Annual Report 2016

AHMSA

ALTOS HORNOS DE MEXICO

ALTOS HORNOS DE MEXICO

Altos Hornos de México and Subsidiaries has its corporate offices in Monclova, Coahuila.

The Company manufactures flat products such as hot-rolled steel, wide and coiled plate, cold-rolled steel, tinplate and tin-free steel. It also produces long products such as structural shapes. Through Minera del Norte (MINOSA), the Company sells steam coal used for the generation of electricity.

The availability of raw materials such as iron and coal, along with quality certified processes, permits AHMSA to remain highly competitive on a global basis.

Alonso Ancira Elizondo
Executive Chairman of the Board

Xavier Autrey Maza
Vice-Chairman of the Board

Luis Zamudio Miechielsen
Chief Executive Officer

Manuel Ancira Elizondo
Chief Operating Officer

Jorge Ancira Elizondo
Chief Financial Officer

John C. Abbott
Finance

Armando Ferriz Domínguez
Operations

Luis Landois Garza
Sales and Marketing

Fernando Sánchez Villarreal
Financial Planning and Treasury

Ariel Martínez Cruz
Comptroller and Systems

Fernando Monroy Guajardo
Human Resources

Enrique Rivera Gómez
Industrial Relations

Homero Pérez Ramón
Rolling, Maintenance and Services

Gerardo García Castelán
Procurement

Arturo Arroyo Mendoza
Raw Materials, Operations

Andrés González-Saravia Coss
General Counsel

Lorenzo González Merla
Safety and Environmental Management

Francisco Orduña Mangiola
Communications and Public Relations

Financial and Operational Highlights

	2016	2015
Income Statement (Million pesos)		
Net Sales	**48,512**	41,100
Operating (Loss) Income	**(1,099)**	(4,050)
Consolidated Net Loss	**(3,170)**	4,280)
Consolidated Comprehensive Net Loss	**(2,198)**	(3,710)
Balance Sheet (Million pesos)		
Total Current Assets	**13,195**	11,165
Property, Plant and Equipment, Net	**44,979**	45,605
Total Assets	**63,614**	62,171
Total Current Liabilities	**15,892**	28,478
Total Non - Current Liabilities	**25,248**	16,072
Total Liabilities	**41,140**	44,550
Total Stockholder's Equity	**22,474**	17,621
Sales Volume (Million metric tons)		
Total Steel Products	**4.156**	3.774
Production (Million metric tons)		
Liquid Steel	**4.652**	4.460

Message to Our Shareholders

In a domestic and international market environment that continues to be complicated by overproduction of steel worldwide, and unfair trade practices—primarily by Asian manufacturers—in 2016, Altos Hornos de México (AHMSA) had a performance that substantially improved its results compared to the previous year.

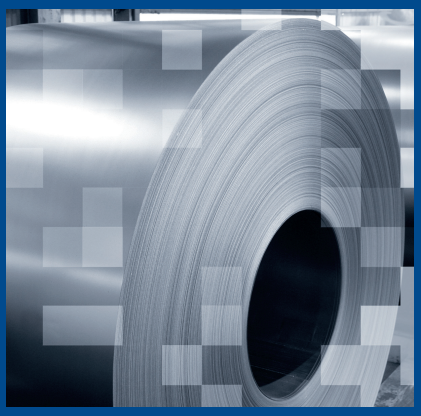
Domestically, the economy was affected by President Trump's initial declarations, which caused a severe devaluation of the currency. Under these circumstances, the ownership of its mines for supplying basic raw materials favored AHMSA, by decreasing the impact of the new exchange rate.

As a reflection of the announcement of the new United States government regarding investments in infrastructure, a partial recovery of steel prices in North America has been generated—without having yet reached the levels necessary for profitability—which, along with an adequate product mix and the internal efforts in efficiency and savings, are making it possible to recover margins.

The Mexican steel-making industry has also been helped by the safeguard applied against steel from China and other countries without a commercial agreement, and the control actions by the Federal Government against unfair imports, along with the measures adopted by our main commercial partners and the majority of the western economies.

Mexico has a steel trade deficit, and purchases more than 60% of the national consumption of flat products abroad, with a major part of those imports coming from the United States, which has a favorable balance in the steelmaking exchange. Actually, with the tariff rate of 15% established by Mexico, the purchase of steel products from the United States, Canada, and Europe increased by 60%, while purchases from China and Asia decreased.

In this context, in 2016 AHMSA once again increased production, reaching 4.65 million metric tons of liquid steel and 4.25 million metric tons of finished steels, both establishing historic records, notwithstanding the fact that the company operated at 70% of its capacity in liquid steel and at 75% in rolling.



In the area of finances, the signing of the General Agreement with the principal debt holders–an agreement subsequently accepted without opposition by the Assembly of Creditors, by the court in charge of suspension in Mexico, and by the Bankruptcy Court of Delaware, United States–was a happening worth mentioning.

Through payments and capitalization, the agreement allows greater financial flexibility and a very manageable level of indebtedness for the Company, situated among the lowest in the steel industry worldwide.

Furthermore, by eliminating barriers for a potential partnership with other companies, the restructuring facilitates the projects generating products with a greater profitability, within AHMSA's strategic plan focused on decreasing its dependency upon commercial steels and leveraging the market niches offered in Mexico by industries such as the automotive, energy, and heavy machinery, among others.

Along these lines, during 2016, the Normalizing Plant was commissioned and great progress was made on the Degassing Plant. These two units will be joined by a cold-rolling plant with a capacity of up to 1.8 million metric tons. This facility includes a tin plate line that will increase annual production capacity to 450 thousand metric tons. In order to make this project viable, an agreement was signed with Primetals Technologies for supplying equipment, based on financing from international banks. At the end of this process, the annual capacity of finished steels will reach 5.5 million metric tons.

Altos Hornos de México, which has managed to maintain its operations and make progress in very complex commercial times, perceives greatly improved perspectives in the coming year, and observes a sum of factors which supports this vision:

• Thanks to the investments in modernization and efficiency activities that the Company has been implementing, there has been an operational and financial benefit, not yet quantified in value added.

• During 2016 AHMSA operated with low prices, and improved its indicators, creating an important margin for elevating the EBITDA, to the degree in which steel prices continue to recover and due to the larger amount of value added products marketed.

• Likewise, even though the devaluation of the peso was favorable to the costs in the mines, the EBITDA of the sector was limited to 50 million dollars due to some supply contracts that were expressed in pesos, when part of the ore is produced in the United States, with costs in dollars. Therefore, work is being done to maximize efficiency, among other things, with the commissioning of equipment with a greater capacity and a coal duct that will facilitate transportation and lower its costs.

• The recovery in the price of oil reactivates the investment in the energy industry and benefits the Company by growing the demand for steel plate, which is a material for which AHMSA is the second most important supplier in the Americas, and which represents 30% of our production.

In addition to this, Altos Hornos de México holds an optimistic view of the process of reviewing the trade agreements with the United States, Canada, and Europe, considering that steel holds a favorable position, and in the case of the United States, high level members of President Trump's team are aware of the difficulties with which the steel industry has been coping.

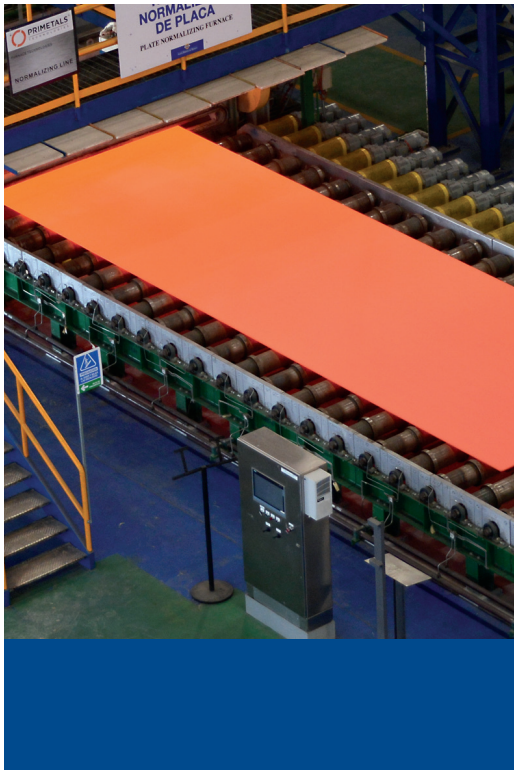
In that regard, Mexico should work with its trade partners to perfect and strengthen the agreements, with a view to making them more streamlined, and introduce the corrections that will lead to a win-win relationship.

For example, currently trucks with products for import and export take an average of 6 hours to cross the U.S. border, which represents a cost of over 60 billion dollars a year. If mechanisms were streamlined and controls were updated, the crossing time could be reduced by half, and the savings could be allocated to a better infrastructure at the border.

Alonso Ancira Elizondo
Executive Chairman of the Board
April 2017

Progress in high-technology steels

During 2016, Altos Hornos de México (AHMSA) developed programs of production, commercialization, efficiency and savings that allowed better results compared to the previous year, although the problematic of steelmakers at global level has not changed due to excess in steel production, stagnation in demand and unfair trade practices, mainly by Chinese companies.



Normalizing Plant.

Vacuum Degassing Plant.

Meanwhile, the financial environment for the company changed significantly when a definitive agreement was reached with its creditors, making it possible to reduce the indebtedness of the company and afford it greater flexibility to support its plans for development in the mid and long term.

Altos Hornos de México maintained the operation of its two steel plants in Monclova, Coahuila, and its extractive activities of various minerals–primarily iron and coal, its basic raw materials–grouped in its subsidiary, Minera del Norte (MINOSA), which additionally supplies steam coal to the Federal Electricity Commission [Comisión Federal de Electricidad] (CFE) in Nava, Coahuila.

Under its various operational units, MINOSA has coal, silver, gold, copper and associated minerals deposits in different regions of Mexico, as well as in Israel and the United States of America.

As an essential part of its strategic development plan, in 2016 AHMSA continued to make progress in projects for the generation of specialized steels with a high added value, bringing about the inauguration of the Normalizing Plant and making im-

Alonso Ancira Elizondo (right), Chairman of the Board, and the Executive Vice-President of Primetals Technologies, Aashish Gupta, signed the agreement.

portant advances on the Vacuum Degassing Plant, which is expected to begin operations in the second semester of 2017.

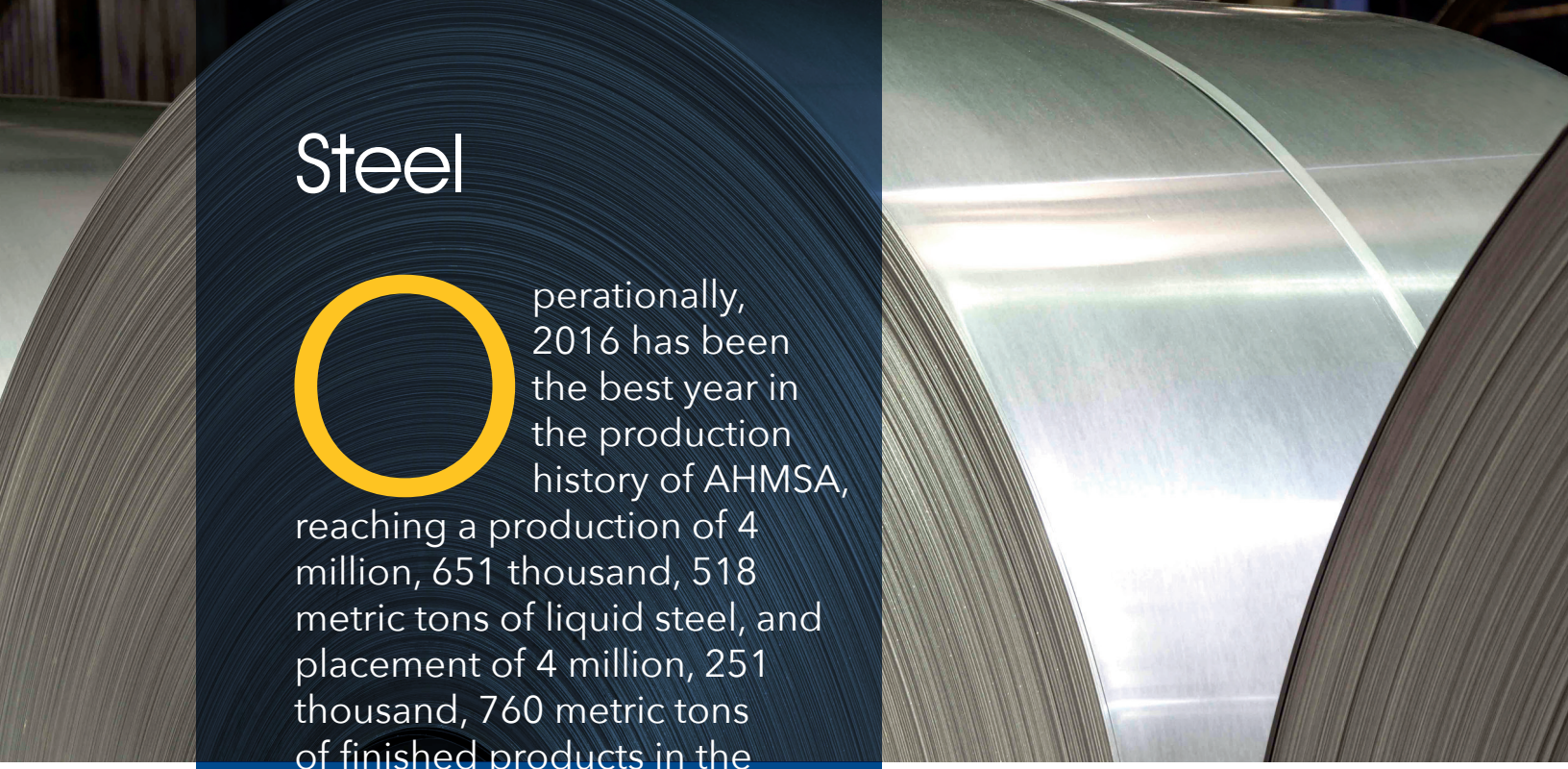
Along these lines, an agreement was signed on November 23, 2016 by Alonso Ancira Elizondo, Chairman of the Board, and Aashish Gupta, Executive Vice-President of Primetals Technologies, to receive funding from the European bank in the amount of 417 million Euros, in order to purchase from Primetals Technologies Limited, equipment for the production of laminated steels that are currently not manufactured in Mexico.

Similarly, changes to the Hot Rolling Plant will make possible the production of thinner steel sheets, in order to satisfy other segments of the domestic market that are currently imported.

The planned investment ensures the continuity of the programs designed by AHMSA to strengthen its profitability, by decreasing dependency on commercial steels and increasing the manufacture of products with greater technological requirements and added value, which will be destined to the automotive, energy, transportation industries, and for specialized industrial uses.

This new investment includes the replacement of Continuous Casting 3, re-equipping the Hot Rolling Mill, to increase its capacity from 2.8 to 4 million metric tons per year of steel strip, with a capacity for thinner rolling, installation of a third Cold Rolling Plant to increase the processing capacity from 800,000 to 2,300,000 metric tons per year, with production of steels of greater dimensions and better quality, and a new double-reduced tin plate unit to elevate production from 150,000 to 450,000 metric tons annually of tin plate and tin free steel.

Re-equipping the Hot Rolling Mill, will increase its capacity from 2.8 to 4 million metric tons per year of steel strip, with a capacity for thinner rolling.



Steel

Operationally, 2016 has been the best year in the production history of AHMSA, reaching a production of 4 million, 651 thousand, 518 metric tons of liquid steel, and placement of 4 million, 251 thousand, 760 metric tons of finished products in the markets. These levels represent increases of 4.3% and 9.8%, respectively, compared to the previous year.

Even though the maximum nominal volume of 6.5 million metric tons of liquid steel was not reached due to the general conditions of the market, the higher production partially reflected the contribution of the new facilities included in the Fénix Project, whose objective was to maximize the yield of the rated capacity and to generate a greater variety of value added steels.

In the framework of increased production compared to 2015, the electric arc furnace stands out among the new equipment in operation, with 32.4% more liquid steel, and Continuous Casting Machine 4, which increased its production of slab by 10%.

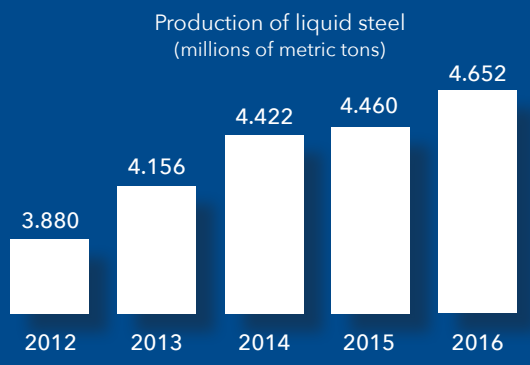
Likewise, the liquid steel processed on the four continuous casting machines generated 4 million, 482 thousand metric tons of slab, exceeding the 4 million, 284 thousand metric tons obtained in 2015.

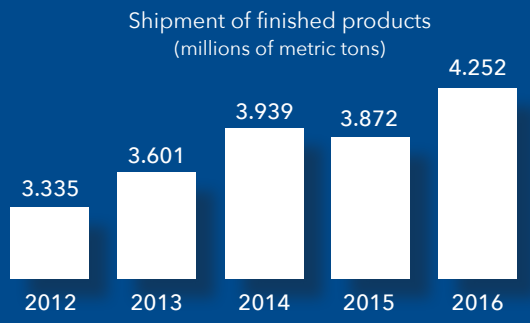
On the finished steels lines, the tin free steel and tin plate—two high value added products, of which AHMSA is the sole manufacturer in Mexico—registered a volume of 153 thousand metric tons, which was greater than the 136 thousand metric tons reached in the year of 1998.

In terms of productivity, Blast Furnace 5 stood out for its coke rate, consuming 382 kilograms of coking coal per metric ton of pig iron produced, compared to 389 kilograms in 2015. At the same time, as far as the fuel rate is concerned (sum of all the fuels required per metric ton of steel produced), the number reached 522 kilograms, which is 6 kilograms lower than what was last registered.

A better coke rate was achieved in Blast Furnace 6, with 361 kilograms, compared to 385 in 2015. The fuel rate on this production unit was 506 kilograms, which is lower than the 526 kilograms achieved the previous year.

With the decrease in the fuel rate, Blast Furnace 6 no longer generates 17.5 percent carbon dioxide, and in the comparison of the steel industry for the North American





region, it went from eleventh to fourth place among the units in operation with the least energy consumption.

Likewise, during the year, progress solidified at the Nacional de Acero (NASA) subsidiary, which, with its processes of transformation and adaptation of steel generated by AHMSA, supplied steel plate for the shipbuilding yards that the Ministry of the Navy operates in various ports in the country, and gained great acceptance in the market for its construction model ***ACERHOGAR***, with the sale of over 1,500 housing modules.

Based on a light-weight steel structure, the ***ACERHOGAR*** model has been adopted primarily by the state agencies that deal with the construction of state-subsidized housing, given the low cost, versatility, and ease of construction, that allows for adaptation to any environmental condition.

NASA supplies steel plate to the Ministry of Navy for shipbuilding.

NASA construction model ***ACERHOGAR*** in the state of Guerrero.

Mining

In 2016, the MICARE Unit of Minera del Norte delivered 6 million, 208 thousand metric tons of steam coal to the Federal Electricity Commission [Comisión Federal de Electricidad] (CFE). This raw material was used for generating electric power in Coal Plants I and II, located in the Municipality of Nava, Coahuila.

MICARE met 100% of the CFE's requirements, despite the great challenges experienced in the first quarter in the area of open-pit mining, when the Siglo XXI and Carlos III Norte pits both simultaneously reached the end of their productive life, and the equipment was relocated to the new Carlos III Sur pit. 56% of the annual production came from underground mines.

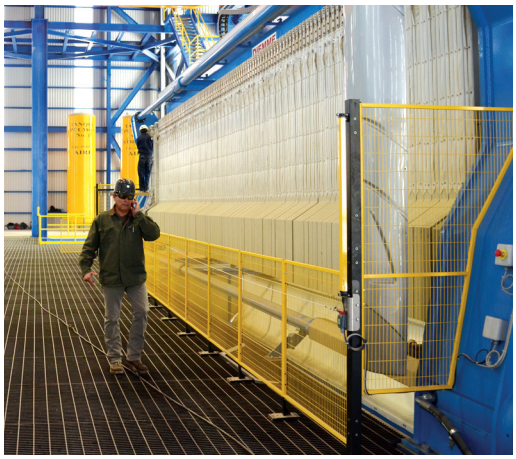
In order to achieve a greater efficiency in the operation of the open-pit mines of the MICARE Unit, in the second quarter of 2017, new off-road trucks with a 300-metric ton load capacity will be added to the operation, considerably raising the yield of the dredger and the efficiency of the stripping.

For its part, the MIMOSA Unit, which operates underground and open-pit metallurgical coal mines in the Carboniferous region of Coahuila, reached a production of 5 million, 204 thousand, 428 metric tons of run-of-mine coal. This was 3.3% higher than the amount obtained in 2015. 87.7% of the coal was extracted from underground mines, with an outstanding performance by Mine VII.

In the iron area, the MINOSA Unit—which includes the Hércules deposit in Coahuila, and La Perla deposit in Chihuahua—registered a production of 3 million, 574 thousand, 311 metric tons of concentrate in 2016, which was sent via the 300-mile ferroduct to AHMSA's steel plants. Production was 1.8% lower than in 2015.

The finding of new iron reserves at Hércules, with high levels of purity guarantees certainty of a high-quality ore supply for steel plants for the next 30 years.

The CEMESA Unit, which operates a de-



posit of iron ore in the city of Durango, registered production of 332 thousand, 733 metric tons of concentrate, which were shipped to AHMSA by rail. This volume was similar to that registered in 2015.

In other minerals, the Real del Monte Unit, in Pachuca, Hidalgo, reached a production of 591 thousand ounces of silver equivalent, and Minera El Baztán, in the State of Michoacán, generated 3 thousand, 582 metric tons of copper concentrate.

Both subsidiaries continued throughout the year with the geological work, resulting in the identification of new resources that make it possible to forecast an increase in extractive activities and strengthening of its profitability.

Likewise, in the case of the railroad company ***Línea Coahuila-Durango,*** of which AHMSA is a co-owner with 50% of the capital investment, focused primarily on transportation of mineral-based raw materials, the legal changes under development will make possible to substantially expand and diversify its transport operations, beyond the current levels of 4 million metric tons annually of cargo.

Railroad company *Línea Coahuila-Durango*.

Investments

Steel

Capital investments in AHMSA steel plants reached 66.6 million dollars, allocated primarily to equipment, systems, and units that were registered in the strategic plan for progressing toward high-specification, and higher value added steels.

In that framework, the Normalizing Plant was completed. This unit was inaugurated on June 27, in a ceremony presided over by the Secretary of the Navy, Admiral Vidal Francisco Soberón Sanz. The facility required an investment of 140 million dollars, funded through the company's own resources. The plant was contracted with Primetals Technologies, a company that resulted from the partnership between the Austrian firm Siemens Vai Metals Trechnologies and the Japanese firm Mitsubishi Hitachi Metals Machinery.

With a capacity for processing 350 thousand metric tons annually, normalization is intended to homogenize the microstructure and the mechanical properties throughout the entire width and length of the steel plate, by means of a thermal treatment which includes its subsequent natural air cooling.

Normalized plate is used especially in the manufacturing of railroad tank cars, marine vessels, boiler components, marine platforms, heavy equipment, wind turbine towers, and large pressurized containers, among other items.

With the same purpose of developing a capacity for manufacturing high-technology steels, work continued on the installation of a Dual

This Normalizing Plant was inaugurated on June 27, in a ceremony presided over by the Secretary of the Navy, Admiral Vidal Francisco Soberón Sanz.

System Vacuum Degasser, which will be commissioned in 2017 to provide special treatment to liquid steel and venture into new market niches currently supplied by imports.

Toward the end of the first quarter Power Plant 8 entered operation, with a capacity of 40 megawatts, equipped with high-efficiency Caterpillar generators, as part of the savings program replacing the purchase of external electric power.

Important resources were also applied on the Hot Rolled Strip Line, as part of the program for replacement of the two stands of the Universal Mill, which are parts ordered from the Primetals company, and received at the Port of Altamira toward the end of December, 2016. The total investment in this item was 5.5 million dollars.

In general terms, the investments made in the AHMSA steel plants included replacement projects, modernization and optimization of assets, technological upgrades, major rehabilitations, training and environmental projects.

Mining

In order to guarantee the adequate operation aligned with the Company's work programs and maintain a level of reserves that would guarantee the viability of the Company in the long term, 44 million dollars were invested in 2016 in the different Minera del Norte (MINOSA) Units.

For the MICARE Unit—which produces steam coal—16.5 million dollars were allocated, mostly for the continuity of the Dos Repúblicas and Carlos III deposits. Likewise, the investment in the MIMOSA Unit reached 11.5 million dollars, to be applied in the operation and in the preparation of new deposits, such as the development known as "Conchas," which will begin to produce coal in 2017.

Likewise, MIMOSA continued the work on degassing, in order to guarantee safe conditions for the personnel, and progress was made on the project focused on the utilization of mine gas for generating electricity with the additional benefit of carbon credits.

At the MINOSA Unit, which includes the iron deposits located in various states and predominantly the mines and plants of Hércules, La Perla and Cerro del Mercado, the investments of 2.8 million dollars focused primarily on equipping the mines, concentrator plants, tailings pond, and ferroduct.

La Negra, H14, and the Ulises deposits in particular stood out from the others at the MINOSA Unit because they made it possible to maintain the supply of iron concentrate required by AHMSA, while at the same time reducing operating costs.

Also, at Cía. Minera El Baztán and Real del Monte and Pachuca investments were made in the amount of 1.1 million dollars for maintaining extraction and refining operations of silver, gold and copper.

Finances

FINAL AGREEMENT WITH CREDITORS

On the basis of the unanimous acceptance by the Creditors Assembly of the payment proposal presented by the Company, on May 16, the Judge First of the Civil Court based in Monclova, Coahuila, Atty. Juan Carlos Carranza Leija, ruled the ending of the process of suspension of payments by Altos Hornos de México.

The judicial decision was the result of the approval of the General Agreement on Payments, negotiated with the main creditors, which was presented to the assembly–quoted according to the law by judge Carranza by April 18th–in which 75% of the recognized creditors were represented, with no recorded opposition to the formula which was presented to them.

Signing of termination of the AHMSA suspension of payments process.

According to the terms of the agreement, as of the signing of the ruling, and within a maximum period of three years, the creditors will receive the total amounts owed, and recognized by the judge–which comes to 1,700 million dollars–with the option of capitalizing part of them.

This option to partially capitalize the debts was accepted by the majority of the creditors, who will exchange nearly half of the total amount of the debt for shares in the company and will receive cash payment for the remainder, which will ultimately substantially reduce AHMSA'S final liabilities and will allow for greater financial flexibility.

In the context of the legal process, on August 3, a resolution was drafted which declared final the ruling of approval of the General Agreement on Payments issued on May 16, final, by virtue of the fact that no nonconformity appeal was presented against the original ruling.

FINANCIAL RESULTS

In 2016, the accumulated results of AHMSA and Subsidiaries reflected an increase in revenue from sales and EBITDA. In annual terms, the Company obtained an EBITDA of 220.1 million dollars, compared to 15.3 million dollars registered during the same period in 2015, which represents an increase of 1,342%. Total sales were 48,512 million pesos, more than the 41,100 million pesos obtained in 2015.

Steel sales greater by 382 thousand, 397 metric tons (+10.1%), with a total commercialization of 4 million, 156 thousand, 405 metric tons, as well as a better product mix and efficient cost-reduction programs, made possible better results compared to 2015. This recovery, nevertheless, was limited by falling average prices, which, in terms of dollars, were significantly lower than the previous year.

In the face of the monetary instability which predominated during the year, especially in the second semester, a positive factor for the Company continued to be its high integration in pesos throughout the entire productive chain, which ranges from the generation of its mineral raw materials through its own deposits, to the manufacturing of value-added steels.

That positive factor was reverted in the case of coal sales for the MICARE Unit, because the contract for supplying coal for the Federal Electricity Commission [Comisión Federal de Electricidad] is expressed in pesos and part of the coal comes for the Dos Repúblicas mine, with costs in dollars.

This circumstance limited the recovery of margins and the operations losses, which in 2015 reached 4,050 million pesos, in 2016 was reduced to 1,100 million pesos, while the net annual loss went from 4,280 million pesos to 3,170 million pesos in 2016.

Quality

During 2016 a new program for integration and engagement was designed and implemented, focused on driving operational efficiency, strengthening the quality of the steel products, and achieving the maximum customer satisfaction with products and services, based on initiatives of laborers and employees on effective and innovative projects and actions.

A new approach to work, known as Efficiency Circles, and supported by a stimulus program for participating personnel, received a decisive boost at the beginning of January, 2017, in the AHMSA group and its companies. The new approach aims at reinforcing teamwork among the employees of the steel plants and the mines, spanning the entire array of the productive chain.

Regarding quality systems, 29 audits were carried out in 20 departments and in 7 companies belonging to the group—almost all of which were approved without comments—in order to maintain guarantees for various clients, with the compliance with domestic and international standards, and 48 process and production control audits were done, covering 1,300 variables.

In 2016, the ISO TS16949:2009 certification in Hot Rolling and Cold Rolling 2 was kept current; ISO 14001:2004 was maintained in nine of AHMSA's departments; ISO 9001:2008 in Hot Rolling, Steckel Mill; and BOF 2 and Continuous Casting; ISO 17025 in

the Metallurgy Laboratory; and the Integrated System of ISO 14001:2004, for quality.

Likewise, the OHSAS 18001:2007 certificate continued to be valid in health and safety, and ISO 9001:2008, for quality, in Structural Shapes and Cold Rolling 1, a standard which is also certified by the Monclova Unit of Nacional de Acero (NASA) and the AHMSA Technical Training Center (CCT).

One of the highlights of the year was the certification of the steel coil in the Euro Standard DIN EN10025-1 for the commercialization of AHMSA Steels in the European Community market, and the ABS certification was maintained in the departments of Hot Rolling, Blast Furnace 6, Steckel Mill, and BOF 2 and Continuous Casting, for production of plate and coil meant for use in marine vessels and ships.

Under this same standard, the certification was upheld for the Monclova Unit of the Nacional de Acero Company in its maquila processes for plate and hot rolled coils from AHMSA.

Regarding mines the MICARE, MIMOSA, La Perla, Hércules and CEMESA Units of Minera del Norte, renewed the certifications of the ISO 9001:2008 standard.

Social and Environmental Responsibility

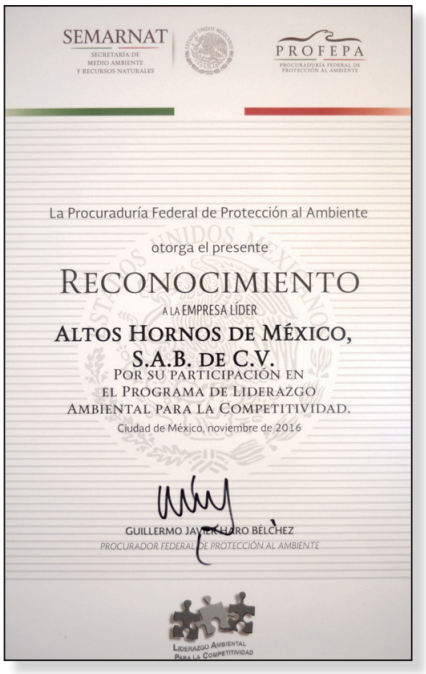
Over the years, AHMSA and its subsidiaries have unchangeably sustained a company philosophy of commitment to the wellbeing of its employees, their families, and the inhabitants that make up its area of influence, in order to guarantee a sustainable industrial operation that is beneficial to everyone.

One of the central points of that policy of social responsibility has to do with environmental protection, in order to minimize the impact of productive processes, and drive various actions for environmental improvement.

In this regard, in 2016 funding was obtained in the amount of 30 million dollars, granted by the North American Development Bank (NADBANK), to modernize emission control in the BOF Steelmaking of Steelworks 2, which represented a recognition by the binational institution of the concern of the Company for caring for the ecology.

The installation of the system will begin in mid 2017, and it includes a new "baghouse" which will reinforce environmental control by capturing and confining emissions in the areas of loading of steel and scrap, unloading of steel, slag removal, and hot metal.

Participants of Environmental Leadership for Competitiveness Plan promoted by PROFEPA.



SEMARNAT
SECRETARÍA DE MEDIO AMBIENTE Y RECURSOS NATURALES

PROFEPA
PROCURADURÍA FEDERAL DE PROTECCIÓN AL AMBIENTE

La Procuraduría Federal de Protección al Ambiente

otorga el presente

RECONOCIMIENTO

A LA EMPRESA LÍDER

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

POR SU PARTICIPACIÓN EN EL PROGRAMA DE LIDERAZGO AMBIENTAL PARA LA COMPETITIVIDAD.

Ciudad de México, noviembre de 2016

GUILLERMO JAVIER ÚRO BELCHEZ
PROCURADOR FEDERAL DE PROTECCIÓN AL AMBIENTE

LIDERAZGO AMBIENTAL PARA LA COMPETITIVIDAD

Likewise, in 2016 the Environmental Leadership for Competitiveness Plan–carried out in coordination with the Federal Environmental Protection Agency, (PROFEPA)–, with benefits in savings of water equivalent to 1.9 million cubic meters of water annually, 1.7 million kwh per year of energy savings, a decrease of emissions of 7 thousand, 853 metric tons of CO_2 annually, and 264 metric tons per year of solid waste avoided.

In the context of the program for exploitation of methane gas associated with the coal seams, the Federal Environmental Protection Agency, (SEMARNAT) authorized Minera del Norte (MINOSA) to develop a Project of cogeneration of electric power from this fuel, most of which is extracted by drilling before and during the operation, in order to maximize the safety of the operators in the underground deposits.

The Agency authorized the installation of 12 systems of 1,600 kilowatts each, to generate up to 19.2 megawatts total, supplied by methane gas from the Minas V, VI, VII, IX, X, and XI, operated by the MIMOSA Unit in the Carboniferous Region of Coahuila. In the month of July, the installation of the first plant began, located in Mina VII.

This Project for cogeneration of electric power supplements the program of methane gas elimination which regularly operates within the framework of an agreement with the United Nations (UN).

Measurement of methane gas emissions that are used for the generation of electric energy.

Simultaneously, in the open-pit mines of the MICARE and MIMOSA Units, the ecological rehabilitations program for exploited soils was maintained, with the planting of 81 thousand, 488 plant species to cover an area of 135 hectares, of which 120 belong to the MICARE Unit, and 15 to the MIMOSA Unit.

This work was supported by the AHMSA and MICARE Unit plant nurseries—located respectively in Frontera and Nava, Coahuila—which delivered 26 thousand, 890 trees for internal reforestation in the AHMSA departments, for the pits of Minera del Norte and for green areas of the companies. Furthermore, 15 thousand, 191 trees were delivered to various institutions and foundations, which were allotted for reforestation and improvement of the environment in various cities of Coahuila.

The plant production was accompanied by the continuous work on the ecological ranches in Fresnillo, Fénix, Salsipuedes, Chuparrosa and Candelaria, focused on breeding Desert Bighorn Sheep, various kinds of deer and other species, in order to support the repopulation of traditional fauna, and improve cattle-raising in small properties and ejidos.

The Genetic Improvement Program for the Benefit of regional communities of farmers, made new deliveries of specimens of pedigree cattle and goats, primarily to the Carboniferous and Northern Regions of Coahuila.

A recycling plant for the recovery of materials and metals, was commissioned by Cleaning Commission.

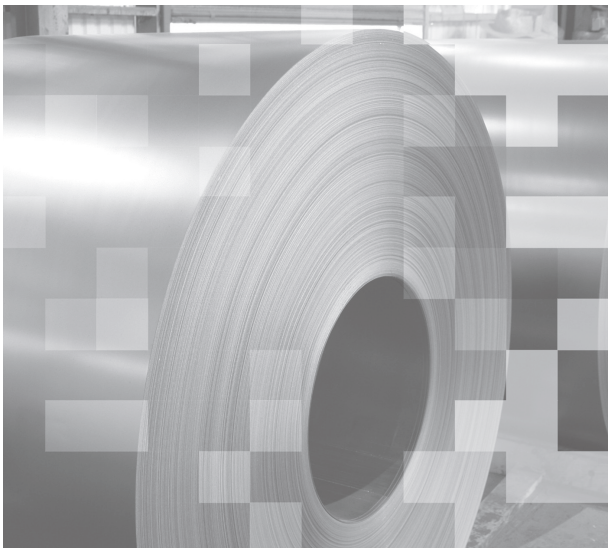
In the area of urban cleaning, AHMSA maintained its support for the Cleaning Commission for the Central Region of the State, and for the Association for Cleaning of Cinco Manantiales in Coahuila, systems for the collection and confinement of urban waste, which, in the first case serves the cities of Monclova, Castaños, Frontera, San Buenaventura, and Nadadores, and in the second, serves Allende, Nava, Zaragoza, Morelos and Villa Unión, bordering on the coal mining regions.

In order to strengthen the efficiency of the operation of landfills in the Central Region of the State, at the beginning of the year the Board, through a third party, commissioned a recycling plant designed to recover materials and metals capable of being used for a second industrial application, which involves the additional benefit of decreasing the load and increasing the useful life of the landfill cells.

In other aspects of its social investment programs, during 2016 AHMSA and its companies sustained the activities and contributions in matters of education, health, sports, community development, culture and recreation arranged with authorities and civil organizations in the communities of the environment of the steelworks and mining operations.

Through the support of AHMSA, the Cleaning Commission Board made the delivery of 1000 containers, three trucks, in addition to civil works for the benefit of the 5 municipalities of the Central Region of Coahuila.

AHMSA carried out cultural and recreational activities during 2016, for the benefit of the population where it operates.



Financial Section

2016 Operating Results compared to those of 2015

Sales Volume

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

Coal Segment. In 2016, AHMSA sold a volume of 5,621 thousand tons of steam coal, figure lower than the 6,452 thousand tons sold in 2015.

Net Sales

AHMSA's total net sales in 2016 were of Ps.48,512 million, an increase of 18% compared to AHMSA's total net sales of Ps. 41,100 million in 2015.

Steel Segment. Net sales of the steel segment (including other sales) increased 22%, from Ps. 35,452 million in 2015 to Ps.43,244 million in 2016, mainly due to an increase in the volume of metric tonnes sold, accompanied with a significant raise on the sales price. AHMSA's average sales price per tonne of steel products had a raise of 11.2%, from Ps. 9,236 in 2015 to Ps. 10,272 in 2016.

Export sales represented 13.9% of the revenue from steel sales in 2016 (15.3% of the sales volume of steel products for that year) compared to 13.3% of revenue from AHMSA's steel sales in 2015 (14.2% of the sales volume of steel products for that year).

In 2016 and 2015, AHMSA reported other sales of Ps.551 million and Ps.595 million, respectively. Other sales in the steel segment were mainly of by-products of the coke plant and pig iron waste.

Coal Segment. Steam coal sales were of Ps. 4,508 million during 2016 compared to Ps. 5,011 million reported in 2015, representing a decrease of 10.0% mainly due to a decline of the volume of sales. The steam coal´s price per ton increased 4.4%, from Ps.763 in 2015 to Ps.797 in 2016.

Others Segment. Other sales were of Ps.760 million during 2016 compared to Ps.636 million reported in 2015, representing a raise of 19.6%.

Cost of Sales, Depreciation, Gross Profit

Cost of sales (not included depreciation) raised 9.6% in absolute terms from Ps.38,571 million in 2015 to Ps.42,278 million in 2016, following an increase in the cost of sales of steel and coal segment. As a net sales percentage, it reduced from 93.8% in 2015 to 87.1% in 2016.

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

AHMSA's consolidated gross profit increased 308%, from Ps.(1,183) million in 2015 to Ps.2,459 million in 2016.

Steel Segment. Cost of sales (not included depreciation) for AHMSA's steel segment increased 10.5 %, from Ps.33,063 million in 2015 to Ps.36,535 million in 2016. Due to the growth in the consumption of imported raw material.

Energy costs increased by 12.4% in 2016 compared to 2015. This was mainly due to the increase in prices. In 2015 it represented 20.0% of the steel segment net sales, while in 2016 it was 18.5%.

The depreciation in this segment decreased 1.7%, from Ps.3,168 million (8.9% of the steel segment net sales) in 2015 to Ps.3,113 million (7.2% of the steel segment net sales) in 2016.

Based on the aforementioned factors, AHMSA reported a gross profit (loss) in the steel segment of Ps.3,596 million (8.3% of the steel segment net sales) in 2016, compared to a gross profit (loss) of Ps.(779) million (2.2% of the steel segment net sales) in 2015.

Coal Segment. Cost of sales (not included depreciation) of AHMSA's coal segment increased 8.5%, from Ps.4,498 million (89.8% of the coal segment net sales) in 2015 to Ps.4,878 million (108% of the coal segment net sales) in 2016.

Furthermore, energy costs decreased 34.1%, from Ps.555 million (11.1% of the coal segment net sales) in 2015 to Ps.366 million (8.1% of the coal segment net sales) in 2016, mainly due to the decrease in the electric power consumption respect to 2015.

Labor costs increased from Ps.930 million (18.6% of the coal segment net sales) in 2015 to Ps.1,197 million (26.5% of the coal segment net sales) in 2016.

The depreciation in this segment increased in absolute terms in 23.2%, from Ps.449 million (9.0% of the coal segment net sales) in 2015 to Ps.553 million (12.3% of the coal segment net sales) in 2016.

AHMSA reported a gross profit (loss) in the coal segment of Ps.(924) million (20.5% of the coal segment net sales) in 2016, compared to a gross profit (loss) of Ps.64 million (1.3% of the coal segment net sales) in 2015.

Others Segment. Cost of sales (not included depreciation) of AHMSA's others segment decreased 14.4%, from Ps.1,010 million (158.6% of others segment net sales) in 2015 to Ps.865 million (113.7% of others segment net sales) in 2016.

The depreciation in this segment increased in absolute terms in 15.2%, from Ps.95 million (14.9% of the others segment net sales) in 2015 to Ps.109 million (14.4% of the others segment net sales) in 2016.

AHMSA reported a gross profit (loss) in the others segment of Ps.(214) million (28.1% of the others segment net sales) in 2016, compared to a gross profit (loss) of Ps.(468) million (73.6% of the others segment net sales) in 2015.

Administrative and Sale Expenses

Administrative and sale expenses represented 6.0% and 6.9% of AHMSA's net sales in 2016 and 2015, respectively, increasing in absolute terms of 2.4%, from Ps.2,846 million in 2015 compared to Ps.2,916 million in 2016.

Steel Segment. AHMSA's steel segment administrative and sale expenses increased 6.9%, from Ps.2,342 million (6.6% of the steel segment net sales) in 2015 to Ps.2,504 million (5.8% of the steel segment net sales) in 2016.

Coal Segment. AHMSA's coal segment administrative and sale expenses had a decrease of 16.8%, from Ps.190 million in 2015 (3.8% of the coal segment net sales) to Ps.158 million (3.5% of the coal segment net sales) in 2016.

Others Segment. AHMSA's others segment administrative and sale expenses had a decrease of 19.3%, from Ps.314 million in 2015 (49.3% of the others segment net sales) to Ps.253 million (33.3% of the others segment net sales) in 2016.

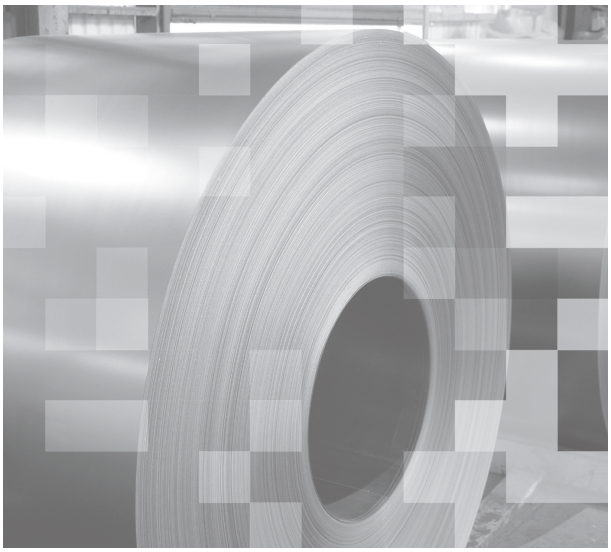
Operating Income Before Financial Results

In 2016, AHMSA's operating (loss) income before financial results was of Ps.(1,100) million (2.3% of net sales) compared to operating (loss) income of Ps.(4,050) million (9.9% of net sales) in 2015.

Steel Segment. Operating (loss) income before financial results for AHMSA's steel segment was Ps.933 million in 2016, compared to operating (loss) income of Ps.(3,150) million in 2015.

Coal Segment. Operating (loss) income before financial results for AHMSA's coal segment was Ps.(1,566) million in 2016, compared to operating (loss) income of Ps.(118) million in 2015.

Others Segment. Operating (loss) income before financial results for AHMSA's others segment was Ps.(467) million in 2016, compared to operating (loss) income of Ps.(782) million in 2015.



Independent Auditor´s Report to the Board of Directors and Stockolders of Altos Hornos de México, S.A. B. de C.V.

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Independent Auditor´s Report to the Board of Directors and Stockolders of Altos Hornos de México, S.A. B. de C.V.

(In millions of Mexican de pesos)

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 statements of financial position as of December 31, 2016, 2015 and 2014, 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016, 2015 and 2014, 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 opinion

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 opinion.

Emphasis of matters

- Modification to the opinion of 2015

On March 18, 2016, we issued our report to the consolidated financial statements of Altos Hornos de México, S. A. B. de C. V., as of December 31, 2015, in which we express a qualified opinion, due to the fact that we were unable to obtain sufficient audit evidence to allow us to assess the recoverable value of the property, plant and equipment, net as of December 31, 2015. Consequently, we could not reasonably determine whether an adjustment should be reflected in the carrying value of the Company's long lived assets. At the date of this report, we received the necessary information to conclude on this matter, so our current opinion on the financial statements for 2015 (prior year) is an unqualified opinion.

- Judgment regarding the lifting of suspension of payments

On May 16, 2016, the first judge of first instance in Monclova, Coahuila, issued the sentence for the lifting of the Suspension of Payments of the Company as a legal entity. 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 becomes final. Likewise, it is

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 impacts, guarantees and detail of the aforementioned agreement are disclosed in Note 2 to the consolidated financial statements.

- Going concern

We draw attention to Note 3 a) to the consolidated financial statements, regarding the Company's ability to continue as a going concern. Our opinion has not been modified in relation to this issue.

Audit key 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. In addition to the issue described in the "Emphasis of Matters" section of "Going concern", we have determined that the issues described below are the key audit issues to be communicated in our report.

a) Impairment of long-lived assets

Acccording 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. Our audit procedures included, among others:

i. Analysis of the financial projections prepared by the Company with the support of our valuation specialists, 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) 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.

b) Restructuring agreement of liabilities in suspension of payments

On April 18, 2016 the creditors' meeting was held, in which all the attendees creditors voted in favor of the agreement for lifting the Suspension of Payments for approval; the Judge issued a favorable judgment on May 16, 2016, same became final on August 3, 2016, required under the process of lifting the suspension of payments of the Company, which has important effects on the presentation of the consolidated financial information. Our audit procedures to cover the risk in relation to the presentation and recognition of the effects related to the lifting of the suspension of payments, included:

i. Substantive procedures: Traced and agreed the liabilities recognized by the Judge against the liabilities recorded by the Company and conclude about differences.
ii. Review the correct presentation of the liabilities according to the agreement of the creditors: a) long-term liabilities to be paid within 3 years, b) capitalized liabilities, c) capitalization incentive payments.
iii. Review the formalization of agreements with shareholders and issuance of shares included in the agreement of creditors.

In Note 2 to the consolidated financial statements, includes the impacts for lifting of suspension of payments.

C) Compliance of consolidated financial debt covenants

The Company has consolidated financial debt (not including liabilities in suspension) as of December 31, 2016, for Ps.8,333, which includes certain activities 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 for the key audit issues 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.

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.

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

March 24, 2017

ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016, 2015 AND 2014
(Millions of Mexican pesos (Ps.))

	Notes	2016	2015	2014
Assets				
Current assets:				
Cash and cash equivalents	8	Ps. 944	Ps. 510	Ps. 2,219
Trade accounts receivable, net	9	2,667	1,567	2,729
Due from related parties, net	23	205	126	143
Other accounts receivable, net	10	1,385	1,562	790
Inventories, net	11	7,840	7,305	6,628
Prepaid expenses		154	95	119
Total current assets		13,195	11,165	12,628
Non-current:				
Due from related parties, net	23	485	31	26
Other long-term receivables	10	89	96	455
Guaranty deposits		835	735	577
Investments in shares of associates and joint ventures	12	80	115	147
Property, plant and equipment, net	13	44,979	45,605	44,828
Intangible assets, net	14	3,426	3,868	3,493
Other assets, net	15	525	556	965
Total non-current assets		50,419	51,006	50,491
Total assets		Ps. 63,614	Ps. 62,171	Ps. 63,119
Liabilities and stockholders' equity				
Current liabilities:				
Liability in suspension of payments	2	Ps. -	Ps. 14,901	Ps. 14,901
Financing debt	16	2,847	3,721	2,039
Due to suppliers		6,382	5,056	3,925
Taxes payable		1,270	1,076	987
Due to related parties	23	438	450	178
Other payables and provisions	17	4,955	3,274	2,440
Total current liabilities		15,892	28,478	24,470
Non-current liabilities:				
Financing debt	16	13,198	3,632	2,855
Due to related parties	23	548	-	-
Other payables and provisions	17	540	404	383
Employee retirement obligations	18	6,330	6,781	7,558
Deferred income taxes	19	4,632	5,255	6,522
Total non-current liabilities		25,248	16,072	17,318
Total liabilities		41,140	44,550	41,788
Commitments and contingencies	30			
Stockholders' equity:				
Capital stock	21	13,187	6,129	6,129
Additional capital contribution		458	458	458
Retained earnings from prior years		10,586	14,894	15,735
Loss for the year		(3,153)	(4,308)	(841)
Other comprehensive income items	22	819	(117)	(687)
Controlling interest		21,897	17,056	20,794
Noncontrolling interest	21	577	565	537
Total stockholders' equity		22,474	17,621	21,331
Total liabilities and stockholders' equity		Ps. 63,614	Ps. 62,171	Ps. 63,119

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 OPERATIONS AND OTHER COMPREHENSIVE RESULTS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Millions of Mexican pesos (Ps.), except per share data)

	Notes	2016	2015	2014
Net sales	24	Ps. 48,512	Ps. 41,100	Ps. 43,884
Cost of sales		42,279	38,570	38,010
Depreciation		3,775	3,713	3,521
Gross profit (loss)		2,458	(1,183)	2,353
Selling and administrative expenses		2,914	2,846	3,677
Other expenses (income), net	25	643	21	(1,446)
Operating (loss) income		(1,099)	(4,050)	122
Interest expense	26	1,523	1,160	825
Interest income	26	(196)	(156)	(74)
Foreign exchange loss, net		1,106	384	79
		2,433	1,388	830
Equity in (income) loss of joint ventures and associated	12	(29)	43	(24)
Loss before income taxes		(3,503)	(5,481)	(684)
Income taxes expense	19	(333)	(1,201)	(3)
Consolidated net loss for the year		(3,170)	(4,280)	(681)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX:				
Items that may be reclassified subsequently to profit or loss:				
Translation effects of foreign subsidiaries		586	427	271
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gains (losses) of employee benefits from termination and retirement		386	143	(205)
	22	972	570	66
Consolidated comprehensive net loss		Ps. (2,198)	Ps. (3,710)	Ps. (615)
Distribution of consolidated comprehensive net loss for the year:				
Controlling interest		Ps. (2,181)	Ps. (3,738)	Ps. (775)
Noncontrolling interest	21	(17)	28	160
		Ps. (2,198)	Ps. (3,710)	Ps. (615)
Basic loss per share (in mexican pesos)		Ps. (5.08)	Ps. (10.45)	Ps. (2.16)
Weighted average shares outstanding (000's)		428,911	357,873	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, 2016, 2015 AND 2014
(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, 2013	357,872,502	Ps. 6,129	Ps. 521	Ps. 15,735	Ps. (753)	Ps. 21,632	Ps. 314	Ps. 21,946
Comprehensive loss	-	-	-	(841)	66	(775)	160	(615)
Withdrawal of capital contribution for transfer of net assets between entities under common control	-	-	(63)	-	-	(63)	63	-
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

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, 2016, 2015 AND 2014
(Millions of Mexican pesos (Ps.))

	2016	2015	2014
Operating activities:			
Resources generated by operations:			
Loss before income taxes	Ps. (3,503)	Ps. (5,481)	Ps. (684)
Items related to investing activities:			
Depreciation and amortization	4,505	4,279	4,039
Equity in (income) loss of associated and joint ventures	(29)	43	(24)
Intangible assets impairment	488	-	-
Gain on sales of property, plant and equipment, net	(51)	(12)	(1,225)
Reserve of assets subject to disposal	49	55	-
Interest income	(196)	(156)	(74)
Recovery of insurance claims	-	(1)	(211)
Effect on results SP	360	-	-
Items related to financing activities:			
Interest expense	1,523	1,160	825
	3,146	(113)	2,646
(Increase) decrease in:			
Trade accounts receivable, net	(1,160)	1,134	(949)
Due from related parties, net	32	10	128
Other short and long term accounts receivable, net	(31)	(107)	202
Inventories, net	(575)	(593)	522
Prepaid expenses	(59)	24	(5)
Increase (decrease) in:			
Due to suppliers	1,529	956	289
Taxes payable	333	346	406
Due to related parties	11	13	(12)
Other payables and provisions	97	59	232
Advances from customers	1,575	164	(624)
Employee retirement obligations, net	(685)	(481)	(370)
Other long-term payables	(7)	(67)	31
Cash flow obtained (used) in operating activities			
Income tax recovered (paid)	50	(342)	(753)
Interest expenses paid	(258)	(133)	(159)
Interest income received	76	76	46
	928	1,059	(1,016)
Net cash flow provided by operating activities	4,074	946	1,630
Investing activities:			
Additions to property, plant and equipment	(2,365)	(2,630)	(2,380)
Cash provided by sales of property, plant and equipment	178	133	3,256
Dividend from associated company	60	-	30
Investment in shares of associated companies	5	(19)	(42)
Guaranty deposits	(99)	(158)	(161)
Interest received	8	9	11
Other short term accounts receivable	(41)	(268)	-
Other assets, net	12	60	(28)
Purchase of equity of noncontrolling interest	(7)	-	-
Intangible assets, net	(441)	(793)	(700)
Net cash flow used in investing activities	(2,690)	(3,666)	(14)
Financing activities:			
Financing debt	1,357	1,533	442
Financial debt paid	(1,965)	(749)	(736)
Due to related parties	(51)	231	-
Payment released of lifting of Suspension of Payments	(388)	-	-
Interest paid	(669)	(499)	(422)
Net cash flow (used in) provided by financing activities	(1,716)	516	(716)
(Decrease) increase in cash and cash equivalents	(332)	(2,204)	900
Adjustments to cash flow due to exchange rate fluctuations	766	495	438
Cash and cash equivalents:			
Beginning of year	510	2,219	881
End of year	Ps. 944	Ps. 510	Ps. 2,219

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 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.548 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 in the last two years, which has led to delays in the fulfillment of its short-term obligations, mainly the timely payment to suppliers, however the Administration considers that with the cost reduction measures being taken, as well as the recovery of steel prices in the last three months, it is possible to strengthen the situation and the level of working capital and 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, 2016, 2015 and 2014, AHMSA has accumulated advanced funds of US$247, US$233 and US$215, 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, 2016, 2015 and 2014, MATT Biz has incurred accumulated expenses of US$43, US$40 and US$36, 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. (See Note 12). As of December 31, 2016, MATT Biz has a 5% stake in Boom.

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

In June 2014, AHMSA acquired for €400,000 Euros, 80% of the shares of the capital stock of the Dutch company Moonen, which is engaged in the construction of vessels. In 2014, AHMSA signed two agreements to manufacture 2 boats with a value of €14 million Euros each.

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.

On December 31, 2016, AHMSA capitalized € 9.9 million of its receivables in Moonen, resulting in AHMSA's participation of 99%. As of December 31, 2016, 2015 and 2014, the Company has spent cash flows of €16, €11 and €6 million Euros, respectively.

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

In March 2015, 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 and mature on March 30, 2017. During the last quarter of 2016, MINOSA granted loans for an additional US$2 at a rate of 10% per annum.

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 to the consolidated statement of changes in stockholders' 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, 2015 and 2014 to make their presentation comparable to that of the consolidated financial statements as of December 31, 2016 as follows:

	December 2015		Reclassifications	Adjusted balances
ASSETS				
Current assets	11,165		-	11,165
Total non-current assets	51,006		-	51,006
Total assets	62,171		-	62,171
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Liability in suspension of payments	-		14,901	14,901
Financing debt in suspension of payments	13,488		(13,488)	-
Interest payable in suspension of payments	552		(552)	-
Financing debt	3,721		-	3,721
Due to suppliers	5,665		(609)	5,056
Taxes payable	1,076		-	1,076
Due to related parties	466		(16)	450
Other payables and provisions	3,510		(236)	3,274
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	62,171	Ps.	-	62,171

	December 2014	Reclassifications	Adjusted balances
ASSETS			
Current assets……	12,628	-	12,628
Total non-current assets……	50,491	-	50,491
Total assets……	63,119	-	63,119
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Liability in suspension of payments……	-	14,901	14,901
Financing debt in suspension of payments……	13,488	(13,488)	-
Interest payable in suspension of payments……	552	(552)	-
Financing debt……	2,039	-	2,039
Due to suppliers……	4,538	(613)	3,925
Taxes payable……	987	-	987
Due to related parties……	194	(16)	178
Other payables and provisions……	2,672	(232)	2,440
Total current liabilities……	24,470	-	24,470
Non-current liabilities……	17,318	-	17,318
Total liabilities……	41,788	-	41,788
Stockholders' equity……	21,331	-	21,331
Total liabilities and stockholders' equity ……	63,119 Ps.	-	63,119

The reclassification corresponds mainly to the presentation of the liability in Suspension of Payments in a single balance account of the financial statements.

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 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.

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, 2016, 2015 and 2014, 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.

The Company's management performed its annual impairment study related to the thermal coal segment, concluding that there was an impairment effect that was recorded in 2016 for Ps.488, as other expenses (income), net in the consolidated statement of income and other comprehensive income (see Note 25).

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 comprehensive 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.

Note 7. Transactions that did not affect cash flows

The transactions that did not affect cash flows were as follows:

	2016	2015	2014
Increase in capital stock……	Ps. 7,058	Ps. -	Ps. -
Equipment and mining concessions……	800	1,457	732
Insurance policies recovered……	-	1	211
Total	Ps. 7,858	Ps. 1,458	Ps. 943

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:

	2016	2015	2014
Cash and bank deposits…….....	Ps. 284	Ps. 210	Ps. 313
Cash equivalents……..…….….....	655	293	1,829
Financial instruments available for sale equity securities…….....	5	3	74
Trading financial instruments…….....	-	4	3
Total	Ps. 944	Ps. 510	Ps. 2,219

Note 20 f) discloses the Company's exposure to the interest rate risk.

Cash equivalents correspond to investments in instruments in money markets.

The financial instruments available for sale correspond to 0.1, 0.1 and 2.8 millions of shares in 2016, 2015 and 2014, respectively, issued by MeetMe which is listed on the National Association of Securities Dealers Automated Quotation ("NASDAQ") (see Note 3b)), valued at their fair value.

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 (which include interest accrued after the receivables are due) 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 and 2014, there are accounts receivable of Ps.59 related to the Suspension of Payments liability, as well as Ps.87, Ps.96 and Ps.299 in 2016, 2015 and 2014, respectively, which guarantee financial liabilities. (See Note 16).

Age of accounts receivables:

		2016		2015		2014
Current balance	Ps.	2,504	Ps.	1,332	Ps.	2,353
Overdue balance, but collectible		163		235		376
Overdue balance for doubtful debts		127		110		77
		2,794		1,677		2,806
Less – Allowance for doubtful accounts		(127)		(110)		(77)
Total	Ps.	2,667	Ps.	1,567	Ps.	2,729

Age of receivables of overdue balance, but collectible:

		2016		2015		2014
1-59 days	Ps.	163	Ps.	170	Ps.	316
60-120 days		-		2		-
More than 120 (Includes Ps.59 in Suspension of Payments in 2015 and 2014)		-		63		60
Total	Ps.	163	Ps.	235	Ps.	376

Change in the allowance reserve and allowance for doubtful accounts:

		2016		2015		2014
Balance at beginning of the year	Ps.	110	Ps.	77	Ps.	106
Impairment losses recognized on receivables		23		33		-
Amounts written off during the year as uncollectible		(6)		-		(29)
Balance at end of the year	Ps.	127	Ps.	110	Ps.	77

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, 2016, 2015 and 2014, the accounts receivable from the Company's 10 main customers represent 41%, 40% and 48%, respectively.

Note 10. Other accounts receivable, net

The balance in other accounts receivable consists of the following:

		2016		2015		2014
Non realized value added tax, net…….……..	Ps.	470	Ps.	428	Ps.	247
Odyssey (see Note 3b))…….….		388		268		-
Loans to employees…….…...		233		224		220
Recoverable taxes……..…….….		139		344		193
Pro-Agroindustria, S.A. de C.V……..		119		180		-
Other……...……..….		181		145		156
		1,530		1,589		816
Less – Allowance for doubtful accounts……..		(145)		(27)		(26)
Total	Ps.	1,385	Ps.	1,562	Ps.	790

On December 20, 2013, Agro Nitrogenados, S.A. de C.V. (“AGROS”) entered into with Pro-Agroindustria, S.A. de C.V. (Petroleos Mexicanos “PEMEX' affiliated company) an asset buy-sell agreement subject to certain conditions precedent, where AGROS sells its industrial plant located in the Laguna de Pajaritos, Coatzacoalcos, Veracruz, at US$273. Subsequently, on May 30, 2014, the conditions precedent were met transferring ownership of all the assets, properties and permissions to Pro-Agroindustria, S.A de C.V.

The foregoing resulted in income from the sale of assets of Ps.1,285 recorded under the other loss (income), net line item within the consolidated statements of operations and other comprehensive result (see Note 25). As of December 31, 2016, there is a balance receivable from Pro-Agroindustria, S.A. de C.V. of Ps.103, which was reserved because of its uncertainty of recovery.

The balance in other non-current accounts receivable consists of the following:

		2016		2015		2014
Loans to employees……...	Ps.	81	Ps.	89	Ps.	130
Pro-Agroindustria, S.A. de C.V……..		-		-		324
Other……..……...…….		8		7		1
Total	Ps.	89	Ps.	96	Ps.	455

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.

Note 11. Inventories, net

Inventories consist of the following:

	2016	2015	2014
Finished goods	Ps. 1,739	Ps. 1,552	Ps. 1,769
Operating materials	1,465	1,290	1,262
Production-in-process	1,011	1,888	722
Scrap and briquette	986	114	378
Iron ore	916	848	633
Goods-in-transit	397	302	261
Metallurgical coal	385	550	750
Costs of long walls preparation	357	258	394
Steam coal	283	324	252
Other raw materials	301	179	207
Total	Ps. 7,840	Ps. 7,305	Ps. 6,628

As of December 31, 2016, 2015 and 2014, the Company has a reserve for obsolete inventories of Ps.244, Ps.241 and Ps.262, respectively, relating to operating materials.

As of December 31, 2016 and 2014, the Company has Ps.642 and Ps.523, respectively, of inventories to guarantee financial liabilities. (See Note 16).

Note 12. Investments in shares of associates and joint ventures

The investment in shares of associates and joint ventures consists of the following:

	2016	2015	2014
LCD (see Note 4c))	Ps. 78	Ps. 109	Ps. 88
Boom (see Note 3b))	-	-	43
Other	2	6	16
Total	Ps. 80	Ps. 115	Ps. 147

Summarized financial information with respect to the Company's associates and joint ventures is set out below:

	2016	2015	2014
Total assets	Ps. 341	Ps. 377	Ps. 389
Total liabilities	184	408	147
Net assets (liabilities)	Ps. 157	Ps. (31)	Ps. 242
Company's share of net assets	Ps. 80	Ps. 115	Ps. 147
Net sales	Ps. 609	Ps. 607	Ps. 572
Income (loss) for the year	Ps. 51	Ps. (54)	Ps. 48
Company's share of profits (loss)	Ps. 29	Ps. (43)	Ps. 24

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 2016, 2015 and 2014 of the property, plant and equipment consisted of the following:

	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

	2013	Additions	Transfers	Translation effect	Costs for retirement	2014
Investment:						
Land	Ps. 3,878	Ps. 34	Ps. -	Ps. 5	Ps. -	Ps. 3,917
Buildings	16,660	125	1,526	7	(24)	18,294
Machinery and equipment	72,751	6,593	(185)	83	(618)	78,624
Machinery and equipment under finance lease	3,738	390	(1,341)	-	-	2,787
Furniture and fixtures	578	5	-	1	(7)	577
Vehicles	543	48	-	6	(8)	589
Airplanes	1,308	31	-	-	-	1,339
Computers	717	9	-	6	(4)	728
Construction-in-progress	7,558	(4,152)	-	10	-	3,416
Total investments	107,731	3,083	-	118	(661)	110,271
Depreciation:						
Buildings	11,240	270	12	1	(4)	11,519
Machinery and equipment	48,194	2,670	700	39	(429)	51,174
Machinery and equipment under finance lease	844	353	(712)	-	-	485
Furniture and fixtures	523	9	-	-	(4)	528
Vehicles	450	36	-	6	(7)	485
Airplanes	507	57	-	-	-	564
Computers	670	17	-	5	(4)	688
Total depreciation	62,428	3,412	-	51	(448)	65,443
Net investment	Ps. 45,303	Ps. (329)	Ps. -	Ps. 67	Ps. (213)	Ps. 44,828

As of December 31, 2016, the Company has projects in process of Ps.1,376, corresponding mainly to a vacuum degassing system, coke plant rehabilitation and to the strip line modernizing project.

As of December 31, 2016, 2015 and 2014, the net balance of property, plant and equipment includes PS.763, Ps.859 and Ps.861, respectively, for costs for capitalized loans. During 2015 and 2014, loan costs of Ps.104 and Ps.15, respectively, have been capitalized. In 2016 no loan costs were capitalized.

As of December 31, 2016, fixed assets owned by the Company with a book value of approximately Ps.6,007 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, 2016, 2015 and 2014, the Company has a machinery and equipment financial lease net balance of Ps.521, Ps.636 and Ps.823, respectively (see Note 16), without including that mentioned in the following paragraph.

During 2013, 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).

In 2014, the Company invested US$2.3 in renovating its airplanes, which are used by the Company's directors and officers to travel to different geographic locations where the Company conducts business. Thus, it maintains the necessary security standards to transport its officers.

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:

	2016	2015	2014
Buildings	2%	2%	2%
Machinery and equipment (includes finance lease)	5%	4%	4%
Furniture and fixtures	8%	8%	8%
Vehicles	16%	16%	15%
Airplanes	4%	5%	5%
Computers	27%	20%	19%
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, 2013	Ps. 6,181	Ps. (3,272)	Ps. 2,909
Additions	1,013	-	1,013
Effect of foreign currency exchange differences	89	-	89
Amortization	-	(518)	(518)
Balance as of December 31, 2014	7,283	(3,790)	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	Ps. 8,974	Ps. (5,548)	Ps. 3,426

The Company has carried out the following significant mine developments:

	Extractable Reserves to 2016 (Millions/Tons) Unaudited	Unamortized balances 2016	2015	2014
Steam coal:				
Dos Republicas mine……..	15.4	Ps. 1,727	Ps. 2,076	Ps. 1,549
Mine VII……..	6.9	216	504	785
Pits……..	3.2	22	44	98
		1,965	2,624	2,432
Metallurgical coal:				
Mine V…….	8.5	147	114	108
Mine VII……...	12.3	188	226	242
Mine X…….	130.5	517	366	184
Pits……..	5.4	126	92	74
Mining concessions…….		370	396	396
		1,348	1,194	1,004
Iron ore:				
H-14 pit……	4.5	40		
Prometeo underground pit…	0	-	24	50
		40	24	50
Gold and Silver:				
Santa Gertrudis mine……	0.09	24	12	7
Santa Rosario mine…..……	0.3	40	10	-
El Cristo mine…….	0.2	9	4	-
		73	26	7
Total		Ps. 3,426	Ps. 3,868	Ps. 3,493

Note 15. Other assets, net

Other assets consisted of the following:

	2016	2015	2014
Laminating rollers (Note 5 j))…….....……	Ps. 229	Ps. 235	Ps. 244
Employee housing developments (Note 5 j))……...	131	142	150
Prepaid expenses for goods……..……	94	31	370
Costs of long walls preparation (Note 5 c))……..	39	50	67
Restricted cash……...……..	-	82	70
Long-lived assets available for sale …..……...	-	-	55
Other……	32	16	9
Total	Ps. 525	Ps. 556	Ps. 965

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	2013	Additions retirements, net	2014	Additions retirements, net	2015	Additions retirements, net	2016
Investment……..	Ps. 447	Ps. -	Ps. 447	Ps. -	Ps. 447	Ps. (2)	Ps. 445
Accumulated amortization	(289)	(8)	(297)	(8)	(305)	(9)	(314)
	Ps. 158	Ps. (8)	Ps. 150	Ps. (8)	Ps. 142	Ps. (11)	Ps. 131

Laminating rollers	Balance, net
Balance as of December 31, 2013……..…….….	Ps. 351
Acquisitions…..…….……..	16
Transfers……..	(51)
Amortization……...……	(72)
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…….....…	Ps. 229

Note 16. Financing debt

Financing debt is as follows:

Institution	Currency	Interest rate	2016	2015	2014
Financial lease:					
Air Liquide	U.S. dollars	8.00%	Ps. 2,903	Ps. 1,796	Ps. 1,627
Caterpillar Crédito	U.S. dollars	7.75%	589	702	770
Other financing debt:					
Liability released from the Suspension of Payments	Mexican pesos	0%	7,712	-	-
Almacenadora Afirme	Mexican pesos	TIIE + 5.5 pts	1,407	1,345	-
Caterpillar Crédito	U.S. dollars	7.75%	941	915	413
Banco Afirme	Mexican pesos	TIIE + 5.5 pts	872	686	297
Caterpillar Financial Services Corporation	U.S. dollars	7.75%	631	571	-
American Express Company México, S.A. de C.V.	Mexican pesos	18%	266	257	210
Famur	U.S. dollars	LIBOR + 3 pts	171	189	202
PRIMETALS	U.S. dollars	5.5%	157	421	-
Banco Afirme	Mexican pesos	TIIE + 4.9 pts	62	113	158
Almacenadora Afirme	Mexican pesos	TIIE+11.5 pts	-	-	730
Various	Various	Various	334	358	487
			16,045	7,353	4,894
Current portion			(2,847)	(3,721)	(2,039)
Long-term of financing debt			Ps. 13,198	Ps. 3,632	Ps. 2,855

- 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, 2016 amounts to Ps.9. 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 were allocated to the construction of two power plants, maturing in 6 years. As of December 31, 2016, the total amount of both loans have been disposed. 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.

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.

During 2015, AFIRME and Almacenadora Afirme, S.A. de C.V. ("ALMACENADORA") granted MINOSA lines of credit of Ps.570 and Ps.1,603, respectively, maturing in 3.5 years.

During 2016, AFIRME and ALMACENADORA granted MINOSA new lines of credit of Ps.500 and Ps.512, respectively, maturing in 2 years.

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 February 25, 2016, the Company obtained the corresponding waiver from both banks, as of December 31, 2016 they are classified according to their maturity.

- AIR LIQUIDE

In 2013 and 2016, 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 financial leases; therefore, a long-term financial liability of Ps.2,410 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).

- OTHERS

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, 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, 2016, 2015 and 2014 of Ps.334, Ps.358 and Ps.487, respectively, with an interest rate fluctuating between 6.5% and 18%.

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:

		2016		2015		2014
Lease obligations creditors……	Ps.	5,523	Ps.	3,809	Ps.	3,673
Unearned interest……		(2,031)		(1,311)		(1,276)
Present value of obligations……		3,492		2,498		2,397
Current portion of obligations……		(437)		(316)		(367)
Long-term portion of financial lease obligations….	Ps.	3,055	Ps.	2,182	Ps.	2,030

The long-term portion of financing debt as of December 31, 2016 matures as follows:

Year ending December 31,		Balance
2018	Ps.	2,082
2019		8,309
2020		462
2021		301
2022 and thereafter		2,044
	Ps.	13,198

Note 17. Other payables and provisions

a) The balance of the other payables and provisions consists of the following:

		2016		2015		2014
Advances from customers.....	Ps.	2,841	Ps.	1,220	Ps.	1,059
Tax provision.....		616		229		194
Employee benefits…….....		475		366		582
Termination reserve (see Note 18)……..		183		586		-
Outstanding severance payments……		121		97		-
Mines sites remediation reserve…….....		74		86		101
Other.....		645		690		504
Total	Ps.	4,955	Ps.	3,274	Ps.	2,440

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. During 2016 some workers chose their voluntary retirement option from January 2017, therefore, of employee benefits by termination and retirement of Ps.183 were classified as a short-term balance. (See Note 18).

As of December 31, 2016, 2015 and 2014, the Company recorded a tax provision of Ps.616, Ps.229 and Ps.194, respectively, of which Ps.616, Ps.229 and Ps.104, respectively, are from the entire deduction of payments, which, in turn, is tax-exempt income for workers. The balance as of December 31, 2014 also shows a provision of Ps.90 for not accumulating inflation gains during 2000 to 2003 related to liabilities in the Suspension of Payments, including Ps.60 of restatement and surcharges. In 2015 some favourable judgments on lawsuits brought for this concept were obtained; therefore, the provision was written off, including surcharges and restatements.

The rollforward of the Company's provision balances was as follows:

	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

	2013	Additions (cancellations), net	Payments	2014
Tax provisions.....	Ps. 522	Ps. (328)	Ps. -	Ps. 194
Employee benefits……...	402	582	(402)	582
Mines sites remediation reserve, short and long term…….....	188	26	(24)	190
Other……..…….....	50	63	(5)	108
Total	Ps. 1,162	Ps. 343	Ps. (431)	Ps. 1,074

b) The other payables and provisions long-term consist of the following:

	2016	2015	2014
Mines rights and social security fees to be paid in installments……	Ps. 999	Ps. 922	Ps. 405
Minera Zapalinamé, S.A. de C.V……...	208	248	313
Mines sites remediation reserve (see Note 6 d))…	190	197	190
	1,397	1,367	908
Current portion……..	(857)	(963)	(525)
Total	Ps. 540	Ps. 404	Ps. 383

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, 2016, 2015 and 2014, the outstanding balance is Ps.999, Ps.922 and Ps.405, respectively.

The short-term portion of mining rights and social security fees in installments of Ps.574 are presented within taxes payable. In addition, the current portion of the liabilities with Minera Zapalinamé, S.A. de C.V., of Ps.208 is presented within the supplier line item.

As of December 31, 2016, 2015 and 2014, 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:

	2016	2015	2014
Defined benefit obligation…….…..…	Ps. 6,569	Ps. 7,015	Ps. 7,795
Plan assets at fair value.....	(239)	(234)	(237)
Unfunded status…….……..	Ps. 6,330	Ps. 6,781	Ps. 7,558

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2016	2015	2014
Discount rate(s)…….……	7.50%	6.60%	6.30%
Expected rate(s) of salary increase.....	5.00%	6.00%	6.00%
Return of plan assets….....	7.50%	6.60%	6.30%

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:

		2016		2015		2014
Service costs	Ps.	304	Ps.	372	Ps.	334
Plan amendments		(72)		-		(441)
Gain due settlements		-		(301)		-
Interest cost		409		442		430
Less - Actual return on plan assets		(15)		(14)		(17)
Net periodic cost	Ps.	626	Ps.	499	Ps.	306

During 2014, the policy of withdrawal relating to how to integrate the Company's retirement plans was amended. Such amendment consisted of excluding certain variable compensation and the corresponding specifications to the respective policy; the impact of these amendments was Ps.441. In addition, 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:

		2016		2015		2014
Cost of sales	Ps.	287	Ps.	63	Ps.	158
Selling and administrative expenses		(55)		8		(265)
Interest expenses, net		394		428		413
Total	Ps.	626	Ps.	499	Ps.	306

Changes to the present value of the defined benefit obligation:

		2016		2015		2014
Defined benefit obligation as of January 1,	Ps.	7,015	Ps.	7,795	Ps.	7,437
Service costs		304		372		334
Interest cost		409		442		430
Plan amendments		(72)		-		(441)
Gain due settlements		-		(301)		-
Payments		(348)		(553)		(295)
Actuarial (gain) loss on the obligation		(556)		(221)		330
Short term termination reserve (see Note 17)		(183)		(519)		-
Defined benefit obligation as of December 31,	Ps.	6,569	Ps.	7,015	Ps.	7,795

Changes to the fair value of plan assets:

		2016		2015		2014
Plan assets at fair value as of January 1,	Ps.	234	Ps.	237	Ps.	216
Expected yield		15		14		17
Actuarial (losses) gains generated		(10)		(17)		4
Plan assets at fair value as of December 31,	Ps.	239	Ps.	234	Ps.	237

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.356; if the discount rate decreased -1%, the defined benefit obligation would increase Ps.506. If the expected salary growth increases by +1%, the defined benefit obligation would increase by Ps.160; If the expected salary growth decreases by -1% the defined benefit obligation would decrease by Ps.144.

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 2016, 2015 and 2014 was Ps.268, Ps.284 and Ps.275, 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%.

In 2008, the Asset Tax Law ("IMPAC") was repealed; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid, may be recovered, according to the terms of the law.

The provision for income taxes expense (benefit) presented in the consolidated statements of operations and other comprehensive results is as follows:

		2016		2015		2014
Current ISR.....	Ps.	144	Ps.	32	Ps.	758
Deferred ISR.....		(701)		(1,215)		(490)
ISR from tax contingency		312		95		(116)
Deferred DESM.....		(88)		(113)		(155)
Total	Ps.	(333)	Ps.	(1,201)	Ps.	(3)

b) Tax loss carryforwards and recoverable asset tax

As of December 31, 2015, the Company has tax loss carryforwards for income tax and recoverable asset 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	Recoverable asset tax
2017	Ps. 121	Ps. 13
2018	131	-
2019	178	-
2020	83	-
2021	354	-
2022	140	-
2023	55	-
2024	280	-
2025	386	-
2026	177	-
	Ps. 1,905	Ps. 13

On December 31, 2016, the Company has recognized that an amount of deferred tax assets related to net operating losses in the operation of 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:

	2016	2015	2014
Deferred ISR	Ps. 4,298	Ps. 4,833	Ps. 5,987
Deferred DESM	334	422	535
Total	Ps. 4,632	Ps. 5,255	Ps. 6,522

I) Deferred ISR

The tax effects of temporary differences that generated deferred ISR (liabilities) assets are as follows:

	2016	2015	2014
Deferred assets:			
Employee benefits from termination and retirement	Ps. 1,663	Ps. 1,871	Ps. 1,934
Provisions and reserves	410	342	241
Advances from customers	229	113	417
Tax loss carryforwards	205	599	68
Current employee benefits	150	107	191
Deferred DESM	100	127	160
Others	116	244	219
Deferred liabilities:			
Property, plant and equipment	(7,058)	(7,969)	(8,889)
Intangible assets	(91)	(205)	(341)
Inventories	(1)	(41)	34
Investment in shares of associated companies	(21)	(21)	(21)
Total	Ps. (4,298)	Ps. (4,833)	Ps. (5,987)

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:

	2016	2015	2014
Beginning balance	Ps. (4,833)	Ps. (5,987)	Ps. (6,565)
Deferred income tax provision	701	1,215	490
Other concepts of comprehensive results:			
Actuarial (losses) gains from employee benefits from termination and retirement	(166)	(61)	88
Total	Ps. (4,298)	Ps. (4,833)	Ps. (5,987)

The balance of deferred tax recognized in capital as of December 31, 2016, 2015 and 2014 corresponds to the effect of employee benefits from termination and retirement of Ps.101, Ps.267 and Ps.328, 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:

	2016	2015	2014
Statutory income tax rate	30%	30%	30%
Deferred DESM	3	2	(23)
ISR from tax contingency	(9)	(2)	(17)
Tax balances restatement effect	1	1	(8)
Inflationary component	(5)	(2)	28
Nondeductible expenses	(1)	(1)	-
Effects of accelerated depreciation	(3)	(2)	13
Equity in income of associated companies	1	(1)	(3)
Valuation allowance for tax loss carryforwards	(5)	(4)	-
Other	(2)	1	(20)
Effective rate	10%	22%	0%

II) Deferred DESM

The tax effects of temporary differences that generated deferred DESM asset (liability) are as follows:

	2016	2015	2014
Property, plant and equipment	Ps. (454)	Ps. (533)	Ps. (616)
Intangible assets	(17)	(48)	(85)
Inventories	20	19	21
Provisions and reserves	24	22	24
Current employee benefits	54	66	80
Other	39	52	41
Total	Ps. (334)	Ps. (422)	Ps. (535)

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 30 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 66%, 66% and 61%, of the Company's total steel sales for the years ended December 31, 2016, 2015 and 2014, respectively. In 2016, 2015 and 2014, no customer represented over 10% of the Company's 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.

	2017	2018	2019	2020	2021 and thereafter	Total
As of December 31, 2016						
Financing debt	Ps. 2,847	Ps. 2,082	Ps. 8,309	Ps. 462	Ps. 2,345	Ps. 16,045
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	-	548	-	-	986
Other payables and provisions	4,955	29	29	29	29	5,071
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. 3,721	Ps. 797	Ps. 785	Ps. 442	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	58	-	1,370
Due to related parties	450	-	-	-	-	450
Other payables and provisions	3,274	28	28	28	26	3,384
Total	Ps. 14,120	Ps. 1,213	Ps. 1,174	Ps. 752	Ps. 1,705	Ps. 18,964

	2015	2016	2017	2018	2019 and thereafter	Total
As of December 31, 2014						
Financing debt	Ps. 2,039	Ps. 499	Ps. 512	Ps. 467	Ps. 1,377	Ps. 4,894
Interest payable[1]	365	159	149	120	-	793
Due to suppliers	3,925	-	-	-	-	3,925
Taxes payable	987	101	102	-	-	1,190
Due to related parties	178	-	-	-	-	178
Other payables and provisions	2,440	45	45	45	45	2,620
Total	Ps. 9,934	Ps. 804	Ps. 808	Ps. 632	Ps. 1,422	Ps. 13,600

[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.20.66, Ps.17.21 and Ps.14.72 as of December 31, 2016, 2015 and 2014, 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 and 2014 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 (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.894, Ps.745 and Ps.213 in 2016, 2015 and 2014, respectively, which would result in a loss of the exchange currencies by such amounts.

Foreign currency balances were:

		2016		2015		2014
Monetary assets:						
U.S. dollar……..….	US$	101	US$	76	US$	276
Monetary liabilities:						
U.S. dollar…….....		516		492		418
Other currencies…….....		18		17		3
		534		509		421
	US$	(433)	US$	(433)	US$	(145)

The exchange rates for the Mexican peso published by Banco de México with respect to the foreign currencies indicated above are as follows:

	March 24, 2017	December 31, 2016	December 31, 2015	December 31, 2014
U.S. dollar…….....	19.08	20.66	17.21	14.72
EURO……..…….....	20.27	21.92	18.18	18.35
British pound ……..….	23.74	25.79	25.90	23.05
Shekel (Israel)…….	5.24	5.38	4.44	3.78
Japanese yen……...	0.17	0.18	0.14	0.12

As of March 24, 2017, the unaudited foreign currency position is similar to that of December 31, 2016.

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, 70% 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

	2016			2015			2014		
	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……	434,806,122		9,248	321,203,504		2,190	321,203,504		2,190
Restatement effect.	-		3,689	-		3,689	-		3,689
	471,475,120	Ps.	13,187	357,872,502	Ps.	6,129	357,872,502	Ps.	6,129

As of December 31, 2016, common stock consisted of 471,475,120 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 434,806,122 as variable capital. There is no distinction between the rights associated with the Company's variable and fixed capital. 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 501,203,525.

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 113,602,618 shares, are subject to final reconciliations.

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, 2016, 2015 and 2014, the legal reserve, was Ps.105 (nominal value).

The balances of the stockholders' equity tax accounts are as follows:

		2016		2015		2014
Contributed capital account…….….....	Ps.	67,794	Ps.	58,598	Ps.	57,376
Net tax income account……...……..……		2,337		2,631		2,483
Total	Ps.	70,131	Ps.	61,229	Ps.	59,859

The total amount of the balances of the shareholders' equity tax accounts exceeds stockholders' equity in the consolidated balance sheet.

As of December 31, 2016, 2015 and 2014, the following Company's subsidiaries have noncontrolling interest:

		2016			2015			2014	
		Book Value	Noncontrolling Interest		Book Value	Noncontrolling Interest		Book Value	Noncontrolling Interest
AGROS……..	Ps.	504	19.3%	Ps.	504	19.3%	Ps.	485	19.3%
Hojalata Mexicana, S.A. de C.V…….		36	49.9%		37	49.9%		36	49.9%
Aqwise Water Technologies, LTD.....		35	49.9%		23	49.9%		13	49.9%
Antair, S.A. de C.V. ("ANTAIR").....		1	0.1%		1	0.1%		2	0.1%
Moonen Yachts Holding, B.V…….		-	0.1%		(1)	20%		-	20%
Hullera Mexicana, S.A de C.V……...		1	4.6%		1	4.6%		1	4.6%
Total	Ps.	577		Ps.	565		Ps.	537	

On October 1, 2014, AHMSA capitalized contributions for future capital increases of Ps.1,091 in ANTAIR, with which it diluted the equity by 24% that it had in GAN. As this is a transaction conducted between common-controlled companies, the difference between the carrying amount of the shareholding acquired by AHMSA and the acquisition cost was directly recognized in the consolidated statement of changes in stockholders' equity as an additional capital contribution of Ps.63.

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:

	2013	Movements during the year	2014	Movements during the year	2015	Movements during the year	2016
Items that may be reclassified subsequently to profit or loss:							
Translation effects of foreign subsidiaries	Ps. 26	Ps. 271	Ps. 297	Ps. 427	Ps. 724	Ps. 586	Ps. 1,310
Items that will not be reclassified subsequently to profit or loss:							
Defined employee benefits effect	(709)	(205)	(914)	143	(771)	386	(385)
Loss on purchase of equity of noncontrolling interest	(70)	-	(70)	-	(70)	(36)	(106)
Total	Ps. (753)	Ps. 66	Ps. (687)	Ps. 570	Ps. (117)	Ps. 936	Ps. 819

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, 2016, 2015 and 2014 were as follows:

	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

	2014			
	Holding	Associated	Other related parties	Total
Income:				
Sales	Ps. -	Ps. -	Ps. 53	Ps. 53
Administrative services	Ps. -	Ps. 25	Ps. -	Ps. 25
Guarantee fees	Ps. 16	Ps. -	Ps. -	Ps. 16
Other	Ps. -	Ps. -	Ps. 10	Ps. 10
Expenses:				
Rail road transportation services	Ps. -	Ps. 331	Ps. -	Ps. 331
Materials and supplies	Ps. -	Ps. -	Ps. 513	Ps. 513
Advertising	Ps. -	Ps. -	Ps. 19	Ps. 19
Services	Ps. -	Ps. -	Ps. 28	Ps. 28
Guarantee fees	Ps. 41	Ps. -	Ps. -	Ps. 41
Air transportation services	Ps. -	Ps. -	Ps. 20	Ps. 20
Other	Ps. -	Ps. -	Ps. 28	Ps. 28

b) Net amounts due to and from affiliated companies were as follows:

	2016	2015	2014
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	-	-
Promotora de Vivienda México, S.A. de C.V……..	1	1	2
Compañía Mercantil Río Hondo, S.A. de C.V….....	1	1	2
Distribuidora ESSEX, S.A. de C.V.. …….....	-	-	1
Other.....	29	20	35
	218	139	157
Less – Allowance for doubtful accounts…..……..…	(13)	(13)	(14)
Total	Ps. 205	Ps. 126	Ps. 143
Due from related parties, long-term:			
GAN.....	Ps. 447	Ps. -	Ps. -
Loans to key management…...…….……..	38	31	26
	Ps. 485	Ps. 31	Ps. 26
Due to related parties, short-term:			
GAN.....	Ps. 166	Ps. 137	Ps. 109
Stockholders…….…….……..	155	181	-
Inmobiliaria Indias Occidentales, S.A. de C.V….....	25	50	-
LCD…….....	17	26	24
Comercial ESSEX, S.A. de C.V…….....	29	29	19
Coel del Norte, S.A. de C.V……	21	-	-
Other.....	25	27	26
Total	Ps. 438	Ps. 450	Ps. 178

	2016	2015	2014
Due to related parties, long-term:			
CIMSA…….……	Ps. 531	Ps. -	Ps. -
LCD……..	16	-	-
Other.....	1	-	-
Total	Ps. 548	Ps. -	Ps. -

In June 2015, MINOSA obtained financing of US$10 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, 2016 is Ps.155.

In November 2015, MINOSA obtained financing of Ps.50 from Inmobiliaria Indias Occidentales, S.A. de C.V., which bears annual interest of 7%, maturing upon request of the financing grantor. The unpaid balance as of December 31, 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, 2016, 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 credits during the 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.774, Ps.574 and Ps.809 for years 2016, 2015 and 2014, respectively.

Note 24. Net sales

Net sales were as follows:

		2016		2015		2014
Steel	Ps.	42,693	Ps.	34,857	Ps.	38,349
Steam coal		4,477		4,922		4,677
By-products		253		308		231
Services		527		518		310
Other sales		562		495		317
Total	Ps.	48,512	Ps.	41,100	Ps.	43,884

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.491, Ps.316 and Ps.325 in 2016, 2015 and 2014, respectively.

Note 25. Other expenses (income)

Other expenses (income) include the following:

		2016		2015		2014
Impairment of intangible assets (see Note 5 i))	Ps.	488	Ps.	-	Ps.	-
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		-
(Gain) loss on fixed assets sales		(51)		(12)		3
Recovery of insurance claims		-		(1)		(211)
Retirement of fixed assets for casualties		-		-		57
Gain on AGROS fixed assets sale (see Note 10)		-		-		(1,285)
Other income		(5)		(21)		(10)
Total	Ps.	643	Ps.	21	Ps.	(1,446)

Note 26. Financial expense and income

	2016	2015	2014
Interest expense:			
Financing debt interest	Ps. 615	Ps. 456	Ps. 399
Employee retirement obligations interest cost (see Note 18)	394	428	413
Surcharges and updates taxes	193	96	86
Interest paid to suppliers	118	73	40
Guarantee fees (see Note 23)	61	50	41
Tax provisions (see Note 17)	75	(60)	(212)
Other	67	117	58
Total	Ps. 1,523	Ps. 1,160	Ps. 825

	2016	2015	2014
Interest income:			
MeetMe Warrants (see Note 3b))	Ps. 88	Ps. 52	Ps. -
Moratorium interests	17	23	9
Guarantee fees paid (see Note 23)	24	19	16
Interest income on cash equivalents	18	16	17
Interest income Odyssey (see Note 3 b))	23	14	-
Interest income on guaranty deposits	8	9	11
Income on tax matters	-	-	3
Other	18	23	18
Total	Ps. 196	Ps. 156	Ps. 74

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 2016, 2015 and 2014 was Ps.297, Ps.242 and Ps.310, respectively.

Non-cancellable operating lease commitments are:

	Amount
2017	Ps. 5
2018	5
2019	5
2020	3
	Ps. 18

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 2016, 2015 and 2014, the amounts paid for these rights were Ps.358, Ps.412 and Ps.519, 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, 2016, 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	176.6	3.5	180.1	40.0	0.2	40.3	9
Steam coal	83.9	0.0	83.9	69.1	0.0	69.1	14
Metallurgical coal	158.9	0.0	158.9	64.7	0.0	64.7	42

(Unaudited thousands of metric tons)

Mineral	Mining			Salable			Years to sale
	Proven	Probable	Total	Proven	Probable	Total	
Copper	1,214.5	743.6	1,958.1	32.5	17.5	50.0	10

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 386 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.

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.

	2016	2015	2014
Net sales:			
Steel	Ps. 43,244	Ps. 35,452	Ps. 38,818
Steam coal	4,508	5,011	4,682
Other	760	637	384
Total	Ps. 48,512	Ps. 41,100	Ps. 43,884
Consolidated net loss for the year:			
Steel	Ps. (1,465)	Ps. (3,388)	Ps. (849)
Steam coal	(1,283)	(59)	(78)
Other	(422)	(833)	246
Total	Ps. (3,170)	Ps. (4,280)	Ps. (681)
Depreciation and amortization [1]:			
Steel	Ps. 3,276	Ps. 3,303	Ps. 3,099
Steam coal	1,113	881	870
Other	116	95	70
Total	Ps. 4,505	Ps. 4,279	Ps. 4,039
Capital expenditures:			
Steel	Ps. 2,061	Ps. 2,229	Ps. 2,235
Steam coal	304	401	145
Total	Ps. 2,365	Ps. 2,630	Ps. 2,380
Interest income:			
Steel	Ps. 96	Ps. 101	Ps. 71
Steam coal	3	2	3
Other	9	1	-
Total	Ps. 108	Ps. 104	Ps. 74

	2016	2015	2014
Interest expense:			
Steel	Ps. 1,385	Ps. 1,100	Ps. 763
Steam coal	127	(2)	62
Other	(77)	10	-
Total	Ps. 1,435	Ps. 1,108	Ps. 825

[1] Includes Ps.730, Ps. 566 and Ps.518 of amortization in 2016, 2015 and 2014, respectively.

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, 2016, of the total net sales, 88% correspond to domestic sales and 12% 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, 2016, the Company had commitments of US$135 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, 2016, contingent payments amounted to US$11.

d) As of December 31, 2016, approximately US$354, US$132 and US$231 are contracted for 2017, 2018 and 2019, respectively, derived from purchases of raw materials.

II) Contingencies

a) Tax assessments:

As of December 31, 2016, there are tax assessments of Ps.451 (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$199, which mainly includes projects to control emissions to the atmosphere, cleanliness and water recirculation mainly. 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, cancel the respective agreements.

On February 4, 2015, AHMSA signed an agreement with PROFEPA whereby it renews the commitment to invest in emission control equipment in certain departments of the Company, with a value of US$65, with the possibility of including the other outstanding investments into the agreement, being a total of: 9 devices of control of emissions into the air with a value of US$153, and 24 projects in water with an investment of US$46 (investment from 2015 to 2024).

Regarding the emission control, the times scheduled in the work plan were achieved in 2015 in proper time and form, whose global advance was 30%. In 2016 an agreement was signed to finance emission control equipment with Banco de Desarrollo de América del Norte.

During 2014, an external company is contracted to update strategies to be executed resulting from the study of the Institute of Water of Nuevo Leon (33 original strategies, 8 have been executed), in projects aimed to reduce waste water and optimization of the use of water to reduce extraction from aquifers. 21 strategies are obtained with an investment amount of US$33.

In March 2012, the Ministry of Environment and Natural Resources authorizes AHMSA the “Unique Environmental License” (“LAU”), which includes investments in the areas of air and water, which includes programs of projects previously agreed with PROFEPA and the National Commission of Water ("CNA"). In 2015, to comply with applicable environmental regulations in terms of the General Law of Ecological Equilibrium and Environmental Protection, updating of LAU is conducted in the different operating units of the Company. Currently, the global advance is 82%.

Additionally, in September 2010, the PROFEPA led an extraordinary inspection to five departments in four different topics, which were summoned for the fulfillment of the observations noted by the authority. To date, of the 20 administrative proceedings against, 18 have been successfully completed and closed, leaving only 2 procedures open in relation to atmosphere; for which at the end of 2014, compliance evidence was filed to close the file, and the Company is waiting for the respective decision; the non-compliance with the programs and commitments presented in resolutions would cause a recidivism, giving rise to a partial or total closure of the facilities of the departments inspected by PROFEPA.

The Company is subject to the provisions in the General Law of Ecological Equilibrium and Environmental Protection, which sets forth that all ecological damage caused must be repaired. As of December 31, 2016, 2015 and 2014, the Company has recorded a provision of Ps.190, Ps.197 and Ps.190, respectively, for repairing the ecological damage caused by its mine developments and preparations, pursuant to the provisions of such Law.

The Company joined the voluntary environmental audit program and is implementing the activity plan agreed upon with the Federal Attorney for Environmental Protection.

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]

[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.

At the date of issuance of the accompanying consolidated financial statements, the Company has not fully assessed the effects of adopting these new standards on their financial information.

Note 32. Consolidated financial statements issuance authorization

On March 24, 2017, 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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