved entering into the "General Payment Agreement" with the recognised creditors, as a more viable option for completing AHMSA process of Suspension of Payments, which includes a payment proposal which explicitly mentions the payment of 100% of the recognised principal within a period of 3 years, with option to partially capitalize the credit in exchange for shares.

At the general ordinary shareholders' meeting on April 17, 2015, the shareholders approved an increase of variable capital of MXN$13,762, subject to the condition that a final lifting of the Company's Suspension of Payment judicial process is issued. Where applicable, 227,669,803 ordinary shares at no par value would be issued, which would remain in treasury until the capital increase corresponding to AHMSA's creditors in the process of suspension of payments is signed. According to that mentioned in Note 2 to the audited financial statements, the creditors who opted to change its collection rights (MXN$7,058) to shares were awarded 113,602,618 shares, subject to final reconciliations.

As of December 31, 2017, capital stock is represented by 585,542,305 nominative common shares of a unique series, at no par value, fully subscribed and paid, of which 471,387,865 shares are fully subscribed and paid, and 114,154,440 shares are pending subscription. Currently, such shares are in the process of restatement and registration with the National Securities Registry ("RNV").

Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to ISR (income tax) at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years. Beginning 2014, dividends to individuals and foreigners are subject to an additional tax of 10% on the basis of the net tax income account generated. As of December 31, 2017, on a consolidated basis, the Company's total assets were MXN$63,194 million and generated total income of MXN$54,745 million and UAFIRDA of MXN$3,534 million. The Company owns almost 100% of the shares of its primary direct and indirect subsidiaries.

Summary of the Consolidated Financial Information

The following tables present a summary of certain selected consolidated financial information derived from the Company's consolidated financial statements for each of the fiscal years ended December 31, 2017, 2016 and 2015. The selected consolidated financial information included must be read and analyzed in conjunction with the financial statements and their supplementary notes. Furthermore, this summary should be read and analyzed along with the consolidated financial statements and supplementary notes thereto. Furthermore, such summary must be read and analyzed taking into consideration all the explanations provided by the Company's management throughout the "Financial Information" Chapter, especially in the section "Management comments and analysis on the Operating Results and Financial Situation" of the Company.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (MXN$))

	2017	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	$ 1,677	$ 944	$ 510
Trade accounts receivable, net	4,494	2,667	1,567
Due from related parties, net	207	205	126
Other accounts receivable, net	1,150	1,385	1,562
Inventories, net	7,006	7,840	7,305
Prepaid expenses	41	154	95
Total current assets	14,575	13,195	11,165
Non-current:			
Due from related parties, net	485	485	31
Other long-term receivables	89	89	96
Guaranty deposits	882	835	735
Investments in shares of associates and joint ventures	81	80	115
Property, plant and equipment, net	43,070	44,979	45,605
Intangible assets, net	3,334	3,426	3,868
Other assets, net	678	525	556
Total non-current assets	48,619	50,419	51,006
Total assets	63,194	63,614	$ 62,171
Liabilities and stockholders' equity			
Current liabilities:			
Liability in suspension of payments	$ -	$ -	$ 14,901
Financing debt	4,684	2,847	3,721
Due to suppliers	8,738	6,382	5,056
Taxes payable	1,603	1,270	1,076
Due to related parties	511	438	450
Advances from customers	2,381	2,841	1,220
Other payables and provisions	2,010	2,114	2,054
Total current liabilities	19,927	15,892	28,478
Non-current liabilities:			
Financing debt	11,746	13,092	3,632
Due to related parties	654	654	-
Other payables and provisions	342	540	404
Employee retirement obligations	7,212	6,330	6,781
Deferred income taxes	3,419	4,632	5,255
Total non-current liabilities	23,373	25,248	16,072
Total liabilities	43,300	41,140	44,550
Stockholders' equity:			
Capital stock	13,187	13,187	6,129
Additional capital contribution	458	458	458
Retained earnings from prior years	7,433	10,586	14,894
Loss for the year	(1,859)	(3,153)	(4,308)
Other comprehensive income items	96	819	(117)
Controlling interest	19,315	21,897	17,056
Noncontrolling interest	579	577	565
Total stockholders' equity	19,894	22,474	17,621
Total liabilities and stockholders' equity	$ 63,194	$ 63,614	$ 62,171

CONSOLIDATED STATEMENTS OF LOSSES AND OTHER COMPREHENSIVE RESULTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (MXN$), except per share data)

	2017	2016	2015
Net sales	$ 54,745	$ 48,512	$ 41,100
Cost of sales	48,542	42,279	38,570
Depreciation	3,619	3,775	3,713
Gross profit (loss)	2,584	2,458	(1,183)
Selling and administrative expenses	3,236	2,914	2,846
Other expenses (income), net	393	643	21
Operating (loss) income	(1,045)	(1,099)	(4,050)
Interest expense	1,595	1,523	1,160
Interest income	(109)	(196)	(156)
Foreign exchange loss, net	(25)	1,106	384
	1,461	2,433	1,388
Equity in (income) loss of joint ventures and associated	(20)	(29)	43
Loss before income taxes	(2,486)	(3,503)	(5,481)
Income taxes expense	(629)	(333)	(1,201)
Consolidated net loss for the year	(1,857)	(3,170)	(4,280)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX:			
Items that may be reclassified subsequently to profit or loss:			
Translation effects of foreign subsidiaries	(118)	586	427
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains (losses) of employee benefits from termination and retirement	(605)	386	143
	(723)	972	570
Consolidated comprehensive net loss	$ (2,580)	$ (2,198)	$ (3,710)
Distribution of consolidated comprehensive net loss for the year:			
Controlling interest	$ (2,582)	$ (2,181)	$ (3,738)
Noncontrolling interest	2	(17)	28
	$ (2,580)	$ (2,198)	$ (3,710)
Basic loss per share (in Mexican pesos)	$ (4)	$ (7)	$ (12)
Weighted average shares outstanding (000's)	471,478	428,911	357,873

Summary of the Behavior of the Company's Stock in the Stock Market

As of December 31, 2017, capital stock is represented by 585,542,305 nominative common shares of a unique series, at no par value, of which 471,387,865 shares are fully subscribed and paid, and 114,154,440 shares are pending subscription. Currently, such shares are in the process of restatement and registration with the National Securities Registry ("RNV").

AHMSA is incorporated under the Mexican laws, and all its steel production, as well as the mines are located in Mexico. Its headquarters are located at Prolongación Juárez s/n, Col. La Loma, Monclova, Coahuila de Zaragoza, Mexico, C.P. 25770 and our telephone number is (52-866) 649-33-30.

1.3 RISK FACTORS

In assessing a possible acquisition of securities of the Company, investors should consider analyzing and assessing carefully all the information contained in this Annual Report and, in particular, the risk factors discussed in this section. The risks described below are not the only ones faced by the Company. Those risks and uncertainties the Company is not aware of, as well as those the Company currently considers of little importance, could also have a significant adverse effect on liquidity, operations, financial position or operating results of the Company.

Factors Related to the Business and the Company's Financial Condition

Risks Related to the Suspension of Payments and Debt Restructuring

The primary effects on the 2016 consolidated financial statements relating to the lifting of AHMSA Suspension of Payments were: (i) recording in earnings an expense for the fluctuation of the exchange rate of MXN$301 million, as differences between the recorded exchange rate and that recognised in the sentence arose, (ii) the long-term classification of the net balance payable of MXN$8,260 million (including MXN$654 million to related parties), which is presented as part of the long-term financial liabilities in the consolidated balance sheet, and (iii) the increase of capital stock of MXN$7,058 million.

As part of the agreement with creditors, AHMSA responds to all of its obligations with all its assets and, in the opinion of its legal advisors, it does not have any restrictions for the sale or encumbrance thereof in the regular course of its operations.

Risks Related to the Increase in the Competition in the Steel Industry

The Company is one of the two Mexican integrated producers manufacturing flat steel products. It is the only Mexican supplier of Sheet Plate, Tin, Chrome Sheet and a variety of structural steel profiles. However, the steel industry worldwide is characterized by a strong competition and in recent years, it has been affected by excess supply.

The global steel industry is a cyclical business that is characterized by intense competition. The steel companies' financial condition and operating results are usually affected by international macroeconomic fluctuations and the domestic economy of each Company, respectively. There is no assurance that the fluctuations of the Mexican economy and of the world will not have a significant adverse effect on AHMSA in the future. As a result of global excess capacity, particularly in periods of a slowdown in the economy, the Company has previously experienced a significant competition in imports, and we expect this to continue in the future.

Risks Related to the Loss of any Significant Customer of the Steel Segment

We sell our products mainly on a monthly basis. Our 5 primary customers of steel with regard to volume accounted for approximately 39% of our income in 2017, while our 10 major customers of steel with regard to volume accounted for 54% of our sales in the same period. Only one of our 10 major steel customers purchase steel through a quarterly agreement, which foresees a quarterly adjustment to the selling price according to market prices. Some of our major clients are transnational corporations that assign part of their production to the export market; therefore, the decrease in the business of these companies or the loss of any of these large-volume customers may have a significant adverse effect on the Company's income. Furthermore, the future of our income mostly depends on the commercial success of these customers and their willingness to continue purchasing our products. Any decline in the business of these customers may cause a decrease in the purchase of our products or that they stop purchasing them.

Risks Related to Fluctuations in Energy Costs

In 2017, 2016 and 2015, the Company did not conduct hedging transactions.

In 2017, 2016 and 2015, the Company did not identify embedded derivatives.

Liquidity Risks

Liquidity risk represents the possibility that the Company has difficulties to comply with its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The approach of the Company to manage its liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to cover its liabilities at the maturity date, both in normal situations and extraordinary conditions, without incurring unacceptable losses or putting the reputation of the Company at risk.

The Company maintains strict monitoring and control of commitments, which helps it monitor cash flow requirements and optimize the cash returns from its investments. Normally, the Company ensures to have enough cash on hand to cover expected operating expenses, including the payment of financial obligations; the foregoing excludes the possible impact of extreme circumstances that are not reasonably predictable, such as natural disasters, among others.

However, due to the instability in international steel prices in the last few years, the Company's operating results and cash flow have been affected, which has caused delays in the fulfillment of its short-term obligations, mainly the timely payment to suppliers. However, the market conditions in the industry have shown a significant improvement in recent months, wherewith we expect a positive impact on liquidity. In addition, Management is analyzing financing options along with the return to capital markets to strengthen the financial situation and the level of working capital, wherewith it is expected to improve the short and medium-term cash flow.

Risks for Availability of Raw Materials

The Company acquires raw materials, some components and spare parts from its subsidiaries and a large number of external suppliers. However, it depends on certain key suppliers for some of the raw materials used in the manufacture of its products. The Company's ability to continue to get these supplies efficiently and at low cost depends on many factors. These factors include the ability of providers to supply raw materials on an ongoing basis and the Company's ability to compete with other users in obtaining such supplies. The loss of any of these key suppliers could affect the Company's production and cause an increase in its costs.

Risks Arising from International Commercial Agreements

International trade agreements have facilitated access to markets of greater demand, such as that of the United States of America. However, the ability of the Company to sell its products in these foreign markets may be limited due to more competitive prices that could be offered therein, both for its domestic producers and exporters from other countries, especially those belonging to the emerging economies.

As a result of the North America Free Trade Agreement ("NAFTA"), the Free Trade Agreement between the European Union and Mexico ("FTA-EUM"), and other multilateral and bilateral agreements of which Mexico is a member, tariffs do not mean a barrier for the producers of the signatory countries to penetrate the domestic steel market, since for most of them, like NAFTA or NAFTA-EUM, tax relief periods have concluded; therefore, tariffs are not charged to their exports of steel to Mexico.

On the other hand, increases in the volume of exports of AHMSA and the expansion of its export markets may increase the risk of *antidumping* claims against the Company.

Risks for Regulations or Reforms to Environmental Laws

The Company's operations in Mexico are subject to Environmental Laws. Beginning 1998, Mexico adopted ecological regulations, which include provisions relating to the pollution of water, air, soil, noise, use of hazardous materials, handling and disposal of hazardous and non-hazardous waste, as well as the safety and health of employees. However, in the early years of effect, enforcement of Environmental Laws was limited to serious cases of pollution. In recent years, the enforcement of Environmental Laws has become increasingly tighter, due in part to the agreement on ecological matters between Mexico, the United States of America and Canada relating to the NAFTA, and the importance of the worldwide environmental issues, among others. Similarly, the effects of climate change and the commitments made by Mexico to the United Nations ("UN") have caused a drastic change in the way of managing the environment in the Company.

The laws in force impose to fulfill and to enforce the fulfillment of pollution control obligations, emergency plans before risks, remediation of places, among others; therefore, the Company could be forced to perform remediation or be ascribed a liability to any third party that is affected by environmental conditions caused by the first, even though they have been caused before its privatization, from the entry into force of the amendments to the law in this area. Like other companies involved in similar industries, environmental risk and the obligations to comply with regulations are inherent to several of the productive activities of the Company. AHMSA cannot assure that no remediation obligations or other obligations shall be imposed to the Company or its subsidiaries, or that its future operations will not be subject to stricter laws and regulations in Mexico. In addition, the Company may not assure that in the future, it will not have to make investments in equipment as a result of the application of stricter laws and regulations. A stricter environmental regulation could increase the Company's compliance and operating costs, affect its ability to obtain or maintain required authorizations or permits, as well as forcing it to incur unplanned expenses to remedy environmental damage, which may adversely affect its operations, its financial situation or its projects.

Risks for Mining Concessions

Some of the Company's subsidiaries are holders of mining concessions, by virtue of which are obliged, inter alia, to explore or exploit the respective concession, to make payments of applicable duties, to comply with all the applicable standards on environmental and security matters, to file information with the Ministry of Economy ("SE" by its Spanish initials), and to allow that the latter carries out inspection visits. Mining concessions are subject to reversal in case of breach of the obligations of the concessionaire or for reasons of public interest. In the event that such concessions were revoked, the Company would have to obtain the corresponding inputs from external sources.

Risks of Strikes or Other Labor Issues

AHMSA has entered into collective bargaining agreements for each of its plants or units, with the National Union of Mineworkers, Metalworkers, Steelworkers, and Allied Workers of the Mexican Republic ("SNTMMSSRM" by its Spanish initials); with which annual negotiations for certain provisions are negotiated, including wages, and every two years for other provisions, including benefits, according to Articles 399 and 399 Bis of the Federal Labour Law.

The trade union sections of the two plants of AHMSA, as well as eight sections of different units of the Company MINOSA reported some time ago that they would separate from the National Executive Committee of the Mineworkers Union, as they disagree on the manner the members of such Committee were elected, arguing lack of democracy and violation to their internal bylaws.

Without the participation of the National Union of Mineworkers, in the recent years, the Company has negotiated directly with commissions of workers and their trade union sections, the revisions of Collective Bargain Agreements and/or Wage Scales and agreements for third party contractors to be able to carry out works which do not correspond to unionised workers within the units, reaching agreements and conventions which have been approved by the general assemblies of workers without any problem; however, there is always the risk of some disagreement in the various negotiations that could result in any labor dispute.

Any labour issue or any cost associated with labour issues at our plants and/or units, where unionised personnel work, could have a material adverse effect on our production levels and operating results; therefore, there is a strong and personalised care to local union officials, workers and the fulfillment of our contractual obligations, which has indicated a healthy workplace.

Currently, only the Executive Local Committee of section 42 of MINOSA, Cerro de Mercado Unit in Durango, maintains the direct relationship with the National Executive Committee of the National Union of Mineworkers; therefore, negotiations are still taking place in Mexico City at the premises of that Union.

In the past 25 years, none of our units has experienced strikes, and all have good relations with their employees, workers and trade union sections, in 2017, revisions of the Agreement and Wage Scale of AHMSA, MINOSA and all its units, as well as of Nacional de Acero, S.A. de C.V. ("NASA") (Monclova and Monterrey plants) has been accepted and approved at worker meetings. This last Company has a collective bargaining agreement with the Mexican Workers Confederation ("CTM" by its Spanish initials) in Monclova Plant and with the Independent Trade Union Federation in Monterrey Plant.

Factors Related to Mexico and the Global Steel Industry

Risks Related to the Economic Situation in Mexico

The Company is currently developing all its manufacturing of steel, mining and other activities in Mexico, except for export sales and the mining unit Dos Repúblicas located in Texas, which extracts thermal coal. The level of activity of steelmaking in Mexico has been affected in the past by prevailing conditions in the Mexican economy, and the demand for steel has been vulnerable to the economy decline and changes in the government policy, as well as public spending. The business, financial condition, operating results or perspectives, may also be affected by fluctuations in exchange rates, instability of prices, inflation, interest rates, regulations, taxes, social instability and other economic and political effects affecting Mexico.

The growth rate of the Gross Domestic Product ("GDP") was 1.4%, 2.2%, 2.5% and 2.3% in 2013, 2014, 2015 and 2016, respectively, whereas in 2017, it grew 2.1%. Future economic recessions could have a significant adverse effect on the activities, the operating results, or the financial situation of the Company, including, among others, a contraction in the demand for its products and a decrease in their selling prices. In addition, changes in the national economy are linked to those of economy of the United States of America; therefore, any contraction in that country's economy could affect the national economy and the Company's operations. The Company cannot guarantee that the measures taken by the Government or future events in the national economy over which it has no control will not affect adversely its operating results or its financial situation.

Risks Arising from Changes in Government Regulations

In general, it is estimated that the policies of the Mexican Government have been aimed at limiting its intervention in the Mexican economy; however, the Mexican Government continues to have significant influence with respect thereto. Governmental policies concerning the economy could have adverse effects for private companies in general and the Company in particular. In the past, the objectives established have not been observed, and similarly some measures in the present could accomplish the purposes for which they were implemented. It is not possible to determine the effect that these policies will have on the Mexican economy or liquidity, the financial situation or the operation results of the Company.

Risks Related to Political Events

In 2017, the demand in the domestic steel market remained relatively stable, while external pressure generated by worldwide overproduction and unfair trade practices mainly originating in Asia, persisted. That phenomenon was slowed by the decision of the Federal Government to sustain the tariff protection against countries with no trade agreement. From the fourth quarter, an improvement in international prices was denoted, although in the case of Mexico - and North America in general - the demand for steel was limited by the uncertainty generated by the US Government's announcement about the establishment of general tariff barriers on imports of steel products. In that sense, as Mexico is exempt from this decision, and to the extent that the Mexican Government adopts similar policies to avoid referral to the country of higher oversupply and the use of Mexico as intermediate point to carry steel to the United States, will enable greater stability of market and better prospects for the producing companies. At the same time, a reactivation of public and private investment at the national level is expected, once the political process to change the Federal Government ends.

Risks Arising from Exchange Fluctuations and Restrictions

The Company estimates that most of its consolidated fixed expenses are denominated in pesos. Since the selling price of steel products refers to U.S. dollars, the percentage of income in that currency is greater than the percentage of costs denominated in dollars. Usually, the Company does not contract hedges or transactions with derivatives with respect to exposure to foreign currency, as it is considered that these risks are mitigated by a substantial relationship between the selling price of its products and the U.S. dollar. With regard to embedded derivatives, the Company does not have a material exposure.

Risks Related to Inflation

Inflation in Mexico has substantially declined since the end of the 1990s, recording growth rates of 3.97%, 4.09%, 2.13%, 3.36%, and 6.77% in 2013, 2014, 2015, 2016 and 2017, respectively, which has resulted in much lower current interest rates than those recorded historically.

A high inflation rate in relation to the level of devaluation of the peso against the dollar and the variation in interest rates could reduce the margins of the Company. Even when inflation and interest rates are currently at very low levels with respect to those observed in previous decades, historically, the country has suffered from high rates of inflation and there is no guarantee that current levels will be maintained in the future, which could affect the liquidity, financial situation or operating result of the Company.

Interest Rate Risks

The Company actively monitors the behavior of interest rates and assesses its exposure to fluctuations on their loans. The decision to contract fixed or variable rate financing is reviewed determining case by case, and depend on the market conditions and expectations at the time of their negotiation. Currently, 69% of the Company's debt is contracted at a fixed rate.

1.4 OTHER SECURITIES

The Company does not have securities registered with the RNV.

1.5 SIGNIFICANT CHANGES TO RIGHTS OF SECURITIES REGISTERED WITH THE RNV

Of December 31, 2017, capital stock is represented by 585,542,305[3] nominative common shares of a unique series, at no par value, of which 471,387,865 shares fully subscribed and paid, and 114,154,440[4] shares are pending subscription. Currently, such shares are in the process of restatement and registration with the National Securities Registry ("RNV").

[3] Total capital stock resulting from the increase in variable capital approved by the general ordinary shareholders' meeting of the Company held on April 17, 2015 in the amount of MXN$13,762,229,785.70, through the issuance of 227,669,803 nominative common shares of a unique series, at no par value, plus the 357,872,502 shares previously subscribed and paid.

[4] Shares that might be subscribed as a result of (i) minor adjustments for creditors' subscription, and (ii) eventual right of subscription of shareholders that are able to exercise their preemptive right.

1.6 FUNDS DESTINATION

Non applicable.

1.7 PUBLIC DOCUMENTS

The documentation submitted by the Company to the National Banking and Securities Commission ("CNBV" by its initials in Spanish) may be consulted at the BMV (Mexican Stock Market) by request from analysts and investors both in Mexico and abroad, in their offices or on their website at http://www.bmv.com.mx.

This Annual Report filed by AHMSA with the CNBV and BMV and Company-related information is available on its website at http://www.ahmsa.com.

Chapter 2. The Company

2.1 HISTORY AND DEVELOPMENT

Background and Privatization

AHMSA origins go back to World War II, when exports of steel from the United States of America to Mexico were severely reduced. A group of Mexican entrepreneurs with financial support from Nacional Financiera, S.N.C, ("Bank of the Mexican Government for the National Development"), created a joint venture in 1942 with American Melting Company ("ARMCO") to install a steel company in the city of Monclova, Coahuila de Zaragoza, which would receive the iron ore and coal exploited in the region. The joint venture, Plant I of current AHMSA, began operations in 1944 with a nominal capacity of 140,000 tonnes of liquid steel per year.

At the end of the sixties, the production had increased to two million annual tonnes of liquid steel, and an attached plant was built during the seventies, Plant II, increasing the nominal capacity of old AHMSA to 3.75 million tonnes of liquid steel, prior to the definitive closure of the steel plant of open-hearth furnaces. At the end of the seventies, Sidermex, S.A. de C.V. ("SIDERMEX"), State-owned company, gradually took control of the administration of old AHMSA.

At the end of the eighties, the Mexican Government followed certain steps that paved the way for the privatization of old AHMSA and the modernisation of its production process. As part of its program of stabilization and structural reform of the economy, the Mexican Government began to open the economy, eliminating protectionist import policies and dramatically reducing tariffs on steel products from 45.0% in 1986 to 10.0% or less in 1991. The Mexican Government also sought to reduce its participation in various sectors of the economy, including steel.

On December 23, 1991, GAN assumed control of AHMSA, at the same time that it acquired from the Mexican Government shares in a plant for steel rolling, a continuous casting and shares in the group of companies known as the Raw Material Group, which included the old Units MINOSA and MIMOSA that have provided old AHMSA with substantially all its requirements of iron ore and coal, respectively. As a result of the privatisation, many subsidiaries of old AHMSA became subsidiaries of AHMSA, including the old Units MINOSA, MIMOSA and CERRO.

In 1999, both the situation in the global steel industry, as well as the indebtedness of the Company, caused the failure to comply with certain financial restrictions; therefore, on April 26 of that year, the Company commenced a process aimed at negotiating with its creditors a restructuring of its debt according to its capacity to pay, and suspended the payment of principal and interest of all its loans. Since some creditors brought legal actions against it, on May 24, 1999, AHMSA and some of its subsidiaries requested a declaration of Suspension of Payments which was granted on May 25, 1999 by the First Judge of the First Instance in Monclova, Coahuila de Zaragoza, Mexico. The Suspension of payments constitutes an event of default in different debt agreements of the Company.

The subsidiaries that were in Suspension of Payments, now all merged into MINOSA, concluded that process since 2008, and as of December 31, 2016, the great majority of the debts that were suspended have been settled except those for which there has been no claim by the creditor. As of December 31, 2017, the balance payable for this concept is MXN$2 million.

The agreement with creditors sets forth a term of three years for the payment thereof, and that the assets of MINOSA guarantee the liabilities for the lifting of the Suspension of Payments of these companies. This term has already concluded and all creditors who appeared were paid without any controversy. In the opinion of the Company's legal advisors, this agreement was already performed, and any claim could only be for the outstanding amount of MXN$2 million, which is safeguarded and guaranteed by the Company for this purpose.

On May 16, 2016, the First Judge of the First Instance in Monclova, issued the sentence for the lifting of the Suspension of Payments to the Company. The sentence is based on the general payment agreement filed by the Company on December 17, 2014, which was approved without opposition by the majority of the creditors. This agreement sets forth the payment of 100% of the debts in Suspension of Payment within a period of 3 years from August 3, 2016, date at which the sentence was signed. In addition, it sets forth that creditors may capitalize part of the debt into shares of AHMSA.

2.2 BUSINESS DESCRIPTION

AHMSA is a subsidiary of GAN, and is one of the largest manufacturers of steel products in Mexico, whose principal activity is the production and sale of flat steel and structural profiles. In 2017, it had a 12% share in the steel market nationwide, 22% share in flat products nationwide, and 12% share in finished steel goods of Mexican exports. Both its corporate offices as well as its steel plants are located in Monclova, Coahuila de Zaragoza, 248 kilometres away from the border of the United States of America. With an area of about 1,200 hectares, AHMSA operates two steel plants with a total production capacity of 5.5 million tonnes of liquid steel per year.

In 2017, export sales were 478 thousand tons, representing 13% of the sales volume of steel products and 12% of net sales of steel products. AHMSA continuously assesses the domestic and export market allowing maintaining some flexibility to access the market offering more attractive conditions; accordingly, at the end of 2008, AHMSA started operations of its AHMSA International sales office located in San Antonio, Texas, with the purpose of strengthening and increasing its market share in North American, as well as increasing the value and service of the Company's products.

The Company

The primary subsidiaries and associates of AHMSA are:

- MINOSA is the mine subsidiary that through its business units MICARE, MIMOSA, MINOSA and CEMESA extracts iron ore and metallurgical coal used by AHMSA for steel production; in addition, it extracts thermal coal, which is sold to the CFE (Federal Electricity Commission) for the generation of electric power.

- AHMSA International and Nacional de Acero, S.A. de C.V. ("NASA") are engaged in the distribution and sale of AHMSA products in the domestic and international market.

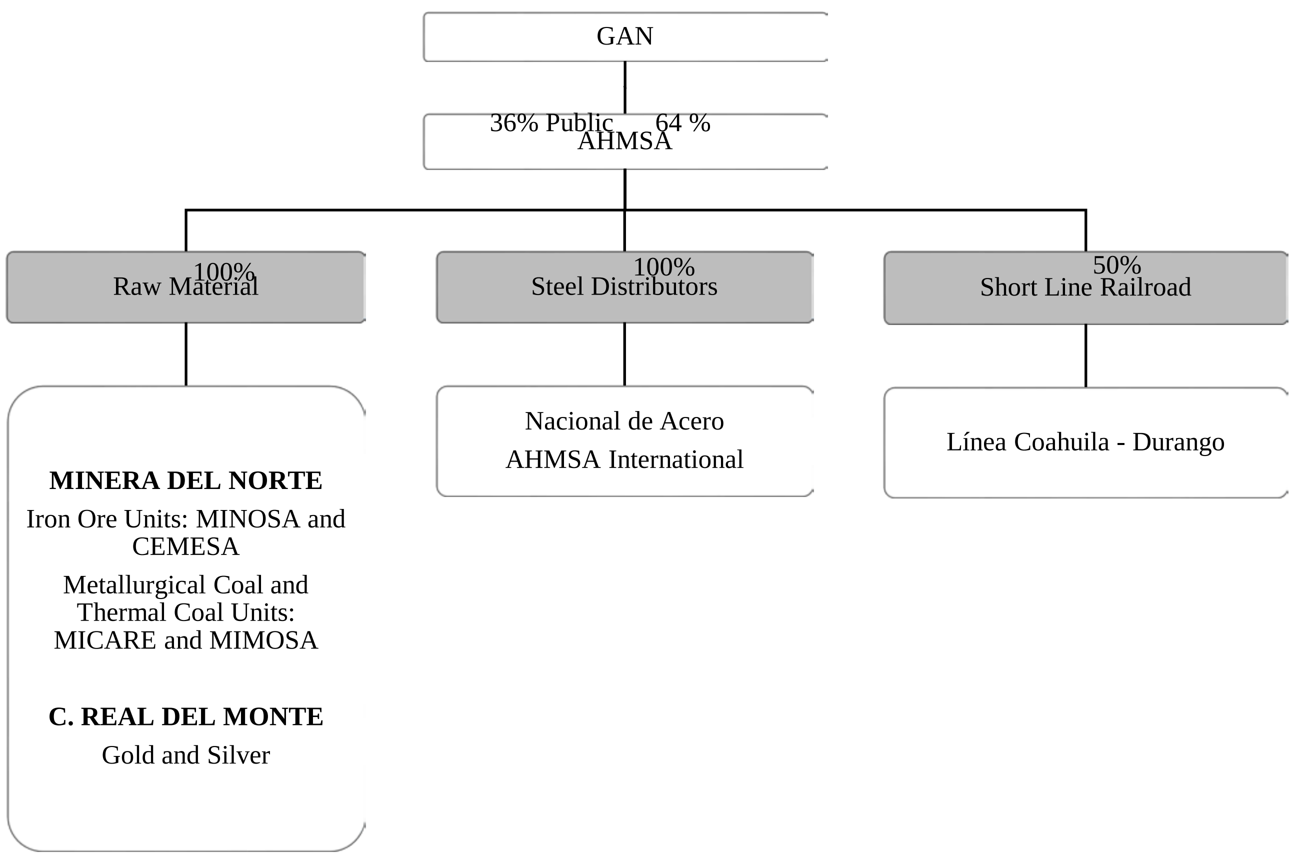
- Compañía de Real del Monte y Pachuca, S.A. de C.V. ("RDM") and Compañía Minera El Baztán, S.A. de C.V. ("BAZTÁN") are engaged in the exploration and exploitation of deposits of gold and silver, and copper, respectively.

The shareholding in MINOSA, NASA, RDM and BAZTÁN is 100%.

Joint Venture:

Línea Coahuila Durango, S.A. de C.V. ("LCD"), 50% joint venture with Industrias Peñoles, S.A.B. de C.V., engaged in rail transport used by AHMSA to transport iron ore and metallurgical coal to its plant.

Our primary activities are developed by these Companies according to the following corporate structure:



Strategy

The Company's operations are strategically focused on two completely unrelated segments, steel and coal, which allows diversifying the risks associated therewith. The steel segment comprises manufacturing steel products through a fully integrated process, starting from its own sources of raw materials to the distribution and sale of its finished goods. The coal segment includes the extraction and sale of thermal coal used by the CFE for the generation of electric power.

The Company’s strategy for its steel segment has been and will continue to be to consolidate its market share leadership in flat products in the Mexican market, improving the utilisation of productive capacity in relation to its existing products, maintaining a presence in export markets and increasing its customer base. In addition, the Company will focus on increasing the quality of its products and production capacity of those products with higher added value. Operationally, the Company is focused on reducing production costs and improving the quality of products and processes. With regard to its coal segment, the Company's strategy is to maintain the production required by the CFE, to reduce costs and to increase the productivity in its different mines through its investment programmes. In addition, the Company will get a greater operational flexibility and greater diversification of its sources of raw materials through the investment and use of an electric furnace. AHMSA intends to continue with these strategies with an appropriate follow-up to the investment plan and long-term capital improvements for each of its segments.

Investment plans and capital improvements of the steel segment

From 2013 through 2017, AHMSA disbursed MXN$7,467.3 million under the investment and capital improvements plan of the steel segment.

- Productivity of man hours per tonne of steel improved 18 minutes, going from 4:37 hours in 2015 to 4:19 hours in 2017.

- Production of higher value-added products, and more products consistent with the customer’s needs.

Beginning the next few years, under the investment plan currently in process and the steel segment capital improvements, we plan to increase the following capabilities:

- Increase by 10% the production capacity of the hot rolled steel sheet mill.
- Increase by 14% the production capacity of the pellet plant.

Investment and capital improvement plan for mines

Through our investment and capital improvement plan, we are increasing our mining equipment, developing new mining projects and exploiting better our reserves. As a result of this project, we have experienced a significant increase in the production of iron ore, thermal coal and metallurgical coal.

From 2013 through 2017, AHMSA disbursed approximately MXN$8,092.0 million for the investment and capital improvement plan for its mines.

Primary costs of investment and capital improvements plan for mines

Projects	Investment plan as of December 31, 2017 (millions of Mexican pesos)
MIMOSA	3,384.6
MICARE	1,307.9
MINOSA	620.2
DOS REPÚBLICAS	1,792.8
AHMSA STEEL ISRAEL	454.1
REAL DEL MONTE Y PACHUCA	292.0
CEMESA	222.0
MINERA EL BAZTÁN	18.3
Total	8,092.0

The investment and capital improvement plan for the steel and mine segment highlights what management considers to be one of the competitive advantages of AHMSA, a low-cost steel producer with access to both the domestic and international steel markets.

Market Opportunities

Approach in the Domestic Market. In 2017, the apparent domestic steel consumption growth in Mexico maintained a growth similar to 2016 reaching 26.2 million tonnes, representing an increase of 3.3% with respect to the prior year. This increase was mainly driven by some steel products such as: galvanized sheet, cold rolled steel sheet, seam and seamless pipe, as well as plate. Despite the poor performance of the industrial activity and construction, the manufacturing industry was the main driver of the national consumption. Unlike the global stagnation of developed economies or the tendency to decline in China, in Mexico the prospects of demand for steel continued to be positive, since growth in the apparent national consumption of steel was above the global average.

Access to Broad Ore Reserves and Economies of Scale. AHMSA has long-term concessions to extract from its iron ore and metallurgical coal mines with proven and probable reserves, which AHMSA considers as sufficient to supply its steel operations with a broad and secure long-term raw materials supply. Furthermore, AHMSA has large reserves in its mines of thermal coal for sale to the CFE. Through the continuity of the investment and development of new mines plan, AHMSA intends that its mining subsidiaries provide the majority of the iron ore and metallurgical coal required by its steel production processes. However, in 2017, AHMSA purchased 452 thousand tonnes of metallurgical coal from foreign producers, 217 thousand tonnes of iron ore, 234 thousand tonnes of pellet, and 234 thousand tonnes of coke imported from foreign producers.

Competitive Labor Costs. AHMSA labor agreements and productivity achievements under the investment and capital improvement plan have contributed to significant increases in productivity. In addition, AHMSA average cost-benefit for its Steel and mine operations were of approximately USD$7.39 per hour during 2017, which AHMSA deems that it is below the majority of its domestic and foreign competitors.

Quality products for a sophisticated domestic market and international market access. AHMSA emphasises continuous improvement to the quality of its products, improves the customer service, and optimises its production equipment and the utilisation of its human and natural resources. In recent years, AHMSA has obtained and endorsed certifications ISO 9001:2008, ISO 14001:2004, ISO TS-16949:2009, OHSAS-18001:2007, NRF-001PEMEX 2007, SA800:2008, ISO IEC 17025:2005 and EN 10025-1:2004 "CE 120" as an organization of international standards in most of its processes; in addition, it maintains the certification as a reliable supplier of Caterpillar de México. These certifications help AHMSA to attract customers that produce high quality products which are intended to international markets.

Strategic Location. AHMSA facilities in Monclova are located 290 kilometres away from its largest raw material subsidiaries, substantially reducing its transportation costs. Similarly, AHMSA location near its primary domestic markets and its relative proximity to export ports reduce delivery costs of finished goods.

Steel Production and Sales

Production

AHMSA manufactures all its products in a fully integrated steel company which consists of two plants located in the city of Monclova, Coahuila de Zaragoza, where it produces crude steel using the basic oxygen injection method, and processes 100% of its liquid steel by continuous casting method. In 2015 and 2016, AHMSA produced 4.46 million and 4.65 million tonnes of liquid steel respectively, which in turn produced 3.70 million and 4.17 million tonnes of finished steel goods, respectively. In 2017, AHMSA produced 4.40 million tonnes of liquid steel, which in turn produced 3.70 million tonnes of finished steel goods.

Preparation of Materials

The main raw materials required by AHMSA are iron ore, metallurgical coal, scrap and oxygen. AHMSA iron ore is processed by a pellet plant and sinter plant. In 2015, 2016 and 2017, the pellet plant produced 4.7 million, 4.6 million and 3.7 million tonnes per year, and 497 thousand, 507 thousand and 217 thousand of iron ore were purchased, and 508 thousand, 226 thousand and 234 thousand tonnes of pellet were purchased from foreign producers, respectively. Purchases of iron ore from third parties is required to improve the metal load in using our own raw materials.

Metallurgical coal is converted into coke by heating it in sealed furnaces. AHMSA has two coking plants that perform this function. To achieve the production levels established by the investment and capital improvement plan, significant investments were made in these coke furnaces, reducing production unit costs through energy savings and reducing its emissions at the same time. In 2015, 2016 and 2017, the total production of coke was 1,372 thousand, 1,262 thousand and 1,253 thousand tonnes, respectively. In 2015, 2016 and 2017, AHMSA bought 366 thousand, 467 thousand, and 452 thousand tonnes of metallurgical coal, respectively. Purchases of metallurgical coal from third parties are required to improve the mixture of high, medium and low volatile coal, sulfur and ashes.

Crude Iron

The production of the coke plants, the pellet plant and the sinter plant are fed in Blast Furnaces, where it is fused to produce crude iron, raw material for the steelmaking process. AHMSA has two

Blast Furnaces, which have nominal capacities of 7,200 and 4,800 tonnes of crude iron per day. The total production of crude iron in 2015, 2016 and 2017 was 3.64 million, 3.69 million, and 3.20 million tonnes, respectively. Currently, AHMSA's production capacity of crude iron is approximately 3.9 million tonnes per year.

Liquid Steel

Crude iron from Blast Furnaces is transferred to basic oxygen furnaces (or steelmaking workshops) to be processed into liquid steel. In 2015, 2016 and 2017, the steel workshops produced 4.46 million, 4.65 million, and 4.39 million tonnes of liquid steel, respectively; the Electric Furnace obtained an accumulated production of 436 thousand, 577 thousand and 808 thousand tonnes of liquid steel in 2015 2016 and 2017.

Continuous casting

Under AHMSA's current process, the liquid steel produced by the steelmaking workshops is processed through continuous casting (steel is cast directly in slabs). Beginning December 31, 2002, the nominal capacity of continuous casting was 5.0 million tonnes of steel slab, allowing that 100% of AHMSA products can be processed through continuous casting. However, to take advantage of favorable market conditions at the end of 2004 and the first quarter of 2005, the ingot process was used to marginally increase the production of non-flat products. In 2017, the nominal capacity of continuous casting was 5.0 million tonnes per year of steel slab.

Rolling Mills

The steel slab by continuous casting is the raw material to produce plate and hot-rolled steel sheet for customers. The hot rolled steel sheet can be subsequently processed into products of higher added value in two cold rolling mills. One of the two cold Rolling mills currently produces chrome plate, tin, and cold rolled steel sheets, which are processed to improve the quality of the tin and have an installed capacity of 180 thousand tonnes per year.

The following table shows the detail of production efficiency indicators for the indicated periods.

Production Efficiency Indicators

For the years ended December 31 of each year

	2015	2016	2017
Operating Efficiency Indicators			
Tonnes Sold (thousands of tonnes)..	3,774	4,156	3,710
Man Hours per Tonne (1)..	4:37	4:08	4:19
Unionised Employees (2)..	6,079	5,949	5,702
Non-unionised Employees (2)...	2,633	2,424	2,453
Coke Consumption (3)..	388	374	393
Power Consumed (4)..	5.73	5.71	5.51
Liquid Steel Production Capacity (thousands of tonnes)............	5,500	5,500	5,500
Capacity of Use (5)...	81.1%	84.6%	79.8%
Production of Continuous Casting (6)......................................	85.7%	89.6%	84.6%
Operating Income (Loss) (pesos per tonne)...............................	MXN$(835)	MXN$224	MXN$153
Return (7)..	88.7%	87.5%	87.2%

	2015	2016	2017
First Quality (8)..…………	99.8%	99,8%	99.5%

(1) Number of hours by employee of the plant divided by the total tonnes of liquid steel produced in this period.
(2) Excludes personnel employed in mines.
(3) Kilograms of coke per tonne of crude iron. Reductions in the rate of coke can occur due to improvements in the efficiency or the substitution of coal or natural gas instead of coke.
(4) In Gigacalories ("calories x 10^9") per tonne of liquid steel.
(5) Current production of liquid steel as a percentage of the maximum nominal capacity of liquid steel.
(6) Percentage of total production made through continuous casting, more efficient, and with products of higher quality than the traditional ingot method.
(7) Percentage of product good per tonne of steel liquid consumed. Performance is represented as a finished good to crude steel produced.
(8) Percentage of finished goods that meets the criteria of quality standards in the industry for each market.

Products

The following table shows the steel production and sales by category for the periods indicated.

Sale and Production of Finished Goods
(thousands of tonnes)

	For the years ended December 31 of each year		
	2015	**2016**	**2017**
Tonnes sold			
Flat products...	3.347	3,612	3,349
Coated products..	136	147	144
Light and Heavy Profiles, Billet and Other	291	398	217
Total Tonnes Sold	3,774	4,156	3,710
Increase in Inventories..	68	14	10
Total Production...	3,842	4,170	3,720

Flat Products

Plate. Plate is a product of flat and rigid steel with general ranges from 96 inches to 480 inches long and 0.187 inches to 3.500 inches thick. AHMSA is the sole producer of plate in Mexico. AHMSA produces plate of up to 120 inches wide. The largest plate customers of AHMSA include producers of machinery, pipes, builders and distributors.

Hot rolled steel sheet. The Hot rolled steel sheet is a thin, semi-rigid or flexible product with general ranges from 0.075 inches to 0.750 inches thick and is delivered in large rolls. With the launch of the new Steckel mill, AHMSA now produces the widest hot rolled steel sheet in Mexico (up to 96 inches). AHMSA's largest customers of hot rolled steel sheet include re-enrolling units, profile producers, piping and gas cylinder producers.

Cold rolled steel sheet. Cold rolling is a process after the hot rolling, which gives it a better surface and improves the physical properties of the steel, and reduces it widths to accurate measurements. Cold rolled steel sheet is produced with various specifications and measures for the use of more advanced processes and industrial applications. Major domestic clients include galvanisers, distribution centres and service, steel processors, automotive and white line producers.

Coated Products

Tin and Chrome plate. Tin is a produced film of the cold rolled steel sheet that is coated with tin. AHMSA is the sole producer of Tin and Chrome plate in Mexico, which is usually used in the production of cans, the rest is supplied by imports. AHMSA's main customers include food and packaging industries. AHMSA maintains two units of Tin, one with a capacity of 70 thousand tonnes, and another one with a capacity of 130 thousand tonnes, but currently only the latter operates. Chrome plate is a sheet coated with chrome that is mainly used to make bottle caps or food cans.

Structural Profiles and Non-flat Products

AHMSA is the sole producer of a variety of Structural Profiles in Mexico. AHMSA’s primary customers of Structural Profiles include distributors and service centres, construction and mining companies.

2.3 SALES AND MARKETING

Domestic Sales

The domestic market is the primary market for AHMSA. In 2013, 2014, 2015, 2016 and 2017, approximately 85%, 84%, 86%, 85% and 87%, respectively, of the total sales volume of steel products were made in Mexico. Domestic customers are divided into two main classifications: industrial customers and distributors. Industrial customers include final users of the product and processors that subsequently assemble the product purchased (such as producers of heavy machinery and equipment, pipes and galvanised sheets). Distributing customers resell the product to small customers seeking for the delivery or other terms not available directly in AHMSA. In 2017, the three largest AHMSA's domestic market customers are: Grupo Regio (composed of Regiomontana de Perfiles y Tubos, S.A. de C.V. and PYTCO, S.A. de C.V.) representing 11% of total sales, Productos Laminados de Monterrey, S.A. de C.V. ("PROLAMSA") representing 10% of total sales volume, and Grupo Villacero, representing 8% of total sales volume.

Export Sales

AHMSA export sales are mainly conducted in small transactions. In 2013, 2014, 2015, 2016 and 2017, these sales represented 15%, 16%, 14%, 15% and 13% of the total sales volume of steel products, respectively. AHMSA continuously evaluates the behaviour of the domestic and export market and seeks to maintain flexibility to be able to access those markets if conditions change; therefore, at the end of 2008, AHMSA started operations at its sales office in AHMSA International Inc., in San Antonio, Texas, which seeks a greater presence in the North American market as well as increasing the value and service to the Company's products, In 2011, sales to AHMSA International represented 48% of the total exports of the Company. During 2012, the participation in AHMSA International sales represented 51% of the Company's total exports. In 2013, AHMSA International continued to reinforce its presence in the North American market, since AHMSA's sales to AHMSA International increased by 36% and the share in total export sales was 45%. By 2014, sales to AHMSA International sales increased by 30%, to reach 60% of total export sales of the Company. In 2015 sales to AHMSA international accounted for only 44% of total export sales, due to the slowdown in the growth of consumption of steel products in the United States. In 2016, sales to AHMSA International represented only 33% of total export sales. In 2017, AHMSA International's sales increased by 42%, and represented 44% of total export sales. This increase was possible due to the uncertainty and fear arising in the United States for the investigation under section 232, and the antidumping actions, which allowed a reduction of imports from other steel supplying major countries.

Traditionally, AHMSA's main export market has been North America. At the beginning of 1995, AHMSA's main export markets were Asia, Europe and Latin America, as better prices were offered in these markets.

In 2015, the main market was the United States and AHMSA exports to this country represented 99% of the total exports; however, as the consumption of steel in the United States recorded a decrease of 6.6% and coupled with high inventories in the service centre, AHMSA total exports recorded a decrease of 10% to 536 thousand tonnes. In 2016, AHMSA exports to this country represented 93% of the total exports, and given the blockade of the main steel consuming regions, mainly to Asian countries through tariff measures and safeguards, it was possible to diversify the destination of exports, increasing exports to Europe and AHMSA's total exports grew from 19% to 637 thousand tonnes. In 2017, again the United States market was AHMSA's main export market, allocating 98% of these total exports to this country.

The following table shows exports based on the volume and geographical area for the periods indicated.

AHMSA Steel Exports by Geographical Region
(In thousands of tonnes and percentage of total export sales)

	2013		**2014**		**2015**		**2016**		**2017**	
	Vol.	**%**	**Vol.**	**%**	**Vol.**	**%**	**Vol.**	**%**	**Vol.**	**%**
Region										
Europe…………………..	11	2%	4	1%	2	0%	47	7%	**10**	**2%**
Asia……………………....	0	0%	0	0%	0	0%	0	0%	**0**	**0%**
Central and South America…………………	45	8%	3	1%	3	1%	0	0%	**0**	**0%**
North America................	478	89%	589	99%	530	99%	590	93%	**468**	**98%**
Total…………………….	534	100%	596	100%	536	100%	637	100%	**478**	**100%**

In addition to its direct export program, AHMSA has joined indirect export programs with customers who process their products for subsequent export ("co-exportation"). Some of these customers include Trinity Industries de Mexico, S.A. de C.V., Gunderson Concarril, S.A. de C.V., Gunderson-Gimsa, S.A. de C.V., Caterpillar Mexico, S.A. de C.V., Caterpillar Torreón, S. de R.L. de C.V., and Ingeniería y Maquinaria de Guadalupe, S.A. de C.V. Although sales to these customers under these programs are domestic, the price is indexed to the U.S. dollar. These sales represented approximately 12%, 12%, 11%, 9%, and 13% of the total sales volume of AHMSA steel products in 2013, 2014, 2015, 2016 and 2017, respectively. The decrease recorded in 2016 was due to the sales allocated to the industrial sector, which turned out to be the most affected by the crisis in the global energy sector. In 2011 and before the improvement in the economic conditions and manufacturing industries in both Mexico and the United States of America, the sales for this concept recorded an increase of 39% compared to the volume sold in 2010. In 2012, the volume intended for this sector did not suffer major variations; therefore, it remained at the same level. The main consumer markets within this market did not have a good performance in 2013, including the manufacturing sector, with a decrease in the gross domestic product of the sectors of large diameter pipes, as well as machinery and equipment, the tonnes sold to the co-exportation sector decreased by 20%. Although in 2014 the participation of this concept in the total sales of the Company remained unchanged, the volume intended to this market represented an increase of 50 thousand tonnes or 12% in the year. The products manufactured by such companies are largely used by the energy sector and mining, and the slowdown in the energy sector caused by low oil prices at the same time discourage investments in these sectors; therefore, in 2015, the tonnes sold to the co-exportation sector decreased by 11% as a result of the slowdown in the second quarter of 2015 in the industrial production of the United States, which even recorded negative changes in the fourth quarter. The decrease in the investment in projects in the energy sector continued affecting this concept of sales, decreasing by 9% in 2016 as compared to the prior year. Given that the manufacturing sector continued to be the main driver of manufacturing in Mexico, sales to this sector in 2017 recorded an increase of 10% with respect to the prior year.

Marketing

AHMSA has five sales offices in Mexico located in Monterrey, Mexico City, San Luis Potosí, Guadalajara and the central sales office in Monclova. In 2017, 48%, and 12% of AHMSA's domestic sales were conducted by the offices of Monterrey and Monclova, respectively.

AHMSA export to countries other than the United States of America are conducted by the International Operations Management, sales office located in Monclova through international distributors, or end-users. In recent years, AHMSA has focused on selecting and developing a diverse customer base. Sales to North America are now conducted directly by the Company's International Operations Management with the support of AHMSA International sales office.

International and Domestic Steel Markets

International Steel Market

Global liquid steel production reached 1,691 million tonnes in 2017, 5.3% more than in 2016. Liquid steel production increased in all regions in 2017, except in CEI, which remained stable. The annual steel production in Asia was 1,163 million tonnes in 2017, an increase of 5.4% compared to 2016. China production in 2016 was 832 Mt, an increase of 5.7% compared to 2016. China's participation in global steel production increased from 49.0% in 2016 to 49.2% in 2017. Japan produced 104.7 Mt in 2017, 0.1% less than in 2016. Production of steel in India in 2017 was 101.4 Mt, 6.2% more than in 2016. South Korea produced 71.1 Mt of steel in 2017, a decrease of 3.7% compared to 2016. In 2017, the EU (28) produced 168.7 Mt of crude steel, an increase of 4.1% with respect to 2016. Italy produced 24.0 Mt of crude steel in 2017, 2.9% more than in 2016. Spain produced 14.5 Mt in 2017, an increase of 6.2% with respect to 2016. Steel production in North America in 2017 was 116.0 Mt, 4.8% higher than in 2016. The United States produced 81.6 Mt, 4.0% more than in 2016. Based on the information available, the World Steel Association estimated steel production in CEI at 102.1 Mt in 2017, almost the same amount as in 2016. Russia produced 71.3 Mt in 2017, 1.3% more than in 2016. Ukraine recorded a decrease of 6.4% with an amount of 22.7 Mt. at yearend. The annual production of crude steel in South America was 43.7 Mt in 2017, an increase of 8.7% with respect to 2016. Brazil produced 34.4 Mt in 2017, 9.9% more than in 2016.

Domestic Steel Market

The steel industry in Mexico is composed of a small group of integrated steel producers, a large number of small steel mills and a steel reprocessing unit, which produce different semi-finished and finished goods. AHMSA and Ternium de Mexico, S.A. de C.V. ("TERNIUM") are the two main iron and steel integrated producers of finished flat goods.

In Mexico, the prospects for demand for steel continue to be positive, supported by imports, the apparent national consumption recorded an increase in 2017 of 3.2% amounting to 26.2 million tonnes, driven by consumption and private investment.

The following table shows the apparent domestic steel consumption in Mexico for the periods indicated.

Apparent Domestic Consumption of Finished Steel Goods (1)
As of December 31, of each year
(Thousands of tonnes)

	2013	2014	2015	2016	2017
Flat Products	40%	40%	40%	38%	41%
Domestic (2)………………………………….....	7,396	8,513	8,596	9,154	9,023
Imports (2)……………………………………...	4,254	5,006	5,343	5,183	5,716
Exports………………………………………….	- 915	- 947	- 739	- 868	- 811
Apparent Domestic Consumption …………...	**10,736**	**12,572**	**13,200**	**13,468**	**13,929**
AHMSA Domestic Sales of Flat Products (3)……………………...................	2,718	3,001	2,965	3,129	3,023
Percentage of AHMSA Apparent Domestic Consumption of Flat Products ……………...	25%	24%	22%	23%	22%
Non-flat Products	40%	40%	40%	38%	41%
Domestic…………………………………….....	7,335	7,774	8,208	8,748	8,731
Imports (4)……………………………………...	1,447	1,571	1,780	1,580	1,559
Exports………………………………………….	- 1,882	- 1,607	- 1,290	- 1,219	- 1,354
Apparent Domestic Consumption…………..	**6,901**	**7,738**	**8,699**	**9,110**	**8,935**
AHMSA Domestic Sales of Non-flat Products (2)…………………………………	196	172	204	228	162
Percentage of AHMSA Apparent Domestic Consumption of Non-flat Products ………...	3%	2%	2%	3%	2%
Other Steel Products					
Domestic ……………………………………….	981	1,059	736	801	939
Imports …………………………………………	2,780	3,127	3,348	3,414	4,080
Exports ………………………………………....	- 1,655	- 1.704	- 1,347	- 1,452	- 1,696
Apparent Domestic Consumption ………	**2,106**	**2,482**	**2,737**	**2,762**	**3,323**
AHMSA Domestic Sales of Other Products……………………………….........	76	41	68	163	47
Percentage of AHMSA Apparent Domestic Consumption of Other Products………….....	4%	2%	2%	6%	1%
Apparent Domestic Consumption	**19,742**	**22,793**	**24,635**	**25,340**	**26,187**
Total AHMSA Domestic Sales …………….	**2,990**	**3,214**	**3,237**	**3,520**	**3,232**
Percentage of AHMSA Apparent Domestic Consumption ...……………………………..	15%	14%	13%	14%	12%

Source: AHMSA using CANACERO data for the information of Mexico, and AHMSA for the information of the Company in each period.

(1) The Apparent Domestic Consumption for steel products is defined as the sum of domestic production of finished steel goods and imports of finished goods less exports of finished goods.
Finished Product Good refers to steel products, such as hot and cold rolled steel sheets that are generally considered to be finished by steel producers. Products that have been subsequently processed as automobile components are excluded from this concept.

(2) Imports include 8th Rule.

Domestic Competition

AHMSA is one of two integrated producers of finished flat goods in Mexico, the only Mexican producer of Sheet Plate, Tin, and Chrome Plate. In 2008, the apparent domestic consumption of flat products decreased by 1.5%, recording 8.9 million tonnes; however, AHMSA's participation in the flat product market remained at 28%. In 2009, the apparent domestic consumption of flat products decreased 21.85%, recording 7.0 million tonnes; this year, the Mexican manufacturing industry was the most affected by the economic crisis, exceeding even that observed in 1995; however, AHMSA's participation in the flat product market could increase one percentage point to 29%. By 2010, the apparent national consumption of flat products increased 38.5%, recoding 9.7 million tonnes, more than half a million tonnes or 6.6% over the apparent national consumption of flat products recorded in years prior to the economic crisis; AHMSA's participation in the apparent national consumption of flat products was established at 24%, because imports grew in the apparent national consumption. In 2011, the apparent national consumption of flat products increased 6.4%, corresponding to 10.3 million tonnes, the foregoing was reflected with an increase of AHMSA's participation in the apparent national consumption of flat products, which was established at 25%. It should be made clear that the increases recorded in 2010 and 2011 in the apparent national consumption of flat products exceed the amounts recorded for this concept in 2007, year prior to the economic and financial crisis that had a tremendous impact in 2008 and 2009. In 2012, the apparent national consumption of flat products increased by 9.6%, reaching 11.3 million tonnes; however, AHMSA's participation in the apparent national consumption of flat products decreased and was established at 23%, because imports increased its participation in the apparent national consumption of flat products from 41% to 43%. In 2013, the apparent national consumption of flat products decreased by 4.9%, recording 10.7 million tonnes, but since consumers preferred Mexican suppliers over imports and the starting up of new production units of the Fénix project, AHMSA's participation in the flat product market increased to 25%. For its part, imports recorded a decrease of 4.5% thanks to the dumping investigation requests from domestic producers and supported by the Mexican Government authorities, its participation remained at 43%. In 2014, the apparent national consumption of flat products increased by 17.1%, recording 12.6 million tonnes. Import of this type of products increased 14.4% to maintain its participation in the market at 43%. In 2015, the apparent national consumption of flat products increased by 5.0%, recording 13.2 million tonnes. The import of this type of products increased by 7.9%, and maintained for a third consecutive year its participation in the market at 43%.

In 2016, apparent national consumption of flat products increased by 2.0% recording 13.5 million tonnes. Import of this type of products on the contrary decreased by 3.0% and its market share was reduced to 38%. In 2017, the apparent national consumption of flat products increased 3.4%, reaching 13.9 million tonnes derived from an increase of 10% in the import of this type of products, which led its participation in the market to 41%; in addition to the reduction by 1.4% and 6.6% in the national production and exports, respectively.

Non-flat products are produced domestically by TERNIUM, ArcelorMittal Lázaro Cardenas, S.A. de C.V., DEACERO, S.A.P.I. de C.V. ("variable stock investment promotion company"), Grupo CH ("Simec, S.A. de C.V., Corporación Aceros DM, S.A. de C.V., Steels San Luis"), GERDAU de México (which in 2015 inaugurated a new plant for the production of structural profiles with an installed capacity of 1 million tonnes of steel a year in Ciudad Sahagun, Hidalgo) and by other steel plants and re-rollers, which together with AHMSA, maintain a small share of the total market of non-flat products.

Foreign Competition

Mexican steel producers, including AHMSA, have traditionally tried to compete with imports through price, and the prices of the domestic producers are similar to the prices of imports, including shipping and taxes. The competition has also begun to focus on quality and service. AHMSA Management believes that it offers better prices and competitive services than foreign providers, enabling customers to place small purchase orders, allowing a greater flexibility in the changes that customers want to make to the order; weekly delivery, faster claims agreement and security of supply. However, as a result of NAFTA, NAFTA-EUM and other multilateral and bilateral agreements, of which Mexico is a member, tariffs do not mean a barrier for foreign producers to be able to penetrate the domestic steel market.

In 2008, the total volume of imports to Mexico recorded an increase of 7.6% compared to the previous year, derived from the strong demand for steel products during the first eight months of the year, wherewith the percentage of participation of imports in 2008 increased to 35%. However, the slowdown in the economic activity recorded in the last months of 2008 was an effect of the global financial crisis; therefore, this led the pace of imports of steel products to come down. During much of 2009, imports continued in free fall and imported volume annually fell by more than 27%, the largest reduction in the last 15 years. The volume imported to Mexico in 2010 recorded an increase of almost 50%, derived from the beginning of the recovery of the market after the financial crisis, but the total imported volume barely managed to overcome the level of imports prior to the crisis, and its participation in the apparent national consumption of steel products was 38%. In 2011, the volume imported to Mexico showed an increase of 18.4%, which represents a participation in the apparent national consumption of steel products of 41%. Although the volume of imports increased, it can be observed that imports increased solely 2 percentage points. In 2012, the volume imported to Mexico recorded an increase of 11.2%, which represents a participation in the apparent domestic consumption of steel products of 42%. The increase in imports that recorded the highest amounts in the history of Mexican steel industry is attributable to the large over-capacity of steel production in some countries, especially countries in Europe and China.

In 2013, the imported tonnes to Mexico decreased 4.5% due in part to the measures taken by the Mexican Government, by request from CANACERO and its affiliates. Those measures consisted of dumping research against unfair imports and non-tariff restriction actions such as automatic import notice. The participation of imports in the Mexican steel market was 43%.

In 2014, Mexican imports recorded an increase of 14.4%, despite the actions taken by the Mexican authorities. The main cause was the global steel over-supply. The major exporting countries to Mexico that recorded the largest increases compared to the 2013 are from South Korea, Japan, and China. China recorded a decline in steel consumption for the first time in many years; consequently, in continuing with high volumes of production, it is sought to place the surplus in other markets; therefore, exports from China to Mexico grew 127% with respect to the prior year. The share or imports in the domestic steel market in Mexico held steady at 43%.

In 2015, imports increased 7.9% with respect to the prior year and its market share in the Mexican steel market was 43%; however, the anti-dumping actions taken by domestic producers and supported by the government authorities, as the imposition of a temporary tax of 15% from October 7, 2015 on imports from countries with which Mexico has no trade agreements, during the fourth quarter of 2015, imports slowed down over 15% until September.

The aforementioned measure remained valid in 2016, and the Decree was renewed twice during the year, in April and in October. These measures had effect in the flow of total imports in 2016, since after recording its highest level in 2015, in 2016, imports of flat products decreased 3%, and total imports 2.8%. Given the prevalence of oversupply conditions and unfair practices that gave rise to the imposition of duties in October 2015, the Government has extended the measure six months for four consecutive times, being October 17, 2017 the latest, with which it achieved a coverage effective to April 15, 2018. In 2017, imports again recorded a substantial increase of 11.6%, this increase was mainly driven by some products such as: galvanized sheet, cold rolled steel sheet, seam and seamless pipe, plate, and alloyed steel products, and mainly from the United States, Japan and South Korea.

North America Free Trade Agreement (NAFTA)

After twenty years of having signed the NAFTA, in Mexico, as in other partner countries, there are clear indications of its positive effect derived from the trade liberalization, with increased investments and employment generation. In the case of Mexico, NAFTA has become an important pillar of the national economy, promoting industrial and economic growth, and consequently, strengthening trade relations among the three member countries, especially with USA. This has resulted in the strengthening and integration of value chains and the regionalisation of different trade sectors, as it is the case of steel.

Notwithstanding, given the recent results of the presidential elections in the United States of America, there is an uncertainty environment regarding the positioning of the new administration as to renegotiating the NAFTA. However, there is confidence that given the strong industrial and commercial integration which has been created between the United States of America and Mexico, especially in the field of steel products, in the end, the result is an agreement that will strengthen the economies and industries of the members of this Treaty.

Derived from the proposal from the President Donald Trump on his intention to renegotiate NAFTA, the first round of negotiations was held from August 16 to 20, 2017, and therefrom, four more rounds were held, concluding 2017 with the fifth round of negotiations held from November 17 to 21, 2017.

Among the amending proposals put forward by the United States of America, “Sunset Clause” is highlighted for the steel sector, which aims at establishing a five-year period for NAFTA, after which the Agreement could be terminated, except that the parties agree to renew it; Regional Content and Origin Rules, which seek to increase / harden the regional content in manufacturing (automotive and textile). For the automotive case, from 62.5% to 85% with 50% of U.S. inputs; Government purchases, which seek to establish a "Dollar by dollar" policy, which results in capping Canadian and Mexican purchases to the amount of the agreements that U.S. companies obtain from the Mexican and Canadian Governments (reciprocity); among others.

AHMSA has been actively involved in the progress in the negotiations through consultations that the Federal Government make with the productive sectors of the country, specifically on issues related to steel.

Three more rounds of negotiation of the NAFTA have been foreseen to be a total of eight rounds by the end of 2018. However, given the diversity and complexity of the issues to be negotiated and the economic and commercial impact it has had, the renegotiation of the Agreement has been characterized by being conducted in a climate of total uncertainty, which has significantly impacted on various productive sectors of the three economies.

Eventually, three possible scenarios are expected:

1. No agreement (*status quo)*: the NAFTA parties would not reach an agreement regarding the amendment thereof. The current agreement would remain in effect.

2. No agreement (withdrawal): the NAFTA parties could not reach an agreement, which would lead one or more parties to notify its intention to withdraw from the Trade Agreement based on Article 2205 of the NAFTA, which would be effective six months after the statement.

3. Agreement among the parties: the NAFTA parties might sign the new NAFTA at the end of the negotiation rounds foreseen by 2018.

AHMSA believes that there is a high probability that the third option will prevail given the industrial and economic integration that has been generated among the three countries and that has led the North America region to be the most important free trade worldwide.

Free Trade Agreement Mexico-European Union (FTA-EUM)

In May 2016, the federal Government, through the Ministry of Economy announced the commencement of negotiations for the modernization of the Free Trade Agreement European Union- Mexico (FTA-EUM). The first round of negotiations was held in the city of Brussels, Belgium, in June 2016. So far, 7 rounds of negotiation have been held, being the last one in December 2017.

Among the most relevant topics of the negotiation are: Rules of Origin, Dispute Settlement, Access to Markets, Technical Trading Barriers, among others. AHMSA, as a member of the Mexican steel industry, is actively participating in the negotiation rounds, initially with a view to the end of 2017. However, given the complexity of the issues to be negotiated, the negotiation is expected to conclude in 2018, in order to establish fair trade conditions with the Member States. Mexico sends 80% of its exports to the United States, and only 5% to countries of the European Union, according to data from Banco de México, therefore, the modernisation of the FTA-EUM is part of the Mexico export diversification plan of the Federal Government.

Free Trade Agreement Mexico-Turkey

Mexico and Turkey have already concluded seven rounds of negotiation, according to information from the Mexican Foreign Ministry. The acceleration of the negotiations is expected during 2018 to conclude with the signing of the Treaty. Turkey is a country with strengths in steel products known as long products, and in relation to flat products manufactured by AHMSA, the Euro-Asian country has a high demand showing an opportunity to supply that market.

Trans-Pacific Partnership ("TPP")

After the exit of USA, the remaining eleven member countries continued negotiations, bringing the negotiations to a conclusion at the end of 2017. The name of the agreement was changed, staying as Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, formerly TPP), better known as TPP-11.

Currently, the governments of the member countries are expected to begin the ratification process. Mexico is expected to ratify the Agreement in 2018. In the case of Mexico, all Agreements signed by the Federal Government must be ratified by the Senate, which must session in the course of the next year.

Once in force, the Agreement will allow Mexico to have immediate access to the markets of Australia, Singapore, New Zealand, Brunei and Malaysia, and almost 100% and 50% for agricultural products in the markets of Japan and Vietnam, respectively.

AHMSA does not expect a greater competition in its market by the current members of the TPP-11 countries, since most of them are not significant producers of steel, except for Canada and Japan, with whom tariff elimination deadlines have been met by virtue of the Free Trade Agreements signed with these countries. However, although to a lesser extent, it is foreseeable to expect competition from Singapore and Vietnam, countries with a steel industry in expansion.

Tariffs

Imports from other countries of products similar to those produced by AHMSA were subject to the general tax of 3.0% beginning January 1, 2011 through October 7, 2015, if the importer was not covered by an export promotion program. If so, they were exempted from the payment of applicable tariffs. Imports of tin, regardless of their origin, are currently tax-exempt. Each of these taxes is additional to any compensatory fees caused by the *antidumping* investigations.

In April 2015, the amparo filed by the National Trade Union of Workers of the Metal-mechanic, Iron and Steel, and Auto Parts Industry ("SNTIMMSA" by its Spanish initials) was dismissed, giving rise to the relief to 0% of tariffs in Chapters 72 and 73. For a period of 6 months, the Mexican iron and steel industry struggled for a measure of commercial remedy to compensate the damage caused to the domestic industry for the global steel problem originated by the oversupply and the economic slowdown worldwide, which was aggravated by the elimination of tariffs. After an in-depth analysis by the Federal Government, it announced trade remedy measures to support the Mexican steel industry. As a first step, it determined the imposition of a temporary tariff of 15% to 97 tariff fractions that correspond to goods from the steel sector, including those produced by AHMSA such as steel slab, sheet plate, plate rolls, cold rolled steel sheet, hot rolled steel sheet and wire rod, by a Decree dated October 7, 2015, going into force the day following its publication in the DOF.

Since October 2015, the tariff of 15% has been extended every six months for four consecutive times, being October 17, 2017 the latest by Decree published in the Federal Official Gazette, wherewith a coverage was achieved effective April 15, 2018, given the prevalence of oversupply conditions and unfair practices that gave rise to the imposition of duties.

Single Window

The Mexican Foreign Trade Single Window ("VUCEM" by its Spanish initials) came into force in June 2012. Through this mechanism, the obligation of the importer to present the commercial invoice together with the documents accompanying the pedimento for customs clearance was eliminated, replacing it with a generic and standardised format (Proof of Electronic Value: "COVE" by its Spanish initials), whose creation aims at standardising documents supporting the value of the goods and which was previously presented in different forms such as lists of packaging, pro forma invoices, shipping lists, remittance notes, statements of value, commercial invoices, among others. However, in the steel industry, it is a usual practice to provide specific information about the merchandise to the importer in such documents (degree of steel, technical specifications, production mill, port of departure, etc.). The current lack of detailed information on iron and steel products imported into Mexico, has had a harmful effect on the domestic industry, since having simplified the customs clearance, an administrative informative obstacle was generated, which makes it difficult to check the veracity of the import operations.

Automatic import notices for steel products

In order to avoid the occurrence of fraudulent international trade practices, the domestic steel industry contributed with the Government authorities, in order to set up a mechanism to counter them. In this way, on December 5, 2013, the DOF published the agreement amending the aforesaid agreement whereby the Mexican authority issues rules and criteria of a general nature relating to foreign trade, through which the "Automatic notices of imports of iron and steel products" were implemented, which operate in a transparent and agile manner, according to the Agreement on Procedures for the Processing of Import Licenses of the World Trade Organisation (which Works since 1995 and whose origin is the General Agreement on Tariffs and Trade ("GATT" by its English initials in 1994) published in the DOF on December 30, 1994; and that allows the statistical monitoring with specific information of the steel products entering the country through the 113 tariff fractions that were subject to this mechanism. At the time of conducting their transactions, importers must present automatic notices to which a Mill Certificate of the product must be attached in a digital manner. This document provides specific information of the steel products entering the country in terms of its physical and chemical characteristics, and manufacturing standards observed. In this manner, the obstacle that the transaction of the Single Window left is remedied to access that information, seeking thereby to avoid fraudulent practices such as source triangulation, incorrect tariff classification, undervaluation, circumvention of countervailing duties and tax evasion.

Taking into account that the Mexican steel market has been affected by the global decrease in the steel demand, the overcapacity of steel production primarily originated in China and the devaluation of the ruble in Russia, among other factors, through the publication in the DOF on September 29, 2015, 25 tariff fractions were added to automated notices mechanism, to stay a total of 138 fractions, within which products produced by AHMSA are covered. This provision came into effect five days after its publication.

IMMEX Decree (Decree to Develop the Export Manufacturing, Maquila, and Services Industry)

On January 6, 2016, the DOF published the Decree amending the aforesaid Decree to Develop the Export Manufacturing, Maquila, and Services Industry (IMMEX Decree) to prevent malpractices through this scheme, affecting the proper operation of international trade in the country. As a consequence and in order to align the public policy established in previous decrees, on December 12, 2016, the Ministry of Economy published in the DOF specific requirements that IMMEX companies requiring imported sensitive goods, including steel, should meet, and thus provide legal certainty with regard to controls, benefits and facilities in the foreign trade transactions to companies using these programs. Thus, it was established that temporary import authorizations will be by tariff fraction and volume of goods, while in the past, the authorizations were given by all the fractions and a certain value, generating the possibility of importing any product with the same permission and encouraging undervaluation. Similarly, it was determined that authorized temporary imports will have a duration of 4 months, when previously the permissions did not contemplate an expiration date, making it impossible for the authority to have a clear idea of the imports effectively re-exported.

The Decree also establishes that for the authorization of new temporary imports, companies must have returned 70 percent of the consigned goods in their previous authorization. This allows greater certainty of re-export or otherwise regularization of the goods in national territory. It was also determined that from this Decree, the installed productive capacity that the Company has, taking into account its previous operations, will be valued in order to avoid the creation of apocryphal companies and/or improper use of the program.

Bond scheme for temporary imports of steel products

As part of the additional measures announced by the Ministry of Economy to boost the Mexican steel industry and help combat customs fraud, amendment of the Manufacturing, Maquila and Export Service Industry Program ("IMMEX") has been considered. The amendment project is currently under review by the Federal Commission of Regulatory Improvement (COFEMER by its Spanish initials), which will revise it and approve it in general, for its subsequent publication in the DOF. Within the amendments to the Decree, it has been considered the implementation of a guarantee scheme supporting the fulfillment of the obligations inherent to the temporary import of sensitive goods in the steel sector, in order to ensure the achievement of the objectives of this programme; the payment of the corresponding general import tax and the countervailing duties in effect, if necessary. As additional measures of supervision of the temporary importation regime, it has been considered the elimination of differentiated terms to return abroad the goods that were imported on a temporary basis supported by the IMMEX Decree, specifying that the goods temporarily imported may remain in Mexico for 18 months, except in the case of certified companies, which would be 36 months.

Antidumping investigations in Mexico against imports of steel products

Flat Products from the United States of America

Between 1992 and 1998, AHMSA and other Mexican steel manufacturers requested from the Mexican Government antidumping measures against steel producers from the United States of America, which resulted in a steady decline in the volume of imports of flat steel products from that country to Mexico, reducing its market share from 19% in 1992 to 4% on average for the period from 1997 to 1999. However, in the last five years, imports of flat steel from the United States of America in Mexico represented an average 13% of the Mexican market, as a result of having eliminated antidumping fees against that country and reaching the NAFTA tariff zero percent.

Due to antidumping claims filed in February 1992 by Mexican steel producers, including AHMSA, against producers in the United States of America, significant anti-dumping fees were imposed in April 1993, in percentages from 4.2% to 39.9% for the Hot Rolled Steel Plate in Roll with a thickness equal to or greater than 4.75 mm; and from 19.6% to 28.7% for the Hot Rolled Steel Plate in Roll with a thickness of less than 4.75 mm; and from 2.7% to 12.9% for the Cold Rolled Steel

Plate in Roll from the United States of America. These taxes were appealed by producers of the United States of America in Mexican courts.

On 13 July 1995, a Mexican Circuit Federal Court issued a non-appealable final decision confirming the imposition of these duties in relation to the Cold rolled steel sheet. On June 24, 1996, a court suspended the taxes in relation to the Hot rolled steel sheet with a thickness less than 4.75 mm; however, this decision was appealed by the Mexican trade authorities, and in October 1998, the Mexican Government imposed temporary taxes according to a decision issued by a Circuit Court of 16.75% to the United States of America exporters: *Bethlehem Steel Corporation, USX Corporation* and *Geneva Steel, L.L.C.*, and 28.67% to *National Steel Corporation*.

Taxes for the rest of the producers of the United States of America remained unchanged. December 1998 marks the fifth anniversary of the imposition of antidumping duties to American exporters, the Mexican Government published a decision to evaluate the application of the taxes on the Hot Rolled Steel Plate in Roll and Cold rolled steel sheet. In January 1999, the test was extended to the Hot rolled steel sheet. As a result of the evaluation by the Mexican Government, in October 1999, the Government issued a decision eliminating antidumping duties to American exports of Cold Rolled Steel Sheet. On 9 March 2000, it published a similar decision for the Hot Rolled Steel Plate in Roll, and on April 17, 2000, it issued a decision eliminating antidumping duties on Hot Rolled Steel Sheet.

In August 1994, the Mexican Government imposed countervailing duties to producers of sheet plate in the United States of America within a range of 3.9% to 78.5%. In September 1994, two U.S. exporters subject to countervailing duties demanded, through an appeal before a Panel of Solution of Controversies ("the Panel") established under the NAFTA, a review of these determinations issued by the Mexican authorities. On August 30, 1995, the Panel instructed the Mexican Government to remove such antidumping duties in relation to *USX Corporation and Bethlehem Steel Corporation*, and on September 29, 1995, the Mexican Government issued a final decision accepting the decision of the Panel, benefit that was extended to *Geneva Steel, L.L.C.* by decision issued on April 8, 1999.

August 1999 marked the fifth anniversary of the imposition of antidumping duties to U.S. exporters of Plate. AHMSA requested from the Mexican trade authorities the beginning of a review of this antidumping case. However, on September 17, 1999, AHMSA withdrew its request. As a result, on October 21, 1999, the Mexican Government issued a decision eliminating the antidumping duties on this product. Currently, none of the flat steel products originating from the United States of America has antidumping duties in Mexico.

Flat Products from different countries

In August 1993, AHMSA and other Mexican producers alleged unfair practices (consisting mainly of dumping charges) against 10 countries, including allegations that U.S. companies received grants. In October 1993, several of the claims were rejected, but in final decisions issued in December 1995, the Mexican Government confirmed the existence of dumping and subsidies on exports from certain countries. As a result, the Mexican Government imposed countervailing tariffs from 10.3% to 185.8% on imports of Sheet Plate, Plate Rolls, Hot Rolled Steel Sheet, and Cold Rolled Steel Sheet from Germany, Brazil, Canada, the Netherlands and Venezuela. In January 1996, Canadian producers demanded a review of such antidumping determinations issued by the Mexican Government for Plate Roll and Hot Rolled Steel Sheet, through an appeal before a Panel of Solution of Controversies. In August 1997, the Mexican Government accepted the decision of the Panel, by removing antidumping duties on imports of hot rolled steel sheet in Canada. A year later, in August 1998, the Panel issued a final decision with respect to imports of plate roll, instructing Mexico trade authorities to review their decision. As a result, on November 2, 1998, Mexico trade authorities issued a final decision imposing duties of 133.79% to The Titan Industrial Corporation ("*Titan*") (U.S. exporter) and 25.45% for the rest of the Canadian producers.

In December 2000, on the fifth anniversary of the imposition of antidumping duties, none of the Mexican producers filed a petition to evaluate the continuation of antidumping duties. As a result, in January 2001, the Mexican authorities issued the decision to eliminate the prevailing duties.

Steel Plate in Roll from the Russian Federation

On 22 November 1994, by request of AHMSA and other important producer of Hot Rolled Steel Plate in Roll, the Mexican Government agreed to investigate claims of dumping on manufacturers of the former Soviet Union. As a result of these investigations, on June 12, 1995, the Mexican Government imposed a preliminary antidumping duty of 29.3% on imports of Hot Rolled Steel Plate in Roll to the manufacturers of the Russian Federation. On 7 June of 1996, through a final decision, the Mexican Government confirmed this duty. June 2001 marked the fifth anniversary of the imposition of the antidumping duties. AHMSA and other Mexican producers demanded from the trade authorities the continuation of these duties. On October 25, 2001, the Mexican Government issued a decision to evaluate the continuity of existing duties, confirming their validity for a further period of five years through a final decision issued on June 11, 2003. In December 2005, the Mexican Government published a notice concerning the upcoming expiry of the second five-year term of the countervailing duties in June 2006. AHMSA and other Mexican producers of Plate Roll, again requested an extension of the term for other five additional years, since unfair practice conditions continued to prevail by Russian exporters that caused the original investigation. On June 6, 2007, the DOF published the final resolution, confirming the duty of 29.3% for five years more. On June 8, 2011, the Mexican authorities initiated a third examination of validity and review of the countervailing duty by request of AHMSA and another Mexican producer of Steel Plate in Roll. On November 22, 2012, after the appropriate evaluation, the Mexican authorities published in the DOF the final resolution, confirming the duty of 29.3% for five more years. On October 7, 2015, the DOF published the notice of the effectiveness of countervailing duties, which reported the upcoming expiration of the duty; therefore, AHMSA and other producers requested again the extension, taking into account that the economic and market conditions that gave rise to the original investigation still prevailed.

Thus, on June 6, 2016, the decision to commence the fourth revision of the validity and the countervailing duty was published. The case is still active and although each of the stages of the procedure have been presented, AHMSA is still awaiting the final decision through which the continuation of the duty of 29.3% for five more years is determined.

It should be noted that by determination of the trade authorities, this procedure contemplated the boron steel plate in roll, given that in the investigation of the 2013 circumvention, it was determined that it was the same good subject to antidumping duty, because Russian producers avoided the measure imposed on the coal steel plate in roll by importing coal through the tariff classification corresponding to the boron steel plate in roll; therefore, in the final decision of the investigation of the circumvention on February 19, 2014, the same countervailing duty was imposed, in such a way that for the purposes of the fourth revision of the validity, both products were contemplated.

Boron Steel Plate in Roll from the Russian Federation (investigation for circumvention)

Due to the countervailing duties imposed and the weakness of the global economy which impacted the consumption of steel products during the past two years, Russian producers initiated practices to avoid paying these duties by sending significant volumes of Coal Steel Plate in Roll subject to countervailing duty with no significant additions of boron, so that it enter Mexico through other tariff classifications for alloy steel products not subject to the payment of antidumping duties. The soaring increase in imports of this product prompted that the other major producer of Steel Plate in Roll in Mexico to request from the Mexican Government the initiation of an investigation for circumvention of the payment of countervailing duty, procedure referred to in the Mexican foreign trade regulations.

This investigation was supported from inception by AHMSA. Thus, after a previous assessment, on July 5, 2013, the DOF published the commencement of the investigation by circumvention of the countervailing duty. After the Mexican authorities verified that the Russian exporters were circumventing the countervailing duty through minor changes to roll plate subject to this measure, on February 19, 2014, the DOF published the decision whereby it determined the application of the countervailing date in force of 29.3% for imports of Coal Steel Plate in Roll originating from Russia and imports of Steel Plate in Roll alloyed with boron originating in this country. This measure is effective from the next day of publication of the decision in the DOF (February 20, 2014).

It should be noted that by determination of the Ministry of Economy, the customs tariff affected by the countervailing duty imposed corresponding to the boron plate roll, was included at the beginning of the fourth revision of the validity and revision of the countervailing duty imposed on imports of rolled plate originating in Russia, which began on June 6, 2016. Given the above, AHMSA is waiting for the final decision on this procedure, in which it is determined that the duty imposed on the boron plate roll be extended for five years more.

Steel Plate Sheet from the Russian Federation and Ukraine (I)

On 4 April 1997, AHMSA requested from the Mexican Government imposing antidumping rights against Russian and Ukrainian producers of sheet plate. On 13 November 1998, the Government issued a final decision imposing countervailing duties from 49.38% to 54.74% % on imports of Sheet plate from Russia, and from 61.52% to 67.99% on imports from Ukraine. These taxes were appealed by Russian producers before the Mexican trade authorities in February 1999. This appeal was denied. As a result, in September 1999, Russian producers appealed this decision before Mexican courts, which overturned the decision in November 2000. Thus, on September 26, 2001, Mexican trade authorities withdrew the duties for Russian and Ukrainian producers of sheet plate.

Cold rolled steel sheet in roll from Bulgaria, Kazakhstan and the Russian Federation

Growing imports from the Commonwealth of Independent States and Eastern European countries gave rise that in December 1997, AHMSA and other important producers of Cold Rolled Steel Sheet in Roll of Mexico demanded from the Mexican Government the imposition of antidumping duties on imports of cold-rolled products originating in Russia, Kazakhstan and Bulgaria. On November 13, 1998, the Mexican Government issued a preliminary decision to impose temporary duties. On June 29, 1999, through a final decision, it determined countervailing duties on imports from Russia, a countervailing duty of 83% on those from A.O. Severstal JSC, and 88% on those from Combinado Metalúrgico de Novolipetsk, S.A. To imports originating in Kazakhstan, conducted under the tariff code 7209.17.01 a countervailing duty of 33% was set, and 34% to those classified under the tariff code 7209.16.01; whilst cold sheet from Bulgaria classified as tariff code 7209.16.01, a duty of 44% was determined, and 45% to those carried out under tariff code 7209.17.01. On May 24, 2004, on the eve of the implementation of the fifth anniversary of the imposition of the countervailing duties, AHMSA and other important producer of Cold Rolled Steel Sheet asked the Mexican Government to evaluate the continuity of the application of antidumping duties in force, which was agreed on June 25, 2004, through the decision of beginning the revision. On 12 December 2005, the Mexican authority issued a final decision of the validity revision, confirming the current anti-dumping duties for Russia (83% and 88%), Kazakhstan (33% and 34%) and Bulgaria (44% and 45%) for an additional period of five years.

June 2009 marked the fifth anniversary of the entry into force of the countervailing duties for dumping on imports of Cold Rolled Steel Sheet from Bulgaria, Kazakhstan and Russia; thus AHMSA and other important producer requested from the Mexican authorities the continuation of the effectiveness of these countervailing duties, publishing the authority the commencement of the revision in the DOF dated July 2, 2009. On December 28, 2010, the Mexican Authority published the final decision of the case by eliminating the antidumping duty for Bulgaria and reducing duties for Kazakhstan and Russia to 22% and 15%, respectively, which remained in force for a period of five more years.

Again, on the fifth anniversary of the entry into force of the countervailing duties, AHMSA and other important producer requested from the Mexican authorities the continuation of the validity of these duties, publishing the Mexican authority in the DOF on June 25, 2014, the commencement of the revision of a third five-year revision of the countervailing duties for dumping on imports of Cold Rolled Steel Sheet from Kazakhstan and Russia. On July 1, 2015, the Mexican authority issued its final decision confirming again the implementation antidumping duties in force of 22% for Kazakhstan, and 15% for Russia for a period of five years.

Hot Rolled Steel Sheet in Roll from the Russian Federation and Ukraine

In addition, on October 7, 1998, AHMSA and other important manufacturers of Hot Rolled Steel Sheet in Roll in Mexico requested from the Mexican Government imposing antidumping duties on imports of products from Russia and Ukraine. On August 23, 1999, the Mexican Government issued a determination imposing preliminary duties, subsequently ruling the final one on March 28, 2000, which were 30.31% for imports from Russia, and 46.66% from Ukraine.

On February 17, 2005, on the eve of the implementation of the fifth anniversary of the imposition of the countervailing duties, AHMSA and other important producer of Hot Rolled Steel Sheet in Roll, asked the Mexican Government to assess the continuity of application of the antidumping duties in force, which was accepted on 25 March 2005 by the decision of commencing the revision. On March 17, 2006, the Mexican authority issued a final decision on the revision of the effectiveness, confirming the current antidumping duties for Russia (30.31%), and Ukraine (46.66%) for an additional period of five years.

On February 18, 2010, on the eve of the implementation of the second term of the countervailing duties, AHMSA and another important producer of Hot Rolled Steel Sheet in Roll requested from the Mexican Government to reassess the continuity of the application of the antidumping duties in force, which was accepted on March 16, 2010 through the publication of the resolution of the commencement of the revision. On September 8, 2011, the Mexican authorities issued its final decision reducing the antidumping duties from 30.31% to 21.0% on imports from Russia and from 46.66% to 25.0% on those from Ukraine, considering that the application of duties lower than the dumping margins found would suffice to discourage imports from Russia and Ukraine in conditions of price (dumping) discrimination.

On 19 February 2015, on the eve of the fifth anniversary of the entry into force of the countervailing duties, AHMSA and another important producer of hot rolled steel sheet in roll requested from the Mexican authorities to commence an investigation for a third five-year revision on the effectiveness of the current countervailing duties applicable to imports from Russia and Ukraine of 21% and 25%, respectively. On March 25, 2015, the commencement of the third revision of effectiveness was published. On January 28, 2016, once the stages of the procedure were developed, the final decision was published, which determined to further extend the countervailing duties for five years more.

It should be noted that by determination of the investigating authority, this procedure considered the hot rolled boron steel sheet in roll from Russia, since in the 2014 circumvention investigation, it determined that it was the same merchandise subject to antidumping duty, because the Russian producers avoided the measure imposed on hot rolled coal steel sheet by importing through the tariff classification corresponding to the hot boron sheet in roll; therefore, in the final decision on the circumvention investigation on March 21, 2014, the same countervailing duty was imposed thereto. Consequently, for the purpose of the third revision of the effectiveness, both products were considered for imports from Russia.

Hot Rolled Boron Steel Sheet in Roll from the Russian Federation (circumvention investigation)

Before the countervailing duties imposed on imports of Hot Rolled Coal Steel Sheet in Roll and the weakness of the global economy which impacted the consumption of steel products during the past two years, Mexican importers began to purchase Hot Rolled Coal Steel Sheet in Roll from Russia, with certain minor changes such as the addition of boron in insignificant amounts that allowed its classification in tariff fractions codes corresponding to alloyed products not subject to the payment of countervailing duties. The soaring imports of this product led the other large producer of hot rolled steel sheet in roll in Mexico to request from the Mexican Government the commencement of an investigation for circumvention of the payment of countervailing duties, procedure referred to in the Mexican foreign trade regulations. This investigation was supported from inception by AHMSA. Thus, after a previous assessment, on July 19, 2013, the Mexican authority published in the DOF the commencement of the investigation of the circumvention of the payment of the countervailing duty applicable to imports of the aforementioned product.

After assessing the arguments and evidence provided by the parties concerned, the Mexican authority concluded that indeed the Russian producers had eluded the compensatory duty through minor changes such as the addition of boron to the Hot Rolled Coal Steel Sheet in Roll exported by them; therefore, on March 21, 2014, it published its final decision determining a countervailing duty of 21% on imports of hot rolled coal steel sheet containing boron.

Steel Plate Sheet from Romania, the Russian Federation and Ukraine (II)

During the first ten months of 2002, there was an increase of imports of steel plate sheet from Romania, the Russian Federation and Ukraine; therefore, on April 30, 2003, AHMSA requested from the Mexican trade authorities, the imposition of antidumping duties. The Mexican authorities found that there were sufficient dumping and damage elements; therefore, the decision to commence an investigation was published on August 12, 2003. Subsequently, on May 12, 2004, the Mexican Government published a preliminary decision imposing anti-dumping duties of 120.4% on imports of steel plate sheet from Romania, 36.8% to those from Russia, and 60.9% to those from Ukraine. On September 21, 2005, the Mexican authority issued a final decision imposing definitive antidumping duties of 67.6% on imports of Steel Plate Sheet from Romania, 36.8% for Russia and 60.1% for Ukraine.

On August 16, 2010, on the eve of the fifth anniversary of the imposition of countervailing duties, AHMSA requested from the Mexican Government to reassess the continuity of the implementation of current antidumping duties, which was accepted on September 21 of the same year, by the publication of the decision of the commencement of the revision. On March 12, 2012, the Mexican authorities published their final decision confirming the countervailing duties of 67.6% on imports of steel plate sheet from Romania, 36.8% from Russia, and 60.1% from Ukraine, which are still in force.

On November 4, 2014, the Mexican authority published in the DOF a notice about the validity of the current countervailing duties with a view to a possible expression of interest in the commencement of a second revision of validity by Mexican producers. AHMSA requested from the Mexican trade authorities the commencement of this procedure, which was published by order of commencement on September 7, 2015. The final decision was published on September 7, 2016, determining to maintain the countervailing duties of 67.6%, 36.8% and 60.1% for Romania, Russia and Ukraine, respectively, for five more years.

It should be noted that by determination of the trade authorities, this procedure considered the boron steel plate sheet from Russia and Ukraine, given that in the 2014 circumvention investigation, it was determined that it was the same good, because the Russian and Ukrainian producers avoided the measure imposed on the coal sheet plate by importing through tariff classifications pertaining to the boron sheet plate; therefore, in the final decision son the circumvention investigation, February 8, 2014 the same countervailing duty was imposed thereon. Therefore, for the purpose of the second revision of validity, both products from Russia and Ukraine were considered.

Boron steel plate sheet from the Russian Federation and Ukraine (circumvention investigation)

From the imposition of the definitive countervailing duties of 36.8% to Russia and 60.1% to Ukraine, Coal Steel Plate Sheet with boron began to be imported from these countries through the generic tariff code 7225.40.99, and beginning November 27, 2006, through the specific tariff codes 7225.40.01 and 7225.40.02 corresponding to Steel Plate Sheet alloyed with boron, in order to evade the payment of such antidumping measures. The Coal Steel Plate with boron from Russia and Ukraine has relatively minor differences compared to the Coal Steel Plate Sheet, whose imports are subject to the payment of countervailing duties. In 2012, the volumes of these imports grew, replacing imports with countervailing duties, since like imports of Coal Steel Plate Sheet entered in dumping conditions, causing pressures to decrease prices of the Sheet Plate produced by AHMSA.

This fact motivated that AHMSA requested from the Mexican authority an investigation for circumvention of the payment of countervailing duties, procedure considered in the Foreign Trade Law. On May 22, 2013, the Mexican Authority declared the commencement of the respective investigation, by a decision published in the DOF. In the investigation, the investigating authority confirmed that the importers of the aforementioned product from Russia and Ukraine, had effectively eluded the payment of compensatory duties through the acquisition of the coal sheet plate subject to this measure with minor changes such as the addition of boron in insignificant quantities, which gave rise that the Mexican authority decided to apply the countervailing duties in force of 36.8% and 60.1% on imports of Coal Steel Plate Sheet with boron from Russia and Ukraine, respectively. That decision was published in the DOF on January 8, 2014.

Cold Rolled Steel Sheet in Roll from South Korea

During 2011 and part of the first quarter of 2012, increased imports of Cold Rolled Steel Sheet in Roll from South Korea were observed, in terms of price discrimination (dumping), which led another large manufacturer of this product in Mexico requested the commencement of an antidumping investigation from the Mexican authority. This request was supported by AHMSA. After reviewing the arguments and evidence submitted by the national producer, on October 1, 2012, the Mexican authority published in the DOF a decision to commence the investigation.

Subsequently, on June 3, 2013, the DOF published a preliminary decision on the case, whereby it was determined to impose provisional countervailing duties on imports entering under the final and temporary regimes of 6.45% on those coming from Hyundai Hysco Co., Ltd., and 60.40% on imports from Pohang Iron and Steel Company ("POSCO"), and from the rest of the exporters of this country.

On May 25, 2016, the DOF published the beginning of the review of these commitments by request from Hyundai. AHMSA actively participated in the relief of each one of the stages of the procedure. The publication of the preliminary decision in the DOF on December 15, 2016, modified on an interim basis the limits of import volumes for 2017 and 2018, which were subsequently confirmed, definitively, through the final decision of the procedure on June 13, 2017, to be as follows:

Export commitment to South Korean companies
(Metric tonnes)

	POSCO		**Hyundai**	
Year	Original investigation – 2013 Final Decision	Revision – Final Decision	Original investigation – 2013 Final Decision	Revision – Final Decision
2014	400,000	N/A	10,000	N/A
2015	450,000	N/A	15,000	N/A
2016	480,000	N/A	20,000	N/A
2017	500,000	530,000	25,000	35,000
2018	500,000	545,000	30,000	45,000

The Mexican authority evaluated the commitments and ruled that "in so far as the commitments eliminate the harmful or disruptive effect of unfair practice, they guarantee to the domestic production fair competition conditions without the imposition of countervailing duties, which also encourages conditions for the domestic industry to be developed in a favourable environment and, therefore, to observe a positive performance in its economic and financial indicators, including employment and investments.

Accordingly, by a solution published on December 26, 2013, the Mexican authority accepted the commitments proposed, and decided to suspend the antidumping investigation without the imposition of provisional measures in accordance with Article 8.1 of the Antidumping Agreement. The decision set out that in the event of total or partial breach of the commitments undertaken by POSCO and Hyundai, the Mexican authority may adopt promptly provisions which may consist of the immediate application of provisional measures, based on the best available information. The decision came into force the day following its publication in the DOF.

On May 25, 2016, a decision was published whereby the review of the commitments made in 2013 was commenced, prior request by the exporter Hyundai. The authority determined unilaterally to include in the procedure a review of the commitments made by POSCO, despite not having a request by this company. AHMSA and another large producer expressed their dissatisfaction based on the evidence and convincing arguments. However, on December 15, 2016, the preliminary decision was published, whereby temporary import limits were amended, as follows:

Steel Plate Sheet from the People's Republic of China (I)

The increasing imports of Sheet Plate from the People's Republic of China ("China") encouraged AHMSA to request the commencement of an antidumping investigation against such imports on November 30, 2006. The Mexican authority evaluated the merits of the request submitted by the company, after which it published in the DOF on March 26, 2007 the commencement of the investigation, since if found the elements necessary to assume the dumping and damage. On March 24, 2008, the Mexican Authority published in the DOF a preliminary decision imposing a fee temporary antidumping duty of 29.27% on imports of Sheet Plate from China. By a final decision published on October 6, 2008, the Mexican authority ended the investigation without imposing a countervailing antidumping duty, as it did not find important damage elements to the domestic production, as until the third quarter of 2008, the global and Mexican steel industry enjoyed a boom period.

Steel Plate Sheet from the People's Republic of China (II)

In recent years China has become the largest manufacturer of steel products worldwide, which has generated significant surpluses of export that has pushed to expand its production capacity beyond its consumption needs to domestic markets in various parts of the world, resulting in measures antidumping measures several countries against Chinese steel exports.

In the particular case of Steel Plate Sheet, of which AHMSA is the only Mexican manufacturer in the country, in 2012 and part of 2013, significant and growing volumes in imports from China in terms of price discrimination were observed. This situation caused that AHMSA requested on April 30, 2013 the commencement of an antidumping investigation concerning imports of Coal Plate Sheet and Plate alloyed with boron from that country. After the corresponding legal procedures, the investigating authority decided to accept the request and declare the commencement of the investigation, which was published in the DOF on July 26, 2013. At the conclusion of the first stage of the investigation, the Mexican authority issued a preliminary decision imposing a temporary antidumping duty of 33.98% on imports of Sheet Plate from China. This decision was published in the DOF on January 31, 2014. Subsequently, on October 14, 2014, the DOF published the final decision on imports of Sheet Plate from China, confirming the antidumping duty of the preliminary decision (33.98%).

Action for annulment against the final decision whereby a countervailing duty was imposed on imports of Steel Plate Sheet from China

In December 2014, AHMSA received notice of the lawsuit filed by Grupo Collado, by the Federal Tax and Administration Court as an interested third party, having been the requester of the antidumping investigation. The responding authority is the Ministry of Economy, which decided to impose the countervailing duty in force to the Steel Plate Sheet from China. AHMSA has actively participated in this case, supporting in the presentation of evidence and different requirements by the tax authority. The case is still active in the Court and it is expected that the decision is favorable for the domestic industry.

Cold Rolled Steel Sheet from China

Due to increased exports of Cold Rolled Steel Sheet from China to Mexico, another major producer of this product in Mexico filed on December 19, 2013 a request for an antidumping investigation, whose decision on the commencement of the investigation of this product was published in the DOF on April 24, 2014. AHMSA supported and actively participated in this procedure, presenting different requirements by the authority.

On December 8, 2014, the DOF published the preliminary decision without imposing a countervailing duty. Subsequently, on June 19, 2015, it was published the final decision imposing definitive countervailing duties of 65.99% to the Chinese exporter Baoshan, 82.08% to Tangshan, and 103.41% to Shougang.

Hot Rolled Sheets from Germany, China and France

Derived from increased imports and in dumping conditions, on June 25, 2014, AHMSA and another major producer jointly filed a request for antidumping investigation with respect to imports of Hot Rolled Sheets (Hot Rolled Steel Plate and Sheet) from China, Germany and France, whose decision was initially published in the DOF on September 26, 2014. The final decision was published in the DOF on 22 December 2015, whereby the authority imposed final specific countervailing duties of USD$137.00 per tonne to the German exporter ArcelorMittal Bremen, and USD$166.01 per tonne to the rest of the German producers; for the case of China, the duties were USD$335.60 per tonne to the exporter Tangshan, and USD$354.92 per tonne to the remainder of the producers of this country; and for France, the duty was USD$67.54 per tonne to the exporter ArcelorMittal Mediterranée, and USD$75.59 per tonne to the remainder of the French producers. It should be noted that it is the first decision in which specific countervailing and non-*ad valorem* duties are fixed. Specific quotas respond better to the current industry problems, since their application considers the volume to be imported and not the customs value of the goods; therefore, they are more specific and provide greater protection.

Steel Plate Sheet from Italy and Japan

On July 19, 2017, AHMSA requested from the federal Government the commencement of the antidumping investigation against imports of coal and alloyed steel plate sheet from Italy and Japan, derived from the increasing imports of this product in price discrimination terms. After the corresponding analysis, the investigating authority published the commencement of the procedure on November 14, 2017. The investigation is currently underway; however, AHMSA hopes that once all the stages of the procedure are developed, it will be concluded with the imposition of countervailing duties that allow equaling competition conditions for AHMSA in the Mexican market of steel plate sheet.

Antidumping duties in Mexico for products manufactured by AHMSA
In force as of March 20, 2018

<table>
<tr><th></th><th>Steel Plate Sheet</th><th>Steel Plate in Roll</th><th>Hot Rolled Steel Sheet in Roll</th><th>Cold Rolled Steel Sheet in Roll</th></tr>
<tr><td>Germany</td><td rowspan="3">33.98%*</td><td colspan="2">137.0 y 166.01 US$/Ton*</td><td rowspan="3">65.99% a 103.41% *</td></tr>
<tr><td>China</td><td colspan="2">335.6 y 354.92 US$/Ton*</td></tr>
<tr><td>France</td><td colspan="2">67.54 y 75.59 US$/Ton*</td></tr>
<tr><td>Kazakhstan</td><td></td><td rowspan="4">29.3%*</td><td></td><td>22.0%</td></tr>
<tr><td>Romania</td><td>67.6%</td><td></td><td></td></tr>
<tr><td>Russia</td><td>36.8%*</td><td>21.0%*</td><td>15.0%</td></tr>
<tr><td>Ukraine</td><td>60.1%*</td><td>25.0%*</td><td></td></tr>
</table>

* Duties applicable to imports of coal and boron-alloyed products.

Antidumping and Antisubsidy Investigation against AHMSA exports

Investigation under Section 232 for steel products USA

Last April 20, 2017, the administration of the President of USA, Donald Trump, decided to initiate an investigation on imports of steel and aluminum in the United States of America, in order to establish a trade remedy under section 232 of the Trade Expansion Act of 1962, which permits the imposition of restrictive measures in the spirit of protecting national security. The procedure provides for the review by the Commerce Department, which should be performed in a period of no more than 270 days, with the participation and consultation with the Department of Defense. Derived from the report issued by the Commerce Department, the US President will have 90 days to decide if any possible restriction to imports is applicable to imports of the product.

In 2018, the President of USA, Donald Trump, will face a series of deadlines on measures related to steel, since it has been established that at the beginning of next year, the Commerce Department will present the results of its research. Subsequently, the President will have 90 days to decide on the actions to follow. Among these actions a general tariff is contemplated on all imports of steel and aluminum. However, the possibility of establishing a tariff has generated many opponents.

Automotive, food processors and intensive industries in steel and aluminum have pointed out that the tariffs raise costs and reduce competitiveness, so at the end it would sacrifice employment in USA. Steel-exporting countries, such as Japan, China and the European Union have considered the possibility of implementing retaliation; therefore, there is a latent risk that this measure triggers a commercial war that could include diversity of goods, not only steel and aluminum.

AHMSA expects that, as a sign of goodwill and a close commercial relationship between Mexico and the United States, which is important given the ongoing renegotiation of the North American Free Trade Agreement (NAFTA), the Administration of the USA President, Donald Trump, regardless of his decision, decides to exclude Mexico from the measures that could be imposed, given the potentially negative trade impact, as well as the damage to value chains in the region, seriously threatening the Mexican steel industry and trading among member countries.

It is expected that measures applied by the United States create trade deviation of steel products to Mexico; therefore, the Mexican steel industry will ask the Government to maintain in effect the current tariff of 15% to provide for the entry of steel products under unfair conditions.

2.4 ENVIRONMENTAL MATTERS

AHMSA has voluntary environmental protection agreements with the Federal Attorney for Environmental Protection ("PROFEPA"), which sets forth activities that AHMSA must comply in terms of environmental control.

The estimated amount of investment for total compliance with environmental regulations is USD$174.84 million, which includes projects for controlling emissions to the atmosphere, cleaning, recycling and water discharges, mainly. Some of the projects are in the process of implementation and others have been agreed but laggards in its original investment program; therefore, PROFEPA might carry out inspection procedures and, if applicable, cancel the respective agreements.

On February 4, 2015, AHMSA signed a master agreement with PROFEPA, whereby a commitment of investment of USD$65 million in emission control equipment in certain departments of the Company was set forth, effective to 2018.

In that same year, 100% of the fulfillment of the work plan of the PROCESSING PLANT BOF 1 was carried out, which consisted of the installation of a new plant equipped with a control system of emissions to the atmosphere by means of Brokerage Houses, whose start up was on April 30, 2015.

In 2016, a loan agreement with North American Development Bank (NADBANK) of MXN$399.182 million (USD$25 million) was entered into for the installation of a Main Emission Control Equipment BOF 2 and Converter 1 and 2.

In 2017, the engineering for the project of installation of dust-control equipment was completed in the Pelletizing Plant, with a value of USD$ 84,00.

It is important to mention that the commitments set forth in the MASTER AGREEMENT are integrated into the Unique Environmental License, which was updated in 2017, giving validity to 2021 for its compliance. Regarding the Master Agreement, to date, we are waiting for what is coming with respect to its settlement.

UNIQUE ENVIRONMENTAL LICENSE

In March 2012, the Ministry of Environment and Natural Resources ("SEMARNAT" by its Spanish initials) authorized AHMSA the Unique Environmental License ("LAU" by its Spanish initials), in terms of prevention and control of air pollution, which was subject to the fulfillment of conditions by each one of the business units.

In 2015, to comply with applicable environmental regulations in terms of the General Law of Ecological Balance and Environmental Protection, the LAU for the operating units Pelletizing Plant, Coking Plant 1, Blast Furnace 5, Blast Furnace 6, BOF 1, Hot Rolling, Steckel Plate Line, Heavy Sections, Cold Rolled 1, Power Plant 1, Power Plant 2, Energy 1, Power Plant 5 and Energy 2,
Energy 2, Rail Transport, Water Treatment 1, 2, Recovery of Materials 2 (MINSA 2), Oxygen Plants 2, 3, 4, 5, 6 and 8, and General Services was updated, and a new operating unit, which is Power Plant 7, was added.

In 2016, the operating units; Power Plant 4, Degassing under Vacuum, and Plate Standardisation were added to the LAU.

In general, in 2016, the compliance in terms of activities without financial investment of the LAU was 91.5%, and in terms of the global progress, we have progress of 82.1%.

The above derived from the economic reasons of the Company; it has not been possible to advance in the committed investment program as in the case of Pelletizing, MXN$546.08 million (USD$34.2 million) and Coker 2 MXN$147.69 million (USD$9.25 million), which were scheduled to be met by 2015.

In 2017, the update of the LAU was carried out for the different operating units of the Company, in which SEMARNAT resolves and authorizes extending to 2021 the deadlines for fulfilment of 13 conditions set forth in the LAU, which represent an estimated investment of USD$153.8.

At the end of 2017, 88% of the total conditions established in the LAU was met.

It is important to note that the LAU does not include (authorize) projects related to the use and management of water; however, these are under the voluntary audit process by PROFEPA, whose estimated investment amount is USD$21, plus USD$11.9 million of projects that are in the process of execution, of which USD$1.1 million has already been disbursed, having a total amount of investment of approximately USD$33 million.

INSPECTIONS

Derived from the extraordinary inspection carried out by PROFEPA in 2010 to five departments on four different subjects, which were established for the fulfillment of the observations noted by the authority, 20 adverse administrative procedures arose, of which 18 have been satisfactorily completed and the proceedings have been closed, leaving only 2 procedures open on the atmosphere subject. At the end of 2017, another PROFEPA inspection was carried out to verify the compliance for the closing of the record for BOF1 and Coker 1, and the respective decision is expected. Its incompliance would cause a relapse.

The Company is subject to the provisions in the General Law on Ecological Equilibrium and Protection of the Environment and other related ones, which establish that all ecological damage caused must be rectified.

COMMITMENT WITH CONAGUA

In 2015, a total of MXN$19.396 million was paid to CONAGUA for pollutant emission.

In 2016, MXN$2,090,692 was paid to CONAGUA for load of pollutants.

In 2017, agreements were assigned, which correspond to strategy 2.14 AH5, runoff of slag shutdown pools; MXN$20.66 (USD$1.1 million) was allocated, with an advance of 94%.

The Company allocated MXN$64.63 (USD$3.44 million) to the plant installation to recover 70 LPS (litres per second) of wastewater going to the west collector, with a progress of 17%.

In 2017, a study is conducted with an expert on the subject, in order to implement the best solution to the coke shutdown Project at Cokers 1 and 2.

That same year, the new titles of concession and permits for wastewater discharges were updated.

ENVIRONMENTAL AUDIT

AHMSA has been incorporated into the PROFEPA National Environmental Audit Program, which consists of an orderly series of activities necessary to promote environmental audits. The entrance into the program is voluntary, to which productive organizations which so wish may join in order to not only to help to ensure the effective enforcement of the legislation, but to improve the efficiency of their production processes, environmental performance and competitiveness.

In 2015, an extension of the termination of activities of the Action Plan of ANTAIR, Heavy Profiles and Hot Rolling, is obtained. The activities of the Action Plan for Recovery of Ferrous Materials, Rail Transportation, Steckel Plate Line, Cold Rolling 1, Power and Energy Plants, Blast Furnace 6, and Integral Water Management, is started. Environmental audits at Coker 1, Coker 2, Sinter, Pelletizer, Blast Furnace 5, BOF1 and BOF2 and CC, start, the signature from PROFEPA in Coahuila is pending.

In 2016, from the 35 departments of AHMSA, 19 of them are within the environmental audit program, of which 2 have a certificate in effect (heavy profiles, LC, and Skinn Pass). Other 6 departments are waiting for the certificate, and 11 have an agreement in effect.

In 2017, AHMSA received 8 Clean Industry certificates for Recovery of Ferrous Materials, Rail Transportation, Steckel Plate Line, Power and Energy Plants, Wastewater Treatment Plant III, Oxygen Plants, Blast Furnace 5 and Blast Furnace 6, plants, which in addition to Hot Rolling and Profiles departments total 10 clean industry certificates. In addition, a delivery of 2 more certificates was approved beginning 2018 for Cold Rolling 1 and Cold Rolling 2.

Seven departments are registered with the Program, of which Coker 1 and 2, Sinter Plant and Pelletizing, BOF1 and BOF, and DC requested an extension of the period to continue working with the Action Plan, and the Integral Water Management audit is under review by the authority, this audit covers water management to the plant level and its discharges.

In mines and subsidiaries, 11 operating units are within the clean industry program, of which 6 had a clean industry certificate, adding up an aggregate of 16 certificates throughout the Group.

Environmental Regulations

As in other industrialized countries, laws and environmental rules in Mexico have become progressively severe during the last decade. This trend is likely to continue, as a result, it is possible that in the future, AHMSA and its operations are subject to stricter Mexican Environmental Laws.

In 2015, the DOF published applicable laws and rules applicable to both AHMSA and affiliates of Grupo GAN, of which the most relevant are the Energy Transition Act, NOM-041-SEMARNAT-2015 and NOM-018-STPS-2015, whose effect is in 2018.

In 2016, general Administrative Provisions were published for the functioning of the Certificate Management System and Fulfillment of Clean Energy Obligations.

In 2017, the Federal Official Gazette published the land use Program in the Coal Region.

Note that this year, several proposed amendments to various official regulations and laws were carried out, as it is the case of the LGEEPA and the National Waters Law, among others.

WASTE

2015

- 2,178.26 tonnes of RME were generated in 2015
- 3,874.85 tonnes of hazardous waste were generated at a disposal cost of MXN$4.7 million.
- Generation of waste by extraordinary activities of 113.21 tonnes at a disposal cost of MXN$354 thousand.
- 1,432 tonnes of pruning waste were sent to final disposal as extraordinary cleaning.
- Final disposal of 2,930 tonnes of sludge of Wastewater III, at a disposal cost of MXN$1.0 million.
- Extraordinary cleaning of 1,304 tonnes of lagoon sludge of Light Profiles sent to final disposal at a cost of MXN$160 thousand.
- 176,000 litres of recovered oil were used as fuel.

2016

- 2,166.43 tonnes of RME were generated in 2016.
- 14,183.01 tonnes of hazardous waste were generated at a cost of MXN$11.635 million.
- 517.27 tonnes of pruning waste as extraordinary cleanings were sent to final disposal.
- Final disposal of 4,539.5144 tonnes of sludge of Wastewater III, at a disposal cost of MXN$877.79 thousand.
- 75,000 litres of recovered oil was used as fuel.

2017

- 18,674.67 tonnes of hazardous at a cost of MXN$16,285,560.77 per disposal are generated.
- 1,577.40 tonnes of RME were generated in 2017.
- 398.79 tonnes of pruning waste were sent to final disposal as extraordinary cleanings.
- Final disposal of 4,073.40 tonnes of Wastewater III, at a disposal cost of MXN$1,092, 588.26.

Report of Greenhouse Gas Emissions ("GEI" by its Spanish initials)

In 2016, AHMSA's volume of emissions totaled 7,967,787.50 tCO2 eq., and emissions of CO_2 were calculated, with an intensity of 1.712 tonnes of CO_2/TAL.

In 2017, 2016 AHMS's GEI emissions were verified by the agency Sustainable Solutions Int., and a verification report was issued on November 22, 2017.

In 2017, AHMSA' volume of issuance totaled 7,746,288.65 tCO_2 eq, and a calculation of CO_2 emissions was drawn up on the basis of the applicable methodology, obtaining an intensity of 1,765 tonnes of CO_2/TAL.

Environmental Leadership

- In 2016, 15 companies (departments of AHMSA and suppliers) were trained, obtaining 18 projects whose economic benefits were MXN$53.4 million. Water saving of 1.9 million cubic meters per year, energy-saving of MXN$1.7 million, avoided emissions of 7,853 tonnes of CO_2 equivalent per year, and solid waste of 264 tonnes per year.

Environmental Impact Authorization

In 2015, the following was authorized in environmental impact terms:

- AHMSA Project, Plant 2, Vacuum degassing.

- Lack of requirement of authorization of environmental impact matters for works and activities relating to the "Installation of emission control equipment."

In 2017, the Environmental Impact Manifest of "Force Plant 9" was authorized.

<u>SUBSIDIARIES</u>

Clean Industry

In 2016, in the National Environmental Audit Program, the following was carried:

- ANTAIR has currently a certificate in force.
- RDM has one pending certificate and one certificate in force.
- BAZTÁN has an agreement in force.
- MINOSA has three certificates in force.
- MICARE has two certificates in force and three pending certificates.
- MIMOSA has one certificate in force.

In 2017, a certificate was granted to Hércules and Cerro del Mercado (CEMESA) with a two-year effect.

Legal requirements

In 2015, the following projects were authorized:

- Unique Environmental License for BAZTAN Num. LAU-16/060/2014, by SEMARNAT in the State of Michoacán.

- Preventive report in matters of environmental impact for the project "Expansion of the northern tailing deposit located in the municipality of Durango" of the company Minera del Norte, S.A. DE C.V., Cerro del Mercado Unit, in the municipality of Durango.

- Project Pachuca, promoted by MINOSA, which consists of reprocessing the tailings currently deposited at Dos Carlos and Sur tailings through a process of hydraulic mining in the municipality of Epazoyucan, Hidalgo.

- Mining exploration project La China, promoted by MINOSA, in the municipality of Cuautitlán de García Barragán, Jalisco.

- Project Cerro del Mercado promoted by MINOSA, in the municipality of Durango.

In 2016, the following was carried out:

- Cuanana. ETJ. An environmental compensation payment of MXN$280.6 thousand is made.
- Pachuca. Compensation payment made for the project Change of Land Use of MXN$10.3 million.
    - CODECO. The annual report of compliance of the project is filed, and the bond for the environmental compensation for the project is renewed.
- Cerro del Mercado. The Preventive Report is filed with SEMARNAT.
- BAZTÁN. MIA and ETJ is filed with SEMARNAT, Michoacán.

In 2017, the following was carried out:

- BAZTÁN. The request for change of use of land (CUS by its Spanish initials) of 7.92 hectares is authorized.
- Project "Tailing Dam 3, BAZTAN." The development of the flora and fauna Rescue and Relocation program is at the final stage by the Agrarian University Antonio Narro. MXN$ 1,350,000.
- Project "Tailing Dam 3, BAZTAN.". Payment is made for environmental compensation to the Mexican Forestry Fund for the change of land use on forest land, which is intended to carry out soil restoration and reforestation in the amount of USD$479,943.

- Project Pachuca. A decision is obtained from PROFEPA, which imposes a fine of MXN$116,864 to MINOSA, derived from the fire in the grounds of Jometitlán in Epazoyucan occurred in June, which was imputed and the bail was paid.

- La Perla Unit. In July 2017, a spillage of tailing of approximately 75,000 m3 occurred on an area of 42 hectares, which was responded fulfilling the urgent implementing measures established by PROFEPA, among the most important were the recovery of spilled tailing and place it in an existing tailing, hiring an expert company for recommendations for stabilizing the tailing, in addition, the UANL is hired to prepare an affectation study on the impacted area by the tailing, and the mine stops operations, and the area of the damaged courtain is repaired.

2.5 HUMAN RESOURCES

As of December 31, 2017, the Company had 19,190 workers. To that date, approximately 12,145 of these employees were unionised and approximately 7,045 were non-unionised.

In 2017, revisions of Contracts and Wage Scales of AHMSA, MINOSA and all its units, as well as NASA, Monclova and Monterrey Plants have been accepted and approved at Workers Meetings. This last company has a collective contract with CTM ("Mexican Workers Confederation") in Monclova Plant and Federation of Independent Trade Unions in Monterrey Plant.

2.6 RAW MATERIAL REQUIREMENTS

AHMSA's main requirements of raw materials for its steel production are iron ore and metallurgical coal. Since its privatization, AHMSA has obtained a substantial portion of its requirements of iron ore and metallurgical coal from MINOSA Unit and MIMOSA Unit, respectively. Furthermore, AHMSA obtains iron ore from another subsidiary, CEMESA Unit. MINOSA Unit, MIMOSA Unit, and CEMESA Unit, which prior to the merger in 2008 were subsidiaries of GAN until December 1995, formerly Carbón y Minerales Coahuila, S.A. de C.V., its holding company, was purchased by AHMSA from GAN. AHMSA considers that being the owner of these subsidiaries guarantees a source of raw materials and low-cost in the future.

In 2017, AHMSA internally obtained approximately 74% of its requirements of metallurgical coal, 94% of its requirements of pellet, 94% of iron ore, and 57.7% of its requirements of electricity from its own facilities under a self-generation permit from the Government of Mexico. The balance of electrical requirements from AHMSA is provided by the CFE at commercial market prices. AHMSA obtains natural gas from PEMEX at prevailing market prices. AHMSA also requires small amounts of limestone, which is supplied entirely by Refractarios Básicos, S.A. de C.V. ("REBASA").

Historically, AHMSA produced all its junk. Due to the improvements made by AHMSA under investments and capital improvements Plan, the Company has become more efficient in its steel production. As a result, AHMSA's production of scrap metal has decreased, and since February 1996, AHMSA has purchased it from third parties to fulfill its requirements. In 2016, AHMSA purchased 64% of its requirements of scrap from third parties. The purchase increased mainly by the entry into operation of the Electric Furnace.

Being a fully integrated steel producer allows AHMSA being a low-cost producer. However, the inability of AHMSA to make capital investment required in recent years has reduced the ability to extract its own raw materials, requiring the purchase of these inputs from third parties at a higher cost. Similarly, in recent years, the Company has focused its investments in the preparation and development of new mines to be able to guarantee that most of its raw material requirements are supplied by its own mines.

Mining Operations

Through MINOSA and CEMESA Units, AHMSA operates four iron ore mining units that provided most of its iron ore requirements in 2017.

Through MIMOSA Unit, AHMSA operates three underground coal mines and two open-pit mines, which supplied most of its requirements of metallurgical coal in 2017.

MICARE unit operated in 2017 two open pit mine and one underground mines for the production of thermal coal, which is sold to the CFE through CICSA. The business of iron ore and coal mines is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, labour disputes, the encounter of unusual or unexpected geological conditions, changes in the environment and natural phenomena. Such occurrences could result in damage to or the destruction of the properties of minerals or the production facilities, mining delays, and monetary losses.

Iron Mine Operations

MINOSA mines, Hércules Unit, La Perla Unit, Manzanillo Unit, and CEMESA Unit. MINOSA's Hércules Unit currently operates 7 iron ore pits and two underground mines, which are located approximately 290 kilometres north-west of Monclova, in the State of Coahuila de Zaragoza. La Perla Unit operates 2 iron ore pits, which are located in the east area of the State of Chihuahua, approximately 80 km away from MINOSA's Hércules Unit. MINOSA's Manzanillo Unit, located near the Pacific Ocean, produces iron ore in piece; in 2015, its operation was suspended indefinitely. CEMESA Unit operates 4 open-pits located in the City of Durango. All concentrated iron ore produced by MINOSA's Hércules Units, La Perla, and CEMESA is sent to AHMSA steel facilities in Monclova.

A concentrator to process iron ore is located in the property of each one of MINOSA Units, Hércules Unit, CEMESA and MINOSA's La Perla Unit.

Production. The following table shows the concentrated iron ore production in MINOSA Unit (Hércules and Manzanillo), and CEMESA Unit for the periods indicated:

Iron Ore Production
(Millions of tonnes)

	2015	2016	2017
Unit			
Hércules (2) (3)	3.64	3.57	3.09
Manzanillo (1)	0.02	0.05	0.00
CEMESA............ …………	0.33	0.33	0.24
Total	3.99	3.95	3.33

(1) Iron ore by piece.
(2) Beginning 2006, Hércules Unit solely produced Concentrate for the Pellet Plant, CEMESA Unit solely Concentrate for Pellet and Sinter, and Manzanillo Unit produces solely pieces for Blast Furnaces.
(3) Hércules Unit production includes that for La Perla Unit.

AHMSA annually updated the estimates of its ore reserves in each one of its iron ore properties. The reserves may not match geological, metallurgical or other expectations, and the volume and quality of recovered iron ore may be below the expected levels.

The estimated ore reserves presented below have been prepared by AHMSA engineers using evaluation methods that are generally used in the international mining industry, including drilling methods, mapping standard, sampling, analysis, geological model. AHMSA estimates located tonnage and degree of geological reserve involving computerized interpretations or manuals and calculations, according to methods that comply with standard industry procedures, based on geological mapping and drilling data. Lower market prices, increases in production costs, reduced recovery rates, and other factors can convert proven reserves into uneconomic reserves to exploit, and may result in reviews of data of the reserve from time to time. The geological data of the reserves are not indicative of future operating results.

The following table shows estimates of geologically proven and probable reserves to MINOSA's Hércules Unit, La Perla Unit, CEMESA Unit, and Manzanillo Unit.

Reserves of Iron Ore as of December 31, 2017 (1)
(Millions of tonnes, except percentages)

	Crude Ore			Concentrate		
Unit	**Average Degree of Iron**	**Ore Resources (2)**	**Ore Reserves (3)**	**Weight**	**Recovered**	**Average Degree of Iron**
Hércules……..…...	27.0%	449.6	194.1	22.2%	43.0	65.0%
CEMESA……...….	32.3%	32.9	21.7	19.5%	4.2	64.7%
La Perla…………...	32.4%	40.5	16.0	29.5%	4.7	62.7%
Manzanillo (4)……	45.7%	50.0	0.3	70.0%	0.2	62.1%
Total…………......		572.9	232.1		52.2	

(1) AHMSA's iron ore reserves are certified as of June 30, 2011 by Midland Standard, Inc., independent consultants, who are experts in mining, geology, and reserves determination. The table shows that this information was updated as of December 31, 2016, with information from the Company's internal geologists. The terms Ore Resources and (2) Ore Resources (3) are used according to the definitions adopted and issued by the Canadian Institute for Mining, Metallurgy and Petroleum ("CIM" from Canada), according to the Canadian Standard 43-101.

(2) The iron ore resources cover mineralised material of economic interest, which has been identified and estimated through exploration work and sampling, and within which Ore Reserves may subsequently be defined with the consideration and implementation of technical, economic, legal, environmental, socio-economic and governmental factors. Depending on their level of geological reliability, Ore Resources can be (from major to minor) Measured, Indicated, and Inferred.

(3) The Iron Ore Reserve is defined as the economically minable part of a Measured or Indicated Ore Resource that has at least one preliminary feasibility study. This study must include adequate information on mining, metallurgy, economy, and other relevant factors that demonstrate, at the time of the submission of the report, that economic extraction can be justified. The Ore Reserves, depending on the Measured or Indicated Resource, can be Proven or Probable, respectively.

(4) The product of the Manzanillo Unit is ore by piece to AHMSA.

(5) CEMESA Unit; includes 1.4 Mt of undersized Hematite of low grade of faith that are sold to external companies.

AHMSA is currently involved in exploration activities and is carrying out more research of deposits existing in what it thinks that could lead to a discovery and/or the confirmation of additional reserves of iron ore.

Coal Mine Operations

MIMOSA Unit Mines. In 2017, it operated three underground coal mines and two open pits. MIMOSA's underground mines are located approximately 130 km by rail from the steel company. Metallurgical coal is used for the production of coke, while thermal coal is used for electricity generation plants. The great amount of volatile material in thermal coal compared to metallurgical coal, as well as other characteristics of the thermal coal makes it unsuitable for coke production. During the period from 2004 to 2008, part of the thermal coal produced by the MIMOSA Unit was sent to the MICARE Unit for sale to the CFE, and the rest was sent to Collection Centres for sale to the CFE directly; from May 2008, the MIMOSA unit sells directly to the CFE, and all the metallurgical coal produced by MIMOSA Unit was used in the steel production in AHMSA.

MIMOSA Unit operates two coal washing plants, which are used to clean off coal to remove non-combustible materials generated during the extraction process and reduce the ash content. A washing machine reduces the coal ash content from an average of 47.0% to an average of 13.5%, for which AHMSA coking ovens are designed to operate. MIMOSA metallurgical coal is transported by rail via Línea Coahuila-Durango, S.A. de C.V. (50% of which is owned by AHMSA) to Monclova facilities at freight prices prevailing in the market.

During 2015, 2016 and 2017, AHMSA, purchased 366 thousand, 467 thousand, and 452 thousand tonnes, respectively, of metallurgical coal from external suppliers. In addition, in 2017, it purchased 234 thousand tonnes of imported metallurgical coke.

MICARE Unit mines, operate two open pit mines and an underground mine located in the State of Coahuila. In 2015, 2016 and 2017, MICARE Unit produced 7.09 million, 5.85 million, and 6.54 million tonnes of thermal coal, respectively.

In 2015, 2016 and 2017, MICARE and MIMOSA sold to the CFE and third parties 6.73 million, 6.21 million, and 6.73 million tonnes of thermal coal, respectively, including the thermal coal produced by MICARE Unit, and thermal coal produced by MIMOSA Unit.

In each one of these years, all the coal produced in MICARE Unit was sold to the CFE, and from 2012 to 2014, sales were aimed at AHMSA to be used as injection.

Thermal Coal Sales
(Millions of tonnes)

Sales	2015	2016	2017
MICARE and MIMOSA Units to CFE	6.5	6.2	6.7
Collection Centres	0.2	0	0
Total	6.7	6.2	6.7

Open pit mines. The extraction of coal from MICARE unit open pit mines is performed by bulldozers, front loaders and off-road trucks, which transport coal from the pits to the storage pile to be subsequently transported through a conveyor belt.

In 2015, 2016, and 2017, MICARE Unit open pit mines produced 2.2, 2.5 and 3.6 million tonnes of thermal coal, respectively.

Underground mines. MICARE operated an underground mine to extract coal from the seams located at depths that make open-pit mining impossible. The seam is accessed by two inclined, parallel tunnels which allow ventilation, access to staff, electricity, communication lines and water, as well as carrying out the extraction of coal. The exploitation of the seam is achieved through the long front system, which usually uses continuous miner units to carry out the development of the long front. As coal is cut, this falls on a conveyor belt that takes it out of the mine to be stored in coal piles.

In 2015, 2016, and 2017, MICARE Unit underground mines produced 4.0, 3.1 and 2.7 million tonnes of thermal coal, respectively.

Thermal coal contains different qualities of ash, for this reason is blended to meet the specifications of the contract with the CFE, such as the content of ash of 37.0% and a humidity of 7.5%, to the Thermoelectric Central José López Portillo and to Coal II an average of ash of 39.0% and a humidity of 7.5%. MICARE also owns two coal washing plants located next to the CFE generating plants, of which one is occasionally used to reduce the ash content required by the CFE when this cannot be reduced through mixing, and the other one to produce low-ash coal for injection to the Blast Furnaces.

MICARE Unit has external band transportation systems that transport thermal coal produced by MICARE and MIMOSA approximately ten kilometers from Coal I and Coal II, the two power plants of the CFE.

Production and Sales. The following table shows the annual coal production and sale of MIMOSA and MICARE for the periods indicated:

Production and Sale of Coal to Third Parties
(Millions of tonnes)

PRODUCTION AND SALES	**2015**	**2016**	**2017**
MIMOSA			
Metallurgical Coal (1)	1.56	1.31	1.37
Thermal Coal (1)	1.35	1.09	1.71
	2.91	2.40	3.08
MICARE			
Thermal Coal (2)	7.09	5.85	6.54
Total Production of Thermal Coal	**8.44**	**6.94**	**8.25**
Thermal Coal Sales			
(Increase) Decrease in Inventories			
of AHMSA(3)	-1.88	-1.23	-1.69
Purchases of Thermal Coal (4)	0.17	0.50	0.17
Total Sales of Thermal Coal (5)	6.73	6.21	6.73

(1) On a dry basis.
(2) Based as received.
(3) Including losses for coal washing and humidity effect.
(4) These purchases represent thermal coal purchased by MICARE for sale through collection centres with direct delivery to the CFE.
(5) Includes sales through MICARE and collection centres.

Sales of Coal to Third Federal Electricity Commission

(Thousands of tonnes, except percentages)

	2015		2016		2017	
	Vol.	**%**	**Vol.**	**%**	**Vol.**	**%**
Coal I……	3,833	77%	3,526	79%	3,520	86%
Coal II	2,901	60%	2,682	62%	3,216	80%
Third Parties……	-		-		-	
Total……….	6,734		6,208		6,736	

(1) Explanation according to the year:
*In 2015 includes 247 thousand tonnes of collection centres, and 176 thousand tonnes of Purchase from external producers through Micare.
*In 2016 and 2017 include 504 and 866 thousand tonnes, respectively, of Purchase from external producers.

Thermal coal sales. MICARE Unit's thermal coal is sold to two plants of the CFE, Coal I and Coal II, located at approximately 10 kilometers from MICARE unit. In 2017, MICARE unit supplied approximately 86% and 80% of the thermal coal requirements of Coal I and Coal II, respectively.

In 2003, MICARE entered into a supply agreement with CIMSA, and this in turn with the CFE, which set forth a supply agreement of 68 million tonnes of coal with a term of at least 5 years and up to 10 years.

Beginning 2013, all MICARE Unit's thermal coal sales were conducted to Corporativo Industrial Coahuila S.A de C.V ("CICSA"), which in turn sells all the coal to the CFE.

In December 2012, CICSA entered into an agreement with the CFE of MXN$29,673 million pesos and a term of 6 years, where it was agreed with the CFE an increase in weighted price of two stations of 5% with respect to the last price of December 2012 paid by the CFE to CIMSA.

In 2017, MICARE and MIMOSA Units produced 8.25 million tonnes of thermal coal and sold 6.74 million tonnes.

Thermal Coal Sales

(Thousands of tonnes | millions of pesos/dollars)

	Annual Volume		Term	Agreement Total		Agreement Value		
T.C.	Minimum	Maximum		Minimum	Maximum	Base Unit Price	MXN Pesos	USD Dollars
TC JLP Coal I….	3,520	4,400	6 years	21,120	26,400	$745	$19,668	1,512
TC Coal II….......	1,840	2,300	6 years	11,040	13,800	$725	$10,005	769
Total………………	5,360	6,700		32,160	40,200	$738	$29,673	2,281

T.C.	Last Price CIMSA	Base Price CICSA	Increase New Agreement
TC JLP Coal I……….	702.79	745.00	6.0%
TC Coal II…………...	702.79	725.00	3.2%
Weighted Price ………...	702.79	738.13	5.0%

(Unaudited) Mining Reserves

MINOSA updates estimates of its reserves of coal in its MIMOSA and MICARE Units each year. The estimated reserves presented below were prepared by MINOSA engineers, using evaluation methods that are generally used in the international mining industry, including standard mapping, drilling, sampling, analysis and geological model methods. In March 2012, an independent mining consultants company certified the reserves of MICARE and MIMOSA Units, in accordance with Canadian standards 43-101.

The Company's mines are operated through exploration and exploitation concessions granted by the General Directorate of Mines of the Ministry of Economy. These concessions are granted for periods of 50 years.

The term "reserves" refers to the part of the mineral resource that can be recovered economically and legally at the time of the estimate. The estimates that are listed below have been prepared by the engineers of the technical division of the Company, following evaluation methods generally used in the international mining industry, which include standard methods of geological mapping, drilling, sampling, assaying, and geological modeling.

The estimates of the mineral reserves from each of the mines are updated periodically based on the results of the explorations carried out; in addition, reviews are carried out by independent external consultants with mining, geology and reserve determination expertise, to confirm and verify these estimates. The latest reviews by the experts were carried out in March 2012 for coal ore mines and December 2011 for iron ore mines based on the Canadian standard 43-101.

As of December 31, 2017, the Company has minable and saleable reserves of various minerals classified as proven and probable, as follows:

Coal reserves as of December 31, 2017 (1) - MIMOSA and MICARE Units
(Millions of tonnes)

	Proven (2)	**Probable (3)**	**Total**	**Proven Saleable (4)**	**Probably Saleable (4)**	**Total**
MIMOSA Unit						
Metallurgical Coal (5)…….........	159.61	0	159.61	60.8	0.0	60.8
MICARE Unit						
Thermal Coal ……………...……	85.93	0	85.93	64.8	0.0	64.8
Total…………………….………....	245.54	0.0	245.5	125.61	0.0	125.61

(1) AHMSA's coal reserves as of December 31, 2017 have been estimated by AHMSA's employees.

(2) The proven reserves are the economically mineable part of the measured mineral resources that have at least one preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified; a proven mineable portion implies a high degree of certainty in amending factors (2014 CIM Definition Standards).
(3) Probable reserves are the economically mineable part of the indicated mineral resources that have at least one preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified. In 2012, MICARE Unit and MIMOSA Unit reserves were estimated by internal elements according to the last record prepared by Norwest Corporation.
(4) The term "saleable reserves" means estimated reserves including losses for coal to be within sale specifications such as the coal washing process. In the case of MIMOSA Unit, a recovery of 40% was assigned. A recovery of 82% for underground mining for saleable coal was applied to MICARE Unit.
(5) In addition to the metallurgical coal recovered by the MIMOSA Unit coal reserves, it also produces thermal coal as a byproduct of the process of production of metallurgical coal.

Mexican Regulating System for Mining Concessions

Under the Mexican Laws, mineral resources belong to the Mexican nation, and a concession from the Mexican Federal Government is required to explore or exploit mineral reserves. Pursuant to the Mining Law, mining concessions are only granted to individuals and organizations legally incorporated under the Mexican Laws. Foreign investors can hold up to 100% of the shares representing the capital stock of such entities. AHMSA's mineral rights arise from concessions originally granted by the Ministry of Energy under the Mining Laws. As a result of subsequent legal reforms, the Ministry of Economy is currently responsible for the granting, management, and supervision of mining concessions.

Mining concessions are awarded for exploration and exploitation. A mining concession allows its holder to explore and extract any mineral resource within a period of 50 years and is renewable for other 50 years, as long as its holder pays a nominal fee, and complies with the Mining Laws. In 2017, the amount accrued for these rights amounted to MXN$351 million.

Mining concessions grant several specific rights to the concessionaire, including:

- The right to freely dispose of mineral products obtained as a result of the exploitation of the concession;
- The right to obtain the expropriation, temporary occupancy, or the easement of passage with respect to the land where the exploration or exploitation will be performed; and the use of water in the mine to facilitate the extraction.

In addition, a concessionaire is obliged, among other things, to explore and exploit the relevant concession, to pay any applicable charge, to comply with all environmental safety standards, and to provide information to the ME, as well as allowing inspections by the ME. Mining concessions may be terminated if the concessionaire does not meet its obligations.

A company that holds a concession, as well as mining concessions, permits, assignments, transfers, and impediments must be registered with the Public Mining Registry. AHMSA believes that its material mining concessions are duly registered with that body.

Production of Other Minerals

In 2015, the RDM Unit reached a production of 966 thousand ounces of silver equivalent, and the BAZTÁN Unit generated 3.8 thousand tonnes of copper concentrate.

In 2016, the RDM Unit reached a production of 611 thousand ounces of silver equivalent, and the BAZTÁN Unit generated 3.6 thousand tonnes of copper concentrate.

In 2017, the RDM Unit reached a production of 792 thousand ounces of silver equivalent, and the BAZTÁN Unit generated 3.6 thousand tonnes of copper concentrate.

Dividends Policy

Since its privatization, the Company has not paid dividends. The Company intends to reinvest, if applicable, its earnings in the Company, and does not plan to pay dividends in the near future.

The General Corporate Law requires that 5% of the net income of the Company of each year (after statutory employee profit sharing and other deductions) be transferred to the Legal Reserve until the reserve equals at least 20% of common stock. Mexican companies generally pay dividends from their retained earnings, after deducting the Legal Reserve. Under the Mexican Tax Laws, the Company shall be obliged to pay a tax at the rate in effect on the grossed-up base of any dividend if such dividend is paid from earnings which have not been subject to the tax on income ("ISR" by its Spanish initials). Beginning 2014, dividends to individuals and foreigners will incur an additional tax of 10% on the basis of the net tax income account generated from that date. As of December 31, 2017, 2016, and 2015, the amount of the Legal reserve amounts to MXN$105 (historical value).

Chapter 3. Financial Situation

3.1 RELEVANT FINANCIAL INFORMATION

Operating Results from 2015 through 2017. The following financial information is obtained from the Company's audited financial statements. This information should be read in conjunction with the consolidated financial statements for the years ended December 2017, 2016, and 2015. Audited financial statements are prepared in accordance with IFRS.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (MXN$))

	2017	2016	2015
Assets			
Current assets:			
Cash and cash equivalents..	$ 1,677	$ 944	$ 510
Trade accounts receivable, net..................................	4,494	2,667	1,567
Due from related parties, net....................................	207	205	126
Other accounts receivable, net..................................	1,150	1,385	1,562
Inventories, net...	7,006	7,840	7,305
Prepaid expenses...	41	154	95
Total current assets..	14,575	13,195	11,165
Non-current:			
Due from related parties, net....................................	485	485	31
Other long-term receivables.....................................	89	89	96
Guaranty deposits...	882	835	735
Investments in shares of associates and joint ventures…………………………………………….	81	80	115
Property, plant and equipment, net...........................	43,070	44,979	45,605
Intangible assets, net...	3,334	3,426	3,868
Other assets, net..	678	525	556
Total non-current assets...	48,619	50,419	51,006
Total assets...	63,194	63,614	$ 62,171
Liabilities and stockholders' equity			
Current liabilities:			
Liability in suspension of payments.........................	$ -	$ -	$ 14,901
Financing debt……………………………………	4,684	2,847	3,721
Due to suppliers..	8,738	6,382	5,056
Taxes payable...	1,603	1,270	1,076
Due to related parties..	511	438	450
Advances from customers………………………….	2,381	2,841	1,220
Other payables and provisions..................................	2,010	2,114	2,054
Total current liabilities..	19,927	15,892	28,478
Non-current liabilities:			
Financing debt……………………………………	11,746	13,092	3,632
Due to related parties..	654	654	-
Other payables and provisions……………..............	342	540	404
Employee retirement obligations..............................	7,212	6,330	6,781
Deferred income taxes..	3,419	4,632	5,255
Total non-current liabilities.....................................	23,373	25,248	16,072
Total liabilities...	43,300	41,140	44,550
Stockholders' equity:			

Capital stock	13,187	13,187	6,129
Additional capital contribution	458	458	458
Retained earnings from prior years	7,433	10,586	14,894
Loss for the year	(1,859)	(3,153)	(4,308)
Other comprehensive income items	96	819	(117)
Controlling interest	19,315	21,897	17,056
Noncontrolling interest	579	577	565
Total stockholders' equity	19,894	22,474	17,621
Total liabilities and stockholders' equity	$ 63,194	$ 63,614	$ 62,171

CONSOLIDATED STATEMENTS OF LOSSES AND OTHER COMPREHENSIVE RESULTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (MXN$), except per share data)

	2017	2016	2015
Net sales	$ 54,745	$ 48,512	$ 41,100
Cost of sales	48,542	42,279	38,570
Depreciation	3,619	3,775	3,713
Gross profit (loss)	2,584	2,458	(1,183)
Selling and administrative expenses	3,236	2,914	2,846
Other expenses (income), net	393	643	21
Operating (loss) income	(1,045)	(1,099)	(4,050)
Interest expense	1,595	1,523	1,160
Interest income	(109)	(196)	(156)
Foreign exchange loss, net	(25)	1,106	384
	1,461	2,433	1,388
Equity in (income) loss of joint ventures and associated	(20)	(29)	43
Loss before income taxes	(2,486)	(3,503)	(5,481)
Income taxes expense	(629)	(333)	(1,201)
Consolidated net loss for the year	(1,857)	(3,170)	(4,280)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX:			
Items that may be reclassified subsequently to profit or loss:			
Translation effects of foreign subsidiaries	(118)	586	427
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains (losses) of employee benefits from termination and retirement	(605)	386	143
	(723)	972	570
Consolidated comprehensive net loss	$ (2,580)	$ (2,198)	$ (3,710)
Distribution of consolidated comprehensive net loss for the year:			
Controlling interest	$ (2,582)	$ (2,181)	$ (3,738)
Noncontrolling interest	2	(17)	28
	$ (2,580)	$ (2,198)	$ (3,710)

Basic loss per share (in Mexican pesos).....................................	$ (4)	$ (7)	$ (12)
Weighted average shares outstanding (000's).....................................	471,478	428,911	357,873

3.2 MANAGEMENT COMMENTS AND ANALYSIS ON OPERATING RESULTS AND FINANCIAL SITUATION.

The following analysis must be read in conjunction with the consolidated financial statements.

The consolidated financial statements have been prepared under IFRS.

Macroeconomic Effects in AHMSA

In Mexico, steel prices and a percentage of the thermal coal price are referenced to international prices, but many of AHMSA costs (such as labor and certain inputs) are referenced to domestic prices. When inflation in Mexico exceeds the devaluation of the peso, the Company's operating costs are directly affected by the aforementioned inflationary effect, resulting in a decline in the operating margin. In 2015, the inflation rate amounted to 2.13%, while the peso recorded a depreciation of 14.46%. In 2016, the inflation rate amounted to 3.36%, while the peso recorded a depreciation of 25.27% and in 2017 the inflation rate was 6.77%, while the peso recorded an appreciation of 4.70%. There is no assurance that a rise in the cost in pesos is offset by an increase in revenues for price or exchange rate.

Sales Volume, Product Mix, and Average Selling Price

In recent years, AHMSA's steel net sales have been affected by the demand for its products in the domestic market. The domestic market has historically been the main market for AHMSA, in 2015, 2016, and 2017, approximately 86%, 85%, and 87%, respectively, of total sales were aimed at this market. However, the national and international market is continuously assessed to maintain flexibility to access each market.

AHMSA's net sales of thermal coal have reflected the demand from its unique customer, CFE, and thermal coal prices sold to the latter.

The table shows total income, sales volume, and average price for each segment for the periods.

	2015	2016	2017
Net Sales (millions of Mexican pesos)…………………………	$41,100	$48,512	$54,745
Steel Segment:			
Net Sales of Steel Products (millions of Mexican pesos)………	$35,452	$43,244	$48,270
Volume (thousands of tonnes):			
Flat Products…………………………………………………	3,347	3,612	3,349
Coated Products……………………………………………...	136	147	144
Other (mainly non-flat) (1)…………………………………..	291	398	217
Total Volume of Steel Products………………………………..	3,774	4,157	3,710
Average Selling Price (pesos per tonne) (2)……………………	$9,236	$10,272	$12,888
Operating Income (Loss) (millions of Mexican pesos)………...	$(3,150)	$933	$879
Coal Segment:			
Net Sales (millions of Mexican pesos) (3)……………………..	$5,011	$4,508	$5,807
Volume (thousands of tonnes)………………………………….	6,452	5,621	6,565
Average Selling Price (pesos per tonne) (2)……………………	$763	$797	$881
Operating Loss (millions of Mexican pesos)…………………...	$(118)	$(1,566)	$(964)
Other Segment:			
Net Sales (millions of Mexican pesos) (4)……………………..	$636	$760	$668
Operating Loss (millions of Mexican pesos)…………………...	$(782)	$(467)	$(961)

(1) It also includes net sales of pipes manufactured by third parties using hot rolled steel sheet supplied by AHMSA.
(2) Based on net sales of steel or thermal coal, as the case may be, divided by the total tonnes of steel or thermal coal sold. Changes in the average selling price of steel products reflect changes in price levels and product mix. The average selling price of the Steel Segment and Coal Segment do not take into account other sales.
(3) Includes sales of coal purchased and resold by AHMSA. Sales of coal purchased were 0.1%, 0% and 10.9% of AHMSA's net sales of thermal coal in 2015, 2016 and 2017, respectively.
(4) Other sales in the Other Segment include sales of gold, silver and copper.

2017 Operating Results with respect to 2016

Sales Volume

Steel Segment. Sales volume of steel products for 2017 was 3,710 thousand of tonnes, a decrease of 10.7% with respect to the 4,156 thousand tonnes of steel products sold in 2016. The decrease was mainly due to three reasons: maintenance of hot rolling machines, which lasted longer than the scheduled time, lack of raw material due to the liquidity restrictions and force majeure events. Export sales volume decreased 25%, going from 637 thousand tonnes in 2016 to 478 thousand tonnes in 2017. This decrease was due to less production and a better price in the domestic market.

Coal Segment. In 2017, AHMSA sold a volume of 6,565 thousand tonnes of thermal coal, greater amount than the 5,621 thousand tonnes sold in 2016. The increase was due to a change in the feeding mixture of the Coal II plant (CFE), which required more thermal coal from AHMSA.

Net Sales

Collectively, AHMSA's net sales in 2017 were MXN$54,745 million, an increase of 12.8% with respect to AHMSA's net sales of MXN$48,512 million in 2016.

Steel Segment. Net sales of the steel segment (including other sales) increased 11.6% going from MXN$43,244 million in 2016 to MXN$48,270 million in 2017, mainly due to the increase in the average selling price, which was partially offset with the decrease in the volume of tonnes sold. AHMSA's average selling price per tonne of steel products increased 25.5%, going from MXN$10,272 in 2016 to MXN$12,888 in 2017.

Export sales represented 12.3% of revenues from sales in 2017 (12.9% of the sales volume of steel products for that year) compared to 13.9% of revenues from AHMSA's sales in 2016 (15.3% of the volume of sales of steel products for that year). The decrease was due to the decrease in the sales volume of coke and scrap and pig iron plants.

In 2017 and 2016, AHMSA reported other sales of MXN$458 million and MXN$551 million, respectively. Other steel segment sales were mostly of by-products of the coke and scrap and pig iron plants.

Coal Segment. Thermal coal sales were MXN$5,807 million in 2017 compared to MXN$4,508 million reported in 2016, representing a decrease of 28.8%, this increase is due to two reasons: higher prices resulting from increases in the agreement rates with CFE, and a greater sales volume, as mentioned above. The price of thermal coal per tonne increases 10.6%, from MXN$797 in 2016 to MXN$881 in 2017.

"Others" Segment. Sales of the "Others" segment were of MXN$668 million in 2017 compared to MXN$760 million reported in 2016, representing a decrease of 12.2%, this segment includes sales of gold, silver and copper, among others. The decrease was attributed mainly to minor sales in our subsidiary Moonen Yachts Holding BV.

Cost of Sales, Depreciation; Gross Profit

Cost of sales (excluding depreciation) increased 14.8% in absolute terms going from MXN$42,278 million in 2016 to MXN$48,542 million in 2017, after an increase in cost of sales of the steel and coal segments. The percentage of net sales increased from 87.1% in 2016 to 88.7% in 2017.

Depreciation decreases 4.1%, from MXN$3,775 million (7.8% of net sales) in 2016 to MXN$3,619 million (6.6% of net sales) in 2017. We use depreciation in a lineal manner; therefore, fluctuations are generally based on changes in the amount of amortizable assets.

AHMSA's consolidated gross income increased 5.1%, going from MXN$2,459 million in 2016 to MXN$2,584 million in 2017.

Steel Segment. Cost of sales (excluding depreciation) for the AHMSA's Steel Segment increased 13.6% from MXN$36,535 million in 2016 to MXN$41,522 million in 2017. This is due to the purchase of imported raw material with a higher price, and the increase in scrap consumption.

Energy costs increased 23.0% in 2017 with respect to 2016. The foregoing mainly due to the increase in prices and consumption of natural gas, imported coal and power. In 2016, it represented 16.3% of net sales of the steel segment while in 2017 was 18.0% (increase of 10% from 2016 to 2017).

The charge for depreciation in this segment decreased 3.2%, recording MXN$3,113 million (7.2% of net sales of the steel segment) in 2016 against MXN$3,012 million (6.2% of net sales in the steel segment) in 2017.

Considering the aforementioned factors, AHMSA reported a gross profit in the steel segment of MXN$3,736 million (7.7% of net sales in the steel segment) in 2017, an increase of 3.9% compared to a gross profit of MXN$3,596 million (8.3% of net sales of the steel segment) in 2016. This increase is attributable to an increase in volume of sales.

Coal Segment. Cost of sales (excluding depreciation) for AHMSA's coal segment increased 26.2%, from MXN$4,878 million (108% of net sales of thermal coal) in 2016 to MXN$6,157 million (106% of net sales of thermal coal) in 2017. This increase in cost was mainly due to a decrease in the quality of our internal coal, which promoted the purchase of external coal at a high price.

In addition, energy costs increased 26.4%, going from MXN$366 million (8.1% of net sales of the coal segment) in 2016 to MXN$463 million (8.0% of net sales of the coal segment) in 2017, mainly due to an increase of the diesel price, fuel used in mining equipment.

Labor costs increased from MXN$1,197 million (26.5% of net sales of the coal segment) in 2016 to MXN$1,323 million (22.8% of net sales of the coal segment) in 2017. The increase is associated with the annual salary increase.

The charge for depreciation in this segment increased in absolute terms by 10.6% from MXN$553 million (12.3% of net sales of the coal segment) in 2016 to MXN$494 million (8.5% of net sales of the coal segment) in 2017.

AHMSA reported a gross loss in its segment of thermal coal from MXN$(845) million (14.5% of net sales of the coal segment) in 2017, compared to a gross profit (loss) of MXN$924 million (20.5% of net sales of thermal coal) in 2016. The decrease is mainly due to better selling prices.

"Other" Segment. Cost of sales (excluding depreciation) for AHMSA's "other" segment decreased 0.3%, from MXN$865 million (113.7% of net sales of the "other" segment) in 2016 to MXN$863 million (129.2% of net sales of the "other" segment) in 2017.

The charge for depreciation in this segment increased in absolute terms by 3%, from MXN$109 million (14.4% of net sales in the "other" 2egment) in 2016 to MXN$113 million (16.9% of net sales of the "other" 2egment) in 2017.

AHMSA reported a gross loss in its "other" Segment of MXN$(308) million (46.1% of net sales of the "other" segment) in 2017, compared to a gross loss of MXN$(214) million (28.1% of net sales of the "other" segment) in 2016.

Administration and Sale Expenses

Administration and sale expenses represented for AHMSA 5.9% and 6% of net sales in 2017 and 2016, respectively, increasing in absolute terms by 11%, going from MXN$2,916 million in 2016 to MXN$3,236 million in 2017. The increase was mainly due to the increase in salary expenses.

Steel Segment. AHMSA's administration and sale expenses increased 10%, from MXN$2,504 million (5.8% of net sales of the steel segment) in 2016 to MXN$2,755 million (5.7% of net sales of the steel segment) in 2017.

Coal Segment. AHMSA's administration and sale expenses decreased 13.3%, from MXN$158 million in 2016 (3.5% of net sales of the coal segment) to MXN$137 million in 2017 (2.4% of net sales of the coal segment).

"Other" Segment. AHMSA's administration and sale expenses increased 35.7%, from MXN$253 million in 2016 (33.3% of net sales in the "other" segment) to MXN$344 million in 2017 (51.5% of net sales in the "other" Segment).

Result before Financial Expenses and Income

In 2017, the income (loss) before AHMSA's financial result was MXN$(1,047) million (1.9% of net sales) compared to income (loss) of MXN$(1,099) million (2.3% of net sales) in 2016.

Steel Segment. Income (loss) before the financial result for AHMSA's steel segment was MXN$879 million in 2017 compared to income (loss) of MXN$933 million in 2016. The decrease in operating income was mainly due to an increase in cost of sales of 13.6%, because of higher prices of imported raw materials and greater consumption of scrap.

Coal Segment. The income (loss) before the financial result of AHMSA coal segment was MXN$(964) million in 2017, compared to income (loss) of MXN$(1,566) million in 2016. The decrease in the operating loss is due to better selling prices with CFE.

"Other" Segment. The income (loss) before the financial result of AHMSA "other" Segment was MXN$(961) million in 2017, compared to income (loss) of MXN$(467) million in 2016.

2016 Operating Results with respect to 2015

Sales Volume

Steel Segment. The volume of sales of steel products in 2016 was 4,156 thousand tonnes, an increase of 10.1% with respect to 3,774 thousands of tonnes of steel products sold in 2015. The volume of export sales increased 18.9%, going from 536 thousand tonnes in 2015 to 637 thousand tonnes in 2016.

Coal Segment. In 2016, AHMSA sold a volume of 5,621 thousands of tonnes of thermal coal, less than the 6,452 thousand tons sold in 2015.

Net Sales

Collectively, AHMSA's net sales in 2016 were MXN$48,512 million, an increase of 18% with respect to AHMSA's net sales of MXN$41,100 million in 2015.

Steel Segment. Net sales of the Steel Segment (including other sales) increased 22% from MXN$35, 452 million in 2015 to MXN$43,244 million in 2016, since it increased the amount of tonnes sold accompanied by an increase in the selling price. AHMSA’s average selling price per ton of steel products had an increase of 11.2% from MXN$9,236 in 2015 to MXN$10,272 in 2016.

Export sales represented 13.9% of revenues from sales in 2016 (15.3% of the volume of sales of steel products for that year) compared to 13.3% of revenues from AHMSA’s sales in 2015 (14.2% of the volume of sales of steel products for that year).
In 2016 and 2015, AHMSA reported other sales of MXN$551 million and MXN$595 million, respectively. Other Steel Segment sales were mostly of by-products of the coke plants and crude iron scrap.

Coal Segment. Thermal coal sales were MXN$4,508 million in 2016 compared to MXN$5,011 million reported in 2015, representing a decrease of 10.0% due to the lower sales volume. The price of thermal coal per tonne increases 4.4%, from MXN$763 in 2015 to MXN$797 in 2016.

Other Segment. Other sales were MXN$760 million in 2016 compared to MXN$636 million reported in 2015, representing an increase of 19.6%.

Cost of Sales, Depreciation; Gross Profit

Cost of sales (excluding depreciation) increased 9.6% in absolute terms from MXN$38,570 million in 2015 to MXN$42,279 million in 2016, after an increase in cost of sales of Steel and Coal Segments. As a percentage of net sales, it decreased from 93.8% in 2015 to 87.1% in 2016.

Depreciation increases 1.7% from MXN$3,713 million (9.0% of net sales) in 2015 to MXN$3,775 million (7.8% of net sales) in 2016.

AHMSA’s consolidated gross income increased 308% going from MXN$ (1,183) million in 2015 to MXN$2,458 million in 2016.

Steel Segment. Cost of sales (excluding depreciation) for the AHMSA’s Steel Segment increased 10.5% from MXN$33,063 million in 2015 to MXN$36,535 million in 2016. This is due to the higher consumption of imported raw material.

Energy costs increased 12.4% in 2016 with respect to 2015. The foregoing mainly due to the increase in prices. In 2015, it represented 20.0% of net sales of the Steel Segment while in 2016 was 18.5%.

The charge for depreciation in this segment decreased 1.7% recording MXN$3,168 million (8.9% of net sales of the Steel Segment) in 2015 against MXN$3,113 million (7.2% of net sales in the Steel Segment) in 2016.

Considering the aforementioned factors, AHMSA reported a gross profit of the Steel Segment of MXN$3,596 million (8.3% of net sales of the Steel Segment) in 2016, compared to a gross loss of MXN$(779) million (2.2% of the net sales of the Steel Segment) in 2015.

Coal Segment. Cost of sales (excluding depreciation) for AHMSA's Coal Segment increased 8.5%, from MXN$4,498 million (89.8% of net sales of thermal coal) in 2015 to MXN$4,878 million (108% of net sales of thermal coal) in 2016.

In addition, energy costs decreased 34.1% from MXN$555 million (11.1% of net sales of the Coal Segment) in 2015 to MXN$366 million (8.1% of net sales of the Coal Segment) in 2016, mainly due to a decrease in power consumption with respect to 2015.

Labor costs increased from MXN$930 million (18.6% of net sales of the Coal Segment) in 2015 to MXN$1,197 million (26.5% of net sales of the Coal Segment) in 2016.

The charge for depreciation in this segment increased in absolute terms by 23.2% from MXN$449 million (9.0% of net sales of the Coal Segment) in 2015 to MXN$553 million (12.3% of net sales of the Coal Segment) in 2016.

AHMSA reported a gross loss in its segment of thermal coal from MXN$(924) million (20.5% of net sales of the Coal Segment) in 2016, compared to a gross profit of MXN$64 million (1.3% of net sales of thermal coal) in 2015.

Other Segment. Cost of sales (excluding depreciation) for AHMSA's Other Segment decreased 14.4%, from MXN$1,010 million (158.6% of net sales of the Other Segment) in 2015 to MXN$865 million (113.7% of net sales of the Other Segment) in 2016.

The charge for depreciation in this segment increased in absolute terms by 15.2%, from MXN$95 million (14.9% of net sales in the Other Segment) in 2015 to MXN$109 million (14.4% of net sales in the Other Segment) in 2016.

AHMSA reported a gross loss in its Other Segment of MXN$ (214) million (28.1% of net sales of the Other Segment) in 2016, compared to a gross loss of MXN$ (468) million (73.6% of net sales of the Other Segment) in 2015.

Administration and Sale Expenses

Administration and sale expenses represented for AHMSA 6% and 6.9% of net sales in 2016 and 2015, respectively, increasing in absolute terms by 2.4% from MXN$2,846 million in 2015 to MXN$2,914 million in 2016.

Steel Segment. Administration and sale expenses of AHMSA Steel Segment increased 6.9%, from MXN$2,342 million (6.6% of net sales of the Steel Segment) in 2015 to MXN$2,504 million (5.8% of net sales of the Steel Segment) in 2016.

Coal Segment. Administration and sale expenses of AHMSA Coal Segment had a decrease of 16.8%, from MXN$190 million in 2015 (3.8% of net sales of the Coal Segment) to MXN$158 million in 2016 (3.5% of net sales of the Coal Segment).

Other Segment. Administration and sale expenses of AHMSA Other Segment had a decrease of 19.3%, from MXN$314 million in 2015 (49.3% of net sales in the Other Segment) to MXN$253 million in 2016 (33.3% of net sales in the Other Segment).

Result before Financial Expenses and Income

In 2016, the loss before AHMSA's financial result was MXN$(1,099) million (2.3% of net sales) compared to a loss of MXN$(4.050) million (9.9% of net sales) in 2015.

Steel Segment. Income before the financial result for the AHMSA Steel Segment was MXN$933 million in 2016 compared to loss of MXN$(3,150) million in 2015.

Coal Segment. The loss before the financial result of AHMSA Coal Segment was MXN$(1,566) million in 2016, compared to a loss of MXN$(118) million in 2015.

Other Segment. The loss before the financial result of AHMSA Other Segment was MXN$(467) million in 2016, compared to a loss of MXN$(782) million in 2015.

Financial Expenses and Income

Financial expenses and income include (i) interest earned from investment in cash and financial instruments, (ii) interest paid for financing and financial instruments, and (iii) foreign exchange fluctuation gains or losses related to monetary assets and liabilities in foreign currencies.

Interest earned recorded an increase of MXN$87 million, from MXN$196 million in 2016 to MXN$109 million in 2017, mainly due to a gain in exercising a warrants option of shares of MeetMe, Inc. in 2016 of MXN$88 million.

Interest expense increased from MXN$1,523 million in 2016 to MXN$1,595 million in 2017, mainly due to the increase in interest on financial liabilities, commissions and interest paid to suppliers of MXN$636 million, MXN$89 million, and MXN$147 million, respectively, in 2017 compared to MXN$615 million, MXN$27 million, and MXN$118 million, respectively, in 2016.

In 2017 and 2016, the Company maintained a net foreign financial monetary liability position. During these years, the peso underwent an appreciation and depreciation in its value against the dollar, respectively, causing a net gain and loss for financial exchange rate fluctuations of MXN$25 million and MXN$805 million, respectively; in addition, in 2016, the Company recorded an exchange rate fluctuation expense of MXN$301 for the lifting of the suspension of payments.

Considering these factors, total expenses and financial income, including exchange rate fluctuations, in 2017 and 2016, was a loss of MXN$1,461 million and MXN$2,433 million, respectively.

Tax on Income

AHMSA recorded a loss before taxes of MXN$2,486 million and MXN$3,503 million in 2017 and 2016, respectively.

The Company is subject to the Tax on Income ("ISR" by its Spanish initials) and some subsidiaries to the Special Mining Duty (“DESM” by its Spanish initials).

ISR tax is calculated considering certain effects of inflation as taxable or deductible, and the rate is 30%.

In 2014, a new DESM is added to the holders of mining concessions, which is determined by applying the rate of 7.5% on the difference of reducing certain deductions from taxable income for ISR purposes. The DESM is deductible for ISR purposes; therefore, the net effect is the deferred tax recorded as of December 31st, which was 5.25%.

In 2017 and 2016, AHMSA reported ISR incurred of MXN$441 million and MXN$144 million, respectively.

AHMSA recorded income from the provision in deferred tax results of MXN$871 million and MXN$701 million in 2017 and 2016, respectively.

In 2017 and 2016, the Company recorded income from the provision in deferred DESM results of MXN$82 million and MXN$88 million, respectively.

As of December 31, 2017 and 2016, the Company shows a provision from tax affairs of MXN$555 and MXN$616, which are derived from the entire deduction of payments which, in turn, are exempt income for workers.

The ISR in Mexico is calculated individually by AHMSA and each of its subsidiaries. As of December 31, 2017, individually, AHMSA has no tax-loss carryforwards.

Consolidated Net Loss

AHMSA recorded a net consolidated loss of MXN$1,857 million and MXN$3,170 million in 2017 and 2016, respectively.

Consolidated Comprehensive Loss

AHMSA recorded a consolidated comprehensive loss of MXN$2,580 million, MXN$2,198 million in 2017 and 2016, respectively.

Capital Investments

The following table shows the investment in AHMSA’s capital for a three-year period ended December 31, 2017.

Capital Investments
Year ended December 31
(In millions of constant pesos)

	2015	2016	2017
Permanent Restatement…………………………………………	1,854.8	1,129.6	908.8
Capital Improvements in Mines……………………………...	1,446.3	321.4	719.0
Other (1)...……………………………………………………	1,077.9	1,419.0	449.7
Total Capital Disbursement Plan……...…………………....….	MXN$ 4,379.0	MXN$2,870.0	MXN$2,077.5

(1) It includes asset replacements, administrative investments, AHMSA International Inc. AHMSA Steel Israel LTD. Antair S.A. de C.V., Hojalata Mexicana, S.A. de C.V., Corporativo Ansat S.A. de C.V., Real del Monte y Pachuca, S.A. de C.V., Compañía Minera El Baztán, S.A. de C.V., Nacional de Aceros, S.A. de C.V.

AHMSA has had, and expects to continue to have liquidity and capital resources to finance investment programmes (including environmental investments for each one of these plans), and provide working capital. As of December 31, 2017, AHMSA had entered into contractual commitments of MXN$3,718.9 million. These disbursements will be funded by AHMSA operation flow.

Liquidity and Capital Resources

AHMSA receives advances from customers for sales of steel, which are recorded as accounts payable and are amortized under the term of the relevant delivery period. As of December 31, 2017, AHMSA's current liabilities include MXN$2,381 million of advances in accounts payable under these prepayment agreements.

The Company has negative working capital of MXN$5,352 million as of December 31, 2017, compared to negative working capital of MXN$2,697 million as of December 31, 2016.

In 2017, net cash flows obtained from operating activities were MXN$3,741 million, net cash flows used in investing activities were MXN$2,166 million, and net cash flows obtained from financial activities were MXN$713 million.

As of December 31, 2017, the total consolidated financial debt was MXN$16,430 million, of which MXN$7,606 million is debt of AHMSA derived from the exit from the Suspension of Payments.

Lifting of Suspension of Payments to AHMSA, MINOSA and Subsequent Financing

On April 14, 2005, CEMESA Unit (before the merger) settled before the First District Civil Court of Monclova, Coahuila de Zaragoza, its debts arising from the Suspension of Payments. On April 15, 2005, this company requested from that court the lifting of the Suspension of Payments for each and every one of its creditors. On July 11, 2005, a final decision was issued on the lifting of the Suspension of Payments of CEMESA Unit (before the merger), through the total payment to creditors of MXN$22 million made in April 2005.

Subsequently, on February 14, 2006, January 30 and April 1, 2008, MICARE, MINOSA, and MIMOSA units (all before the merger), respectively, received the sentence from the First District Civil Court of Monclova. Sentences are based on general payment agreements, which were presented and approved by most of its creditors. Such agreements set forth the payment within a period of three years of the entire debt under Suspension of Payments, plus interest that were expressly agreed and accrued until May 25, 1999, date of the declaration of Suspension of Payments of these companies.

The payments were made according to sentences issued and, therefore, MINOSA has no more legal impediments to contracting new financings.

The first judge of first instance in Monclova, May 16, 2016 issued the statement for the lifting of the Suspension of payments of the company. The judgment is based on the general payment agreement filed with the Company on December 17, 2014, and was approved without opposition by the majority of the creditors. This agreement establishes the payment of 100% of the debts in Suspension of Payments, within a period of 3 years from the August 3, 2016, date in which the judgment was signed. In addition, it is set forth that creditors may capitalize part of the debt into AHMSA shares.

This judgment sets forth that creditors who have $10,735 in recognized collection rights decided to exchange 69.15% of those rights for a combination of AHMSA ordinary shares, and a payment in U.S. dollars equivalent to MXN$365 (historical value). The remaining 30.85% of the collection rights of the creditors who decided to make this exchange remain unpaid, and must be fully paid, in pesos, within a period of three years from the date of the lifting.

In order to renew the equipment and increase the production capacity of MINOSA mines, it entered into a financial lease agreement with Caterpillar Crédito, S.A. de C.V. SOFOM, E.N.R. on November 19, 2009 amounting to MXN$691 million (T.C. MXN$19.7354applies to all amounts from U.S. dollars to pesos), which represent 75% of the value of the equipment to be financed. The general conditions of the lease consist of a period of 60 months and annual fixed interest rate of 8.5%.

In 2010, it was negotiated an extension to the financial leasing line of additional MXN$1,263 million, the payment term was reduced to 48 months, and the interest rate to 8.0% per year, while the proportion of financing increased to 80% of the value of the equipment.

These new conditions applied also to the amount not disposed of the original lease line. As of December 31, 2017, there was a balance of MXN$711 million, the current conditions are a financing of up to 85% of the value of the equipment, and a term of up to 60 months with an annual fixed interest rate of 7.75%.

On January 17, 2012, MINOSA and Banca Afirme, S.A., entered into an unsecured loan agreement collateralized by MXN$250 million. This loan, with an interest rate of TIIE + 4.90%, considers a disposal term of 12 months, and the repayment period is 60 months; as of December 31, 2017, the balance was MXN$12.5 million.

On September 27, 2012, MINOSA and Caterpillar Crédito, S.A. de C.V., entered into an unsecured loan agreement in the amount of MXN$534 million, which represents 85% of the total value of the project on the construction of a power generation plant, with a fixed interest rate of 7.75%, a disposal term of 14 months is considered, and the repayment period is 58 months beginning in 2014. As of December 31, 2017, the balance of this loan was MXN$115 million.

On October 5, 2012, FAMUR S.A., Polish supplier, sold to MINOSA a long-front equipment with a value of MXN$380 million, which was agreed with the following conditions: advance payment of 15% and 85% payable over seven years through quarterly payments with an interest rate of LIBOR + 3% per year. In December 2012, FAMUR, S.A., notified MINOSA that it had transferred the collection rights under that agreement to Bank Gospodarstwa Krajowego, current creditor of that debt; therefore, the debt was reclassified to financial liability. The loan balance as of December 31, 2016 amounted to MXN$109 million.

In December 2012, the company Ferrit, from the Czech Republic, sold to MINOSA two locomotives with a value of MXN$20 million (T.C. 23.5256 applies to all amounts from EUR to pesos), which was agreed under the following conditions: advance payment of 15%, and 85% to be paid over four years and a half through half-yearly repayments with a fixed annual interest rate of 5%. In February 2013, Ferrit notified MINOSA that it had transferred the collection rights under that agreement to Ceska Bank, current creditor of such debt; therefore, the debt was reclassified as a financial liability. The balance of the loan as of December 31, 2017 totalled MXN$0.

On September 1, 2014, MINOSA and Caterpillar Crédito, S.A. de C.V., entered into an Unsecured Loan Agreement in the amount of MXN$717 million, which represents 85% of the total value of the project on the construction of a power generation plant, with a fixed interest rate of 7.75%, a disposal term of 18 months is considered, and the repayment period is 54 months beginning in 2016. This loan is still within the disposal period. As of December 31, 2017, the balance was MXN$480 million.

On November 28, 2014, MINOSA and Banca Afirme, S.A. entered into an Unsecured Loan Agreement with a Joint Obligor and Guarantor of MXN$274 million. This loan bears an annual interest rate of TIIE + 5.5%, and has a repayment period of 49 months. As of December 31, 2017, the balance was MXN$73 million.

In December 2014 the company Ferrit from the Czech Republic sold to MINOSA four locomotives with a value of MXN$27 million, which was agreed with the following conditions: advance payment of 15%, and 85% to be paid in four years and a half through a semi-annual amortization, bearing an annual fixed interest rate of 5%. In February 2015, Ferrit notified that MINOSA had transferred the collection rights under such agreement to Ceska Bank, current creditor of such debt; therefore, the debt was reclassified as a financial liability. As of December 31, 2017, the balance of the loan amounted to MXN$13 million.

In February 2015, DRCP and Caterpillar Financial entered into a loan agreement for the acquisition of machinery and equipment. This loan bears an annual interest rate of 7.75%, and has a period of repayment of up to 60 months. As of December 31, 2017, the balance was MXN$415 million.

On May 12, 2015, MINOSA and Banca Afirme, S.A. entered into an Unsecured Loan Agreement with an Irrevocable Management and Source of Payment Trust, Joint Debt, and Guarantor of MXN$570 million. This loan bears an annual interest rate of TIIE + 5.5%, and has a repayment period of 43 months. As of December 31, 2017, the balance was MXN$159 million.

On May 12, 2015, MINOSA and Almacenadora Afirme, S.A., entered into an Unsecured Loan Agreement with a Pledge on Certificates of Deposit, and Pledge Bonds, Management and Payment Trust, Guarantor, and Joint Debt of MXN$1,603 million. This loan bears an annual interest rate of TIIE + 5.5%, and has a repayment period of 43 months. As of December 31, 2017, the balance was MXN$447 million.

On July 15, 2015, MINOSA and Caterpillar Crédito, S.A. de C.V. entered into an Unsecured Loan Agreement in the amount of MXN$128 million, for which an extension of the line for additional MXN$69 million was negotiated in 2017. This loan bears an annual interest rate of 6.75%, and has a repayment period of up to 12 months. As of December 31, 2017, the balance was MXN$154 million.

In October 2015, the International Bank of Commerce granted DRCP a mortgage in the amount of MXN$154 million. This loan bears an annual interest rate of 5.5%, and has a repayment period of 60 months. As of December 31, 2017, the balance was MXN$92 million.

On July 27, 2016, MINOSA and Banca Afirme, S.A. entered into an Unsecured Loan Agreement with an Irrevocable Management and Source of Payment Trust, Joint Debt, and Guarantor of MXN$500 million. This loan bears an annual interest rate of TIIE + 5.5%, and has a repayment period of 29 months. As of December 31, 2017, the balance was MXN$207 million.

On December 22, 2016, MINOSA y Almacenadora Afirme, S.A., entered into an Unsecured Loan Agreement with a Pledge on Certificates of Deposit, and Pledge Bonds, Management and Payment Trust, Guarantor, and Joint Debt of MXN$670 million to be disposed in one or several disposals, bearing annual interest of TIIE + 5.5%, and a maximum repayment term of 24 months from the first disposal. As of December 31, 2017, the balance was MNX$342 million.

In June and December 2017, MINOSA and AHMSA, respectively, entered into lease agreements for four years with UNIFIN Financiera, S.A.B. de C.V. (UNIFIN) for equipment that had previously billed to MINOSA and AHMSA. These agreements are accounted for as capital lease; therefore, as of June 30 and December 31, 2017, a long-term liability of MNX$274 million and MXN$343 million, respectively, was recorded at the inception of the lease, which corresponds to the less amount between the fair value and the present value of the minimum lease payments. As of December 31, 2017, there is a balance payable of Ps.601 million.

In July 2017, CIC Corporativo Industrial Coahuila, S.A. de C.V. ("CICSA") granted MINOSA financing of MXN$493 million for working capital, with an annual interest rate of 6.83%, maturing in one year. The outstanding balance as of December 31, 2017 is MXN$354 million.

In September 2017, MINOSA obtained a line of credit with CATERPILLAR for a total of MXN$197 million, with an annual interest rate of 6.75%, maturing in two years, whose resource will be used for working capital. The outstanding balance as of December 31, 2017 is MXN$197 million.

On December 15, 2017, MINOSA and Almacenadora Afirme, S.A., entered into a Pledged Unsecured Loan Agreement on Deposit Certificates and Pledge Bond, Management and Payment Trust, Guarantor and Joint and Several Debt of MXN$1000 million to be disposed of in one or several disposals, with an annual interest rate of TIIE rate + 7%, and a maximum repayment term of 12 months from the first disposal. As of December 31, 2017, the balance was MXN$600 million.

3.3 INTERNAL CONTROL

AHMSA management is responsible for maintaining an internal control system. This type of control is used to give to the shareholders, the financial community and other interested parties, a reasonable assurance that transactions are conducted in accordance with the Management's guidelines, that the files and financial records are reliable as a basis for the preparation of the financial statements, that the assets are reflected in the financial statements at the corresponding values, and that the assets are protected against loss due to unauthorized use or disposals.

To fulfil its responsibilities in terms of the integrity of financial information, Management maintains and relies on the internal control system of the Company. This system is based on an organizational structure, which delegates responsibility and ensures the selection and staff capacity. In addition, the system includes policies that are communicated to all the staff through the appropriate channels.

The internal control system is supported by ongoing audits, reporting the obtained results to Management throughout the year. The Company has modern and efficient computer systems that allow obtaining updated information in real time and maintaining reliable databases; these systems also facilitate the efficient preparation of financial reports.

Management considers that to date, the Company's internal control system has reasonably provided certainty that significant errors or irregularities have been avoided, or that they have been timely detected.

3.4 CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make certain estimates and use certain assumptions to value items of the consolidated financial statements and to make disclosures that are required therein. However, actual results may differ from such estimates. The Company's management, upon applying professional judgment, considers that estimates made and assumptions used were appropriate under the circumstances.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and future periods if the revision affects both the current and subsequent periods.

Information on such judgements and estimates is in the accounting policies and/or notes to the consolidated financial statements. A summary of the main judgments and estimates used are presented below:

a) Property, machinery and equipment

The estimated useful life of property, machinery and equipment is used to determine the depreciation of assets, such useful lives are defined according to technical studies prepared by the Company's internal specialist staff, in which external specialists also participate. The determined useful lives are periodically revised and are based on the current conditions of the assets, and the estimate of the period during which economic benefits will continue to be generated. If there are changes in the estimate of the useful lives, the depreciation amount and the carrying amount of property, machinery and equipment could be prospectively affected.

b) Employee benefits from termination and retirement

Assumptions are used to determine the best estimate of these benefits. These estimates, as well as the assumptions, are established in conjunction with independent actuaries. These assumptions include demographic assumptions, discounted rates and expected increases in earnings and future permanence, among others. Although it is estimated that the used assumptions are appropriate, a change in them could affect the value of the liabilities for employee benefit liabilities, and the statement of comprehensive income of the period in which it occurs.

c) Mineral reserves

The Company applied judgments and makes estimates in determining its ore reserves and resources based on methods and standards recognised in the mining industry, and are carried out by capable internal staff, supported by the historical experiences. The reports that support these estimates are prepared periodically. The Company periodically review these estimates supported by recognised external experts to certify its ore reserves.

There are several uncertainties in the estimation of ore reserves. The assumptions that are valid at the time of the estimate can significantly change when new information is available. Changes in ore quotations, exchange rates, production costs, metallurgical recovery estimates, or at discount rates, can change the economic status of the reserves, and may finally result in updating the reserves.

Ore reserves are used in the calculation of the amortization of mine preparation and development costs, in the calculation for the determination of the provision for remediation of mine sites, and for the analysis of impairment of the mining units.

d) Provision for remediation of mining sites

Estimated costs for closing mining units for the legal and implied obligations that are required to restore the operational locations, are recognised at their present value in the period in which they are incurred. The estimated restoration costs include the dismantling and removal of structures, the rehabilitation of mines, operation facilities, as well as sanitation and reforestation of the affected areas.

The provisions for the rehabilitation of mining sites are carried out at present value using a risk-free rate at the time the obligation is known, and are based on the understanding of the legal requirements and social responsibility policy of the Company. Environmental costs are estimated using the work of internal specialists also. Management applies its judgment and experience to estimate the dismantling costs in the life of the mines.

Costs incurred in future periods could differ from the provisioned amounts. In addition, future changes that might occur in the applicable legal framework and regulations, changes in the estimates of the mine life and discount rates could affect the carrying amount of the provision.

e) Contingencies

Due to their nature, contingencies may only be resolved when they occur, or one or more future events or one or more uncertain events that are not entirely under the control of the Company occur. The evaluation of such contingencies significantly requires the exercise of judgments and estimates on the possible outcome of those future events. The Company evaluates the probability of loss of its litigation and contingencies according to the estimates made by its legal advisors, these evaluations are reviewed periodically.

f) Impairment of tangible and intangible assets

Determining if tangible and intangible assets have suffered impairment involves the calculation of the value in use of the cash generating units. The value-in-use calculation requires the Company to determine future cash flows that should arise from the cash generating units, and an appropriate discount rate to calculate the present value.

Tax on Income

The income tax expense represents the sum of current and deferred tax on income.

Tax on Income ("ISR") and Special Mining Duty ("DESM") are recorded in the results of the year in which they are incurred. Deferred ISR and deferred DESM are recognised by applying the corresponding rate to the temporary differences resulting from comparing the accounting and tax values of assets and liabilities, except for those differences arising from the initial recognition of the corresponding asset or liability, and did not affect either the accounting or tax profit (loss) and, if applicable, the tax-loss carryforwards benefits are included.

The carrying amount of a deferred tax asset should be reviewed at the end of each reported period, and should be reduced to the extent that is deemed probable that there will be no sufficient taxable income to allow recovering the entirety or a part of the asset.

Assets and deferred tax liabilities are valued using the tax rates that are expected to be applied in the period in which the liability is paid or the asset is realized, based on the rates (and tax laws) that have been approved or substantially approved at the end of the reported period. The valuation of the deferred tax assets and liabilities reflects the tax consequences that would be derived from the way in which the Company expects, at the end of the reported period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset short-term assets with short-term liabilities, and when they refer to income tax corresponding to the same tax authority, and the Company intends to settle its assets and liabilities on a net basis.

Current and deferred taxes are recognised as income or expense in earning, except when they refer to items that are recognised outside income, either in other comprehensive income or directly in shareholders' equity.

Tax on Assets ("IMPAC") expected to be recovered is recorded as a tax liability, and is presented in the consolidated balance sheet under the deferred income tax line item.

A deferred tax liability is recognised 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 when it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from temporary differences associated with such investments and interests are recognised only insofar as it is probable that there will be sufficient taxable income against which those temporary differences are used, and it is expected that it will be reversed in the near future.

3.5 NEW ACCOUNTING PRINCIPLES

In 2016, the Board for Research and Development of Financial Reporting Standards issued the following IFRSs:

IFRS 9, Financial Instruments1
IFRS 15, Revenues from Contracts with Customers1
IFRS 16, Leases2
IFRIC 22, Foreign Currency Transactions and Advance Consideration1
IFRIC 23, Uncertainty over Income Tax Treatments2

1 Effective for annual periods beginning January 1, 2018, with earlier application permitted.
2 Effective for annual periods beginning January 1, 2019, with earlier application permitted.

IFRS 9, Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

• All recognised financial assets that are within the scope of IFRS 9 *Financial Instruments* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

• With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Formerly, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

• In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

• The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 15 Revenues from Contracts with Customers

In May 2014, IFRS 15 was issued, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance included in IAS 18, Revenues, IAS 11, Construction Contracts, and the related Interpretations, when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 16, Leases

IFRS 16, Leases, was published in January 2016 and supersedes IAS 17, Leases, and the related interpretations. This new standard favours that the majority of leases are presented in the statement of financial position to lessees under a single model, eliminating the distinction between operating and financial leases. However, accounting for the lessees remains with the distinction between these lease classifications. IFRS 16 is effective for periods beginning January 1, 2019 and, early adoption is permitted, provided that IFRS 15 has been adopted.

Under the IFRS 16, lessees will recognize the right of use of an asset and the liability for the corresponding lease. The right of use is treated similarly to any other non-financial asset, with corresponding depreciation, while liabilities will accrue interest. This typically produces a profile of accelerated recognition of the expense (as opposed to operating leases under IAS 17 where expenses were recognised in a straight line), since the linear depreciation of the right of use and the decreasing interest of financial liabilities lead to an overall reduction in spending over time.

Furthermore, financial liabilities will be measured at the present value of the minimum payments payable over the term of the lease, discounted at the interest rate implicit in the lease, provided that it can be determined. If this rate cannot be determined, the lessee must use an incremental debt interest rate.

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

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

IFRIC 22 refers to how to determine the "transaction date" to determine the exchange rate that will be used in the initial recognition of an asset, an expense or income where the consideration for that concept has been paid or received in advance in foreign currency, which resulted in the recognition of a non-monetary asset or a non-monetary liability (for example, a non-refundable deposit or deferred income).

The interpretation specifies that the transaction date is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of the advance consideration. If there are several advance cash payments or receipts, the Interpretation requires that an entity determines the transaction date for each payment or receipt of the advance consideration.

The interpretation takes effect for annual periods beginning January 1, 2018, with early application permitted. Entities can apply Interpretation retrospectively or prospectively. Specific transitional provisions are applicable to the prospective application.

IFRIC 23, Uncertainty over Income Tax Treatments

This Interpretation deals with the determination of tax income (loss), tax bases, unused tax losses and unused tax credits, and tax rates when there is uncertainty about its treatment in accordance with IAS 12. It specifically considers:

- Wheter tax treatments must be considered collectively
- Assumptions on reviews by tax authorities
- Determination of tax income (loss), tax bases, unused tax losses, unused tax credits, and tax rates.
- The effect of changes in facts and circumstances.

The Entity’s management beieves that the application of this interpretation will not have a significant impact on its financial statements, since when it currently determines the record of the effects of income tax in its financial statements, it performs considerations similar to those contained in the interpretation.

Based on the diagnosis prepared by the Company’s management, it is concluded that there will be no material impact on the financial situation with the entry into force of the new standards.

Chapter 4. Management

4.1 EXTERNAL AUDITORS

In fiscal years 2017, 2016, and 2015, the Company's external audit was conducted by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited in Mexico ("Deloitte").

In 2016, and 2015 (amended), the external auditor's opinion on the Company's consolidated financial statements has been issued without exceptions. In 2017, the external auditor's opinion on the Company's consolidated financial statements has been expressed with exceptions.

The Company's Board of Directors appoints the external auditor, prior favourable opinion of the Audit Committee, taking into account the independence, professionalism and experience of the firm that has been appointed as external auditor.

Regarding the fees paid to our auditors, we define the following:

Audit fees. Audit fees are the total fees billed by Deloitte in relation to the audit of our annual financial statements, the review of our quarterly financial statements, and statutory and regulatory audits.

Audit-related fees. Fees related to audit billed by Deloitte for accounting and reporting financial advisory.

Fees not related to Audit. Fees billed by Deloitte for consulting services consisting of the review of internal control documentation and assessment of business process risks.

Tax Service Fees. Audit-related fees billed by Deloitte for services based on existing facts, mainly derived from reviews of working papers by the tax authorities.

In fiscal years 2017, 2016, and 2015, Galaz, Yamazaki, Ruiz Urquiza, S.C. rendered advisory services additional to audit, mainly related to tax matters.

The total fees billed to us by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member firm of Deloitte Touche Tohmatsu Limited, and its affiliates, including Deloitte Consulting, (collectively "Deloitte") in the fiscal years ended December 31, 2017, 2016, and 2015, were MXN$24.1 million, MXN$23.5 million, MXN$18.9 million, respectively.

4.2 MANAGEMENT AND EMPLOYEES

Directors

AHMSA's Management is conferred to the Board of Directors. AHMSA bylaws set forth that the Board of Directors shall consist of the number of board members and alternate board members elected by the shareholders at the annual general ordinary shareholders' meeting, each one elected for a period of one year, and the bylaws set forth that most of the board members must be Mexican citizens. Alternate board members are authorized to serve in the Board of Directors instead of the board members that are not available to attend meetings, or otherwise participate in the activities of the Board of Directors.

Current members of AHMSA Board of Directors are as follows:

Name	Position
Alonso Ancira Elizondo	Chairman of the Board
Xavier D. Autrey Maza	Vice-chairman of the Board
Manuel Ancira Elizondo	Board Member
Jorge Ancira Elizondo	Board Member
James Pignatelli	Board Member
Alfonso Lebrija Guiot (1)	Board Member
José M. González Sordo (1)	Board Member
Juan R. Elvira Quezada (1)	Board Member
Carlos Césarman Kilteniuk (1)	Board Member

Alternate board members for misters:

Alonso Ancira Elizondo	–	N/A
Xavier D. Autrey Maza	–	N/A
Manuel Ancira Elizondo	–	José Eduardo Ancira Elizondo
Jorge Ancira Elizondo	–	Jorge Ordoñez Cortés
James Pignatelli	–	N/A
Alonso Lebrija Guiot	–	Luis G. Zazueta Domínguez (1)
José M. González Sordo (1)	–	N/A
Juan R. Elvira Quezada (1)	–	N/A
Carlos Césarman Kolteniuk (1)	–	N/A

(1) Independent Board Members.

Xavier Autrey Maza, Alonso Ancira Elizondo, Manuel Ancira Elizondo, and Jorge Ancira Elizondo became board members in December 1991. Alfonso Lebrija Guiot became a board member in 2002, and James Pignatelli became a board member in November 2002. José M. González Sordo, Juan R. Elvira Quezada, Carlos Césarman Kolteniuk became board members in January 2018.

Alonso Ancira Elizondo, Manuel Ancira Elizondo, Jorge Ancira Elizondo, and José Eduardo Ancira Elizondo are siblings.

The primary activity of all AHMSA's board members is in AHMSA, James Pignatelli runs his own business, Alfonso Lebrija Guiot is a Public Accountant, and Jorge Ordoñez Cortés is a freelance mining consultant. José M. González Sordo runs his own business, Juan R. Elvira Quezada runs his own business, and Carlos Césarman Kolteniuk runs his own business.

Executive Directors

AHMSA's current primary directors are as follows:

Name	Position
Luis Zamudio Miechielsen……………………..….	Chief Executive Officer
Manuel Ancira Elizondo…………………………..…	Deputy General Director of Operations
Jorge Ancira Elizondo………………………..........	Deputy General Director of Administration and Finance
Andrés González-Saravia Coss…………………...	Legal Director
Luis Landois Garza…………………………........	Sales and Marketing Director (from January 1, 2016)
Fernando Monroy Guajardo…………………….…	Personnel Director (non-unionised)
Enrique Rivera Gómez…………………………..….	Personnel Director (unionised)
Gerardo Garcia Castelán……………………..........	Supply Director
Armando Ferríz Domínguez…………………….….	Corporate Operations Director (since June 1, 2016)
Homero Pérez Ramón……………………….…….	Rolling, Maintenance and Service Director (since November 1, 2016)
John Abbott…………………………………….….	Corporate Finance and Planning Director
Fernando Sánchez Villarreal……………………	Financial Planning and Treasury Director
Ariel Martínez Cruz ………….…………………...	Comptrollership and Systems Director
Arturo Arroyo Mendoza…………………………..	Raw Material Operation Director

Manuel Ancira Elizondo and Jorge Ancira Elizondo have been Directors for twenty-six years. Armando Ferríz Domínguez has been Director for twenty-five years. Fernando Monroy Guajardo has been Director for nineteen years, Enrique Rivera Gómez and Luis Zamudio Miechielsen have been Directors for seventeen years, Andrés González-Saravia Coss and Homero Menchaca Falcón have been Directors for fifteen years. Luis Zamudio Miechielsen has been Director for fourteen years. Gerardo García Castelán has been Director for eight years. Fernando Sánchez Villarreal has been Director for seven years. John Abbott and Ariel Martínez Cruz have been Directors for three years. Arturo Arroyo Mendoza has been Director for over two years, Luis Landois Garza has been Director for two years, Homero Pérez Ramon has been Director for one year.

Compensation for Directors and Executives

For the year ended December 31, 2017, the total compensation paid or accumulated to AHMSA's directors and CEOs in that year for services in all their capabilities was approximately MXN$375.5 million. AHMSA pays cash bonuses to it CEOs, based on the management's evaluation of the performance of the position of each executive director, and its general contribution to AHMSA, the amount for 2017 was MXN$19.9 million.

4.3 BYLAWS AND OTHER AGREEMENTS

The Board of Directors cannot determine its own compensation, this is an exclusive power of the General Ordinary Shareholders' Meeting.

There is no agreement or procedure that would limit the change of control of AHMSA or of those listed in Article 16, Section VI of the Securities Market Law. The company does not have different types of shares, and they, therefore, grant the same rights.

There are no clauses that limit the Company's management over the requirements of the Securities Market Law.

4.4 OTHER CORPORATE GOVERNMENT PRACTICES

Currently, the Board of Directors is supported by an Audit Committee and that of Corporate Practices, which are made up of a working group that analyses the different issues within its sphere of influence and, as a result, it issues opinions and recommendations to the Board of Directors.

The Company has adopted a policy on the treatment of situations generating conflicts of interest, which aims at the identification of situations in which the responsibilities of an employee or officer may generate the possibility of a personal benefit or for any member of its immediate family (in addition to the compensation inherent to its position), or when an employee's personal interests are not consistent with those of the company and its shareholders.

New Securities Market Law

On December 30, 2005, the Federal Branch, by the direction of Congress, published the new Securities Market Law ("LMV" by its Spanish initials) in the DOF, which repealed the former Securities Market Law. The Company amended its bylaws at the General Extraordinary Shareholders' Meeting on December 12, 2006, in order to adapt them to the relevant provisions, including the change of its name to Altos Hornos de México, S.A.B. de C.V., and including, but not limited, the following points:

- The Board of Director consists of 8 regular board members, of whom at least 25% are independent, and is composed of the following: Alonso Ancira Elizondo, Chairman, Xavier D. Autrey Maza, Deputy Chairman, Manuel Ancira Elizondo, Jorge Ancira Elizondo, Jorge Ordoñez Cortés, James Pignatelli, Sandra López Benavides, and Alfonso Lebrija Guiot. A respective alternate board member may be appointed for each regular board member, on the understanding that alternate board members of each independent director must have the same nature. The alternate board members appointed to date are: José Eduardo Ancira Elizondo, Ernesto Blackaller Williamson, Telber Lars Gustafson Ceder, and Luis Guillermo Zazueta Domínguez.

  At the Extraordinary Shareholders' Meeting on December 12, 2006, the shareholders decided that the three committees established by decision of the Board on October 22, 2002: i) Evaluation and Compensation Committee; (ii) Audit Committee); and (iii) Finance and Planning Committee would cease to exist and to have function or activity whatsoever, and the members that were part of them would, therefore, stop participating in them.

  It was decided to create the new Corporate Practices Committee, and the new Audit Committee decided that its members would be appointed at the first session of the Board held for that purpose.

  In the session of the Board of Directors held on February 23, 2007, pursuant to the Extraordinary General Shareholders' Meeting on December 12, 2006, the Audit Committee and the Corporate Practices Committee were constituted.

- These committees consist of at least 3 members appointed by the Board itself, all of whom must be independent directors. The Audit Committee may carry out the activities of the Corporate Practices Committee, and is composed of: Alfonso Lebrija Guiot, Chairman; James Pignatelli and Ernesto Blackaller Williamson. The Corporate

Practices Committee is composed of: James Pignatelli, Chairman; Alfonso Lebrija Guiot; Ernesto Blackaller Williamson, Alonso Ancira Elizondo, Xavier D. Autrey Maza. Juan Carlos Quintana Serur is the Secretary for both committees.

The Audit Committee develops the following activities: (i) give opinion to the Board of Directors on that related to the LMV; (ii) evaluate the performance of the external auditors; (iii) discuss the Company's financial statements with those responsible for their preparation and review, and recommend, based thereon, its approval or disapproval to the Board of Directors; (iv) draw up the opinion and support the Board of Directors in the preparation of the reports referred to in Article 28-IV-d) and e) of the LMV.

The Corporate Practices Committee develops the following activities: (i) give opinion to the Board of Directors on relevant matters under the LMV; (ii) request the opinion from independent experts in cases that it considers suitable; (iii) call shareholders' meetings and make relevant issues to be included in the agenda; (iv) support the Board of Directors in the preparation of the reports referred to in Article 28-IV-d) and e) of the LMV.

- The Board of Directors is engaged, among other things, in: overall strategies for running the Company's business, monitoring the management and running of the Company's business, approval (prior opinion of the corresponding Committee) of: (i) policies and guidelines for the use and enjoyment of the assets forming part of the Company's assets; (ii) transactions with related parties; and (iii) transactions conducted with employees, the appointment of the CEO and the internal control and audit guidelines.

- The Board Members are obliged to reveal any matter involving a conflict of interest, if any, if it favours a particular shareholder, if transactions with related parties are conducted without observing the established rules, if they or third parties benefit from the use and enjoyment of the assets of the Company in contravention of the approved policies or make improper use of relevant information.

- The CEO is responsible for: i) submitting the management and running of the business to the approval of the Board of Directors; (ii) the existence and maintenance of accounting, control and recording systems; (iii) monitoring the implementation of the agreements adopted by the Board or Shareholders' Meeting; (iv) signing the relevant information in conjunction with the relevant managers responsible for its preparation, in the area of their competence; (v) the disclosure of relevant information; vi) verifying that shareholders make capital contributions.

- The CEO and other relevant managers respond to the damages and lost profits arising from their duties. In addition, they are responsible for damages and lost profits resulting from i) their lack of timely and diligent care of information requirements from the Board; (ii) presenting false information or misleading error; or (iii) a lack of diligence in the performance of their duties.

- Eliminating the concept of the Commissioner, and the Board of Directors takes its obligations, through the Audit Committee, and the Corporate Best Practices Committee.

- Imposition of new obligations (such as the obligation of loyalty and the obligation of diligence), and responsibilities of the members of the Board of Directors, and the corresponding directors.

- The Company and the companies that it controls are considered as a single business unit for the purposes of disclosing information.

- The General Shareholders' Meeting must approve all the transactions that the Company (or which it controls) intends to conduct, when they represent 20% of consolidated assets, whether such transactions are conducted in a single act or successively.

- With regard to the minority rights in general (including non-voting or restricted voting shares): i) the shareholder (or group of shareholders) that hold shares representing 10% of the capital stock capital shall be entitled to appoint (and remove) a board member, call (through a Committee or the Board) a Shareholders' Meeting, and to request that the vote should be deferred (for three days) on any issue at a Shareholders' meeting; and (ii) the shareholder (or group of shareholders) that holds shares representing 20% of the capital stock shall be entitled to legally oppose decisions taken at a Shareholders' Meeting. In addition, it is foreseen that issues under the heading of general issues cannot be addressed at Shareholders' Meetings, if such matters have not been previously notified to the shareholders.

- Any agreement among Shareholders is notified within five days following its entering into, in order to be revealed to the investing public.

- The following information disclosure obligations must be fulfilled:

    i) Ongoing reports of any corporate act or agreement of any social body.
    ii) Quarterly reports including financial statements and comments on the management, transactions, and financial situation of the Company (such reports shall be submitted by two Directors and validated by the Board of Directors).
    iii) Annual reports which shall contain financial statements, management report, external auditor's comments, and the activities of the Audit and Corporate Practices Committees, among others. Such reports must be signed by the Chief Executive Officer, Chief Financial Officer, and Chief Legal Officer.
    iv) Report on any corporate restructuring (merger, split, etc.), as well as any sale of assets approved by the Shareholders' Meeting of the Board. Such reports must be signed by two Directors and validated by the Board of Directors.
    v) Reports on any relevant event, as it is known.
    vi) Reports on the policies and transactions of the Company (transactions with related parties, appointment or removal of the CEO or relevant officers, waivers of use or enjoyment of property of the Company, among others).
    vii) All the additional information required from the Board through special regulations (Issuers' Circular).

- If the Company wants to differ the disclosure of a relevant event, it should adopt necessary measures to maintain the confidentiality thereof, for which it must keep control on the people who have access or know about it.

- The Directors and officers of the Company are personally required to disclose any act or irregular fact they are aware of. In addition, they must inform the Board about any information or event that is deemed relevant or which may represent a detriment to Company or any of its subsidiaries.

- Any person or group of persons who acquire more than 10% of the shares of the Company have an obligation to disclose it to the investing public.

- The External Auditors can only perform the audit of the financial statements, claiming that such auditor does not perform any other work or service for the Company. Total independence of the External Auditor is expected.

4.5 AHMSA CONTROL

As of December 31, 2017, GAN controlled approximately 302,370,249 shares, or 64.1% of AHMSA's common shares. Xavier D. Autrey Maza, member of the family Ancira, and minimally certain AHMSA's officers also directly controlled 14,401,883 common shares of AHMSA as of December 31, 2017.

The following table shows certain information as of December 31, 2017 on properties of GAN, and AHMSA's executives and directors, as a group, on outstanding Common Shares.

	Shares	Percentage (1)
GAN (6)	302,370,249	64.1%
Board Members and Directors (2)	14,401,883	3.0%

Board Members and Directors:

Xavier D. Autrey Maza (3)	4,239,855
Manuel Ancira Elizondo (4)	4,800,371
Alonso Ancira Elizondo	3,443,061
Heirs of Carmen Martha Elizondo de Ancira (5)	947,592
Jorge Alberto Ancira Elizondo	845,004
Lorenzo González Merla	126,000
Total	14,401,883

(1) Percentages based on the aggregate of 471,387,865 common shares fully subscribed and paid as of December 31, 2017.
(2) It includes shares controlled by Board Members and Directors of AHMSA, including those who are members of Families Ancira and Autrey.
(3) In direct ownership with his wife, María Teresa Holschneider G.
(4) In direct ownership with his wife, Carola García de Ancira.
(5) Sisters of Misters Ancira.
(6) It includes 10,000,000 outstanding shares pursuant to GAN's Suspension of Payments process.

4.6 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties include: a) the joint venture involving the reporting Company; (b) members of the Board of Directors and key management personnel or relevant managers, as well as their close relatives; and (c) the Fund arising from a payment plan for employee benefits.

Railway transportation and administrative services

The associated Company LCD rendered railway transport services to AHMSA of MXN$317 million, MXN$298 million, and MXN$325 million in 2015, 2016, and 2017, respectively.

AHMSA provided administrative services to LCD in 2015, 2016, and 2017; the amount charged for these services was MXN$25 million, MXN$25 million, and MXN$25 million, respectively.

Related-party Customers

In 2015, 2016, and 2017, AHMSA sold steel products to related parties, primarily to Comercial Essex, S.A. de C.V., in the amount of MXN$59 million, MXN$17 million, and MXN$39 million, respectively.

Financial Transactions

In 2015 and 2017, MINOSA obtained funding of USD$12 million from one of its indirect shareholders, which bears annual interest of 7% with maturity at the request of the shareholder. The outstanding amount as of December 31, 2017 is MXN$237.

In 2015, MINOSA obtained financing of MXN$50 million from Inmobiliaria Indias Occidentales, S.A. de C.V., which bore annual interest of 8.5%, with maturity at the request of the grantor's funding. As of December 31, 2017, the outstanding balance is MXN$25 million.

Loans to key management personnel correspond to loans with maturities greater than one year and are denominated in US dollars. The interest rate used is Libor plus 3 points.

As of December 31, 2016, GAN has a debit under Suspension of Payments in favour of the Company of MXN$107 million, which is presented net of payables to GAN itself. On December 31, 2015, GAN entered into a debt recognition agreement with AHMSA, whereby GAN and AHMSA agreed to settle all payment obligations, once GAN’s Suspension of Payments is lifted.

As AHMSA is the guarantor for certain loans payable by GAN, GAN’s creditors claimed these loans in AHMSA’s process of lifting the Suspension of Payments of MXN$447 million, amount that is receivable from GAN.

Since February 1997, AHMSA pays to GAN a commission of 2.5% on bank loans where GAN is a guarantor.

In January 2016, MINOSA sold to CIMSA certain loan rights payable by AHMSA at MXN$130 million, which were presented net of payables to CIMSA itself.

The benefits granted to key management personnel of the Company were MXN$760 million, and MXN$774 million in 2017 and 2016, respectively.

AHMSA's bylaws prohibit extensions of loans by AHMSA to related parties (in addition to commercial loan extensions), and regulate all other related party transactions. Under an amendment to the bylaws, adopted in April 1996, AHMSA cannot conduct any transaction with a related party, unless the transaction is in commercially reasonable conditions, and substantially similar to those which would have been obtained in a comparable transaction, with a person who is not a related party. AHMSA believes that in the future, it will continue entering in a variety of transactions with GAN, its largest shareholder, and other subsidiaries, some of which may be significant for AHMSA.

4.7 OTHER EVENTS

Liquidity

Due to the instability in the international steel prices in the last few years, the operating and Company's cash flow has been affected in the past two years, which has caused delays in the fulfillment of its short-term obligations, mainly the timely payment to suppliers; however, Management considers that with the cost-reduction measures that are being taken, as well as the recovery of steel prices in the last three months, the financial situation and the level of working capital can be strengthen, and the short and medium term cash flow improved.

Foreign Investments

AHMSA Steel Israel, LTD

This subsidiary in Israel has invested in various projects, which include Arava Mines, LTD (100% subsidiary) engaged in the exploration and preparation of a cooper mine, and Aqwise Water Technologies, LTD (50.1% shareholding), which is engaged in the development of technology for wastewater treatment. As of December 31, 2017, 2016 and 2015, accumulated resources of USD$260, USD$247, and USD$233 million have been invested in these companies, mainly in the exploration and preparation of the copper mine.

Mexicans & Americans Trading Together, Inc. ("MATT Biz")

Subsidiary in the United States of America in order to have a greater media and strategic presence for the group. As of December 31, 2017, 2016 and 2015, MATT Biz has incurred accumulated expenses of USD$46, USD$43, and USD$40 million, respectively, derived from the support to a non-profit company engaged in encouraging the Mexican and American bicultural community to understand and solve major problems between the two Nations, activity according to the strategy of the Group's international presence.

In addition, this subsidiary invested USD$19 million in 3.2 million shares of MeetMe, Inc. ("MeetMe"), American public company that owns one of the most important Hispanics bicultural web sites. In 2015, these shares were sold at USD$7.7 million. In addition, in 2016, it was decided to exercise an option of share warrants with which a profit of USD$4.6 million was obtained.

Through this same subsidiary USD$11.3 million has been invested in Boom Financial, Inc. ("Boom"), which is engaged in sending money via cell phone. As of December 31, 2017, MATT Biz has a shareholding of 5% in Boom.

Moonen Yachts Holding B.V. ("Moonen")

Dutch subsidiary engaged in the construction of vessels, acquired in 2014. In July 2015, Moonen declared a Suspension of Payments, given the impossibility of meeting immediate commitments with its creditors. In 2016, it finished the manufacture of a vessel to a third party, and with the sale resources, it paid its liabilities and resumed its regular activities, ending the process of Suspension of Payments.

As of December 31, 2017, 2016 and 2015, accumulated flows of €24, €16, and €11 million euros, respectively, have been disbursed.

Odyssey Marine Exploration, Inc. (“Odyssey”)

In March 2015, Minera del Norte, S.A. de C.V. (MINOSA), as part of an investment option to hold major interest in several mine projects, granted funding to Odyssey of up to USD$14.75 million, which bore annual interest of 8%, with open maturing on demand of MINOSA. In the last quarter of 2016 and fourth quarter of 2017, MINOSA granted additional loans of USD$2, USD$1.5 and USD$1.1 million, respectively, at an annual rate of 10%.

In December 2017, MINOSA sold to AHMSA USD$18.3 million of its account receivable from Odyssey at US$ $6 million, determined by a market value study; therefore, impairment of MXN$309 million charged to results, was recorded.

Sale of Agro Nitrogenados

On December 20, 2013, the subsidiary Agro Nitrogenados, S.A. de C.V. (AGROS) entered into an asset purchase agreement with Pro-Agroindustria, S.A. de C.V. (subsidiary of Petróleos Mexicanos "PEMEX"), subject to certain conditions precedent, where AGROS sells at USD$273 million, its industrial plant for the production of fertilizers and petrochemicals (explosives), located in the Pajaritos lagoon, Coatzacoalcos, Veracruz. Subsequently, on May 30, 2014, the conditions precedent were met transferring the ownership of all the assets, properties and permits to Pro-Agroindustria, S.A de C.V.

The foregoing resulted in a profit for the sale of assets of MXN$1,285 million recorded under the other expenses (income) line item, net, in the statement of income and other consolidated comprehensive income. As of December 31, 2017, there is a balance receivable from Pro-Agroindustria, S.A. de C.V. of MXN$119 million, which due to the uncertainty of its recovery, an allowance for doubtful accounts of the same amount was created.

Chapter 5. Stock Market

5.1 SHARE BEHAVIOUR IN THE STOCK MARKET

On 20 December 1993, AHMSA'S shares were listed at the BMV. On 16 December 1996, the Company's ADS (American Depositary Shares), each representing 5 shares of the capital, were listed on the New York Stock Exchange. The ADS's were issued by Morgan Guaranty Trust Company of New York, as depositary.

Currently, and as a result of the Suspension of Payments effective from May 26, 1999, the BMV ordered the suspension of the registration of our ordinary shares with the *National Security Registry* or ("RNV" by its Spanish initials). In response, the New York Stock Exchange suspended AHMSA's ADS and Convertible Bond, and they were removed from the list of the New York Stock Exchange on September 8, 2000.

The second quarter of 1999, the high and low price in nominal pesos on BMV was MXN$8.90 and MXN$2.40, and the high and low price of the ADS's in U.S. dollars on the New York Stock Exchange was USD$4.50 and USD$1.38, respectively.

At the Ordinary Shareholders' Meeting on March 31, 1997, the shareholders approved the establishment of a capital reserve of MXN$520 million (par value) for the repurchase of shares of the Company, according to the rules established by the CNBV. The Company was authorized to buy its shares on the Mexican Securities Market, and its ADS's on the New York Stock Market at market prices and up to the amount remaining in the reserve account. Any repurchased share would not be taken into account for the purposes of calculating quorum or vote at a Shareholders' Meeting during the period in which such share continue in possession of the Company. As of December 31, 1999, 30,503,000 shares had been repurchased, and MXN$401 million remained in the reserve for repurchase. Between March 2 and 31, 1999, the Company repurchased 20,000,000 shares of its capital owned by GAN of MXN$180 million, under the agreements of the Company in the share repurchase programme.

On 18 March 2005, at an Ordinary Shareholders' meeting, the Company's repurchase fund with the corresponding cancellation of 30,503,000 Treasury shares, and the reduction of the Company's variable stock by 207,961,743, was cancelled.

As of December 31, 2016, capital stock is represented by 471,475,120 nominative shares, without par value, fully subscribed and paid, single series, which are registered in the restatement and registration process with the National Securities Registry ("RNV"), registration that it is currently suspended.

Chapter 6. Persons in Charge

The people listed below filed responsibility letters with the CNBV (National Banking and Securities Commission) and the Stock Exchange, as part of the presentation of this 2016 Annual Report, whereby they stated that they have no knowledge of relevant information that has been omitted, misrepresented, or misled in this report:

Name	**Position**	**Institution**
Mr. Luis Enrique Zamudio Miechielsen	Chief Executive Officer	Altos Hornos de México, S.A.B. de C.V.
Mr. Andrés González-Saravia Coss	Chief Legal Officer	Altos Hornos de México, S.A.B. de C.V.
Mr. Ariel Martínez Cruz	Comptrollership and Systems Director	Altos Hornos de México, S.A.B. de C.V.

The Undersigned state under oath that, in the scope of our duties, we prepared the information related to the issuer contained in this 2017 Annual Report, which to the best of our knowledge, reasonably reflects its situation. Furthermore, we state that we are not aware of any relevant information that has been omitted or misrepresented in this Annual Report, or that it contains information that could mislead investors.

Mr. Andrés González-Saravia Coss
Chief Legal Officer

Mr. Luis Enrique Zamudio Miechielsen
Chief Executive Officer

Mr. Ariel Martínez Cruz
Comptrollership and Systems Director

Chapter 7. Appendixes

Altos Hornos de México, S.A.B. de C.V.

Monclova, Coah., April 26, 2018

BOLSA MEXICANA DE VALORES, S.A. de C.V.
PASEO DE LA REFORMA 255
COL. CUAHTÉMOC
C.P. 06500
MEXICO

Dear Sirs:

The Undersigned state under oath that, in the scope of our duties, we prepared the information related to the issuer Altos Hornos de México, S.A.B. de C.V., included in the consolidated financial statement for the year ended December 31, 2017, which to the best of our knowledge, reasonably reflects its situation. Furthermore, we state that we are not aware of any relevant information that has been omitted or misrepresented in this annual report, or that contains information that could mislead investors.

Mr. Luis Zamudio Miechielsen
Chief Executive Officer

Mr. Ariel Martínez Cruz
Comptrollership and Systems Director
Responsible for the preparation and sending of financial information

Mr. Andrés González Saravia Coss
Chief Legal Officer

Prolongación Juárez s/n,
Col. La Loma,
C.P. 25770
Monclova, Coah.

April 10, 2018

Shareholders' Meeting
Board of Directors
ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V.

PRIVILEGED AND CONFIDENTIAL INFORMATION
AUDIT COMMITTEE
Re: Annual Activity Report
Period: January 1 to December 31, 2017

Dear Sirs:

In accordance with that set forth in Articles 28, Section IV, Subsection a), 42, Section II, Subsection e), 43, and other applicable articles of the Securities Market Law ("LMV" by its Spanish initials) in relation to that stated in Articles Nineteenth, Section IV, Twenty Fourth and other applicable Articles of the current bylaws of **ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V.** ("AHMSA" or the "Company"), below we present for your consideration the annual report in writing on the activities corresponding to the **Audit Committee** (the "Committee") for the fiscal year from January 1 to December 31, 2017, which will be submitted to the general ordinary shareholders' meeting of AHMSA to be held on April 26, 2018:

1. On Friday, February 23, 2007, a session of AHMSA's Board of Directors was held, formalising the appointment of the members of this Committee, who entered upon their duties from that date, and have remained in office even to February 23, 2018 date at which the last session of the Board of Directors was held, approving the changes in the composition of the Committee. Alfonso Lebrija Guiot was confirmed as the Chairmen of the Committee; therefore, this "Annual Activity Report" is signed by the undersigned.

2. During said fiscal year, the Committee held meetings at the following dates and venues:

a) Monday, February 20th at AHMSA's headquarters in Monclova;
b) Monday, April 24th at AHMSA's headquarters in Monclova;
c) Monday, July 17th, Unanimous Recommendations in Writing adopted outside the Meeting; and
d) Thursday, October 26th at AHMSA's headquarters in Monclova.

3. All members of the Committee were present at the meetings of the Committee held, and their recommendations and criteria were always taken by their unanimous vote, having met at least 4 times a year prior to holding the session of the Board of Directors, which reviews the quarterly results of the Company pursuant to the applicable provisions. The minutes prepared on the occasion of the meetings of the Committee, were duly signed to be validated by the Chairman and the Secretary, accompanied by the attendance list signed by all the members, which was transcribed in the book of minutes of the Committee that the Company has for that purpose, creating a file with the reports and documents attached to each minute. Where appropriate, certain guests were invited such as members of AHMSA's Board of Directors, relevant managers, executive officers and, if applicable, external auditors.

4. During the reporting period, the Committee specifically identified the following significant issue that requires to be highlighted in this report to the Shareholders' Meeting.

- As mentioned in Note 5 i) to the Financial Statement, the intangible assets line item, whose balance is $3,334 million Mexican pesos as of December 31, 2017, does not reflect an impairment adjustment in conformity with the International Accounting Standard 36. If management had recognised such adjustment, it would have been necessary to reduce the amount of intangible assets by $593 to reflect them at their recovery value. Consequently, the other expenses are undervalued at $593, and deferred income tax, net loss and shareholders' equity are overvalued at $34, $559 and $559, respectively.

5. The Committee also reviewed the opinion on the financial statements as of December 31, 2017 issued on April 2, 2018 by the external auditors' firm, Deloitte, which is a qualified opinion with respect to intangibles, as mentioned in number 4.

6. Based on the considerations outlined above, it is reported to the general ordinary shareholders' meeting and AHMSA's Board of Directors, that in the opinion of the Committee, the accounting and information policies and criteria followed by the Company are appropriate and adequate, taking into consideration the particular circumstances thereof, which have been consistently applied by the Chief Executive Officer. The Company's Management has punctually and timely followed the recommendations made by the Committee at each of its sessions, presenting progress reports for this purpose. Accordingly, the information that will be presented at the aforementioned shareholders' meeting in relation to the results of the fiscal year ended December 31, 2017, reasonably reflects the Company's financial position and results. Similarly, the condition of AHMSA's internal control system and internal audit, and the description and effects to the accounting policies of the period have been reasonable during 2017, as specifically mentioned in each of the minutes of the Committee that have been listed.

This report is intended solely to be distributed and/or read and presented to the general shareholders' meeting and/or Board of Directors of AHMSA to comply with the applicable provisions of the LMV and effective bylaws, and shall not be totally or partially reproduced or transcribed, or reference to it should not be made in any other document without prior consent of the Committee.

ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V.

Audit Committee

Mr. Alfonso Lebrija Guiot
Chairman

C.C. Members of the Committee
Secretary of the Committee

Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Blvd. Ejército Nacional 505
Colonia Los Pinos
25720 Monclova, Coah.
Mexico

Phone: +52 (866) 190 9550
Fax: +52 (866) 190 9553

April 2, 2018

To the Board of Directors of
Altos Hornos de México, S.A.B. de C.V.
Prolongación Juárez S/N
Col. La Loma, 25770 Monclova, Coahuila

Dear Sirs:

In relation to the provisions of Article 84 and 84 Bis of the General Provisions Applicable to Securities Issuers and Other Participants of the Securities Market, published in the Federal Official Gazette on March 19, 2003 , and its amendments on August 11, 2017 (the "Sole Issuers' Circular "), and according to the professional service agreement that I entered into on July 10, 2017, July 22, 2016, and August 6, 2015 with Altos Hornos de México, S.A.B. de C.V. and Subsidiaries (the "Issuer") to perform the audit of the consolidated financial statements as of December 31, 2017, 2016, and 2015, respectively, and for the years then ended, I state under oath, the following:

I. I do not fall under the assumptions referred to in Article 83 of the Sole Issuers' Circular.

II. I express my consent to provide the National Banking and Securities Commission (the “Commission”) with any information required to verify my independence.

III. I agree to store physically at my office or through electromagnetic means, and for a period of at least 5 years, all the documentation, information and other evidence used to prepare the corresponding report, and to provide them to the Commission when it requests them from me.

IV. I express my consent for the Issuer, if applicable, to include in the annual information referred to in Article 33, Section I, Subsection b), number 1, and Article 36, Section I, Subsection c) of the Sole Issuers' Circular, the placement prospectus or information supplement referred to in Article 2nd, Section I, Subsection m), and Article 3rd, Section X of the Single Issuers' Circular, the opinion on the consolidated financial statements that I issued for that purpose. The foregoing on the understanding that I should previously make sure that the information contained in the consolidated financial statements included in the annual report concerned, as well as any other financial information included in said document, whose source arises from the aforementioned consolidated financial statements or from the opinion that I present for that purpose, agrees with that audited, so that such information is made known to the general public.

V. I have a document in effect that certifies my technical ability.

VI. I have not been offered to be a board member or executive of the Issuer.

Very truly,

Mr. Carlos A. López Vazquez
External Auditor
Partner of Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

Altos Hornos de México, S. A. B. de C. V. and Subsidiaries (A Subsidiary of Grupo Acerero del Norte, S. A. de C. V.)

Consolidated Financial Statements for the Years Ended December 31, 2017, 2016 and 2015, and Independent Auditors´ Report Dated April 2, 2018

Deloitte.

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Independent Auditors' Report to the Board of Directors and Stockholders of Altos Hornos de México, S. A. B. de C. V.

(In millions of Mexican pesos)

Qualified Opinion

We have audited the accompanying consolidated financial statements of Altos Hornos de México, S. A. B. de C. V. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2017, 2016 and 2015, and the related consolidated statements of operations and other comprehensive results, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis for Qualified Opinion

As mentioned in Note 5 i), the intangible assets balance of as of December 31, 2017 amounted to $3,334, which does not reflect an adjustment for impairment in accordance with International Accounting Standard 36. If the management had recognized such adjustment, it would have been necessary to reduce the amount of intangible assets by $593 to reflect them at their recovery value. As a result, the other expenses are undervalued by $593, and the deferred income tax, net loss and stockholders' equity are overstated by $34, $559 and $559, respectively.

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

As mentioned in to Note 3 a) and 6 g) in the accompanying consolidated financial statements, we draw attention to the factors that indicate the existence of material uncertainty regarding the Company's ability to continue as a going concern. Our opinion has not been modified in relation this issue.

Key Audit Matters

The key issues of the audit are those matters that, according to our professional judgment, have been of the utmost importance in our audit of the consolidated financial statements of the current period. These issues have been addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion on them, and we do not express a separate opinion on these matters. We have determined that the issues described below are the key audit issues to be communicated in our report.

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a) *Impairment of long-lived assets*

According the International Accounting Standard 36, the recoverable amount of an asset is required to be measured whenever there is an indication that the asset could have suffer impairment in its value as mentioned in Note 5 i) to the consolidated financial statements. Our audit procedures included, among others:

i. Analysis with the support of our valuation specialists, the financial projections prepared by the Company, as well as sensitivity analysis of the possible scenarios through considerations or parameters different from those used by the Company.

ii. Review and validation of the main assumptions used by the Company in the preparation of its financial projections such as: a) sales volume, b) sales prices, c) production costs, and d) discount rates, using our knowledge of the background and operations of the Company and its agreements or contracts committed to the future.

Except for the matter described in the Basis for Qualified Opinion section of our report, the results of our audit procedures were reasonable.

b) *Compliance of consolidated financial debt covenants*

The Company has consolidated financial debt (not including liabilities in suspension) as of December 31, 2017 for Ps.8,824, which includes certain activities that will or will not be carried out and therefore, its compliance must be monitored. The identification of the commitments and obligations to which the Company is subject as a result of these contracts is a complex process that requires technical capacity, professional judgment and communication between the personnel of the different areas of the Company.

Our audit procedures to hedge the risk related to the fulfillment of the covenants associated with financial liabilities included:

i. Ensure proper approval by the Board of Directors of the Company for the contracting and restructuring of the long-term debt.
ii. Review compliance with the restrictions and obligations of not to do established in the debt contracts.
iii. Review the adequate disclosure of the main financial items of the guarantor and non-guarantor of the debt.
iv. Obtain the confirmation from the financial institution to validate the balances of the principal, as well as its correct valuation in Mexican pesos, and the amount and valuation in Mexican pesos of interest accrued and outstanding at the date of the consolidated financial statements.
v. Review the adequate disclosure of financial risks in the consolidated financial statements.
vi. Review the correct presentation of the consolidated financial liabilities according to the maturities (current and long-term portion), as well as the correct presentation of the operating and financing flows in the consolidated financial statements of cash flows.

The Note 16 to the consolidated financial statements presents the main characteristics of long-term debt.

The results of our audit procedures were reasonable.

Other Information

The Company's management is responsible for the other information. The other information shall include the information that will be incorporated in the Annual Report that the Company is required to prepare pursuant to Article 33 Fraction I, clause b) of Title Four, First Chapter of the General Disposals Applicable to the Issuers and other Participants of the Securities Market in Mexico and the Instruction accompanying those disposals (the disposals). The Annual Report is expected to be available for our reading subsequent to the date of this audit report.

Our opinion of the consolidated financial statements will not cover the other information; therefore we express no such opinion for the other information.

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In connection with our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material error. When we read the Annual Report we will issue the legend about the reading of the Annual Report, required in Article 33 Fraction I, subsection b) numeral 1.2. of the disposals.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Carlos A. López Vázquez
April 2, 2018

ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (Ps.))

	Notes	2017	2016	2015
Assets				
Current assets:				
Cash and cash equivalents	8	Ps. 1,677	Ps. 944	Ps. 510
Trade accounts receivable, net	9	4,494	2,667	1,567
Due from related parties, net	23	207	205	126
Other accounts receivable, net	10	1,150	1,385	1,562
Inventories, net	11	7,006	7,840	7,305
Prepaid expenses		41	154	95
Total current assets		14,575	13,195	11,165
Non-current:				
Due from related parties, net	23	485	485	31
Other long-term receivables	10	89	89	96
Guaranty deposits		882	835	735
Investments in shares of associates and joint ventures	12	81	80	115
Property, plant and equipment, net	13	43,070	44,979	45,605
Intangible assets, net	14	3,334	3,426	3,868
Other assets, net	15	678	525	556
Total non-current assets		48,619	50,419	51,006
Total assets		Ps. 63,194	Ps. 63,614	Ps. 62,171
Liabilities and stockholders' equity				
Current liabilities:				
Liability in suspension of payments	2	Ps. -	Ps. -	Ps. 14,901
Financing debt	16	4,684	2,847	3,721
Due to suppliers		8,738	6,382	5,056
Taxes payable		1,603	1,270	1,076
Due to related parties	23	511	438	450
Advances from customers	24	2,381	2,841	1,220
Other payables and provisions	17	2,010	2,114	2,054
Total current liabilities		19,927	15,892	28,478
Non-current liabilities:				
Financing debt	16	11,746	13,092	3,632
Due to related parties	23	654	654	-
Other payables and provisions	17	342	540	404
Employee retirement obligations	18	7,212	6,330	6,781
Deferred income taxes	19	3,419	4,632	5,255
Total non-current liabilities		23,373	25,248	16,072
Total liabilities		43,300	41,140	44,550
Commitments and contingencies	30			
Stockholders' equity:				
Capital stock	21	13,187	13,187	6,129
Additional capital contribution		458	458	458
Retained earnings from prior years		7,433	10,586	14,894
Loss for the year		(1,859)	(3,153)	(4,308)
Other comprehensive income items	22	96	819	(117)
Controlling interest		19,315	21,897	17,056
Noncontrolling interest	21	579	577	565
Total stockholders' equity		19,894	22,474	17,621
Total liabilities and stockholders' equity		Ps. 63,194	Ps. 63,614	Ps. 62,171

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

ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF DPERATIONS AND OTHER COMPREHENSIVE RESULTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (Ps.), except per share data)

	Notes		2017		2016		2015
Net sales	24	Ps.	54,745	Ps.	48,512	Ps.	41,100
Cost of sales			48,542		42,279		38,570
Depreciation			3,619		3,775		3,713
Gross profit (loss)			2,584		2,458		(1,183)
Selling and administrative expenses			3,236		2,914		2,846
Other expenses (income), net	25		393		643		21
Operating (loss) income			(1,045)		(1,099)		(4,050)
Interest expense	26		1,595		1,523		1,160
Interest income	26		(109)		(196)		(156)
Foreign exchange loss, net			(25)		1,106		384
			1,461		2,433		1,388
Equity in (income) loss of joint ventures and associated	12		(20)		(29)		43
Loss before income taxes			(2,486)		(3,503)		(5,481)
Income taxes expense	19		(629)		(333)		(1,201)
Consolidated net loss for the year	29		(1,857)		(3,170)		(4,280)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX:							
Items that may be reclassified subsequently to profit or loss:							
Translation effects of foreign subsidiaries			(118)		586		427
Items that will not be reclassified subsequently to profit or loss:							
Actuarial gains (losses) of employee benefits from termination and retirement			(605)		386		143
	22		(723)		972		570
Consolidated comprehensive net loss		Ps.	(2,580)	Ps.	(2,198)	Ps.	(3,710)
Distribution of consolidated comprehensive net loss for the year:							
Controlling interest		Ps.	(2,582)	Ps.	(2,181)	Ps.	(3,738)
Noncontrolling interest	21		2		(17)		28
		Ps.	(2,580)	Ps.	(2,198)	Ps.	(3,710)
Basic loss per share (in mexican pesos)		Ps.	(3.94)	Ps.	(7.35)	Ps.	(12.04)
Weighted average shares outstanding (000's)			471,878		428,911		357,873

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

ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (Ps.), except for shares outstanding)

	Shares Outstanding		Capital Stock		Additional Capital Contribution		Retained Earnings		Other Comprehensive Items		Total Controlling Interest		Noncontrolling Interest		Total Stockholders' Equity
Balances as of December 31, 2014	357,872,502	Ps.	6,129	Ps.	458	Ps.	14,894	Ps.	(687)	Ps.	20,794	Ps.	537	Ps.	21,331
Comprehensive loss	-		-		-		(4,308)		570		(3,738)		28		(3,710)
Balances as of December 31, 2015	357,872,502	Ps.	6,129	Ps.	458	Ps.	10,586	Ps.	(117)	Ps.	17,056	Ps.	565	Ps.	17,621
Increase in capital stock	113,602,618		7,058		-		-		-		7,058		-		7,058
Comprehensive loss	-		-		-		(3,153)		972		(2,181)		(17)		(2,198)
Noncontrolling interest withdrawal	-		-		-		-		-		-		(7)		(7)
Loss in purchase of equity of noncontrolling interest	-		-		-		-		(36)		(36)		36		-
Balances as of December 31, 2016	471,475,120	Ps.	13,187	Ps.	458	Ps.	7,433	Ps.	819	Ps.	21,897	Ps.	577	Ps.	22,474
Increase in capital stock	2,640		-		-		-		-		-		-		-
Comprehensive loss	-		-		-		(1,859)		(723)		(2,582)		2		(2,580)
Balances as of December 31, 2017	471,477,760	Ps.	13,187	Ps.	458	Ps.	5,574	Ps.	96	Ps.	19,315	Ps.	579	Ps.	19,894

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

ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Millions of Mexican pesos (Ps.))

	2017	2016	2015
Operating activities:			
Resources generated by operations:			
Loss before income taxes	Ps. (2,486)	Ps. (3,503)	Ps. (5,481)
Items related to investing activities:			
Depreciation and amortization	4,185	4,505	4,279
Equity in (income) loss of associated and joint ventures	(20)	(29)	43
Assets impairment	-	488	-
(Gain) loss on sales of property, plant and equipment, net	148	(51)	(12)
Gain on sale of shares	(62)	-	-
Reserve of assets subject to disposal	-	49	55
Interest income	(109)	(196)	(156)
Recovery of insurance claims	-	-	(1)
Allowance for doubtful accounts	309	103	-
Items related to financing activities:			
Interest expense	1,595	1,523	1,160
Foreign exchange (gain) loss, net	(25)	1,106	384
Effect on results SP	-	59	-
	3,535	4,054	271
(Increase) decrease in:			
Trade accounts receivable, net	(1,788)	(1,160)	1,134
Due from related parties, net	1	32	10
Other short and long term accounts receivable, net	93	(134)	(107)
Inventories, net	855	(575)	(593)
Prepaid expenses	-	(59)	24
Increase (decrease) in:			
Due to suppliers	2,406	941	956
Taxes payable	(23)	333	346
Due to related parties	73	11	13
Other payables and provisions	(470)	97	59
Advances from customers	(473)	1,575	164
Employee retirement obligations, net	(4)	(685)	(481)
Other long-term payables	(3)	(7)	(67)
Cash flow obtained (used) in operating activities			
Income tax recovered (paid)	(241)	50	(342)
Interest expenses paid	(328)	(258)	(133)
Interest income received	108	76	76
	206	237	1,059
Net cash flow provided by operating activities	3,741	4,291	1,330
Investing activities:			
Additions to property, plant and equipment	(1,593)	(1,777)	(2,630)
Cash provided by sales of property, plant and equipment	69	178	133
Dividend from associated company	20	60	-
Investment in shares of associated companies	-	5	(19)
Cash provided by sales of shares	30	-	-
Guaranty deposits	(47)	(99)	(158)
Interest received	9	8	9
Other short term accounts receivable	-	(41)	(268)
Other assets, net	(108)	12	60
Purchase of equity of noncontrolling interest	-	(7)	-
Intangible assets, net	(546)	(441)	(793)
Net cash flow used in investing activities	(2,166)	(2,102)	(3,666)
Financing activities:			
Financing debt	2,597	1,357	1,533
Financial debt paid	(2,508)	(1,965)	(749)
Due to related parties	-	(51)	231
Payment released of lifting of Suspension of Payments	-	(388)	-
Interest paid	(802)	(669)	(499)
Net cash flow (used in) provided by financing activities	(713)	(1,716)	516
(Decrease) increase in cash and cash equivalents	862	473	(1,820)
Adjustments to cash flow due to exchange rate fluctuations	(129)	(39)	111
Cash and cash equivalents:			
Beginning of year	944	510	2,219
End of year	Ps. 1,677	Ps. 944	Ps. 510

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

Note 1. Nature of business

Altos Hornos de México, S.A.B. de C.V. (AHMSA) and subsidiaries (collectively the "Company") is a Mexican company and a subsidiary of Grupo Acerero del Norte, S.A. de C.V. ("GAN") and is a publicly traded variable capital corporation listed on the Bolsa Mexicana de Valores, S.A.B. de C.V. ("BMV", the Mexican Stock Exchange). The Company's main activity is the production and sale of flat steel products and structural sections. AHMSA's address is Prolongación Juárez S/N, Monclova, Coahuila.

Note 2. Lifting of Suspension of Payments

On May 16, 2016, the first judge of first instance in Monclova, issued the sentence for the lifting of the Suspension of Payments of the Company. The judgment is based on the general agreement of payments presented by the Company on December 17, 2014 and was approved without opposition by the majority of the creditors. Such agreement establishes the payment of the 100% of the debts in Suspension of Payments, within a period of 3 years from August 3, 2016, date on which the sentence was signed. Likewise, it is established that creditors may capitalize part of the debt in shares of AHMSA.

In such sentence establishes that creditors that holding Ps.10,735 in recognized receivables decided to exchange 69.15% of these rights for a combination of ordinary shares of AHMSA and a cash payment in US dollars equivalent in pesos to Ps.365 (historical value). The remaining 30.85% of the receivables was held by the creditors who decided to make such exchange remain unpaid and must be paid in full, in pesos, within three years from the date of the lifting of Suspension of Payments.

The main effects in the 2016 consolidated financial statements related to the lifting of the Suspension of Payments were as follows: (i) recognition of unfavorable differences of exchange rate fluctuation by Ps.301 (Ii) recognition of long-term liabilities of Ps.8,260 (includes Ps.654 to related parties (see Note 23)), which is presented as part of the long-term financial liability in the consolidated balance sheet and iii) a capital increase of Ps.7,058.

As part of the agreement with the creditors, AHMSA responds to all its obligations with all of its assets and in the opinion of its legal advisors, it has no restriction whatsoever on the sale or encumbrance thereof in the regular course of its operations.

Note 3. Other events

a) Liquidity

Due to the instability in international steel prices in recent years, the Company's operating results and cash flow have been affected, which has led to delays in the fulfillment of its short-term obligations, mainly the timely payment to suppliers. Management is analyzing different financing alternatives in conjunction with the return to capital markets to strengthen the Company's financial position and the level of working capital, which is expected to improve cash flow in the short and medium term.

b) Foreign investments

AHMSA Steel Israel LTD

This subsidiary located in Israel, has invested in certain projects, primarily in Arava Mines, LTD (100% ownership) dedicated to the exploration of a copper mine and Aqwise Water Technologies, LTD (50.1% ownership) dedicated to the development of a residual water treatment technology. As of December 31, 2017, 2016 and 2015, AHMSA has accumulated advanced funds of US$260, US$247 and US$233, respectively, to these subsidiaries, mainly in the copper mine preparation and exploration resources.

Mexicans & Americans Trading Together, Inc ("MATT Biz")

A subsidiary in the United States of America ("USA") to allow for greater strategic presence in the media for the group. As of December 31, 2017, 2016 and 2015, MATT Biz has incurred accumulated expenses of US$46, US$43 and US$40, respectively, arising from the support of a non -profit company dedicated to encouraging the Mexican and American bicultural community to understand and resolve the main problems between the two nations, activity that is consistent with the group's international presence strategy.

Additionally, this subsidiary invested US$19 in 3.2 million shares of MeetMe, Inc. ("MeetMe"), a public company in the USA, owner of one of the largest bicultural Hispanic community Internet sites. In 2015, these shares were sold at US$7.7. In addition, during 2016, the Company chose a stock warrants option resulting in a gain of US$4.6. (See Note 26).

Through this same subsidiary US$11.3 has been invested in Boom Financial, Inc. ("Boom"), which is engaged in sending money through cell phones. As of December 31, 2017, MATT Biz has a 5% stake in Boom.

Moonen Yachts Holding B.V. ("Moonen")

Dutch subsidiary which is engaged in the construction of vessels, acquired in 2014. In July 2015, Moonen was declared in suspension of payments due to its inability to immediately fulfill commitments to its creditors. In 2016, the Company finished the manufacturing of a boat for a third party and the economic resources received from this sale was used to paid liabilities and restart its regular activities, ending the process of suspension of payments.

As of December 31, 2017, 2016 and 2015, the Company has spent cash flows of €24, €16 and €11 million Euros, respectively.

c) Odyssey Marine Exploration, Inc. ("Odyssey")

In March 2015, Minera del Norte, S.A. de C.V. ("MINOSA") granted funding to Odyssey of up US$14.75 as part of an investment option through which MINOSA could obtain a majority ownership interest in several mine projects. If the investment option is not exercised, the investment will bear an interest rate of 8% per annum with expiration when MINOSA demands its payment. During the last quarter of 2016 and third and fourth quarter of 2017, MINOSA granted loans for an additional US$2, US$1.5 and US$1.1, respectively, at a rate of 10% per annum.

As of December 2017, MINOSA sold AHMSA its account receivable from Odyssey with a book value of US$18,3 million for US$6 million, determined by a market value study, for which an impairment of Ps.309 was recorded with a charge to results. (See Note 25).

Note 4. Basis of presentation

a) Statement of compliance

The accompanying consolidated financial statements comply with International Financial Reporting Standards ("IFRS") issued by the board of International Financial Reporting Standards ("IASB").

b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is defined as the price that would be received for selling an asset or be paid for transferring a liability in an orderly transaction between market participants at the valuation date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of AHMSA and those of its subsidiaries where it holds control as of December 31, 2016, 2015 and 2014 and for the years then ended. Control is achieved where the Company: a) has power over the investee, b) is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns.

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

When AHMSA has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. AHMSA considers all relevant facts and circumstances in assessing whether or not AHMSA's voting rights in an investee are sufficient to give it power, including: a) the size of AHMSA's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; b) potential voting rights held by AHMSA, other vote holders or other parties; c) rights arising from other contractual arrangements; and d) any additional facts and circumstances that indicate that AHMSA has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AHMSA's significant subsidiaries and associated companies are as follows:

- MINOSA which, through its mines, conducts the mining of iron ore and metallurgical coal used by AHMSA in the production of steel products. Additionally, MINOSA conducts the mining of steam coal for sale to the Comisión Federal de Electricidad ("Mexican Federal Power Commission" or "CFE") to produce electricity.

- Nacional de Acero, S.A. de C.V. ("NASA") whose main activity is the partial distribution and sale of AHMSA's steel products in the domestic market.

- Compañía de Real del Monte y Pachuca, S.A. de C.V. ("RDM") and Compañía Minera el Baztán, S.A. de C.V., ("BAZTAN") whose main activity is the exploration and exploitation of gold and silver, and copper deposits, respectively.

The Company's ownership in MINOSA, NASA, RDM and BAZTAN is 100%.

Joint venture:

- Línea Coahuila-Durango, S.A. de C.V. ("LCD") is a railroad company and a 50% joint venture with Industrias Peñoles, S.A. de C.V. Its main activity is the transport of metallurgical coal and iron ore to AHMSA's steel producing facilities.

All significant intercompany balances and transactions have been eliminated.

The Company's investment in LCD is accounted for by the equity method, because it is a joint venture.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations and other comprehensive results from the effective date of acquisition and up to the effective date of disposal, as appropriate.

The non-controlling interest was initially valued at the proportional interest over the fair value of the net identifiable assets of the acquired company. Subsequent to the acquisition, the carrying amount of the controlling interests represents the amount of such interest upon initial recognition, plus the portion of non-controlling interest subsequent in the subsidiary's equity. Comprehensive income is attributed to the non-controlling interest, even though it gives rise to a deficiency therein.

d) Reclassifications of consolidated financial statements from prior years

Reclassifications were made to the consolidated financial statements as of December 31, 2016 and 2015 to make their presentation comparable to that of the consolidated financial statements as of December 31, 2017 as follows:

		December 2016		Reclassifications		Adjusted balances
ASSETS						
Total assets	Ps.	63,614	Ps.	-	Ps.	63,614
LIABILITIES AND STOCKHOLDERS' EQUITY						
Other current assets	Ps.	10,937	Ps.	-	Ps.	10,937
Advances from customers		-		2,841		2,841
Other payables and provisions		4,955		(2,841)		2,114
Total current liabilities		15,892		-		15,892
Financing debt		13,198		(106)		13,092
Due to related parties		548		106		654
Other		11,502		-		11,502
Non-current liabilities		25,248		-		25,248
Total liabilities		41,140		-		41,140
Stockholders' equity		22,474		-		22,474
Total liabilities and stockholders' equity	Ps.	63,614	Ps.	-	Ps.	63,614

		December 2015		Reclassifications		Adjusted balances
ASSETS						
Total assets	Ps.	62,171	Ps.	-	Ps.	62,171
LIABILITIES AND STOCKHOLDERS' EQUITY						
Other current assets	Ps.	25,204	Ps.	-	Ps.	25,204
Advances from customers		-		1,220		1,220
Other payables and provisions		3,274		(1,220)		2,054
Total current liabilities		28,478		-		28,478
Non-current liabilities		16,072		-		16,072
Total liabilities		44,550		-		44,550
Stockholders' equity		17,621		-		17,621
Total liabilities and stockholders' equity	Ps.	62,171	Ps.	-	Ps.	62,171

		December 2016		Reclassifications		Adjusted balances
Resources generated by operations:						
Effect on results SP	Ps.	360	Ps.	(301)	Ps.	59
Foreign exchange loss, net		-		1,106		1,106
Allowance for doubtful accounts		-		103		103
Other short and long term accounts receivable, net		(31)		(103)		(134)
Due to suppliers		1,529		(588)		941
Other		2,216		-		2,216
Net cash flow provided by operating activities		4,074		217		4,291
Investing activities:						
Additions to property, plant and equipment		(2,365)		588		(1,777)
Other		(325)		-		(325)
Net cash flow used in investing activities		(2,690)		588		(2,102)
Net cash flow used in financing activities		(1,716)		-		(1,716)
(Decrease) increase in cash and cash equivalents		(332)		805		473
Adjustments to cash flow due to exchange rate fluctuations		766		(805)		(39)
Plus- initial balance in cash and cash equivalents		510		-		510
	Ps.	944	Ps.	-	Ps.	944

		December 2015		Reclassifications		Adjusted balances
Resources generated by operations:						
Foreign exchange loss, net	Ps.	-	Ps.	384	Ps.	384
Other		946		-		946
Net cash flow provided by operating activities		946		384		1,330
Net cash flow used in investing activities		(3,666)		-		(3,666)
Net cash flow provided by financing activities		516		-		516
(Decrease) increase in cash and cash equivalents		(2,204)		384		(1,820)
Adjustments to cash flow due to exchange rate fluctuations		495		(384)		111
Plus- initial balance in cash and cash equivalents		2,219		-		2,219
	Ps.	510	Ps.	-	Ps.	510

In the 2016 consolidated financial statements, the reclassification is to correctly present the liability released from the suspension payments owed to related parties that was presented as a financial liability. Additionally, in the 2016 and 2015 consolidated financial statements, advances from customers balance were separated for a better presentation.

In the 2016 consolidated statement of cash flows, the reclassification is to correctly present the additions to property, plant and equipment.

Additionally, in the 2016 and 2015 consolidated statement of cash flows, the net foreign exchange gain (loss) and the uncollectible accounts were separated for better presentation.

Note 5. Significant accounting policies summary

The preparation of the accompanying consolidated financial statements requires that management make certain estimates and use certain assumptions that affect the amounts reported in the consolidated financial statements and their related disclosures; however, actual results may differ from such estimates. The Company's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances (see Note 6).

The significant accounting policies of the Company are as follows:

a) Cash and cash equivalents

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash, which are subject to insignificant value change risks. Cash is stated at nominal value and cash equivalents are measured at fair value; any fluctuations in value are recognized in the consolidated statements of operations and other comprehensive results.

b) Financial assets

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

Financial assets and financial liabilities are initially measured at fair value.

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

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

(i) Financial assets classified as at fair value through profit or loss.

A financial asset is classified as at fair value through profit or loss if:

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

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

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

Financial assets classified as at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other (income) expenses, net in the consolidated statements of operations and other comprehensive results.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.
Listed redeemable notes held by the Company that are traded in an active market are classified as available-for-sale and are stated at fair value at the end of each reporting period. The profits or losses in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to the consolidated statements of operations and other comprehensive results.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

(iv) Loans and receivables

Trade accounts receivable, loans and other accounts receivable with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

(v) Impairment of financial assets

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

The carrying amount of trade accounts receivable is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

(vi) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

c) Inventories, net and cost of sales

Inventories are stated at the lower of average cost or realizable value. Costs, including a portion of fixed and variable indirect costs, are assigned to inventories through the most appropriate method for the particular class of inventory, most of them being valued using the average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The Company records an allowance for operating materials (materials and spare parts) aged over 36 months or when other qualitative factors indicate that they have been damaged.

Scrap inventory, a by-product of AHMSA's production process, is reused as secondary raw materials, and is valued at the average cost of acquisition, less the cost incurred to process it and the recovery cost. Purchased scrap is valued at the average cost of acquisition.

The costs incurred in removing soil and waste during the underground mining production to access ore deposits are regularly known as long wall costs and are capitalized in produced (mined) inventory. They are valued using costs incurred and are charged to results of the year when the underlying mineral is sold, which normally occurs within a period of less than twelve months.

When an impairment indicator suggests that the carrying amounts of inventories might not be recoverable, the Company reviews such carrying amounts, estimates the net realizable value, based on the most reliable evidence available at that time. Impairment is recorded if the net realizable value is less than the book value. Impairment indicators considered for these purposes are, among others, obsolescence, a decrease in market prices, damage, and a firm commitment to sell.

d) Investments in shares of associates and joint ventures

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.

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate or joint venture, less any impairment in the individual value of the investments.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. When necessary, the entire carrying amount of the goodwill is tested 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 the Company transacts with its associate or a joint venture, profits and losses resulting from the transactions with the associate or joint venture 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.

e) Property, plant and equipment, net

Property, plant and equipment are recorded initially at acquisition cost. Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy.

Depreciation commences when the assets are ready for their intended use and is computed using the straight-line method applying the estimated useful lives of the assets. Land is not depreciated.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or over the lease term.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The Company records its repair and maintenance costs in current earnings as incurred. Major repairs and replacements that increase the useful life of an asset and its productive capacity are capitalized and depreciated over the remaining useful life of the assets. Major repairs consist of equipment restorations, renovations, partial replacements, refurbishing, and/or renovations.

Costs and loans directly attributable to the period of construction and installation of qualifying property, machinery and equipment are capitalized, and are amortized in the average depreciation term of the corresponding assets.

f) Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

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

g) Leasing

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

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (see subsection t). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

h) Intangible assets

Intangible assets consist of expenditures whose benefits will be received in the future and comprise intangible assets with defined lives, which are subject to amortization.

Mine exploration expenses are applied to current earning as incurred until the date the economic feasibility study is performed. Once the economic feasibility is confirmed and the ore reserves are confirmed as proven and probable, all the costs incurred in the underground mines are capitalized in Mine preparation and development costs. Barren material in the open pit mines is removed before the ore is extracted. These are known as pre-production stripping costs and the Company capitalizes them in Mine preparation and development costs. Costs incurred in mine preparation and development are amortized based on a depletion factor, determined by the proven ore reserves.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

i) Impairment of tangible and intangible assets

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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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.

Based on current prices and certain indicators, as of December 31, 2017, 2016 and 2015, in the steel segment the Company's management performed its annual impairment study concluding that no impairment charge was necessary; however, given the economic environment in which the Company operates, the volatility of steel prices and the uncertainties in the restructuring process, the Company will continue to monitor for potential impairment.

A study was prepared for the thermal coal segment where it was determined that there was an impairment in 2017 and 2016 for Ps.593 and Ps.488, respectively. The impairment corresponding to 2016 was recorded with a charge to income in said year, within the item of other expenses (income), net in the consolidated statement of operations and other comprehensive results (see Note 25). In 2018, the Company is in the process of negotiating more favorable terms and conditions in a new thermal coal supply contract, given this uncertainty, the Company's management did not record the resulting impairment in the thermal coal segment assets in 2017.

j) Other assets, net

Laminating rollers are stated at the initial acquisition cost and are amortized based on units of production determined by the Company's management.

The Company maintains housing for its employees at its remote mine locations, charging a minimum monthly rent. Employee housing developments are recorded at the cost of construction and/or acquisition, and depreciated over 20 years using the straight-line method.

k) Derivative financial instruments

The Company's policy is not to carry out transactions with derivative financial instruments for the purpose of speculation.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

- Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

- Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

- Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statements of operations and other comprehensive results relating to the hedged item.
Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

- Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for 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 a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

l) 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.

m) Direct employee benefits

Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly statutory employee profit sharing ("PTU") payable, compensated absences, such as vacation and vacation premiums.

n) Employee retirement obligations

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement 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 annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Company presents the first two components of defined benefit costs in profit or loss in the line item employee benefits expense. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated balance sheet represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

o) PTU

PTU is recorded in the results of the year in which it is incurred and presented under cost of sales and selling and administrative expenses in the consolidated statements of operations and other comprehensive results.

The Company has determined the PTU based on the profit of the Income Tax Law.

p) Financial liabilities

Financial liabilities are recognized when the Company becomes a part of the contractual provisions of the instruments.

Financial liabilities are initially valued at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial liabilities are added or deducted from the fair value of the financial liabilities, if applicable, at the initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value with changes in profit or loss are immediately recognized in profit or loss.

Debt or equity instruments are classified as financial liabilities or as equity in conformity with the essence of the agreement and the definitions of a financial liability and an equity instrument.

Financial liabilities are classified as financial liabilities at fair value with changes through profit or loss or as other financial liabilities.

- Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

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

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss of the consolidated statements of operations and other comprehensive results. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

- Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

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 to the net carrying amount on initial recognition.

- Write off of financial liabilities

The Company writes off financial liabilities if, and only if, the obligations are met, cancelled or expire. The difference between the carrying amount of the financial liability written off and the consideration paid and payable is recognized in profit or loss.

q) Income taxes

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

Income Tax ("ISR") and the Special Tax on Mining ("DESM") are recorded in the results of the year they are incurred. Deferred ISR and DESM are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, except for those differences arising from the initial recognition of the corresponding asset or liability which did not affect the accounting profit nor the tax profit (loss) and, if applicable, the benefits from tax loss carryforwards.

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 asset and deferred tax liability are offset when there is a legal right to offset short-term assets with short-term liabilities, and when they refer to income taxes corresponding to the same tax authority and the Company intends to settle its assets and liabilities on a net base.

Current and deferred taxes are recognized as income or expense in earnings, except where they refer to items recognized outside earnings, either in other comprehensive income or directly in stockholders' equity.

The tax on assets ("IMPAC") that is expected to be recovered is recorded as an advanced payment of ISR and is presented in the consolidated balance sheets in the deferred income taxes.

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.

r) Foreign currency balances and transactions

- Translation of financial statements of foreign subsidiaries:

The individual financial statements of each subsidiary of the Company are prepared in the currency of the primary economic environment in which they operate (their functional currency). For purposes of the consolidated financial statements, income and the financial position of each subsidiary are expressed in Mexican pesos, which is the Company's functional currency and the reporting currency of the consolidated financial statements.

For presentation purpose of this consolidated financial statements, foreign subsidiaries translate their financial statements prepared in the currency in which transactions are recorded to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for monetary assets and liabilities; 2) the historical exchange rate for non-monetary assets and liabilities and stockholders' equity; and 3) the rate upon accrual in the statement of income for revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item. Translation effects are recorded in the year results. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities, 2) historical exchange rates for stockholders' equity and 3) the date of accrual of revenues, costs and expenses. Translation effects are recorded in stockholders' equity.

- Foreign currency balances and transactions

Foreign currency balances and transactions are translated into Mexican pesos at the exchange rate in effect at the transaction date for revenues and expenses. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos using the closing exchange rate in effect at the date of the most recent balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange rate fluctuations are recorded in the consolidated statements of operations and other comprehensive results, except for differences in exchange rate arising from loans denominated in foreign currencies related to assets under construction for future productive use, which are included in the cost of those assets when they are considered as an adjustment to costs of interest on these loans denominated in foreign currencies.

s) Revenue recognition

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

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied: i) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; ii) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; iii) the amount of revenue can be measured reliably; iv) it is probable that the economic benefits associated with the transaction will flow to the Company; and v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues are recognized in the period in which the items are shipped or delivered to customers, which generally occurs with domestic sales. Revenues from export sales shipped by land are recognized when the inventory is delivered to the Mexican border, and from overseas exports, when loaded on a ship. Revenues from rendering services are recognized during the period in which they are rendered.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

t) 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.

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.

u) Basic losses per share

Basic losses per share has been calculated by dividing the net loss of controlling interest by the weighted average number of shares outstanding during the year.

Since the convertibility of the convertible bonds is limited by the Suspension of Payments, no diluted earnings per share are calculated.

Note 6. Critical accounting judgments and key sources of estimation uncertainty

For the preparation of the consolidated financial statements in conformity with IFRS, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The information on such judgments and estimates is included in the accounting policies and/or notes to the consolidated financial statements. Following is a summary of the main judgments and estimates used:

a) Property, plant and equipment

The estimated useful life of property, machinery and equipment is used to determine the depreciation of assets. Such useful lives are defined according to technical studies prepared by the Company's internal specialized personnel, where external specialists also participate. Determined useful lives are reviewed periodically and are based on the current conditions of the assets and the estimate of the period during which they will continue to generate economic benefits. If there are changes in the useful lives estimate, the depreciation amount and carrying amount of property, plant and equipment could be affected prospectively.

b) Employee retirement obligations

Assumptions are used to determine the best estimate of these benefits. Such estimates, like the assumptions, are established jointly with independent actuaries. These assumptions include the demographic hypothesis, discount rates and expected increases in remunerations and future permanence, among others. Even though the assumptions used are estimated to be appropriate, a change thereto could affect the value of the employee benefit liabilities and the statements of operations and other comprehensive results of the period in which it occurs.

c) Ore reserves

The Company applies judgments and makes estimates in the determination of its ore reserves and resources, based on methods and standards recognized in the mining industry, and are performed by competent internal personnel, supported by historical experiences. The reports that support these estimates are prepared periodically. The Company periodically reviews such estimates supported by recognized external experts to certify its ore reserves.

There are several uncertainties on estimating ore reserves. The assumptions valid at the time of the estimate can significantly change when new information is available. Changes in ore quotations, foreign exchange rates, production costs, metallurgical recovery estimates or in discount rates can change the economic status of the reserves and, lastly, they can result in the restatement of the reserves.

Ore reserves are used in the calculation of the amortization of costs of preparation and development of mines, in the calculation for the determination of the provision for remediation of mine sites and for the analysis of impairment of mining units.

d) Provision for remediation of mining places

Estimated costs for closing mining units for the legal and implicit obligations required to restore the operating locations are recognized at present value in the period in which they are incurred. Estimated remedial costs include dismantling and removal of structures, remediation of mines, operation facilities, as well as reparation and reforestation of the affected areas.

The provisions for the remediation of mining places are performed at present value using a risk-free rate at the time the obligation is recognized, and are based on the understanding of the legal requirements and the Company's social responsibility policy. Environmental costs are estimated also using the work of internal specialists. Management applies its judgment and experience to estimate dismantling costs in the mine lives.

Costs incurred in future periods may differ from the provisioned amounts. In addition, future changes that may arise in the applicable legal environment and regulations, changes in mine live estimates and discount rates may affect the carrying amount of the provision.

e) Contingencies

Due to their nature, contingencies can solely be solved when one or more future events or one or more uncertain facts that are not entirely under the Company's control occur or not occur. The assessment of such contingencies significantly requires exercising judgments and estimates on the possible result of such future events. The Company assesses the possibility of losing its lawsuits and having contingencies according to the estimates performed by its legal advisors. Such assessments are reconsidered periodically.

f) Impairment of tangible and intangible assets

Determining whether tangible and intangible assets are impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the Company's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

g) Evaluation of going concern

As mentioned in Note 3 a), the consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern even with the aforementioned in said Note, for that the Company's Management must keep under continuous evaluation this situation.

Note 7. Transactions that did not affect cash flows

The transactions that did not affect cash flows were as follows:

		2017		2016		2015
Equipment and mining concessions	Ps.	483	Ps.	800	Ps.	1,457
Increase in capital stock		-		7,058		-
Total	Ps.		Ps.	7,858	Ps.	1,457

The acquisitions of equipment and mining concessions are reflected in the consolidated statements of cash flows along the lease life through the payment of rents and/or payments of the financing.

Note 8. Cash and cash equivalents

Cash and cash equivalents consist of the following:

		2017		2016		2015
Cash and bank deposits	Ps.	366	Ps.	284	Ps.	210
Cash equivalents		1,311		655		293
Financial instruments available for sale equity securities		-		5		3
Trading financial instruments		-		-		4
Total	Ps.	1,677	Ps.	944	Ps.	510

Note 20 f) discloses the Company's exposure to the interest rate risk.

Cash equivalents correspond to investments in instruments in money markets.

Note 9. Trade accounts receivable, net

Trade accounts receivable arise from the sale of products and services to unrelated third parties and are valued at amortized cost.

Trade accounts receivable include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not have any collateral or other credit improvements to those balances, nor does it have the legal right to offset them against any amount that the Company owes to the counterpart, except because as of December 31, 2015, there are accounts receivable of Ps.59 related to the Suspension of Payments liability, as well as Ps.288, Ps.87 and Ps.96 in 2017, 2016 and 2015, respectively, which guarantee financial liabilities.

Age of accounts receivables:

		2017		2016		2015
Current balance	Ps.	3,888	Ps.	2,504	Ps.	1,332
Overdue balance, but collectible		606		163		235
Overdue balance for doubtful debts		145		127		110
		4,639		2,794		1,677
Less – Allowance for doubtful accounts		(145)		(127)		(110)
Total	Ps.	4,494	Ps.	2,667	Ps.	1,567

Age of receivables of overdue balance, but collectible:

		2017		2016		2015
1-59 days	Ps.	606	Ps.	163	Ps.	170
60-120 days		-		-		2
More than 120 (includes Ps.59 in Suspension of Payments in 2015)		-		-		63
Total	Ps.	606	Ps.	163	Ps.	235

Change in the allowance reserve and allowance for doubtful accounts:

		2017		2016		2015
Balance at beginning of the year	Ps.	127	Ps.	110	Ps.	77
Impairment losses recognized on receivables		19		23		33
Amounts written off during the year as uncollectible		(1)		(6)		-
Balance at end of the year	Ps.	145	Ps.	127	Ps.	110

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

As of December 31, 2017, 2016 and 2015, the accounts receivable from the Company's 10 main customers represent 47%, 41% and 40%, respectively.

Note 10. Other accounts receivable, net

The balance in other accounts receivable consists of the following:

		2017		2016		2015
Non realized value added tax, net	Ps.	460	Ps.	470	Ps.	428
Odyssey (see Note 3b))		452		388		268
Loans to employees		256		233		224
Pro-Agroindustria, S.A. de C.V.		119		119		180
Recoverable taxes		94		139		344
Other		225		181		145
		1,606		1,530		1,589
Less – Allowance for doubtful accounts		(456)		(145)		(27)
Total	Ps.	1,150	Ps.	1,385	Ps.	1,562

The balance receivable from Pro-Agroindustria, S.A de C.V. for Ps.119, corresponds to the remaining receivable of US$5.8 million derived from the sale of assets to PEMEX through the subsidiary Agro Nitrogenados, S.A. de C.V. (AGROS) in 2014, which due to the uncertainly of its recovery created a reserve for uncollectible accounts for the same amount.

The balance in other non-current accounts receivable consists of the following:

		2017		2016		2015
Loans to employees	Ps.	65	Ps.	81	Ps.	89
DD Impulsora Deportiva		15		-		-
Other		9		8		7
Total	Ps.	89	Ps.	89	Ps.	96

The Company grants loans to its workers to acquire or improve their houses, or sells houses that were built for them, whose amount will be recovered in a maximum term of 10 years, bearing annual interest of 6% on unpaid balances, pursuant to a collective bargaining agreement.

Loans to employees as of December 31, 2017, 2016 and 2015 includes Ps.29, Ps.20 and Ps.5, respectively, of loans to key management personnel.

Note 11. Inventories, net

Inventories consist of the following:

		2017		2016		2015
Finished goods	Ps.	1,697	Ps.	1,739	Ps.	1,552
Operating materials		1,598		1,465		1,290
Metallurgical coal		808		385		550
Production-in-process		727		1,011		1,888
Steam coal		534		283		324
Scrap and briquette		522		986		114
Goods-in-transit		361		397		302
Iron ore		291		916		848
Costs of long walls preparation		257		357		258
Other raw materials		211		301		179
Total	Ps.	7,006	Ps.	7,840	Ps.	7,305

As of December 31, 2017, 2016 and 2015 a reduction due to obsolete inventories of Ps.247, Ps.244 and Ps.241, respectively, relating to operating materials has been recognized.

As of December 31, 2017 and 2016, the Company has Ps.65 and Ps.642, respectively, of inventories to guarantee financial liabilities.

Note 12. Investments in shares of associates and joint ventures

The investment in shares of associates and joint ventures consists of the following:

		2017		2016		2015
LCD (see Note 4c))	Ps.	78	Ps.	78	Ps.	109
Other		3		2		6
Total	Ps.	81	Ps.	80	Ps.	115

Summarized financial information with respect to the Company's associates and joint ventures is set out below:

		2017		2016		2015
Total assets	Ps.	315	Ps.	341	Ps.	377
Total liabilities		158		184		408
Net assets (liabilities)	Ps.	157	Ps.	157	Ps.	(31)
Company's share of net assets	Ps.	81	Ps.	80	Ps.	115
Net sales	Ps.	568	Ps.	609	Ps.	607
Income (loss) for the year	Ps.	39	Ps.	51	Ps.	(54)
Company's share of profits (loss)	Ps.	20	Ps.	29	Ps.	(43)

Investment in shares of associates and joint ventures is valued using the equity method.

LCD conducts its transactions through a concession granted by the Federal Government through the Secretariat of Communications and Transportation for the operation and exploitation of the short route Coahuila-Durango, and rendering of the public railroad transportation service and sale and lease of assets related thereto for an initial period of 30 years, and exclusive for 18 years, which began in 1995. LCD's activity is regulated by the Railroad Service Regulatory Law.

Note 13. Property, plant and equipment, net

The reconciliation of the balance at the beginning and end of the years 2017, 2016 and 2015 of the property, plant and equipment consisted of the following:

	2016	Additions	Transfers	Translation effect	Costs for retirement	2017
Investment:						
Land	Ps. 4,070	Ps. 66	Ps. (2)	Ps. (19)	Ps. (225)	Ps. 3,890
Buildings	18,577	175	(142)	3	-	18,613
Machinery and equipment	84,589	1,100	(2,394)	(119)	(1)	83,175
Machinery and equipment under finance lease	3,096	543	707	-	-	4,346
Furniture and fixtures	609	3	(6)	(7)	-	599
Vehicles	615	16	(4)	(7)	(23)	597
Airplanes	1,143	-	-	-	-	1,143
Computers	768	1	-	(1)	(6)	762
Construction-in-progress	3,241	174	-	(22)	-	3,393
Total investments	116,708	2,078	(1,841)	(172)	(255)	116,518
Depreciation:						
Buildings	12,081	271	(81)	(1)	-	12,270
Machinery and equipment	56,781	3,000	(1,690)	(46)	(2)	58,043
Machinery and equipment under finance lease	537	266	(61)	-	-	742
Furniture and fixtures	565	8	(5)	(3)	-	565
Vehicles	541	32	(4)	(4)	(20)	545
Airplanes	495	46	-	-	-	541
Computers	729	20	-	(1)	(6)	742
Total depreciation	71,729	3,643	(1,841)	(55)	(28)	73,448
Net investment	Ps. 44,979	Ps. (1,565)	Ps. -	Ps. (117)	Ps. (227)	Ps. 43,070

	2015	Additions	Transfers	Translation effect	Costs for retirement	2016
Investment:						
Land	Ps. 4,033	Ps. 14	Ps. -	Ps. 23	Ps. -	Ps. 4,070
Buildings	18,519	44		17	(3)	18,577
Machinery and equipment	82,584	2,072	104	423	(594)	84,589
Machinery and equipment under finance lease	2,399	801	(104)	-	-	3,096
Furniture and fixtures	594	2	-	13	-	609
Vehicles	609	15	-	15	(24)	615
Airplanes	1,190	-	-	-	(47)	1,143
Computers	768	1	-	2	(3)	768
Construction-in-progress	3,358	(79)	-	43	(81)	3,241
Total investments	114,054	2,870	-	536	(752)	116,708
Depreciation:						
Buildings	11,816	262	-	3	-	12,081
Machinery and equipment	54,023	3,131	51	120	(544)	56,781
Machinery and equipment under finance lease	372	216	(51)	-	-	537
Furniture and fixtures	545	8	-	12	-	565
Vehicles	515	35	-	13	(22)	541
Airplanes	472	58	-	-	(35)	495
Computers	706	24	-	2	(3)	729
Total depreciation	68,449	3,734	-	150	(604)	71,729
Net investment	Ps. 45,605	Ps. (864)	Ps. -	Ps. 386	Ps. (148)	Ps. 44,979

	2014	Additions	Transfers	Translation effect	Costs for retirement	2015
Investment:						
Land	Ps. 3,917	Ps. 103	Ps. -	Ps. 13	Ps. -	Ps. 4,033
Buildings	18,294	240	-	12	(27)	18,519
Machinery and equipment	78,624	3,740	683	256	(719)	82,584
Machinery and equipment under finance lease	2,787	295	(683)	-	-	2,399
Furniture and fixtures	577	8	-	10	(1)	594
Vehicles	589	28	-	11	(19)	609
Airplanes	1,339	-	-	-	(149)	1,190
Computers	728	39	-	3	(2)	768
Construction-in-progress	3,416	(74)	-	20	(4)	3,358
Total investments	110,271	4,379	-	325	(921)	114,054
Depreciation:						
Buildings	11,519	296	-	2	(1)	11,816
Machinery and equipment	51,174	3,086	364	49	(650)	54,023
Machinery and equipment under finance lease	485	251	(364)	-	-	372
Furniture and fixtures	528	9	-	9	(1)	545
Vehicles	485	38	-	9	(17)	515
Airplanes	564	57	-	-	(149)	472
Computers	688	19	-	1	(2)	706
Total depreciation	65,443	3,756	-	70	(820)	68,449
Net investment	Ps. 44,828	Ps. 623	Ps. -	Ps. 255	Ps. (101)	Ps. 45,605

As of December 31, 2017, the Company has projects in process of Ps.1,114, corresponding mainly to a vacuum degassing system and to an electrolytic washing machine.

As of December 31, 2017, 2016 and 2015, the net balance of property, plant and equipment includes Ps.668, Ps.763 and Ps.859, respectively, for costs for capitalized loans. During 2015, loan costs of Ps.104 have been capitalized. In 2017 and 2016 no loan costs were capitalized.

As of December 31, 2017, fixed assets owned by the Company with a book value of approximately Ps.8,647 are securing financing debt, bonds and tax assessments, which in terms of tax liabilities, the guarantees are in the process of being released, as partial forgiveness was granted.

As of December 31, 2017, 2016 and 2015, the Company has a machinery and equipment financial lease net balance of Ps.2,027, Ps.521 and Ps.636, respectively (see Note 16), without including that mentioned in the following paragraph.

During 2013 and 2016, the Company and Air Liquide de Mexico, S. de R.L. de C.V. ("Air Liquide") entered into supply agreements for various Oxygen Plants located within the Company's facilities, and that were built to meet the Company's production needs in exchange for fixed payments for the supply of oxygen to be received, which are in line with the Company's production capacity. Such transactions were recorded as capital leases for a value of Ps.2,410 (see Note 16).

As part of the agreement with the creditors, AHMSA responds to all its obligations with all of its assets and in the opinion of its legal advisors, it has no restriction whatsoever on the sale or encumbrance thereof in the regular course of its operations.

The average annual depreciation rates used were as follows:

	2017	2016	2015
Buildings	2%	2%	2%
Machinery and equipment (includes finance lease)	5%	5%	4%
Furniture and fixtures	8%	8%	8%
Vehicles	16%	16%	16%
Airplanes	4%	4%	5%
Computers	25%	27%	20%
Capitalized loan costs	3%	3%	3%

Note 14. Intangible assets, net

The intangible assets consisted of mining, stripping and development costs.

The rollforward of the Company's unamortized mining, stripping and development costs were as follows:

Concept	Investment	Accumulated amortization	Total
Balance as of December 31, 2014	Ps. 7,283	Ps. (3,790)	Ps. 3,493
Additions	701	-	701
Effect of foreign currency exchange differences	202	-	202
Other	50	-	50
Amortization	-	(578)	(578)
Balance as of December 31, 2015	8,236	(4,368)	3,868
Additions	441	-	441
Effect of foreign currency exchange differences	297	-	297
Impairment (see Note 5 i))	-	(488)	(488)
Amortization	-	(692)	(692)
Balance as of December 31, 2016	8,974	(5,548)	3,426
Additions	546	-	546
Effect of foreign currency exchange differences	(72)	-	(72)
Amortization	-	(566)	(566)
Balance as of December 31, 2017	Ps. 9,448	Ps. (6,114)	Ps. 3,334

The Company has carried out the following significant mine developments:

	Extractable Reserves to 2017 (Millions/Tons) Unaudited	Unamortized balances 2017	2016	2015
Steam coal:				
Dos Republicas mine........	12.1	Ps. 1,472	Ps. 1,727	Ps. 2,076
Mine VII........................	5.5	116	216	504
Pits.............................	9.9	64	22	44
		1,652	1,965	2,624
Metallurgical coal:				
Mine V.........................	7.0	155	147	114
Mine VII........................	13.9	127	188	226
Mine X.........................	92.5	735	517	366
Pits.............................	5.2	98	126	92
Mining concessions..........		370	370	396
		1,485	1,348	1,194
Iron ore:				
H-14 pit........................	5.1	117	40	-
Prometeo underground pit...	0	-	-	24
		117	40	24
Gold and Silver:				
Santa Gertrudis mine........	0.09	23	24	12
Santa Rosario mine..........	0.3	47	40	10
El Cristo mine.................	0.2	10	9	4
		80	73	26
Total		Ps. 3,334	Ps. 3,426	Ps. 3,868

Note 15. Other assets, net

Other assets consisted of the following:

	2017	2016	2015
Laminating rollers (Note 5 j))..............................	Ps. 271	Ps. 229	Ps. 235
Employee housing developments (Note 5 j))........	123	131	142
Costs of long walls preparation (Note 5 c))..........	109	39	50
Prepaid expenses for goods................................	151	94	31
Restricted cash..	-	-	82
Other..	24	32	16
Total	Ps. 678	Ps. 525	Ps. 556

Restricted cash mainly corresponded to bank deposits that were offset against financial liabilities that were released from the Suspension of Payments.

The rollforward of the Company's employee housing developments and laminating rollers were as follows:

Employee housing developments	2014	Additions retirements, net	2015	Additions retirements, net	2016	Additions retirements, net	2017
Investment..................	Ps. 447	Ps. -	Ps. 447	Ps. (2)	Ps. 445	Ps. -	Ps. 445
Accumulated amortization	(297)	(8)	(305)	(9)	(314)	(8)	(322)
	Ps. 150	Ps. (8)	Ps. 142	Ps. (11)	Ps. 131	Ps. (8)	Ps. 123

Laminating rollers		Balance, net
Balance as of December 31, 2014		244
Acquisitions		55
Amortization		(64)
Balance as of December 31, 2015		235
Acquisitions		43
Amortization		(49)
Balance as of December 31, 2016		229
Acquisitions		91
Amortization		(49)
Balance as of December 31, 2017	Ps.	271

Note 16. Financing debt

Financing debt is as follows:

Institution	Currency	Interest rate		2017		2016		2015
Financial lease:								
Caterpillar Crédito	U.S. dollars	7.75%		711		589		702
Capital lease:								
Air Liquide	U.S. dollars	8.00%	Ps.	2,608	Ps.	2,903	Ps.	1,796
UNIFIN	Mexican pesos	16.64%		343		-		-
UNIFIN	Mexican pesos	15.65%		258		-		-
MADISA	U.S. dollars	7.75%		157		-		-
Other financing debt:								
Liability released from the Suspension of Payments	Mexican pesos	0%		7,606		7,606		-
Almacenadora Afirme	Mexican pesos	TIIE + 5.5 pts		1,390		1,407		1,345
Caterpillar Crédito	U.S. dollars	7.75%		678		941		915
Caterpillar Crédito	U.S. dollars	6.75%		300		-		-
Banco Afirme	Mexican pesos	TIIE + 5.5 pts		439		872		686
Caterpillar Financial Services Corporation	U.S. dollars	7.75%		416		631		571
CIC Corporativo Industrial Coahuila, S.A. de C.V.	U.S. dollars	6.83%		354		-		-
American Express Company México, S.A. de C.V.	Mexican pesos	18%		339		266		257
Famur	U.S. dollars	LIBOR + 3 pts		109		171		189
PRIMETALS	U.S. dollars	5.5%		168		157		421
Banco Afirme	Mexican pesos	TIIE + 4.9 pts		12		62		113
Various	Various	Various		542		334		358
				16,430		15,939		7,353
Current portion				(4,684)		(2,847)		(3,721)
Long-term of financing debt			Ps.	11,746	Ps.	13,092	Ps.	3,632

- CATERPILLAR

MINOSA has obtained heavy equipment under financial leasing from Caterpillar Crédito, S.A. de C.V. ("CATERPILLAR") for its mining operations, which will be paid over a 5 year term, and includes a purchase option at the end of the last year for 1% of the equipment value, that at December 31, 2017 amounts to Ps.13. MINOSA's financial lease obligations are guaranteed by the lessor's title of ownership on the leased assets.

In 2012 and 2014, MINOSA obtained loans from CATERPILLAR in the aggregate of US$27 and US$36, respectively, which resources have been disposed and were allocated to the construction of two power plants, maturing in 6 years. In order to ensure the payment of such loans, on March 12, 2014, MINOSA entered into an agreement with Caterpillar Crédito whereby it pledges certain assets of its own.

In 2017, MINOSA obtained a credit line with CATERPILLAR for a total of US$15 with a maturity of two years, whose resource will be used for working capital purposes.

During 2015 and 2016, the subsidiary Dos Republicas Coal Partnership ("DOS REPUBLICAS") obtained financing of US$42 from Caterpillar Financial Services Corporation, maturing in 4 years, for the purchase of mining equipment, guaranteed with the equipment itself.

- AFIRME

Since 2013, MINOSA obtained lines of credit from Banco AFIRME, S.A. ("AFIRME") and such resources were used to finance investments, which mature in 5 years.

Since 2015, AFIRME and Almacenadora Afirme, S.A. de C.V. ("ALMACENADORA") granted MINOSA lines of credit maturing in December 2018.

As of December 31, 2015, the unpaid balance of Ps.2,144 to AFIRME and ALMACENADORA is entirely presented in the short term, as some "not to do" obligations have not been met. On December 13, 2017 and February 25, 2016, the Company obtained the corresponding waiver from both banks, as of December 31, 2017 and 2016, they are classified according to their maturity.

- AIR LIQUIDE

In 2013, 2016 and 2017, the supply of oxygen began with Oxygen Plants in which Air Liquide has within AHMSA's facilities and such supply agreements have 20 year period. These agreements are classified for accounting as capital leases; therefore, a long-term financial liability of US$140 (Ps.2,410 nominal value) was recorded at the inception of the lease, which corresponds to the lesser of the fair value of the plants and the present value of the minimum payments for the lease (see Note 13).

- CICSA

In 2017, CIC Corporativo Industrial Coahuila, S.A. de C.V. ("CICSA") granted MINOSA US$25 in financing for working capital, with a one-year maturity.

- OTHERS

In June and December 2017, MINOSA and AHMSA, respectively, entered into a four-year lease with UNIFIN Financiera, S.A.B. de C.V. ("UNIFIN") of equipment that had previously been invoiced to MINOSA and AHMSA. This contract qualifies as a finance lease and therefore a long-term liability of Ps.274 and Ps.343, respectively, was recorded at the beginning of the lease reflecting the present value of the minimum lease payments.

In 2017, MINOSA entered into a lease in US dollars for 5 years with Maquinaria Diesel, S.A. de C.V. (MADISA). This accounting contract qualifies as a capitalized lease for which a long-term liability was recorded for Ps.148 at the beginning of the lease, which corresponds to the lower amount between the fair value of the equipment and the present value of the minimum payments for the lease.

AHMSA, MINOSA and ANTAIR obtained a revolving credit from American Express Company, at an interest rate of 18%.

In 2012, MINOSA obtained a loan from FAMUR, S.A. (Polish supplier) for US$19.3 and such resources were used to acquire mining equipment. Such loan matures in 7 years.

In October 2015 and July 2017, AHMSA reached an agreement to restructure its liabilities with machinery suppliers Primetals Technologies USA LLC, Primetals Technologies México, S. de R.L. and Primetals Austria GMBH ("PRIMETALS"), at an annual rate of 5.5%, maturing in 2 years.

Some subsidiaries have exercised additional short-term credit lines, which balance payable as of December 31, 2017, 2016 and 2015 of Ps.542, Ps.334 and Ps.358, respectively, with an interest rate fluctuating between 3% and 10%.

The fair value of the financial lease liabilities and the value of the other bank liabilities are approximately equal to their carrying amount.

Minimum commitments under capitalized financial leases are as follows:

		2017		2016		2015
Lease obligations creditors	Ps.	6,145	Ps.	5,523	Ps.	3,809
Unearned interest		(2,068)		(2,031)		(1,311)
Present value of obligations		4,077		3,492		2,498
Current portion of obligations		(595)		(437)		(316)
Long-term portion of financial lease obligations	Ps.	3,482	Ps.	3,055	Ps.	2,182

The long-term portion of financing debt as of December 31, 2017 matures as follows:

Year ending December 31,		Balance
2019	Ps.	8,388
2020		614
2021		656
2022		292
2023 and thereafter		1,796
	Ps.	11,746

Note 17. Other payables and provisions

a) The balance of the other payables and provisions consists of the following:

		2017		2016		2015
Tax provision	Ps.	555	Ps.	616	Ps.	229
Employee benefits		434		475		366
Termination reserve (see Note 18)		396		183		586
Outstanding severance payments		40		121		97
Mines sites remediation reserve (see Note 30 II b))		92		74		86
Other		493		645		690
Total	Ps.	2,010	Ps.	2,114	Ps.	2,054

As of December 31, 2017, 2016 and 2015, the Company recorded a tax provision of Ps.555, Ps.616 and Ps.229, respectively, from the entire deduction of payments, which, in turn, is tax-exempt income for workers.

During 2017 and 2016 some workers chose their voluntary retirement option from January 2018 and 2017, therefore, of employee benefits by termination and retirement of Ps.396 and Ps.183, respectively, were classified as a short-term balance. (See Note 18). As part of a process of compaction of its operational structure, in the last quarter of 2015, the Company announced a reduction of 10% of its non-unionized staff to be held in January 2016, for which, in 2015, Ps.519 was reclassified in the short term under the employee benefits from termination and retirement line item. An additional amount of Ps.67 was provisioned for severance payments payable.

The rollforward of the Company's provision balances was as follows:

		2016		Additions (cancellations), net		Payments		2017
Tax provisions	Ps.	616	Ps.	(61)	Ps.	-	Ps.	555
Termination reserve		183		396		(183)		396
Employee benefits		475		434		(475)		434
Mines sites remediation reserve, short and long term		190		34		(20)		204
Other		62		-		(37)		25
Total	Ps.	1,526	Ps.	803	Ps.	(715)	Ps.	1,614

		2015		Additions (cancellations), net		Payments		2016
Tax provisions	Ps.	229	Ps.	387	Ps.	-	Ps.	616
Termination reserve		586		183		(586)		183
Employee benefits		366		475		(366)		475
Mines sites remediation reserve, short and long term		197		36		(43)		190
Other		117		-		(55)		62
Total	Ps.	1,495	Ps.	1,081	Ps.	(1,050)	Ps.	1,526

		2014		Additions (cancellations), net		Payments		2015
Tax provisions	Ps.	194	Ps.	35	Ps.	-	Ps.	229
Termination reserve		-		586		-		586
Employee benefits		582		366		(582)		366
Mines sites remediation reserve, short and long term		190		18		(11)		197
Other		108		9		-		117
Total	Ps.	1,074	Ps.	1,014	Ps.	(593)	Ps.	1,495

b) The other payables and provisions long-term consist of the following:

		2017		2016		2015
Mines rights and social security fees to be paid in installments	Ps.	866	Ps.	999	Ps.	922
Minera Zapalinamé, S.A. de C.V.		230		208		248
Mines sites remediation reserve (see Note 6 d))		204		190		197
		1,300		1,397		1,367
Current portion		(958)		(857)		(963)
Total	Ps.	342	Ps.	540	Ps.	404

Since 2013, MINOSA has obtained authorizations from the Tax Administration Service to pay mining tax due in installments within a term of 3 years, with an annual surcharge rate of 18%. (See Note 26), in addition, the Company entered into agreements for payments in installments of the year 2015 and in the first half of 2016 of debts of Social Security fees. As of December 31, 2017, 2016 and 2015, the outstanding balance is Ps.866, Ps.999 and Ps.922, respectively.

The short-term portion of mining rights and social security fees in installments as of December 31, 2017, 2016 and 2015 of Ps.636, Ps.575 and Ps.629, respectively, are presented within taxes payable. In addition, the current portion of the liabilities with Minera Zapalinamé, S.A. de C.V., of Ps.230, Ps.208 and Ps.248 is presented within the supplier line item.

As of December 31, 2017, 2016 and 2015, the Company has created and funded trusts for restoration for the mining activities of the mine Dos Repúblicas located in Eagle Pass, Texas, USA, of US$19, which is presented net of liabilities.

Note 18. Employee retirement obligations

According to Mexican labor laws, the Company pays seniority premiums to all employees who have stopped working after 15 years or more of service, for disability, dismissal and death. Additionally, voluntary retirement payments are made based on certain conditions, in addition to pension benefits for both administrative and unionized personnel.

The present values of employee benefits from termination and retirement were comprised of the following:

		2017		2016		2015
Defined benefit obligation	Ps.	7,468	Ps.	6,569	Ps.	7,015
Plan assets at fair value		(256)		(239)		(234)
Unfunded status	Ps.	7,212	Ps.	6,330	Ps.	6,781

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2017	2016	2015
Discount rate(s)	7.80%	7.50%	6.60%
Expected rate(s) of salary increase	5.00%	5.00%	6.00%
Return of plan assets	7.80%	7.50%	6.60%

Discount rates of projected benefit obligations were determined considering the information of Mexican government bond rates and the duration of the obligations at the close of each year.

Net cost for the period includes the following items:

		2017		2016		2015
Service costs	Ps.	272	Ps.	304	Ps.	372
Plan amendments		-		(72)		-
Gain due settlements		-		-		(301)
Interest cost		435		409		442
Less - Actual return on plan assets		(18)		(15)		(14)
Net periodic cost	Ps.	689	Ps.	626	Ps.	499

In 2015, the Company reduced 20% of its non-unionized employees, having a favorable impact of Ps.301 during the year.

Amounts recognized of the net cost of the period in the consolidated statements of operations and other comprehensive results are as follows:

		2017		2016		2015
Cost of sales	Ps.	269	Ps.	287	Ps.	63
Selling and administrative expenses		3		(55)		8
Interest expenses, net		417		394		428
Total	Ps.	689	Ps.	626	Ps.	499

Changes to the present value of the defined benefit obligation:

		2017		2016		2015
Defined benefit obligation as of January 1,	Ps.	6,569	Ps.	7,015	Ps.	7,795
Service costs		272		304		372
Interest cost		435		409		442
Plan amendments		-		(72)		-
Gain due settlements		-		-		(301)
Payments		(276)		(348)		(553)
Actuarial (gain) loss on the obligation		864		(556)		(221)
Short term termination reserve (see Note 17)		(396)		(183)		(519)
Defined benefit obligation as of December 31,	Ps.	7,468	Ps.	6,569	Ps.	7,015

Changes to the fair value of plan assets:

		2017		2016		2015
Plan assets at fair value as of January 1,	Ps.	239	Ps.	234	Ps.	237
Expected yield		18		15		14
Actuarial (losses) gains generated		(1)		(10)		(17)
Plan assets at fair value as of December 31,	Ps.	256	Ps.	239	Ps.	234

The pension plan and seniority premium assets are held in a trust and consist mainly of short-term Mexican government securities valued at their fair value. The Company does not have a formal funding policy to make contributions to the plan; instead, they are based on the available cash flows.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant: if the discount rate increases +1%, the defined benefit obligation would decrease Ps.454; if the discount rate decreased -1%, the defined benefit obligation would increase Ps.557. If the expected salary growth increases by +1%, the defined benefit obligation would increase by Ps.226; If the expected salary growth decreases by -1% the defined benefit obligation would decrease by Ps.205.

Under Mexican legislation, the Company must make payments equivalent to 2% of its workers' daily integrated salary to a defined contribution plan that is part of the retirement savings system. The expense in 2017, 2016 and 2015 was Ps.283, Ps.268 and Ps.284, respectively.

Note 19. Income taxes

a) ISR and DESM

The Company is subject to ISR at a tax rate of 30% and certain subsidiaries to DESM.

In 2014, a new Special Tax on Mining ("DESM") is added to the holders of mining concessions, which can be determined by applying the rate of 7.5% on the difference from reducing certain deductions from taxable income for ISR purposes. DESM is deductible for ISR purposes; therefore, the net effect is the deferred tax recorded as of December 31, which was 5.25%.

The provision for income taxes expense (benefit) presented in the consolidated statements of operations and other comprehensive results is as follows:

		2017		2016		2015
Current ISR	Ps.	441	Ps.	144	Ps.	32
Deferred ISR		(871)		(701)		(1,215)
ISR from tax contingency		(117)		312		95
Deferred DESM		(82)		(88)		(113)
Total	Ps.	(629)	Ps.	(333)	Ps.	(1,201)

b) Tax loss carryforwards

As of December 31, 2017, the Company has tax loss carryforwards for income tax, all of which are indexed for inflation. Such carryforwards are calculated based on the results of each subsidiary of AHMSA, rather than on a consolidated basis. A summary of those balances of the Company and its subsidiaries is presented below:

Expiration		Tax loss carryforwards
2018	Ps.	71
2019		166
2020		83
2021		346
2022		142
2023		57
2024		297
2025		310
2026		193
2027		71
	Ps.	1,736

On December 31, 2016, the Company recognized an amount of deferred tax assets related to net operating losses in the operation of some foreign subsidiaries cannot be recovered, as the Company does not expect to generate taxable income in the future against which the operating losses could be used.

c) Deferred income taxes

The deferred taxes liabilities are as follows:

		2017		2016		2015
Deferred ISR	Ps.	3,167	Ps.	4,298	Ps.	4,833
Deferred DESM		252		334		422
Total	Ps.	3,419	Ps.	4,632	Ps.	5,255

I) Deferred ISR

The tax effects of temporary differences that generated deferred ISR (liabilities) assets are as follows:

		2017		2016		2015
Deferred assets:						
Employee benefits from termination and retirement	Ps.	1,948	Ps.	1,663	Ps.	1,871
Provisions and reserves		483		436		365
Advances from customers		84		229		113
Tax loss carryforwards		119		205		599
Current employee benefits		123		150		107
Deferred DESM		76		100		127
Intangible assets		7		-		-
Others		103		116		244
Deferred liabilities:						
Property, plant and equipment		(6,075)		(7,058)		(7,969)
Intangible assets		-		(91)		(205)
Inventories		(14)		(27)		(64)
Investment in shares of associated companies		(21)		(21)		(21)
Total	Ps.	(3,167)	Ps.	(4,298)	Ps.	(4,833)

The temporary difference that created a deferred ISR liability for property, plant and equipment was originated mainly from the application of the accelerated depreciation (effective until 2013) according to the tax dispositions, only up to the amount entitled to deduct.

Changes in the deferred ISR balance for the years ended December 31, are as follows:

		2017		2016		2015
Beginning balance	Ps.	(4,298)	Ps.	(4,833)	Ps.	(5,987)
Deferred income tax provision		871		701		1,215
Other concepts of comprehensive results:						
Actuarial (losses) gains from employee benefits from termination and retirement		260		(166)		(61)
Total	Ps.	(3,167)	Ps.	(4,298)	Ps.	(4,833)

The balance of deferred tax recognized in capital as of December 31, 2017, 2016 and 2015 corresponds to the effect of employee benefits from termination and retirement of Ps.361, Ps.101 and Ps.267, respectively.

The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before income taxes for the years ended December 31, is as follows:

	2017	2016	2015
Statutory income tax rate	30%	30%	30%
Deferred DESM	3	3	2
ISR from tax contingency	4	(9)	(2)
Tax balances restatement effect	8	1	1
Inflationary component	(10)	(5)	(2)
Nondeductible expenses	(4)	(1)	(1)
Effects of accelerated depreciation	(3)	(3)	(2)
Equity in income of associated companies	1	1	(1)
Valuation allowance for tax loss carryforwards	(3)	(5)	(4)
Other	(1)	(2)	1
Effective rate	25%	10%	22%

II) Deferred DESM

The tax effects of temporary differences that generated deferred DESM asset (liability) are as follows:

	2017	2016	2015
Property, plant and equipment	Ps. (392)	Ps. (454)	Ps. (533)
Intangible assets	(7)	(17)	(48)
Inventories	13	20	19
Provisions and reserves	28	24	22
Current employee benefits	59	54	66
Other	47	39	52
Total	Ps. (252)	Ps. (334)	Ps. (422)

Note 20. Financial risk management

AHMSA is exposed to the following risks associated with its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Exchange risk
- Interest rate risk
- Equity management

This Note presents information on the Company's exposure to each one of the aforementioned risks, the Company's objectives, policies and processes to measure and manage risks, and the administration of the Company's capital. Several sections of these consolidated financial statements include more quantitative disclosures.

a) Risk management framework.

The Board of Directors is generally responsible for establishing and supervising the Company's risk management framework. The Board of Directors has established different Committees whereby the

Company's risks are managed. Through the Audit Committee, the Company's risk management policies are developed and monitored, and the Board of Directors is periodically advised.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to establish appropriate limits and controls and to monitor risks and to respect the limits. Risk management policies and systems are periodically revised to reflect the changes in the market conditions and Company's activities. The Company, through training, standards and management procedures, intends to develop a disciplined and constructive control environment where all the employees understand their functions and obligations.

The Company's Audit Committee supervises the manner in which Management monitors the compliance with the Company's risk management policies and procedures, and verifies that it agrees with the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee receives support from Internal Audit as a supervisor. Internal Audit carries out both routine and special reviews of the risk management controls and procedures, and reports the results to the Audit Committee.

b) Credit risk

Credit risk represents the financial loss risk for the Company if a customer or counterpart of a financial instrument does not meet its contractual obligations, and mainly arises from the Company's accounts receivable and investments in securities.

Trade accounts receivable and other accounts receivable

The Company's exposure to a credit risk is mainly affected by the individual characteristics of each customer. Nevertheless, Management also considers the industry and sector where the customers operate as a non-compliance risk, as these factors can have influence on the credit risk, particularly under the current deteriorated economic circumstances. Approximately 28 per cent of the Company's revenues are attributable to sale transactions with solely four customers. Also, sales to the Company's twenty largest steel customers together represented 55%, 66% and 66%, of the Company's total steel sales for the years ended December 31, 2017, 2016 and 2015, respectively. In 2016 and 2015, no customer represented over 10% of the Company's total revenues, with the exception of 2017, in which only two of the Company's customers represented more than 10% of total revenues. However, Management believes that there is no risk concentration due to the low credit risk of these customers, which is determined according to the Company's credit policies (see Note 9).

The Credit Committee has implemented a credit policy under which each new customer is individually analyzed with respect to its solvency before offering it the Company's payment and delivery standard terms and conditions. The Company's review includes visits to the customer's facilities, review of its financial statements, commercial references and credit insurance; the latter if the sector is considered at medium or high risk. Credit limits are established to each customer, which represent the amount of maximum credit, which requires the approval by the Credit Committee. These limits are revised annually or every time customers request an increase of their line of credit. Customers that do not satisfy the Company's credit policies can solely conduct transactions through advance payments.

Over 70 per cent of the customers have conducted transactions with the Company during over 10 years, and there is no important bankruptcy or losses from doubtful accounts in the last 14 years. When monitoring the customers' credit risk, they are grouped according to their credit characteristics, including the sector to which they belong, geographical location, type of industry, maturity and financial ratios.

As part of the Management's risks implementation, beginning 2008, insuring customers that according to the sectors or industry represent more risk, was included in the credit policy.

The goods sold are subject to quality guarantees, such that in case of quality issues, the Company can have complaints that according to the Company's guarantee manuals are accepted or refused. The Company requests guarantees from its customers according to the risk degree and their credit rating determined for each one of the customers according to the Company's credit policies.

The Company has a provision policy that represents an estimate of claims from trade accounts receivable and other investment accounts receivable. The main factors of this provision are a component of specific losses that corresponds to individual significant exposures.

Investments in financial assets

The Company limits its exposure to credit risk by investing solely in equity and solely with counterparts that have a high credit rating of investment grade: at least A1 for securities in national currency and BBB- or higher for foreign currency. There is an Investment Committee which ensures the compliance with the investment policy and constantly monitors the credit rates. As the Company has solely invested in securities with high credit rates, management does not foresee that any counterpart does not meet its obligations. (See Note 8).

c) Liquidity risk

Liquidity risk represents the possibility that the Company has difficulties to comply with its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to manage its liquidity risk is to ensure, to the extent possible, that it will have sufficient liquidity to meet its obligations when they fall due, in both regular and extraordinary conditions, without incurring unacceptable losses or putting at risk the Company's reputation.

The Company maintains a strict monitoring and control of commitments which helps it to monitor cash flow requirements and optimize yields in cash from its investments. Regularly, the Company makes sure of having sufficient cash available to cover the operating expenses foreseen, including the payment of its financial obligations. The foregoing excludes the possible impact of extreme circumstances that are not reasonably foreseeable, such as natural disasters, among others (see Note 3 a)).

The following tables detail the Company's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

	2018	2019	2020	2021	2022 and thereafter	Total
As of December 31, 2017						
Financing debt	Ps. 4,684	Ps. 8,388	Ps. 614	Ps. 656	Ps. 2,088	Ps. 16,430
Interest payable[1]	621	382	346	200	-	1,549
Due to suppliers	8,738	-	-	-	-	8,738
Taxes payable	1,603	126	66	38	-	1,833
Due to related parties	511	654	-	-	-	1,165
Advances from customers	2,381	-	-	-	-	2,381
Other payables and provisions.	2,010	29	29	28	26	2,122
Total	Ps. 20,548	Ps. 9,579	Ps. 1,055	Ps. 922	Ps. 2,114	Ps. 34,218

		2017		2018		2019		2020		2021 and thereafter		Total
As of December 31, 2016												
Financing debt	Ps.	2,847	Ps.	2,082	Ps.	8,203	Ps.	462	Ps.	2,345	Ps.	15,939
Interest payable[1]		579		363		315		237		116		1,610
Due to suppliers		6,382		-		-		-		-		6,382
Taxes payable		1,270		207		152		65		-		1,694
Due to related parties		438		-		654		-		-		1,092
Advances from customers		2,841		-		-		-		-		2,841
Other payables and provisions.		2,114		29		29		29		29		2,230
Total	Ps.	16,471	Ps.	2,681	Ps.	9,353	Ps.	793	Ps.	2,490	Ps.	31,788

		2016		2017		2018		2019		2020 and thereafter		Total
As of December 31, 2015												
Financing debt	Ps.	2,306	Ps.	1,520	Ps.	1,471	Ps.	448	Ps.	1,608	Ps.	7,353
Interest payable[1]		543		270		243		224		71		1,351
Due to suppliers		5,056		-		-		-		-		5,056
Taxes payable		1,076		118		118		57		-		1,369
Due to related parties		450		-		-		-		-		450
Advances from customers		1,220		-		-		-		-		1,220
Other payables and provisions.		2,054		28		28		29		26		2,165
Total	Ps.	12,705	Ps.	1,936	Ps.	1,860	Ps.	758	Ps.	1,705	Ps.	18,964

[1] Projected interest was determined based on different types of interest rates on loans (see Note 16) and assuming a closing exchange rate of Ps.19.74, Ps.20.66 and Ps.17.21 as of December 31, 2017, 2016 and 2015, respectively per U.S. dollar.

The amounts in debts with credit institutions include variable interest rate instruments. Variable interest rate financial liabilities are subject to change, if changes in variable interest rates differ from those interest rate estimates determined at the end of the reporting period, they are presented at fair value.

The Company expects to meet its obligations with cash flows from transactions and resources provided by the maturity of financial assets. (See Note 3 a)).

For 2015 the liabilities under suspension of payments are not included because of the situation mentioned in Note 2.

In 2015, maturities of bank loans with Banco Afirme and Almacenadora Afirme are presented according to the provisions of the agreement, because the corresponding waivers were obtained until 2016 (see Note 16).

d) Market risk

Market risk is the risk that changes in market prices such as exchange rates, interest rates and equity instruments may affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control exposures to market risks within acceptable parameters, at the same time yields are optimized.

e) Exchange risk

Forty one per cent of the Company's revenues are in U.S. dollars and fifty nine per cent in Mexican pesos. Therefore, the exchange risk to which the Company is exposed for sales, purchases and loans denominated in U.S. dollars is reduced. There is an exchange risk for certain transactions conducted in other currencies, mainly Euros.

Loans are generally denominated in currencies that agree with those of cash flows arising from the Company's transactions, especially Mexican pesos and U.S. dollars. The foregoing provides an economic hedging without the need to contract derivatives and, therefore, under these circumstances, hedging accounting is not applicable.

Regarding other monetary assets and liabilities denominated in foreign currency, the Company makes sure that its net exposure is maintained at an acceptable level through the purchase and sale of foreign currencies at exchange rates of spot transactions to cover short-term unforeseen events.

Given a possible increase in the depreciation of 10% of the Mexican peso against the U.S. dollar, we estimate that the value of our foreign currency balance would increase Ps.782, Ps.894 and Ps.745 in 2017, 2016 and 2015, respectively, which would result in a loss of the exchange currencies by such amounts.

Foreign currency balances were:

	2017	2016	2015
Monetary assets:			
U.S. dollar	US$ 204	US$ 101	US$ 76
Monetary liabilities:			
U.S. dollar	581	516	492
Other currencies	19	18	17
	600	534	509
	US$ (396)	US$ (433)	US$ (433)

The exchange rates for the Mexican peso published by Banco de México with respect to the foreign currencies indicated above are as follows:

	April 2, 2018	December 31, 2017	December 31, 2016	December 31, 2015
U.S. dollar	18.34	19.74	20.66	17.21
EURO	22.66	23.53	21.92	18.18
British pound	25.87	26.71	25.79	25.90
Shekel (Israel)	5.23	5.65	5.38	4.44
Japanese yen	0.17	0.18	0.18	0.14

As of April 2, 2018, the unaudited foreign currency position is similar to that of December 31, 2017.

f) Interest rate risk

The Company actively monitors the behavior of interest rates and assesses its exposure to their fluctuations on loans. The decisions of having loans at fixed or variable rates are determined case by case and depend on the market conditions and expectations thereof at the time of contracting the loans. Currently, 76% of the Company's debt is at a fixed rate.

g) Other market price risks

The risk of equity instrument price arises from equity instruments available for sale held to comply in part with the non-financed portion of the Company's defined benefit pension obligations. The Company's management monitors the combination of debt and equity instruments in its investment portfolio, based on the market indexes. Material investments within the Company's portfolio are managed individually and all the decisions on purchase and sale of instruments are approved by the Investment Committee.

The main goal of the Company's investment policy it to maximize yields, in order to meet the Company's non-financed defined benefit obligations; Management receives support from external advisors to this effect. According to the policy, certain investments are recorded at fair value through earnings, because its performance is actively monitored and are managed on a fair value basis.

The Company does not enter into commodities agreements other than to cover their expected use and sale requirements. Such agreements are not settled in a net manner.

h) Equity management

The Company does not have a formal policy to manage equity; however, management seeks for maintaining an adequate equity basis to satisfy the Company's operating and strategic needs and maintain the market participants' trust. The foregoing is achieved with effective management, monitoring the Company's revenues and income, and long-term investment plans that finance mainly the Company's operating cash flows. With these measures, the Company intends to reach a constant increase in profits.

Note 21. Stockholders' equity

	2017			2016			2015		
	Number of shares		Book value	Number of shares		Book value	Number of shares		Book value
Fixed capital.........	36,668,998	Ps.	250	36,668,998	Ps.	250	36,668,998	Ps.	250
Variable capital......	434,808,762		9,248	434,806,122		9,248	321,203,504		2,190
Restatement effect.	-		3,689	-		3,689	-		3,689
	471,477,760	Ps.	13,187	471,475,120	Ps.	13,187	357,872,502	Ps.	6,129

As of December 31, 2017, common stock consisted of 471,477,760 ordinary nominative shares, without par value, fully subscribed and paid. There is one series of shares, of which 36,668,998 are classified as fixed capital and 434,808,762 as variable capital. There is no distinction between the rights associated with the Company's variable and fixed capital.

Pursuant to a general ordinary stockholders' meeting on April 17, 2015, the stockholders approved a new issuance of variable common stock of Ps.13,762, subject to the condition that a final lifting of the Company's Suspension of Payments judicial process is declared. If applicable, 227,669,803 common shares without par value will be issued and remain in treasury until the corresponding issuance of common stock is subscribed. As mentioned in Note 2, creditors that chose to change their collection rights (for Ps.7,058) per share were granted 113,605,258 shares, are subject to final reconciliations. In addition, there is approximately 29,728,405 shares of existing minority shareholders pending of subscription at the date of the capital increase to avoid dilution, (once the corresponding subscription notices are made), this would give a maximum of subscribed and paid shares of 501,206,165.

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 the income tax payable for the year in which the tax on the dividend is paid and the two fiscal years following such payment. Beginning 2014, dividends to individuals and foreigners will be subject to an additional tax of 10% on the base of the net tax income account arisen from that date.

Accumulated earnings include the legal reserve according to the General Corporate Law, which requires that at least 5% of net income of the year be transferred to a legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2017, 2016 and 2015, the legal reserve, was Ps.105 (nominal value).

The balances of the stockholders' equity tax accounts are as follows:

		2017		2016		2015
Contributed capital account	Ps.	72,383	Ps.	67,794	Ps.	58,598
Net tax income account		2,934		2,337		2,631
Total	Ps.	75,317	Ps.	70,131	Ps.	61,229

The total amount of the balances of the shareholders' equity tax accounts exceeds stockholders' equity in the consolidated balance sheet.

As of December 31, 2017, 2016 and 2015, the following Company's subsidiaries have noncontrolling interest:

		2017			2016			2015	
		Book Value	Noncontrolling Interest		Book Value	Noncontrolling Interest		Book Value	Noncontrolling Interest
AGROS	Ps.	532	19.3%	Ps.	504	19.3%	Ps.	504	19.3%
Hojalata Mexicana, S.A. de C.V.		40	49.0%		36	49.0%		37	49.0%
Aqwise Water Technologies, LTD		5	49.9%		35	49.9%		23	49.9%
Antair, S.A. de C.V. ("ANTAIR")		1	0.1%		1	0.1%		1	0.1%
Moonen Yachts Holding, B.V.		-	-%		-	0.1%		(1)	20%
Hullera Mexicana, S.A de C.V.		1	4.6%		1	4.6%		1	4.6%
Total	Ps.	579		Ps.	577		Ps.	565	

Note 22. Other comprehensive results

Comprehensive loss represents changes in stockholders' equity during the year, as a result of activity other than distributions and activity in contributed common stock.

Other comprehensive income (loss) accumulated balance items consist of the following:

		2014		Movements during the year		2015		Movements during the year		2016		Movements during the year		2017
Items that may be reclassified subsequently to profit or loss:														
Translation effects of foreign subsidiaries	Ps.	297	Ps.	427	Ps.	724	Ps.	586	Ps.	1,310	Ps.	(118)	Ps.	1,192
Items that will not be reclassified subsequently to profit or loss:														
Defined employee benefits effect		(914)		143		(771)		386		(385)		(605)		(990)
Loss on purchase of equity of noncontrolling interest		(70)		-		(70)		(36)		(106)		-		(106)
Total	Ps.	(687)	Ps.	570	Ps.	(117)	Ps.	936	Ps.	819	Ps.	(723)	Ps.	96

Note 23. Transactions and balances with related parties

Related parties include: a) a joint venture where the reporting entity is involved, b) Board Members, closed relatives to key personnel of management or relevant managers; and c) funds derived of a remuneration plan for labor obligations to employees mentioned in Note 18.

a) Transactions with related parties for the years ended December 31, 2017, 2016 and 2015 were as follows:

	2017			
	Holding	Associated	Other related parties	Total
Income:				
Sales	Ps. -	Ps. -	Ps. 39	Ps. 39
Dividends	Ps. -	Ps. 20	Ps. -	Ps. 20
Administrative services	Ps. -	Ps. 25	Ps. 20	Ps. 45
Guarantee fees	Ps. 8	Ps. -	Ps. -	Ps. 8
Other	Ps. -	Ps. -	Ps. 22	Ps. 22
Expenses:				
Rail road transportation services	Ps. -	Ps. 325	Ps. -	Ps. 325
Materials and supplies	Ps. -	Ps. -	Ps. 693	Ps. 693
Advertising	Ps. -	Ps. -	Ps. 38	Ps. 38
Services	Ps. -	Ps. -	Ps. 12	Ps. 12
Guarantee fees	Ps. 7	Ps. -	Ps. -	Ps. 7
Air transportation services	Ps. -	Ps. -	Ps. 20	Ps. 20
Interest	Ps. -	Ps. -	Ps. 17	Ps. 17
Other	Ps. -	Ps. -	Ps. 37	Ps. 37

	2016			
	Holding	Associated	Other related parties	Total
Income:				
Sales	Ps. -	Ps. -	Ps. 17	Ps. 17
Dividends	Ps. -	Ps. 60	Ps. -	Ps. 60
Administrative services	Ps. -	Ps. 25	Ps. 14	Ps. 39
Guarantee fees	Ps. 24	Ps. -	Ps. -	Ps. 24
Other	Ps. -	Ps. -	Ps. 19	Ps. 19
Expenses:				
Rail road transportation services	Ps. -	Ps. 298	Ps. -	Ps. 298
Materials and supplies	Ps. -	Ps. -	Ps. 552	Ps. 552
Advertising	Ps. -	Ps. -	Ps. 20	Ps. 20
Services	Ps. -	Ps. -	Ps. 14	Ps. 14
Guarantee fees	Ps. 62	Ps. -	Ps. -	Ps. 62
Air transportation services	Ps. -	Ps. -	Ps. 29	Ps. 29
Interest	Ps. -	Ps. -	Ps. 14	Ps. 14
Other	Ps. -	Ps. -	Ps. 27	Ps. 27

	2015							
		Holding		Associated		Other related parties		Total
Income:								
Sales	Ps.	-	Ps.	-	Ps.	59	Ps.	59
Administrative services	Ps.	-	Ps.	25	Ps.	-	Ps.	25
Guarantee fees	Ps.	19	Ps.	-	Ps.	-	Ps.	19
Other	Ps.	-	Ps.	-	Ps.	9	Ps.	9
Expenses:								
Rail road transportation services	Ps.	-	Ps.	317	Ps.	-	Ps.	317
Materials and supplies	Ps.	-	Ps.	-	Ps.	528	Ps.	528
Advertising	Ps.	-	Ps.	-	Ps.	27	Ps.	27
Services	Ps.	-	Ps.	-	Ps.	10	Ps.	10
Guarantee fees	Ps.	49	Ps.	-	Ps.	-	Ps.	49
Air transportation services	Ps.	-	Ps.	-	Ps.	24	Ps.	24
Interest	Ps.	-	Ps.	-	Ps.	6	Ps.	6
Other	Ps.	-	Ps.	-	Ps.	24	Ps.	24

b) Net amounts due to and from affiliated companies were as follows:

		2017		2016		2015
Due from related parties, short-term:						
Grupo Agromex, S.A. de C.V	Ps.	117	Ps.	117	Ps.	117
Coahuila Industrial Minera S.A. de C.V ("CIMSA")		70		70		-
Promotora de Vivienda México, S.A. de C.V		-		1		1
Compañía Mercantil Río Hondo, S.A. de C.V		-		1		1
Distribuidora ESSEX, S.A. de C.V..		2		-		-
Other		31		29		20
		220		218		139
Less – Allowance for doubtful accounts		(13)		(13)		(13)
Total	Ps.	207	Ps.	205	Ps.	126
Due from related parties, long-term:						
GAN	Ps.	447	Ps.	447	Ps.	-
Loans to key management		38		38		31
	Ps.	485	Ps.	485	Ps.	31
Due to related parties, short-term:						
GAN	Ps.	158	Ps.	166	Ps.	137
Stockholders		237		155		181
Inmobiliaria Indias Occidentales, S.A. de C.V		25		25		50
LCD		20		17		26
Comercial ESSEX, S.A. de C.V		45		29		29
Coel del Norte, S.A. de C.V		13		21		-
Other		13		25		27
Total	Ps.	511	Ps.	438	Ps.	450

		2017		2016		2015
Due to related parties, long-term:						
CIMSA	Ps.	637	Ps.	637	Ps.	-
LCD		16		16		-
Other		1		1		-
Total	Ps.	654	Ps.	654	Ps.	-

In 2015 and 2017, MINOSA obtained financing for a total of US$12 million from one of its indirect stockholders, which bears annual interest of 7%, maturing upon request of the stockholder. The unpaid balance as of December 31, 2017, 2016 and 2015 is Ps.237, Ps.155 and Ps.181, respectively.

In 2015, MINOSA obtained financing of Ps.50 from Inmobiliaria Indias Occidentales, S.A. de C.V., which bears annual interest of 8.5%, maturing upon request of the financing grantor. The unpaid balance as of December 31, 2017 and 2016 is Ps.25.

Loans to key managerial personnel are related to loans with maturities over one year and are denominated in U.S. dollars. The interest rate is LIBOR plus 3 points.

As of December 31, 2017, GAN has a debt under Suspension of Payments in favour of the Company of Ps.107, which is presented net of accounts payable to GAN itself. On December 31, 2015, GAN entered into a debt recognition agreement with AHMSA, whereby GAN and AHMSA agree to offset the entire payment obligations once GAN's suspension of payments is lifted.

Because AHMSA is guarantor of certain receivables from GAN, GAN's creditors claimed these loans during AHMSA's Suspension of Payments process for Ps.447, an amount that is receivable from GAN.

Since February 1997, AHMSA has been paying GAN a 2.5% commission on bank loans and advances from customers where GAN is the guarantor. Also, it receives the same commission for the credits in charge of GAN, where AHMSA is endorsed.

In January 2016, MINOSA sold to CIMSA certain credit rights to AHMSA for Ps.130, which are shown net of the accounts payable to CIMSA.

Carlyle is a company incorporated under the laws of the Republic of Panama, and since July 8, 2005, Carlyle is the owner of ten percent (10%) of GAN's share capital; this company provided professional services to AHMSA, within the normal course of operations of the Company.

Employee direct benefits granted to the Company's key management were Ps.760, Ps.774 and Ps.574 for years 2017, 2016 and 2015, respectively.

Note 24. Net sales

Net sales were as follows:

		2017		2016		2015
Steel	Ps.	47,811	Ps.	42,693	Ps.	34,857
Steam coal		5,784		4,477		4,922
By-products		263		253		308
Services		430		527		518
Other sales		457		562		495
Total	Ps.	54,745	Ps.	48,512	Ps.	41,100

The Company receives advances from customers and portfolio advance payments in exchange for a cash discount and are recorded decreasing the earnings. Such discount is calculated according to the period elapsed between the advance payment receipt and the loan term after the delivery of the product. Cash discounts are also granted to those customers that make their payments before the term established in the loan policies. The discounts granted for these concepts were Ps.474, Ps.491 and Ps.316 in 2017, 2016 and 2015, respectively.

Note 25. Other expenses (income)

Other expenses (income) include the following:

		2017		2016		2015
Impairment of Odyssey's account receivable (see Note 3b))	Ps.	309	Ps.	-	Ps.	-
Loss (gain) on fixed assets sales		148		(51)		(12)
Gain on sale of shares		(62)		-		-
Impairment of intangible assets (see Note 5 i))		-		488		-
Allowance for doubtful accounts (see Note 10)		-		103		-
Lifting of Suspension of Payments effects (see Note 2)		-		59		-
Reserve of assets subject to disposal		-		49		55
Other income		(2)		(5)		(22)
Total	Ps.	393	Ps.	643	Ps.	21

Note 26. Financial expense and income

		2017		2016		2015
Interest expense:						
Financing debt interest	Ps.	636	Ps.	615	Ps.	456
Employee retirement obligations interest cost (see Note 18)		417		394		428
Surcharges and updates taxes		180		193		96
Interest paid to suppliers		147		118		73
Guarantee fees (see Note 23)		8		61		50
Tax provisions (see Note 17)		56		75		(60)
Commissions and others		89		27		67
Other		62		40		50
Total	Ps.	1,595	Ps.	1,523	Ps.	1,160

		2017		2016		2015
Interest income:						
Interest income Odyssey (see Note 3 b))	Ps.	32	Ps.	23	Ps.	14
Interest income on cash equivalents		28		18		16
Moratorium interests		22		17		23
Interest income on guaranty deposits		9		8		9
MeetMe Warrants (see Note 3b))		-		88		52
Guarantee fees paid (see Note 23)		7		24		19
Other		11		18		23
Total	Ps.	109	Ps.	196	Ps.	156

Note 27. Operating leases

Operating leases where the Company participates as a lessee mainly correspond to leases of mobile heavy equipment whose lease periods are 1 to 5 years. 98% of the operating leases can be cancelled with no penalties. The Company has the option of purchasing equipment leased and classified as operating leases at the date of expiration of the lease periods.

The operating lease expense for fiscal years 2017, 2016 and 2015 was Ps.458, Ps.297 and Ps.242, respectively.

Non-cancellable operating lease commitments are:

		Amount
2018	Ps.	11
2019		11
2020		11
2021		11
2022		12
	Ps.	56

Note 28. Mineral reserves (unaudited)

The Company's mines operate under a concession agreement for exploration and exploitation with the Mexican Mining Board. These licenses operate under terms of 50 years. In 2017, 2016 and 2015, the amounts paid for these rights were Ps.427, Ps.358 and Ps.412, respectively. (See Note 17).

The term "reserves" refers to the part of mineral resource that can be economically and legally extracted at the time the estimate is prepared. These estimates have been prepared by the Company's technical division engineers following evaluation methods generally used in the international mining industry, which include standard geological mapping, drilling, sampling, assaying and geological modeling.

The estimated mineral reserves at each of the mines are restated periodically, based on the results of the explorations conducted. Additionally, they are reviewed by independent external consultants in mining, geology and reserves calculations in order to confirm and verify such estimates. The last reviews conducted by experts were held in March 2012 for the coal ore mines, and in December 2011 for the iron ore mines, based on the Canadian Standard 43-101.

As of December 31, 2017, the Company classifies its different mining and salable mineral reserves as proven and probable, as follows:

(Unaudited millions of metric tons)

Mineral	Mining			Salable			Years to sale
	Proven	Probable	Total	Proven	Probable	Total	
Iron ore	224.6	7.5	232.1	52.0	0.2	52.2	10
Steam coal	79.2	0.0	79.2	64.8	0.0	64.8	13
Metallurgical coal	158.9	0.0	158.9	60.7	0.0	60.7	42

(Unaudited thousands of metric tons)

Mineral	Mining			Salable			Years to sale
	Proven	Probable	Total	Proven	Probable	Total	
Copper	1,546.3	741.2	2,287.5	37.4	17.9	55.3	13

* In the case of metallurgical coal the salable reserve of the steam coal by-product is not included.

A probable reserve is the economically minable portion of an indicated resource, and in some circumstances, a measured resource. The certainty in the modifying factors applied to the probable mineral reserve is lower than that of those applied to proven reserves.

A proven reserve is the economically viable portion of a measured resource. A proven minable reserve implies a high degree of certainty in modifying factors (2014 CIM Definition Standards).

For iron ore, we believe there are 341 million additional tons that are classified as resources. Currently, we have a drilling program and an exhaustive metallurgical research program, whose purpose is to integrate most of these resources into the proven reserves classification as the results confirming this are received.

The RDM subsidiary has resources certified under the Canadian standard 43-101, prepared by an expert in the matter in 2008. The resources are located at the tailing dam and amount to 95 million tons of gold and silver ore of 0.19 and 39.32 grams per ton, respectively. In 2009 a pre-feasibility study and a feasibility study in 2012 and 2015 on this mineral was elaborated by two expert companies, classifying as mineral reserves such slabs, reporting a recovery of 70% and 62% for gold and silver, respectively, therefore, after processing in a new plant would get 10.6 tons of gold and 2,443 tons of silver.

Additionally, RDM has resources of Gold and Silver ore in its, Rosario, El Cristo, Gertrudis and Cupula mines that accumulate a volume of 3,702,276 tons with grades of 127.4 gr / ton of Silver and .59 gr /ton of Gold.

Note 29. Summary of financial data by industry segment

The table below provides certain financial information related to the Company's industry segments. Intersegment transactions were not significant.

		2017		2016		2015
Net sales:						
Steel	Ps.	48,270	Ps.	43,244	Ps.	35,452
Steam coal		5,807		4,508		5,011
Other		668		760		637
Total	Ps.	54,745	Ps.	48,512	Ps.	41,100
Consolidated net loss for the year:						
Steel	Ps.	(55)	Ps.	(1,465)	Ps.	(3,388)
Steam coal (2)		(905)		(1,283)		(59)
Other (3)		(897)		(422)		(833)
Total	Ps.	(1,857)	Ps.	(3,170)	Ps.	(4,280)
Depreciation and amortization (1):						
Steel	Ps.	3,207	Ps.	3,276	Ps.	3,303
Steam coal		857		1,113		881
Other		121		116		95
Total	Ps.	4,185	Ps.	4,505	Ps.	4,279
Capital expenditures:						
Steel	Ps.	1,277	Ps.	1,322	Ps.	2,414
Steam coal		188		304		401
Other		128		151		(185)
Total	Ps.	1,593	Ps.	1,777	Ps.	2,630

		2017		2016		2015
Interest income:						
Steel	Ps.	54	Ps.	73	Ps.	87
Steam coal		6		3		2
Other		49		120		67
Total	Ps.	109	Ps.	196	Ps.	156
Interest expense:						
Steel	Ps.	1,412	Ps.	1,385	Ps.	1,100
Steam coal		176		127		(2)
Other		7		11		62
Total	Ps.	1,595	Ps.	1,523	Ps.	1,160

(1) Includes Ps.566, Ps.692 and Ps.578 of amortization in 2017, 2016 and 2015, respectively.
(2) Includes impairment of Ps.488 in 2016.
(3) Includes allowance for doubtful accounts of Ps.309 as of December 31, 2017.

The financial information of the segment Other includes transactions of AGRONITRO, RDM, BAZTAN, the copper mines of AHMSA Steel and the foreign subsidiaries (see Note 3 b)) among others.

Equity in earnings of associated companies of LCD corresponds to steel segment.

As of December 31, 2017, 2016 and 2015, of the total net sales, 89%, 88% and 89%, respectively, correspond to domestic sales and 11%, 12% and 11%, respectively, to foreign sales.

Note 30. Commitments and contingencies

I) Commitments

a) Coal supply agreement

In December 2012, MINOSA executed a supply agreement with CIC Corporativo Industrial Coahuila, S.A. de C.V. ("CICSA") (non-related party), whereby CICSA would sell to CFE, on terms and conditions established by an agreement between CICSA and CFE, a minimum of 32.2 million tons and a maximum of 40 million tons of coal supplied by MINOSA for a term of 6 years, at a sales price calculated based on the quality of coal and adjusted by an escalation clause that reflects inflation and exchange rate fluctuations. Under the supply agreement, MINOSA delivers coal to CICSA, for resale to CFE, at a discounted price of 0.1%.

b) As of December 31, 2017, the Company had commitments of US$197 related to investment projects.

c) The Company has entered into professional service contracts with external consultants, whose professional fees, in some cases, are contingent on the successful outcome of the transaction. As of December 31, 2017, contingent payments amounted to US$10.

d) As of December 31, 2017, approximately US$127 and US$127 are contracted for 2018 and 2019 onwards, respectively, derived from purchases of raw materials.

II) Contingencies

a) Tax assessments:

As of December 31, 2017, there are tax assessments of Ps.415 (nominal value) from several governmental agencies, which is still being appealed by the Company.

The Company's management, based on the opinion of its legal counsel and the resolution of certain cases in favor of the Company, expects that possible liability that could arise will not result in cash disbursements.

b) AHMSA has voluntary environment protection agreements with the Federal Bureau of Environmental Protection ("PROFEPA") that set forth the activities that AHMSA must carry out in terms of contamination control. The estimated amount of investment for the total compliance with environmental legislation is US$186, which mainly includes projects to control emissions to the atmosphere and cleanliness of water. Some of the projects are in the process of implementation and others have been agreed but behind the original investment program; therefore, the PROFEPA could carry out inspection procedures and, if applicable, establish sanctions for agreements that have not been complied with.

On February 4, 2015, AHMSA signed an agreement with PROFEPA whereby a commitment was established to invest in emission control equipment in certain departments of the Company, with a value of US$65 valid for 2018. Said agreement was fulfilled in part of the investments and the rest were requested and approved in a new term before the SEMARTNAT together with the update of the "Unique Environmental License" (LAU), which is mentioned in the following paragraph.

In December 2017, in order to comply with the environment regulations applicable under the terms of the General Law of Ecological Equilibrium and Environmental Protection, the LAU is updated to include new operational areas such as power generation plants, standardized line, among others, and also requesting the extension of terms of investment conditions and of the framework agreement projects that were not concluded, in which SEMARNAT resolves and authorizes the extension to 2021 of the compliance deadlines of 13 conditions stipulated in this license, which represent an estimated investment of US$154 in projects for the control of air emissions.

It is important to note that the LAU does not include or authorize projects related to the use and management of water, however these are under the voluntary audit process with PROFEPA, whose estimated investment amount is US$21, and US$12 of projects that are in the process of execution and of those that have already been disbursed US$1.1, having a total investment amount of US$32 approximately.

Additionally, derived from the extraordinary inspection carried out by PROFEPA in 2010 to five departments and on four different topics, which were assigned to comply with the observations noted by the authority, at the date of the 20 administrative procedures against, 18 have been concluded. satisfactorily and closed the procedures, leaving only 2 open procedures in the subject of atmosphere, which at the end of 2017 was carried out another inspection by PROFEPA to review compliance and carry out the closing of the file, to the date is awaiting the respective resolution. It should be noted that the non-compliance of the programs and commitments presented in the resolutions, would cause a recidivism, giving rise to partial or total closure of the facilities of the departments inspected by PROFEPA.

Likewise, for its mining operations the Company is subject to the provisions contained in the General Law of Ecological Balance and Environmental Protection, which establishes that any ecological damage caused must be corrected. As of December 31, 2017, 2016 and 2015, a provision has been recorded for Ps.204, Ps.190 and Ps.197, respectively, relating to the rehabilitation of the ecological damage caused by their developments and mine preparations in accordance with the provisions of said Law.

On the other hand, as regards the Clean Industry program promoted by PROFEPA through the application of environmental auditing by certified auditors, in 2017 the Company has 23 operational units within this "Clean

Industry" program, of which; 10 departments have a current "Clean Industry Certificate", 2 certificates in process of being granted by PROFEPA, 6 departments with an agreement for works and activities in execution, and 1 in the process of preparing the audit report and action plan to agree on with authority.

c) MINOSA is undergoing lawsuits related to third parties affected by mining operations. Company management, based on the opinion of its legal advisors and the fact that certain favorable resolutions have already been granted, expects that the possible obligation not demand the use of economic resources.

Note 31. New accounting principles

In 2016, the International Accounting Standards Board enacted the following IFRS:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over income Tax Treatments[2]

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

IFRS 9, Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

• All recognized financial assets that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).

• With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

• In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

• The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced.

IFRS 15, Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that the Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

• Step 1: Identify the contract(s) with a customer
• Step 2: Identify the performance obligations in the contract
• Step 3: Determine the transaction price
• Step 4: Allocate the transaction price to the performance obligations in the contract
• Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 16, Leases

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

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

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

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

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Companies can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

IFRIC 23, Uncertainty over income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in fact and circumstances

The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

Based on the diagnosis prepared by the Company's Management, it is concluded that there will be no material effects on the financial situation with the entry into force of these new standards.

Note 32. Consolidated financial statements issuance authorization

On April 2, 2018, the issuance of the consolidated financial statements was authorized by the Board of Directors; consequently, they do not reflect events occurred after that date, and are subject to the approval of the ordinary stockholders' meeting, who may modify the consolidated financial statements, based on provisions set forth by the General Corporate Law.

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