Prolongacion Juarez S/N, Colonia La Loma, Monclova,
Coahuila, C.P. 25770, Mexico

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

Annual Report presented pursuant to the general provisions applicable to securities issues and other market participants, corresponding to the year ended in December 31, 2018.

As of December 31, 2018, the capital stock is represented by 585,542,305[1] nominative common shares of a unique series, with no par value, of which 471,563,023 shares are fully subscribed and paid, and 113,979,282[2] shares are pending subscription. Currently, such shares are in the process of restatement and registration with the National Securities Registry ("RNV").

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

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

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

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Chapter 1. General Overview

1.1 GLOSSARY OF TERMS AND DEFINITIONS

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

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

This document contains conversions of certain amounts in Mexican pesos into U.S. dollars, at the specified exchange rates, only for the convenience of the reader. These conversions should not be interpreted as if the amounts in pesos truly represent these amounts in U.S. dollars or that can be translated into U.S. dollars at the exchange rate. Unless otherwise stated, when amounts in U.S. dollars are stated, means that they were converted from Mexican pesos at the exchange rate published by Banco de México in the Federal Official Gazette (“DOF”) as of December 31, 2018, 2017 and 2016, which were MXN$19.6829, MXN$19.7354 and MXN$20.6640 per USD$1.00 dollar, respectively.

Unless otherwise stated, references to the market share of AHMSA, the market share of a particular product, and the market share of imports and exports, refer to the share in the apparent Mexican national consumption of steel products (which consists of the sum of domestic production of finished steel goods, plus imports of finished goods less exports of finished goods). With regard to the apparent Mexican national consumption and the information of certain market share not related to AHMSA, is based on information published by the National Chamber of the Iron and Steel Industry (“CANACERO”) and 2018 information is based on preliminary amounts published by this entity. The information published by CANACERO is based on information voluntarily provided by Mexican steel producers. Even though AHMSA has no reason to believe that this information provided to CANACERO by Mexican steel producers is incorrect, it cannot be assured that this information in completely correct.

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

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

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

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

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

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

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

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

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

ISO: International organization for standardization and normalization (“International Organization for Standardization”) of operations for the assurance of production quality.

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

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

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

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

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

Lims: Magnetic drums.

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

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

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

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

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

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

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

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

1.2 EXECUTIVE SUMMARY

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

AHMSA, integrated producer of steel in Mexico, in 2018 participated with 13% of the steel market nationwide, 24% of the domestic market for flat products, and 12% of Mexican exports of finished steel goods. Both, its steel plants and its corporate offices are located in the city of Monclova in Coahuila de Zaragoza, 248 kilometers away from the border with the United States of America. With an area of approximately 1,200 hectares, AHMSA operates two steel plants with a total production capacity of 5.5 million tons of liquid steel per year.

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

In 2018, 4.52 million tons of liquid steel, and 3.88 million tons of finished steel goods were produced. As a steel producer, it produces a variety of products of flat steel (such as Plate, Hot Rolled Steel Sheet, Cold Rolled Steel Sheet and Tin), as well as certain non-flat products (such as Heavy Sections). In the domestic market, its products serve mainly to the manufacturing, construction, automotive, oil, packing and household appliances industries. The Company's export sales are carried out directly or through steel distributors to a variety of end users.

Export sales in 2018 were 454 thousand tones, representing 12% of the sales volume of steel products and 12% of net sales of steel products. AHMSA continuously assesses the domestic and export market, which allows maintaining some flexibility to access the market offering more attractive conditions. Proof of this is the sales office AHMSA International, Inc. in San Antonio, Texas, which seeks greater presence in the North American market, as well as increasing the value and service made through this office. In 2018, 68% of the exports made by AHMSA were done through this office, compared with the 44% recorded in 2017.

BACKGROUND:

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

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

AUTHORIZATION TO INCREASE AND CANCELLATION OF CAPITAL STOCK

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

At the general ordinary Shareholders meeting on April 12, 2015, the shareholders approved an increase of variable capital of MXN$13,762 subject to the condition that a final lifting of the Company's suspension of Payment judicial process is issued. Where applicable, 227,669,803 ordinary shares at no par value would be issued, which would remain in treasury until the capital increase corresponding to AHMSA's creditors in the process of suspension of payment is signed. According to what is mentioned in Note 2 in the audited financial statements, the creditors who opted to change its collection rights (MXN$7,058) to shares were awarded 113,605,258 shares, subject to final reconciliations. In addition, there are pending to subscribe up to 29,728,405 shares of the minority shareholders that are published until the date of the increase to avoid dilution, (once the appropriate notices of subscription are made), this would give a maximum of declassified and paid of 501,206,165 shares.

As of December 31, 2018, capital stock is represented by 585,542,305 nominative common shares of a unique series, at no par value, fully subscribed and paid of which 471,563,023 shares are fully subscribed and paid and 113,979,282 shares are pending subscription. Currently, such shares are in the process of restatement and registration with the RNV.

Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to Income Tax ("ISR") payable by the Company at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

Beginning 2014, dividends to individuals and foreigners are subject to an additional tax of 10% on the basis of the net tax income account generated. As of December 31, 2018, on a consolidated basis, the Company's total assets were MXN$64,824 million and generated total income of MXN$ 66,791 million and UAFIRDA of MXN$5,490 million. The Company owns almost 100% of the shares of its primary direct and indirect subsidiaries.

Summary of the Consolidated Financial Information

The following tables present a summary of certain selected consolidated financial information derived from the Company's consolidated financial statements for each of the fiscal year ended December 31, 2018, 2017 and 2016. The selected consolidated financial information included must be read and analyzed in conjunction with the financial statements and their supplementary notes. Furthermore, this summary should be read and analyzed taking into consideration all the explanations provided by the Company's management throughout the "Financial Information" Chapter, especially in the section "Management comments and analysis on the Operating Results and Financial Situation" of the Company.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018, 2017 AND 2016
(Millions of Mexican pesos (MXN$))

	2018	2017	2016
Assets			
Current Assets:			
Cash and Cash equivalents	$ 389	$ 1,677	$ 944
Trade Accounts receivable, net	5,555	4,494	2,667
Due from related parties, net	287	207	205
Other accounts receivable, net	1,620	1,150	1,385
Inventories, net	9,427	7,006	7,840
Prepaid advances	128	41	154
Total current assets	17,406	14,575	13,195
Non-current:			
Due from related parties, net	486	485	485
Other long-term receivables	55	89	89
Guaranty deposits	1,069	882	835
Investments in shares of associates and joint ventures	105	81	80
Property, plant and equipment, net	41,617	43,070	44,979
Intangible assets, net	3,138	3,334	3,426
Other assets, net	948	678	525
Total non-current assets	47,418	48,619	50,419
Total assets	$ 64,824	$ 63,194	$ 63,614

Liabilities and stockholders' equity			
Current liabilities:			
Financial Liability	$ 11,158	$ 4,684	$ 2,847
Suppliers	10,505	8,738	6,382
Taxes Due	1,178	1,603	1,270
Due to Related Parties	1,148	511	438
Advances from Clients	1,532	2,381	2,841
Other accounts payable and provisions	2,508	2,010	2,114
Total Liabilities	28,029	19,927	15,892
Non-current liabilities:			
Financing debt	6,941	11,746	13,092
Benefits to employees for retirement or termination	7,162	7,212	6,330
Deferred income taxes	3,115	3,419	4,632
Other accounts payable and provisions	275	342	540
Due to Related Parties	0	654	654
Total non-current liabilities	17,493	23,373	25,248
Total Liabilities	45,522	43,300	41,140
Stockholders' equity:			
Capital Stock	13,187	13,187	13,187
Additional capital contribution	458	458	458
Retained earnings from prior years	5,574	7,433	10,586
Net Loss for the year	(749)	(1,859)	(3,153)
Other comprehensive income items	180	96	819
Controlling interest	18,650	19,315	21,897
Non-controlling interest	652	570	577
Total stockholders' equity	19,302	19,894	22,474
Total liabilities and stockholders' equity	$ 64,824	$ 63,194	$ 63,614

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018, 2017 AND 2016
(Millions of Mexican pesos (MXN$))

	2018	2017	2016
Net sales	$ 66, 791	$ 54,745	$ 48,512
Cost of Sale	58,358	48,542	42,279
Depreciation	3,736	3,619	3,775
Gross profit	4,697	2,584	2,458
Selling and administrative expenses	3,429	3,236	2,914
Other expenses (income), net	(256)	393	643
Operating expenses (income) net	1,524	(1,045)	(1,099)
Interest expense	2,026	1,595	1,523
Interest income	(133)	(109)	(196)
Foreign exchange loss, net	195	(25)	1,106
	2,088	1,461	2,433
Equity in (income) loss of joint ventures and associated	(23)	(20)	(29)
Loss before income taxes	(541)	(2,486)	(3,503)
Income taxes expense	135	(629)	(333)
Consolidated net loss for the year	(676)	(1,857)	(3,170)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX:			
Items that may be reclassified subsequently to profit or loss:			
Translation effects of foreign subsidiaries	76	(118)	586
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains (losses) of employees benefits from termination and retirement	8	(605)	386
	84	(723)	972
Consolidated comprehensive net loss	$ (592)	$ (2,580)	$(2,198)
Distribution of consolidated comprehensive net loss for the year:			
Controlling interest	$ (665)	$ (2,582)	$(2,181)
Noncontrolling interest	73	2	(17)
	$ (592)	$ (2,580)	$(2,198)
Basic loss per share (in Mexican pesos)	$ (1.59)	$ (3.94)	$ (7.35)
Weighted average shares outstanding (thousands)	471,478	471,478	428,911

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

As of December 31, 2018, the capital stock is represented by 585,542,305 nominative common shares of a unique series, at no par value, of which 471,563,023 shares are fully subscribed and paid, and 113,979,282 shares are pending subscription. Currently, such shares are in the process of restatement and registration with the RNV.

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

1.3 RISK FACTORS

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

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

Risks related to the Suspension of Payments and Debt Restructuring

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

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

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

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

The global steel industry is a cyclical business that is characterized by intense competition. The steel companies' financial condition and operating results are usually affected by international macroeconomics fluctuations and the domestic economy of each Company, respectively. There is no assurance that the fluctuations of the Mexican economy and of the global excess capacity, particularly in periods of a slowdown in the economy, the Company has previously experienced a significant competition in imports, and we except this to continue in the future.

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

We sell our products mainly on a monthly basis. Our 5 primary costumers of steel with regards to volume accounted for approximately 37% of our income in 2018, while our 10 major customers of steel with regards to volume accounted for 51% of our sales in the same period. Only one of our 10 major steel customers purchase steel through a quarterly agreement, which foresees a quarterly adjustment to the selling price according to market prices. Some of our major clients are transnational corporations that assign part of their production to the export market; therefore, the decrease in the business of these companies or the loss of any of these large-volume customers may have a significant adverse effect on the company's income. Furthermore, the future of our income mostly depends on the commercial success of these customers and their willingness to continue purchasing our products. Any decline in the business of these customers may cause a decrease in the purchase of our products or that they stop purchasing them.

Risks Related to fluctuations in Energy Costs

In 2018, 2017 and 2016, the company did not conduct hedging transactions.

In 2018, 2017 and 2016, the Company did not identify embedded derivatives.

Liquidity Risks

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

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

However, due to the instability in international steel prices in the last few years, in addition to the tariff restrictions to products of the Company in the USA since June 2018 (section 232) that originated in a lower demand and price, has caused that the company's operating results and cash flow have been affected, which has caused delays in the fulfillment of its short-term obligations, mainly the timely payment to suppliers. As part of the Management of the Company efforts to obtain additional funds, in September 2018 a bank loan was obtained that was used mainly for working capital. In addition, Management is analyzing financing options along with the return to capital markets to strengthen the financial situation and the level of working capital, wherewith it is expected to improve the short and medium-term cash flow.

Risk for Availability of Raw Materials

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

Risk Arising from International Commercial Agreements

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

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

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

Risks for Regulations of Reforms to Environmental Laws

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

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

Risk for Mining Concessions

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

Risk of Strikes or Other Labor Issues

AHMSA and MICARE a part of Minera del Norte S.A. de C.V. have entered into collective bargaining agreements for each of its plants or units, with the National Union of Mineworkers, Steelworkers, and allied Workers of the Mexican Republic ("SNTMMSSRM"); with which annual negotiations for certain provisions are negotiated, including wages, and every two years for other provisions, including benefits, according to Article 399 and 399 Bis of the Federal Labor Law. During the last 28 years, they have not had any strike that affects facilities or operations and currently there is a very good relationship with its unionized workers.

With regards to Minera del Norte, S.A. de C.V., seven different union sections reported some time ago that they would separate from the National Executive Committee of the Mineworkers Union, as they disagree on the manner the members of such committees were elected, arguing lack of democracy and violation to their internal bylaws.

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

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

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

In the past 28 years, none of our units has experienced strikes, and all have good relations with their employees, workers and trade union sections, the revisions of the contract and / or Salary tabulator of AHMSA and MINOSA have been accepted and approved in all its units, as well as of Nacional de Acero, S.A. de C.V. ("NASA") (Monclova and Monterrey plants) has been accepted and approved at worker meetings. This last Company has a collective bargaining agreement with the Mexican Workers Confederation ("CTM") in Monclova Plant and with the Independent Trade Union Federation in Monterrey Plant.

Factors Related to Mexico and the Global Steel Industry

Risks related to the Economic situation in Mexico

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

The growth rate of the Gross domestic product ("GDP") was 2.2%, 2.5%, 2.3% and 2.1% in the years 2014, 2015, 2016 and 2017 respectively, whereas in 2018, it grew 1.7%. Future economic recessions could have a significant adverse effect on the activities, the operating results, or the financial situation of the Company, including, among others, a contraction in the demand for its products and a decrease in their selling prices. In addition, changes in the national economy are linked to those of economy of the USA; therefore, any contraction I that country's economy could affect the national economy and the company's operations. the company cannot guarantee that the measures taken by the Government or future events in the national economy over which it has no control will not affect adversely its operating results or its financial situation.

Risk Arising from changes in Government Regulations

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

Risks Related to Political Events

In 2018, the demand in the domestic steel market remained relatively stable until the final months, which denotes a slowdown in the economy, due to the lack of definition of a change of government and specifically for the steel sector due to the lack of clarity about the continuation of the safeguard against imports from countries without a commercial treaty, a factor of instability that would last until the first quarter of 2019, when tariffs were countersigned for an additional six months. In parallel, the closing of negotiations to renew NAFTA, a process complicated by a series of pressures generated by the US administration, gravitated in instability. This situation significantly reduced the favorable effect generated by the international recovery of steel prices. Added to this is the negative effect of the decision by the US government of President Donald Trump to include Mexico in the 25% tariff on steel imports.

Risk arising from Exchange Fluctuations and Restrictions

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

Risks Related to Inflation

Inflation in Mexico has substantially declined since the end of the 1990s, recording growth rates of 4.09%, 2.13%, 3.36%, 6.77% and 4.83% in 2014, 2015, 2016, 2017 and 2018, respectively, which has resulted in much lower current interest rates than those recorded historically.

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

Interest Rate Risks

The Company actively monitors the behavior of interest rates and assesses its exposure to fluctuations on their loans. The decision to contract fixed or variable rate financing is reviewed determining case by case and depend on the market conditions and expectations at the time of their negotiation. Currently, 75% of the Company’s debt is contracted at a fixed rate.

1.4 OTHER SECURITIES

The Company does not have securities registered with RNV.

1.5 SIGNIFICANT CHANGES TO RIGHTS OF SECURITIES REGISTERED WITH THE RNV

On December 31, 2018, capital stock is represented by 585,542,305 nominative common shares of a unique series at no par value, of which 471,563,023 shares fully subscribed and paid, and 113,979,282 shares are pending subscription. Currently, such shares are in the process of restatement and registration with the RNV.

1.6 APPLICATION OF FUNDS

Non-applicable.

1.7 PUBLIC DOCUMENTS

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

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

Chapter 2. The Company

2.1 HISTORY AND DEVELOPMENT

Background and Privatization

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

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

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

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

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

The subsidiaries that were in suspension of Payments, now all merged into MINOSA, concluded that process since 2008, and as of December 31, 2016, the great majority of the debts that were suspended have been settled those for which there has been no claim by the creditor. As of December 31, 2018, the balance payable for this concept is MXN$2 million.

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

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

2.2 BUSINESS DESCRIPTION

AHMSA is a subsidiary of GAN and is one of the largest manufacturers of steel products in Mexico, whose principal activity is the production and sale of flat steel and structural profiles. In 2018, it had 13% share in the steel market nationwide, 24% share in flat products nationwide, and 12% share in finished steel goods of Mexican exports. Both its corporate offices as well as its steel plants are located in Monclova, Coahuila de Zaragoza, 248 kilometers away from the border of USA. With an area of about 1,200 hectares, AHMSA operates two steel plants with a total production capacity of 5.5 million tons of liquid steel per year.

In 2018, export sales were 454 mil tons, representing 12% of the sales volume of steel products and 12% of net sales of steel products. AHMSA continuously assesses the domestic and export market allowing maintaining some flexibility to access the market offering more attractive conditions; accordingly, at the end of 2008, AHMSA started operations of its AHMSA International sales office located in San Antonio, Texas, with the purpose of strengthening and increasing its market share in north American, as well as increasing the value and service of the Company's products.

The Company

The primary subsidiaries and associates of AHMSA are:

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

- AHMSA International and NASA, are engaged in the distribution and sale of AHMSA products in the domestic and international market.

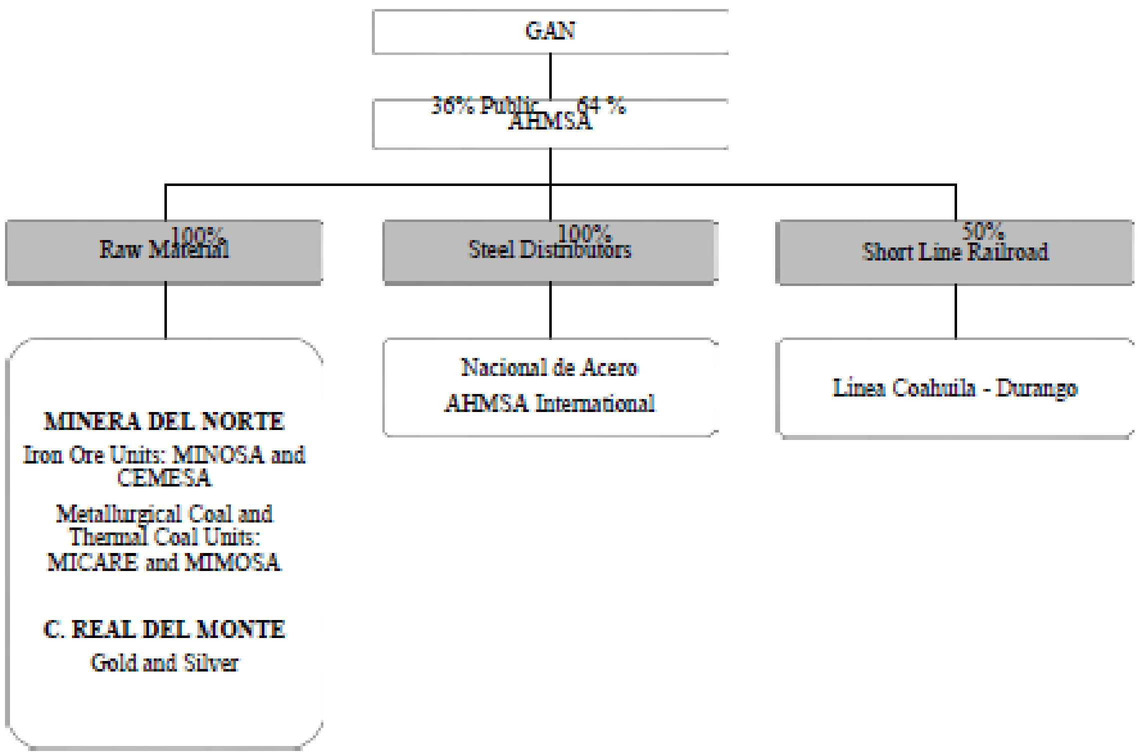
- Compañía de Real del Monte y Pachuca, S.A. de C.V. ("RDM") and Compañía Minera El Baztán, S.A. de C.V. ("BAZTAN") are engaged I the exploration and exploitation of deposits of gold and silver, and copper, respectively.

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

Joint Venture:

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

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



Strategy

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

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

Investment plans and capital improvements of the steel segment

From 2016 through 2018, AHMSA disbursed MXN$3,502.1 million under the investment and capital improvements plan of the steel segment.

- Productivity of man hours per ton of steel improved in 7 minutes going from 4:08 hours in 2016 to 4:01 hours in 2018.

- Liquid steel production increased from 4.39 million tons in 2017 to 4.52 million tons in 2018.

- The production of finished steel products increased from 3.80 million tons in 2017 to 3.88 million tons in 2018.

- Increase in the field of liquid steel to the finished product from 87.15% in 2017 to 87.64% in 2018, this by improving the yields in the main mills (Tira and Steckel).

- The quality of the product placed the rejection at 0.21% of its total production during 2018, in 2017 it was 0.52%.

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

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

- Increase the production capacity of the coke plant 1.

- Start the production of pig iron ingots to optimize processes.

Investment and capital improvement plan for mines.

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

From 2016 through 2018, AHMSA disbursed approximately MXN$3,108.3 million for the investment and capital improvement plan for its mines.

Primary costs of investment and capital improvements plan for mines

Projects	**Investment plan as of December 31, 2018 (millions of Mexican pesos)**
MIMOSA	1,185.6
MICARE	893.2
MINOSA	470.6
DOS REPUBLICAS	375.1
AHMSA STEEL ISRAEL	37.9
RDM	25.9
CEMSA	75.9
BAZTAN	44.1
Total	3,108.3

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

Market Opportunities

Approach in the Domestic Market. During 2018, the apparent domestic steel consumption it registered a decrease of 4.1% when it reached 25 million tons compared with the previous year. This decrease was the result of a lower flow of imports, since these registered a decrease of 12%

and added to the increase of 2% of the exports. The decrease in the national consumption of steel was found in flat products, mainly due to: coated products, cold-rolled sheets, pipes with seams, as well as alloy steel sheets. With the closing of borders worldwide through vaulting, rates and quotas on imports, all with the intention of safeguarding the steel industry, such as section 232 in the United States, in October 2015 Mexico made a similar measure to the establish a tax of 15% on imports of steel products originating in countries with which Mexico has no free trade agreement, these actions paid off by slowing the growth of imports in 2016 and 2017 to register a decrease in 2018. Such decrease is the first in the last 5 years.

Access to Extensive Mineral Reserves and Economies of Scale. AHMSA has long term concessions to extract from its iron ore and metallurgical coal mines, with reserves proven and probable, of which AHMSA considers as sufficient to provide its Steel operations, with a broad and safe supply. In addition, AHMSA has large reserves in its thermal coal mines for sale to CFE. Through the continuity of the plan investments and development of new mines, AHMSA wants its mining subsidiaries to provide most of the iron ore and metallurgical coal required by their production processes steel. However, in 2018, AHMSA purchased 430 thousand tons of metallurgical coal at 27 foreign producers, 754 thousand tons of iron ore, 437 thousand tons of pellet and 518 thousand tons of coke imported to foreign producers.

Competitive Labor Costs. AHMSA labor agreements and productivity achievements under the investment and capital improvement plan have contributed to significant increase in productivity. In addition, AHMSA average cost-benefit for its steel and mine operations were of approximately USD$7.84 per hour during 2018, thousand tons of iron ore, which AHMSA considers that are under the majority of its national and international competitors.

Quality products for a sophisticated domestic market and international market access. AHMSA emphasizes continuous improvements to the quality of its products, improve the customer service, and optimizes its production equipment and the utilization of its human and natural resources. In recent years, AHMSA has obtained and endorsed certifications ISO9001:2008, ISO-14001:2004, ISO Ts-16949:2009, OSHAS-18001:2007 NRF-001PEMEX 2007, SA800:2008, ISO IEC 17025:2005 and EN 10025-1:2004 “CE 120” as an organization of international standards in most of its processes; in addition, it maintains the certification as a reliable supplier of Caterpillar de México. These certifications help AHMSA to attract customers that produce high quality products which are intended to international markets.

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

Steel Production and Sales

Production

AHMSA manufactures all its products in a fully integrated steel company which consists of two plants located in the city of Monclova, Coahuila de Zaragoza, where it produces crude steel using the basic oxygen injection method, and processes 100% of its liquid steel by continuous casting method and in 2015, apart from production via BOF (oxygen injection), the electric furnace process that melts scrap by generating an electric arc was implemented. The total production of liquid steel (via BOF and via HE) is processed by the continuous casting method. In 2016 and 2017, AHMSA produced 4.65 million tons and 4.39 million tons of liquid steel, respectively, which in turn produced 4.17 million tons and 3.80 million tons of liquid steel, respectively. In 2018, AHMSA produced 4.52 million tons of liquid steel, which in turn produced 3.88 million tons of finished steel products.

Preparation of Materials

The main raw materials required by AHMSA are iron ore, metallurgical coal, scrap and oxygen. AHMSA iron ore is processed by a pellet plant and sinter plant. In 2016, 2017and 2018 the pellet plant produced 4.6 million, 3.7 million and 4.2 million tons per year, and 507 thousand,217 thousand and 754 thousands of iron ore were purchased and 226 thousand, 234 thousand and 437 thousand tons of pellet were purchased from foreign producers, respectively. Purchase of iron ore from third parties is required to improve the metal load in using our own raw materials.

Metallurgical coal is converted into coke by heating it in sealed furnaces. AHMSA has two cooking plants that perform this function. To achieve the production levels established by the investment and capital improvement plan, significant investments were made in these coke furnaces, reducing production unit costs through energy savings and reducing its emissions at the same time. In 2016, 2017 and 2018 the production of coke was 1,262 thousand, 1,253 thousand and 1,180 thousand, respectively. In 2016, 2017 and 2018, AHMSA bought 467 thousand, 452 thousand and 430 thousand tons of metallurgical coal, respectively. Purchases of metallurgical coal from third parties are required to improve the mixture of high, medium and low volatile coal, sulfur and ashes.

Pig Iron

The production of the coke plants, the pellet and the sinter plant are fed in Blast Furnaces, where it is fused to produce pig iron, raw material for the steelmaking process. AHMSA has two Blast Furnaces, which have nominal capacities of 7,200 and 4,800 of pig iron per day. The total production of pig iron in 2016, 2017 and 2018 was of 3.69 million, 3.20 million and 3.51 million tons, respectively. Currently, AHMSA’s production capacity of pig iron is approximately 3.9 million tons per year.

Liquid Steel

Pig Iron from Blast Furnace is transferred to basic oxygen furnaces (or steelmaking workshops) to be processed into liquid steel. In 2016, 2017 and 2018 the steel workshops, produced 4.65 million, 4.39 million and 4.52 million tons of liquid steel, respectively. The Electric Furnace obtained as accumulated production of 577 thousand, 808 thousand, and 670 thousand tons of liquid steel in 2016, 2017 and 2018.

Continuous Casting

Under AHMSA’s current process, the liquid steel produce by the steelmaking workshop is processed through continuous casting (still is cast directly in slabs). Begging December 31, 2002, the nominal capacity of continuous casting was 5.0 million tons of steel slab, allowing that 100% of AHMSA products can be processed through continuous casting. However, to take advantage of favorable market conditions at the end of 2004 and the first quarter of 2005, the ingot process was used to marginally increase the production of non-flat products. In 2018, the nominal capacity of continuous casting was 5.0 million tons per year of steel slab.

Rolling Mills

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

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

Production Efficiency Indicators

For the years ended December 31 of each year

	2016	2017	2018
Operating Efficiency Indicators			
Tons Sold (thousands of tons)	4,156	3,710	3,783
Man Hour per Tons (1)	4:08	4:19	4:01
Unionized employees (2)	5,949	5,702	5,289
Non-unionized employees (2)	2,424	2,453	2,484
Coke Consumption (3)	374	393	400
Power Consumption (4)	5.71	5.51	5.78
Liquid Steel Production Capacity (thousands of tons)	5,500	5,500	5,500
Capacity of Use (5)	84.6%	79.8%	82.1%
Production of Continuous Casting (6)	89.6%	84.6%	87.1%
Operating Income (loss) (pesos per ton)	MXN$224	MXN$153	MXN$938
Return (7)	87.5%	87.2%	87.6%
First Quality (8)	99.8%	99.5%	99.8%

(1) Number of hours by employee of the plant divided by the total tons of liquid steel produced in this period.
(2) Excludes personnel employed in mines.
(3) Kilograms of coke per tons of crude iron. Reductions I the rate of coke can occur due to improvements in the efficiency or the substitution of coal or natural gas instead of coke.
(4) In Gig calories ("Calories x10") per ton of liquid steel.
(5) Current production of liquid steel as a percentage of the maximum nominal capacity of liquid steel.
(6) Percentage of product good per ton of steel liquid consumed. Performance is represented as a fished good to crude steel produced.
(7) Percentage of products good per ton of steel liquid consumed. Performance is represented as a finished good to crude steel produced.
(8) Percentage of finished goods that means the criteria of quality standards in the industry for each market.

Production and Sale of Finished Products
(Thousands of Tons)

For the years ended December 31 of each year

	2016	**2017**	**2018**
Tons sold			
Flat Products	3,612	3,349	3,446
Coated Products	147	144	154
Structural profiles and non-flat products	398	217	183
Total tons sold	4,156	3,710	3,783
Inventory Increase	14	10	96
Total Production	4,170	3,720	3,879

Flat Products

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

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

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

Coated Products

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

Structural Profiles and Non-flat Products

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

2.3 SALES AND MARKETING

Domestic Sales

The domestic market is the primary market for AHMSA. In 2014, 2015, 2016, 2017 and 2018 approximately 84%, 86%, 85%, 87% and 88% respectively, of the total sales volume of steel products were made in Mexico. Domestic customers are divided into two main classifications: industrial customers and distributors. Industrial customers include final users of the product and processors that subsequently assemble the product purchased (such as producers of heavy machinery and equipment, pipes and galvanized sheets). Distributing customers resell the product to small customers seeking for the delivery or other terms not available directly in AHMSA. In 2018, AHMSA supplied approximately 2,126 thousand tons of steel prospects to industrial clients in Mexico (representing 57% of total sales volume), including customers in the construction and manufacturing business; and approximately 1,321 thousand tons to Mexican distributors (representing 35% of the total sales volume), of which 49 thousand tons to Mexican distributors (representing 13% of the total sales volume). The three largest companies of AHMSA in the domestic market are: Grupo Regio (Composed of Regiomontana de Perfiles y Tubos, SA de CV and PYTCO, SA de CV) representing 8% of total sales, Villacero representing 9% of the total volume of sales in 2018 and Productos Laminados de Monterrey, S.A. de C.V. ("PROLAMSA"), which represents 8% of the total sales volume and Group.

Export Sales

AHMSA export sales are mainly conducted in small transactions. In 2014, 2015, 2016, 2017 and 2018, these sales represented 16%, 14%, 15%, 13% and 12% of the total sales volume of steel products, respectively, AHMSA continuously evaluates the behaviors of the domestic and export market and seeks to maintain flexibility to be able to access those markets if conditions change; therefore, at the end of 2008, AHMSA started operations at its sales office in AHMSA International Inc., in San Antonio, Texas, which seeks a greater presence in the North American market as well as increasing the value and service to the Company’s products. In 2011, sales to AHMSA International represented 48% of the total exports of the Company. During 2012, the participation in AHMSA International sales represented 51% of the Company’s total exports. In 2013, AHMSA International continued to reinforce its presence in the North American market, since AHMSA’s sales to AHMSA International sales increased by 36% and the share in total export sales was 45%. By 2014, sales to AHMSA International sales increased by 30%, to reach 60% of total export sales of the Company. In 2015 sales to AHMSA International accounted for only 44% of total export sales, due to the slowdown in the growth of consumption of steel products in the United States. In 2016, sales to AHMSA International represented only 33% of total exports sales. In 2017, AHMSA International’s sales increased by 42%, and represented 44% of total export sale. This increase was possible due to the uncertainty and fear arising in the

United States for the investigation under section 232, and the antidumping actions, which allowed a reduction of imports from other steel supplying major countries. In 2018 the uncertainty generated by section 232 continued, and in March 2018 the US government administration of Donald Trump established a scheme of tariffs and quotas on imports from most countries, in which Mexico was included in June of 2018 which resulted in a decrease in exports of AHMSA to the United States, however, sales to AHMSA International although they remained at the same level of the previous year, their share grew to 68% of total export sales.

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

In 2015, the main market was the United States and AHMSA exports to this country represented 99% of the total exports; however, as the consumption of steel in the United States recorded a decrease of 6.6% and coupled with which inventories in the service center, AHMSA total exports recorded a decrease of 10% to 536 thousand tons. In 2016, AHMSA exports to this country represented 93% of the total exports and given the blockade of the main steel consuming regions, mainly to Asian countries through tariff measures and safeguards, it was possible to diversify the destination of exports, increasing exports to Europe and AHMSA's total export grew from 19% to 637 thousand tones. In 2017, again the United Stated market was AHMSA's main export market, allocating 98% of these total exports to this country. In 2018, 100% of AHMSA exports went to the United States, although due to the inclusion of Mexico in section 232, which was subject to a 25% tax on exports of steel products to the United States from June onwards. 2018, in June and July AHMSA exports to the United States decreased more than 50%.

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

AHMSA Steel Exports by Geographical Region

(In Thousands of tons and percentage of total export sales)

	2014		2015		2016		2017		2018	
Region	**Vol.**	**%**	**Vol.**	**%**	**Vol.**	**%**	**Vol.**	**%**	**Vol.**	**%**
Europe	4	1%	2	0%	47	7%	10	2%	0	0%
Asia	0	0%	0	0%	0	0%	0	0%	0	0%
Central and South America	3	1%	3	1%	0	0%	0	0%	0	0%
North America	589	99%	530	99%	590	93%	468	98%	454	100%
Total	596	100%	536	100%	637	100%	478	100%	454	100%

In addition to its direct export program, AHMSA has joined indirect export programs with customers who process their products subsequent export ("co-exportation"). Some of these customers include Trinity Industries de Mexico, S.A. de C.V., Gunderson Conacarril, S.A.de C.V., Gunderson-Gimsa, S.A. de C.V., Caterpillar Mexico, S.A. de C.V., Caterpillar Torreon, S. de R.L. de C.V. and Ingenieria y Maquinaria de Guadalupe, S.A. de C.V.. Although sales to these customers under these programs are domestic, the price is indexed to the U.S. dollar. These sales represented approximately 12%, 11%, 9%, 13% and 18% of the total sales volume of AHMSA steel products in 2014, 2015, 2016, 2017 and 2018, respectively. The decrease recorded in 2016 was due to the sales allocated to the industrial sector, which turned out to be most affected by the crisis in the global energy sector. Although in 2014 the participation of this concept in total sales of the Company remained unchanged, the volume that was allocated to this market represented an increase of 50 thousand tons or 12% in the year. The products manufactured by this type of company, are used to a large extent by the energy sector and the mining and the slowdown recorded in the Energy sector, caused by low prices. In turn, oil discourages investments in these sectors, therefore, during 2015 the tons sold to the co-export sector decreased by 11%, as a consequence of the deceleration as of the second quarter of 2015 in the industrial production of United States, which even registered negative variations in the fourth quarter. The reduction of investment in projects in the energy sector continued to affect this concept of sales decrease in a 9% in 2016 compared to the previous year. Since the manufacturing sector continued to be one of the main drivers of the economy in Mexico, sales to this sector during 2017 registered an increase of 10% over the previous year. The recovery of oil prices that occurred in 2018 reactivated investments in the energetic sector and customer producers of tank cars for the transportation of fuels, had a important increase in its purchases of steel products, which was reflected in an increase of more than 30% in co-export sales of AHMSA.

Marketing

AHMSA has five sales office in Mexico located in Monterrey, Mexico City, San Luis Potosi, Guadalajara and the central sales office in Monclova. In 2018, 51%, and 15% of AHMSA's domestic sales were conducted by the offices of Monterrey and Monclova, respectively.

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

International and Domestic Steel Markets

International Steel Market

In 2018, the global production of liquid steel reached 1,809 million tons (MT), 4.6% more than 2017. Liquid steel production increased in all regions in 2018, except in the European Union, which recorded a reduction of 0.3%.

Asia produced 1,271.1 MT of liquid steel in 2018, an increase of 5.6% compared to 2017. China's liquid steel production in 2018 reached 928 Mt, 6.6% more than in 2017. China's share in world production of Liquid steel increased from 50.3% in 2017 to 51.3% in 2018. India's liquid steel production for 2018 was 106.5 MT, 4.9% more than in 2017, which means that India has replaced Japan as the second largest steel products in the world. For its part, Japan produced 104.3 MT in 2018, a decrease of 0.3% compared to 2017. South Korea produced 72.5 Mt of liquid steel in 2018, an increase of 2.0% compared to 2017.

The European Union produced 168.1 MT of liquid steel in 2018, a decrease of 0.3% compared to 2017. Germany produced 42.4 MT of crude steel in 2018, a decrease of 2.0% in 2017. Italy produced 24.5 MT in 2018, 1.7% more in 2017. France produced 15.4 MT of liquid steel, a decrease of 0.7% in 2017. Spain produced 14.3 MT of liquid steel in 2018, a decrease of 0.1% in 2017.

Liquid steel production in North America was 120.5 MT in 2018, 4.1% more than in 2017. The United States produced 86.7 MT of steel, 6.2% more than in 2017.

The CIS region produced 101.3 MT, an increase of 0.3%; where Russia produced 71.7 MT of liquid steel in 2018, 0.3% more than in 2017. Ukraine produced 21.1 MT of steel, a decrease of -1.1% compared to 2017.

Annual steel production for South America was 44.3 MT in 2018, an increase of 1.3% in 2017. Brazil produced 34.7 MT in 2018, 1.1% more than in 2017.

In the Middle East, 38.5 tons of steel were produced, an increase of 11.7%. Iran produced 25.0 MT in 2018, 17.7% more than in 2017.

Turkey's steel production for 2018 was 37.3 MT, 0.6% less than in 2017.

Domestic Steel Market

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

Unlike the global stagnation of the developed economies or the downward trend of China, in Mexico the outlook for steel demand continued to be positive, since even with the decrease in imports, the apparent national consumption registered an increase of 2.9% to 25.3 million tons, boosting consumption and private investment.

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

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

	2014	**2015**	**2016**	**2017**	**2018**
Flat Products	40%	40%	38%	41%	38%
Domestic (2)	8,513	8,596	9,154	9,023	9,200
Imports (2)	5,006	5,343	5,183	5,716	5,046
Exports	- 947	- 739	- 868	- 811	- 831
Apparent Domestic Consumption	**12,572**	**13,200**	**13,468**	**13,950**	**13,415**
AHMSA Domestic Sales of Flat Products (3)	3,001	2,965	3,129	3,023	3,159
Percentage of AHMSA Apparent Domestic Consumption of Flat Products	24%	22%	23%	22%	24%
Non-Flat Products	40%	40%	38%	41%	38%
Domestic	7,774	8,208	8,748	8,731	8,854
Imports	1,571	1,780	1,580	1,569	1,510
Exports	- 1,607	- 1,290	- 1,219	- 1,424	- 1,431
Apparent Domestic Consumption	**7,738**	**8,699**	**9,110**	**8,876**	**8,934**
AHMSA Domestic Sales of Non-Flat Products (2)	172	204	228	162	162
Percentage of AHMSA Apparent Domestic Consumption of Non-Flat Products	2%	2%	3%	2%	2%
Other Steel Products					
Domestic	1,059	736	801	939	975
Imports	3,127	3,348	3,414	3,805	3,231

Exports	- 1,704	- 1,347	- 1,452	- 1,510	- 1,556
Apparent Domestic Consumption	**2,482**	**2,737**	**2,762**	**3,235**	**2,649**
AHMSA Domestic Sales of Other Products	41	68	163	47	8
Percentage of AHMSA Apparent Domestic Consumption of Other Products	2%	2%	6%	1%	0.3%
Apparent Domestic Consumption Total	22,793	24,635	25,340	26,061	24,999
Total AHMSA Domestic Sales	3,214	3,237	3,520	3,232	3,329
Percentage of AHMSA Apparent Domestic Consumption	14%	13%	14%	12%	13%

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

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

(2) Imports include 8th Rule.

Domestic Competition

AHMSA is one of two integrated producers of finished flat goods in Mexico, the only Mexican producer of Sheet Plate, Tin, and Chrome Plate. During 2014, the apparent national consumption of flat products increased by 17.1%, registering 12.6 million tons. Imports of this type of products increased by 18% maintaining its market share by 40%. The apparent national consumption of flat products during 2015 increased by 5.0%, registering 13.2 million tons. The import of this type of products increased by 6.7% and maintained its 40% market share for the third consecutive year. During 2016, national consumption of flat products increased by 2.0%, registering 13.5 million tons. The import of this type of products on the contrary decreased by 3.0% and its participation in the market was reduced to 38%. During 2017 the apparent national consumption of flat products increased by 3.4% to reach 13.9 million tons, derived from a 10% increase in the import of this type of products, which led to its market share to 541%; besides the reduction of 1.4% and 6.6% in the national production and exports respectively. During 2018, the apparent national consumption of flat products decreased by 3.8%, registering 13.4 million tons. The import of this type of products also decreased by 12% and its market share was reduced to 38%.

Non-flat products are produced domestically by TERNIUM, ArcelorMittal Lázaro Cárdenas, S.A. de C.V., DEACERO, S.A. P.I. de C.V. (“Variable Stock Investment Promotion Company”), Grupo CH ("Simec, S.A. de C.V., Corporación Aceros DM, S.A. de C.V., Aceros San Luis"), GERDAU de México(which in 2015 inaugurates a new plant for the production of structural profiles with an installed capacity of 1 million tons of steel a year in ciudad Sahagun, Hidalgo) and by other steel plants and re-rollers, which together with AHMSA, maintain a small share of the total market of non-flat products.

Foreign Competition

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

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

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

The aforementioned measure remained valid through 2015, and the Decree was renewed twice during the year, in April and in October. These measures had effect in the flow of total imports in 2016, since after recording its highest level in 2015, in2016, imports of flat products decreased 3%, and total imports 2.8%. Given the prevalence of oversupply conditions and unfair practices that gave rise to the imposition of duties in October 2015, the Government has extended the measure six months for four consecutive times, being October 17,2017 the latest, with which it achieved a coverage effective to April 15, 2018. In 2017, imports again recorded a substantial increase of 11.6%, this increase was mainly driven by some products such as: galvanized sheet, cold rolled steel sheet, seam and seamless pipe, plate and alloyed steel products, and mainly from the United States, Japan and South Korea. In 2018, it was also renewed twice more every 6 months, with which coverage was achieved as of January 31, 2019. In 2018, the flow of imports decreased by 12%.

North America Free Trade Agreement (NAFTA)

The NAFTA, which includes Canada, the US and Mexico, was launched on January 1, 1994. As of this date and in a period of 10 years that it concluded in December of 2003, the tariffs were gradually lifted, from 10%, which had the main lines of AHMSA products before the entry into force of NAFTA, up to zero percent since January 1, 2003.

NAFTA increased competition on the part of North American producers with the corresponding pressure in the operating margins, motivating AHMSA to invest in the expansion and modernization of its equipment and facilities since its entry into force, in order to maintain its competitiveness and presence in its own market as in that of North America, which is the main export destination of the Company's products.

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

Derived from the proposal of President Donald Trump on his intention to renegotiate NAFTA, the first round of negotiations was held from August 16 to 20, 2017, and from it seven more rounds were held, to conclude in August 2018 with the eighth round of negotiations.

Among the proposals for modification submitted by the EUA, the following stand out for the steel sector: the *"Sunset Clause"*, which aimed to establish a five-year NAFTA period, with which the treaty could end, unless the parties agree to renew it. This clause was modified to cover a 6-year revision period and will enter into force after 16 years of the treaty, that is, in 2034. Topics such as Regional Content and Rules of Origin were negotiated, that aim to increase/strengthen the regional content in manufacturing (automotive and textile). For the automotive case, from 62.5% to a 70-75% of regional supplies; Purchases from Government, which seeks to establish a "Dollar-for-dollar" policy ", which translates into bumping Mexican and Canadian purchases to the amount of contracts that American companies get from the governments of Mexico and Canada (reciprocity), which was not achieved in the new treaty, so that the conditions of the treaty prevail original; among other.

AHMSA actively participated in the progress of the negotiations through the consultations that the federal government carried out with the productive sectors of the country, specifically in matters related to steel.

Ratification of the treaty is still pending in the three countries by the respective Congresses to finally enter into force. This process is scheduled to take place during 2019.

Despite the tensions generated by the renegotiation of the now called T-MEC, coupled with the implementation of measure 232 by the US in which Mexico was subject to a tariff of 25% for virtually all of its exports to this country , there is confidence that given the strong industrial and commercial integration that has been created between the US and Mexico, especially in the area of steel products, it will ultimately result in an agreement that strengthens the economy of this Treaty, given the industrial integration and economic that has been generated between the three countries and that has led the North American region to be the most important free trade area worldwide.

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

In May 2016, the federal Government through the Ministry of Economy announced the commencement of negotiations for the modernization of the Free Trade Agreement European Union-Mexico (FTA-EUM). The first round of negotiations was held in the city of Brussels, Belgium, in June 2016. Finally, it took 10 rounds of negotiations to arrive at the successful updating of the treaty, which they concluded in April 2018. However, the representatives foresee that this new Treaty would be in force until 2020, due to the fact that it will be drafted and concluded text, the review of legal aspects and its translation into 16 languages.

Among the most relevant improvements are: greater expansion, achieving greater access to the market of agri-food products, public purchases and greater coverage of services; a stronger treaty, protecting the investment theme through new mechanisms for the settlement of disputes between investors and states. Provisions were negotiated to guarantee the name of Mexican brands; the protection of national emblematic products, as well as the recognition of traditional crafts originating in Mexico. The Treaty was modernized, given that new chapters such as SMEs were introduced to facilitate their participation in international trade; Trade and Sustainable Development to promote the efficient use of resources and the protection of biodiversity; as well as a Anticorruption chapter that seeks to promote cooperation and better practices in commerce, among others.

Mexico sends 80% of its exports to the United States and only 5% to countries of the European Union, according to data from the Bank of Mexico, so the modernization of the TLCUEM is part of Mexico's export diversification plan of the federal government.

Free Trade Agreement Mexico-Turkey

Mexico and Turkey held seven rounds of negotiations, with a view to signing a Treaty of Free Trade however; this process was halted by virtue of the renegotiation of NAFTA. According to statements by the Turkish embassy in Mexico, there is interest of this country to achieve a commercial agreement with Mexico, so negotiations are expected to resume during the new administration. Turkey is a country with strengths in steel products denominated lengths, and in what corresponds to flat products manufactured by AHMSA, the country Euro-Asian has a high demand that shows an opportunity to supply that market.

Trans-Pacific Partnership ("TPP-11")

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

In the case of Mexico, on April 24, 2018 the Chamber of Senators ratified the Agreement and on November 29 of this same year the decree promulgators of said Treaty was published in the Official Gazette. Since the majority of the member countries have already ratified their accession, the CPTPP entered into force on December 30, 2018.

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

AHMSA does not expect greater competition in its market from the current TPP-11-member countries, since most are not significant steel producers, with the exception of Canada and Japan, with which the tariff de-tariffing deadlines have already been met under the Free Trade Agreements signed with these countries. Nonetheless, although to a lesser extent, it is foreseeable to expect competition from Malaysia, Singapore and Vietnam, countries with an expanding steel industry.

Tariffs

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

In April 2015, the Amparo filed by the National Trade Union of Workers of the Metal-mechanic, Iron and Steel, and auto Parts Industry ("SNTIMMSA") was dismissed, giving rise to the relief to 0% of tariffs in chapter 72 and 73. For a period of 6 months, the Mexican iron and steel industry struggled for a measure of commercial remedy to compensate the damage caused to the domestic industry for the global steel problem originated by the oversupply and the economic slowdown worldwide, which was aggravated by the elimination of tariffs. After an in-depth analysis by the Federal Government, it announced trade remedy measures to support the Mexican steel industry. As a first step, it determined the imposition of a temporary tariff of 15% to 97 tariff fractions that correspond to good from the steel sector, including those produced by AHMSA such as steel slab, sheet plate, plate rolls, cold rolled steel sheet, hot rolled steel sheet and wire rod, by a Decree published in the Federal Official Gazette, wherewith a coverage was achieved effective October 7, 2015, coming into force the day after its publication in the DOF, with a temporary validity of 180 days.

The tariff affected is the most favored nation ("NMF tariff"), so if there are any countries with certain tariff benefits derived from the application of International Treaties, they will remain in force, with no impact whatsoever.

Given that, for the term of validity, the lack of conditions for healthy competition between industries of different countries was maintained, the Federal Government determined necessary and urgent to re-establish this measure, so that on April 4, 2016 by Decree published in the DOF, the validity of the provisional tariff of 15% was extended for an additional 180 calendar days, which would end on October 7, 2016.

By then, the national industry expressed the existence of limited signs of recovery of the steel industry and projected a low demand for steel products around the world, due to a low performance of the international economy, so after a thorough analysis of the circumstances that prevailed for the Mexican iron and steel industry, the government decided to extend the measure again.

Since October 2015, the 15% tariff has been extended semi-annually for five consecutive times, the last one being on June 5, 2018 by means of a decree published in the DOF with which coverage was achieved effective January 31, 2019, given the prevalence of oversupply conditions and unfair practices that gave rise to the imposition of tariffs.

It is expected that the tariff will continue to be renewed in the future to continue to counteract the negative impact of steel exports to Mexico under conditions of unfair competition, as the conditions of global oversupply continue, mainly motivated by the Asian market (China, basically) , in addition to the recent implementation of safeguard measures adopted by the main markets of the world, such as USA (Measure 232), the European Union, Canada, India, Turkey, among others, that aggravate the situation facing the Mexican spherical industry, by generating the diversion of trade in conditions that are distributed to markets that are open, as in the case of Mexico.

Single Window

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

Automatic import notices for steel products

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

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

It should be noted that the measure applies only to imports of steel products that are made under the definitive import regime. Given the above, there has been a significant increase in imports under the temporary regime, given that this regime is not subject to the measure. The Mexican steel industry is constantly collaborating with the competent authorities and negotiating the extension of the mechanism for its application to the temporary importation regime, which would allow the migration of imports to the temporary regime to be corrected in order to evade the mechanism of automatic notices.

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

On January 6, 2016, the DOF published the Decree amending the aforesaid Decree to Develop the Export Manufacturing, Maquila and Services Industry (IMMEX Decree) to prevent malpractices through this scheme, affecting the proper operation of international trade in the country, in which 86 sensitive tariff fractions of iron and steel products are incorporated.

As additional measures of supervision for the temporary import regime, the elimination of differentiated periods for the return of goods imported under a temporary regime under the IMMEX Decree was contemplated, specifying that the goods that are imported They may temporarily remain in national territory for up to 18 months, except in the case of certified companies whose term is 36 months.

As a consequence, and in order to align the public policy established in previous decreed, on December 12, 2016, the Ministry of Economy published in the DOF specific requirements that IMMEX companies requiring imported sensitive goods, including steel, should meet, and thus provide legal certainty with regards to controls, benefit and facilities in the foreign trade transactions to companies using these programs. Thus, it was established that temporary import transactions to companies using these programs. Thus, it was established that temporary import authorizations will be by tariff fraction and volume of goods, while in the past, the authorizations were given by all the fractions and a certain value, generating the possibility of importing any product with the same permission and encouraging undervaluation. Similarly, it was determined that authorized temporary imports will have a duration of 4 months, when previously the permission dis not contemplate an expiration date making it impossible for the authority to have a clear idea of the imports effectively re-export. The decree establishes that for the authorization of new temporary imports, companies must have returned 70% of the goods consigned in their previous authorization, in this way it gives greater certainty of the return or failing, regularization of the merchandise in the territory national. Likewise, it was determined that, based on this decree, the installed productive capacity of the importing company will be considered in its previous operations, in order to avoid the creation of apocryphal companies and / or misuse of the program.

Sectoral Regulator Steel

The steel industry is of vital importance in the Mexican economy, representing a pillar for national and regional development and the beginning of multiple productive chains. However, in recent years, the Mexican steel sector has presented important changes in its pattern of foreign trade. This change has translated into a problem of unfair competition for the national industry such as undervaluation, triangulation of origin, incorrect classification of goods and misuse of the programs of promotion (IMMEX).

AHMSA actively participated in joint work with the Tax Administration Service (SAT) of the federal government for the implementation of a mechanism to combat this problem. Derived from the joint venture, on January 27, 2017, the Official Register of Importers of Specific Sectors was published in the DOF under the General Rules on Foreign Trade, which includes the Steel Sector with 306 sensitive fractions of the chapters 72 and 73 of the Tariff of the General Import and Export Taxes (TIGIE). Its entry into force allows a greater and better monitoring of foreign trade operations, so as to reduce the indiscriminate and ephemeral appearance of taxpayers who improperly use trade facilitation instruments, which will allow a better control in imports of steel, as well as reducing the risk of circumvention, triangulation and poor tariff classification.

Bond scheme for temporary imports of steel products.

As part of the additional measures announced by the Ministry of Economy to boost the Mexican steel industry and help combat customs fraud, amendment of the IMMEX has been considered.

As part of the additional measures announced by the Ministry of Economy to promote the Mexican iron and steel industry and support the fight against customs fraud, amendment of the IMMEX program is considered, to include the implementation of a guarantee scheme that protect compliance with the obligations inherent to the temporary import of goods of the steel sector, in order to ensure compliance with the objectives of this program, the payment of the corresponding general import tax and the countervailing duties in force, where appropriate. The detailed procedure has not yet been officially released; however, the Mexican steel industry is continuously in coordination with the Ministry of Economy in order to achieve a joint proposal that favors fair trade. AHMSA hopes to resume progress on this issue with the new federal administration that took possession on December 1, 2018, to achieve the establishment of these measures.

Antidumping investigations in Mexico against imports of steel products

Flat Products from the Russian Federation

On November 22, 2012, the Mexican authorities published the final resolution in the DOF, confirming the 29.3% quota for five more years. On October 7, 2015, the notice of the effectiveness of the countervailing duties was published in the DOF, for which reason AHMSA expressed interest in initiating a new validity examination and the respective extension of the agreement for five more years, considering that the economic and market conditions that gave rise to the initial investigation prevail. The investigation began on June 6, 2016, and the final resolution was published in the DOF on May 2, 2017, confirming the quota of 29.3%, for five more years, applicable to the import of steel plate in roll to carbon and boron, originally from Russia.

Steel plate in roll boron originating in the Russian Federation (research by elusion)

After verifying the Mexican authorities that in effect the Russian exporters were avoiding the compensation quota through minor changes to the Rollo Plate subject to this measure, on February 19, 2014 the Mexican authority published in the DOF a resolution determining the application of the current compensatory quota of 29.3% for the imports of Rolled Steel Plate in carbon originating in Russia and imports of rolled steel plate alloyed with boron originating in this same country. This average is effective from the day following the publication of the resolution in the DOF (February 20, 2014) and its continuity was established through the final resolution of the fourth review of the validity of the countervailing duty applicable to imports of plate in roll to the carbon, in which the corresponding ones to plate in roll to the boron were included and that was published in the DOF the 2 of May of 2017, confirming the quota of 29.3% already established.

Rolled Cold Roll Sheet from Bulgaria, Kazakhstan and the Russian Federation

Upon the completion of the fifth anniversary of the effectiveness of the countervailing duties, AHMSA and another important producer requested the Mexican authorities to continue the validity of these quotas, with the Mexican authority publishing the DOF on June 25, 2014, the start of the review. to have a five-year review of the quotas by *dumping* against imports of Cold Rolled Sheet originating in Kazakhstan and Russia. On July 1, 2015, the Mexican authority issued its final resolution confirming once again the application of the current antidumping duties of 22% for Kazakhstan and 15% for Russia for a period of five years, with the original imports of Bulgaria. On September 11, 2018, the notice on the validity of countervailing duties was published in DOF, stating the expiration of the quotas for 2019 and opening the possibility of initiating the corresponding validity test, which AHMSA will request in the right time.

Rolled Hot Rolled Sheet from the Russian Federation and Ukraine

On February 19, 2015, on the eve of the fifth anniversary of the effectiveness of the countervailing duties, AHMSA, together with another important producer of Rolled Sheet in Caliente in Rollo, requested the Mexican authorities to initiate the investigation for a third five-year review of the validity of the countervailing duties applicable to imports originating in Russia and Ukraine of 21% and 25% respectively. On March 25, 2015, the start of the third validity exam was published. On January 28, 2016, the Mexican authority issued its final resolution confirming the application of the current antidumping duties of 21% for Russia and 25% for Ukraine, for a period of five years, applicable to the import of hot sheet carbon and boron.

Rolled Hot Rolled Sheet from the Russian Federation (research by elusion)

In view of the competitive quotas imposed against the imports of Rolled Sheet in Coal Rolled Sheet and the weakness of the global economy that impacted the consumption of steel products during the last two years, the syndicates in Mexico began to acquire Rolled Sheet in Hot Rollo carbon originating in Russia, with certain minor changes such as the addition of boron in insignificant amounts that allowed its classification into tariff fractions corresponding to alloyed products, not subject to the payment of quotas. The significant increase in imports of this product led to the other important producer of Hot Rolled Sheet in México requesting the Mexican Government the initiation of an investigation by circumvention of the payment of compensatory quotas, proceeding contemplated in the Mexican legislation of foreign trade. This research was supported from the beginning by AHMSA. Thus, after prior evaluation, on July 19, 2013, the Mexican authority published in the DOF the initiation of the investigation by circumventing the payment of the compensatory fee applicable to imports of the reference product.

After assessing the arguments and comments made by the interested parties, the Mexican authority concluded that the Russian producers had indeed avoided the payment of the countervailing duty through minor changes such as the addition of boron to the Rolled Hot Sheet in Carbon Roll. exported by them, so the addition of boron to the Hot Rolled Sheet in Roll to the carbon exported by them, so that on March 21, 2014 it published its final resolution determined a compensatory quota of 21% on the imports of Blade Rolled in hot carbon with boron content, and its continuity was established through the final resolution of the third review of validity of the compensatory quotas applicable for imports of hot carbon sheet, in which the hot sheet was invested boron, which was published in the DOF on January 28, 2016, confirming the 21% quota already established for Russia.

Sheet Steel Plate originally from Romania, the Russian Federation and Ukraine

On November 4, 2014, the Mexican authority published in the DOF a notice on the validity of the current countervailing duties with a view to a problematic expression of interest for the start of a second validity examination by Mexican producers. AHMSA requested the Mexican trade authorities to initiate this procedure, which was published by means of a resolution that began on September 7, 2015. The final resolution was published in the DOF on September 7, 2016, maintaining the countervailing duties of 67.6 % for imports of Sheet Steel Bale originating in Romania, of 36.8% for those of Russia and 60.1% for those of Ukraine, for five more years. This procedure included imports of carbon steel plate and boron.

Sheet Steel Plate boron originating in the Russian Federation and Ukraine (investigation by elusion)

The carbon steel sheet with boron, originating in Russia and Ukraine, has relatively minor differences in relation to the Carbon Steel Sheet Plate whose imports are subject to the payment of compensation quotas. During 2012 these imports observed increasing volumes, which replaced the imports with compensatory quotas, since like the imports of Carbon Steel Sheet Plate they were interned in dumping conditions, causing pressure at low prices in the plate in Sheet produced by AHMSA.

This fact motivated AHMSA to request the Mexican authority to initiate an investigation for the circumvention of the payment of antidumping duties, a procedure contemplated in the Foreign Trade Law. On May 22, 2013, the Mexican authority declared the start of the respective investigation, by means of a resolution published in the DOF. In the investigation, the investigating authority was able to verify that the importers of the aforementioned product, originating from Russia and Ukraine, had indeed evaded the payment of the countervailing duties by acquiring the Sheet Plate to the car subject to this measure with minor changes such as the addition of boron in insignificant amounts; which resulted in the Mexican authority resolving to apply the current antidumping duties of 36.8% and 60.1% for imports of Carbon Steel Sheet Plate with boron originating in Russia and Ukraine, respectively. This decision was published in the DOF of January 8, 2014, and its continuity was established through the final resolution of the second examination of the quotas applicable for imports of leaf plate to carob, in which the corresponding ones were included. a sheet in boron sheet, and which was published in the DOF on September 7, 2016, confirming the quotas of 36.8% for imports originating in Russia and 60.1% for those of Ukraine.

Rolled Cold Rolled Sheet Rigid South Korea

During 2011 and part of the first quarter of 2012, we observed imports of Rolled Cold Rolled Sheet originating in South Korea in conditions of price discrimination (dumping), which caused the other important manufacturer of this product in Mexico to apply to the Mexican authority the start of a new anti-dumping investigation. This request was supported by AHMSA. After evaluating the arguments and evidence offered by the national products, on October 1, 2012 the Mexican authority published in the DOF the Resolution to initiate the investigation.

On May 25, 2016 the beginning of the review of said commitments was published in the DOF upon the request of Hyundai. AHMSA actively participated in the relief of each one of the stages of the procedure. The publication of the preliminary result in the DOF on December 15, 2016, provisionally modified the columns of the import minima for the years 2017 and 2018, which were subsequently confirmed, definitively, by the final resolution of the procedure on June 13, 2017, to read as follows:

Export commitment to South Korean companies
(Metric tons)

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

On August 23, 2018, the DOF began the examination of the validity of the commitments, which was previously requested by AHMSA. It is expected that in the course of 2019 the process will conclude with the renewal of the same and the reduction of the export limits.

Sheet Steel Plate originating in the People's Republic of China

In recent years, China has established itself as the largest manufacturer of steel products worldwide, expanding its production capacity beyond its consumption needs, which has generated significant surpluses of exports beyond its consumption needs generated significant export surpluses that have put pressure on domestic markets in various parts of the world, causing several countries to adopt anti-dumping measures against the export of Chinese steel products.

In the particular case of sheet steel plate, of which AHMSA is the only Mexican manufacturer in the country, during 2012 and part of 2013 there were increasing and significant volumes in imports originating in China in conditions of price discrimination. This situation motivated AHMSA to request, on April 30, 2013, the initiation of an *anti-dumping* investigation concerning imports of Coal Plate Sheet and Plate alloyed with boron originating from that country. Prior to the legal proceedings, the investigating authority decided to accept the request and declare the investigation's start, which was published in the DOF on July 26, 2013. At the conclusion of the first stage of the investigation, the Mexican authority issued the preliminary ruling imposing a provisional anti-dumping duty of 33.98% on imports of Sheet Plate originating in China. This resolution was published in the DOF of January 31, 2014. Subsequently, on October 14, 2014, the final decision on imports of Plate in Sheet from China was published in the DOF confirming the antidumping duty of the presidential resolution (33.98%).

On September 11, 2018, the notice on the expiration of the countervailing duties for 2019 was published in DOF, being able to initiate the corresponding invalidity test, which AHMSA will request at the appropriate time.

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

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

Cold rolled Steel Sheet from China

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

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

Cold rolled Steel Sheet from China (research by elusion)

When the compensatory quota was imposed on the Cold Rolled Steel Sheet from China, the importers in Mexico began to acquire Cold Rolled Steel Sheet of China with certain minor changes, such as the addition of boron in insignificant quantities, that made it possible to classify them into tariff fractions corresponding to boron products, not subject to the payment of antidumping duties. The significant increase in imports of this product, motivated AHMSA, together with another important producer of Cold Rolled Steel Sheet of México, requested the Mexican Government to initiate an investigation for circumvention of the payment of compensatory duty. So, on December 22, 2015, the Mexican authority published in the DOF the initiation of the investigation by circumventing the payment of the compensatory duty applicable to imports of this product. Finally, the Mexican authority concluded that the imposed quota had been circumvented through minor changes such as the addition of boron to the Cold Rolled Steel Sheet exported by China and on July 11, 2016 the final resolution of the investigation was published, determining the application of the same compensatory quotas to which the imports of Cold Rolled Steel Sheet are subject: 65.99% for the Chinese exporter to the Chinese exporter Baoshan, 82.08% to Tangshan, and 103.41% to Shougang.

Hot Rolled sheets from Germany, China and France

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

Amparo judgment against the preliminary ruling whereby countervailing duties were imposed for imports of hot-rolled steel rolls originating in Germany, China and France

In October 2015, AHMSA received notification of the start of the Amparo trial filed by Transportes Orta, S.A. of C.V. ("Transportes Orta"), in the capacity of third party interested, by the Ninth District Court in the State of Tamaulipas. The defendant authorities were the Secretary of Economy and Customs of Altamira, for the application of the provisional compensatory quota. AHMSA provided sufficient evidence and arguments in defense of the preliminary ruling imposed by the Ministry of Economy. This resolution was published in the DOF on June 9, 2015, later definitive quotas were determined by final resolution published on December 22, 2015. The change of legal situation that implied the cessation of the validity of the preliminary ruling (provisional quotas) and the substitution by the definitive resolution resulted in the authority resolving the oversight of the trial promoted by Transportes Orta, so that the case concluded satisfactorily for AHMSA, maintaining the *antidumping* duties decreed by the authority

Steel Plate Sheet from Italy and Japan

On July 19, 2017, AHMSA requested from the federal Government the commencement of the antidumping investigation against imports of coal and alloyed steel plate sheet from Italy and Japan, derived from the increasing imports of this product in price discrimination terms. After the corresponding analysis, the investigating authority published the commencement of the procedure on November 14, 2017 and a preliminary decree was issued on December 19, 2018, without the provisional quotas. The investigation will continue through 2019. AHMSA hopes that once all the stages of the procedure are developed, it will be concluded with the imposition of countervailing duties that allow equaling competition conditions for AHMSA in the Mexican market of steel plate sheet.

ANTIDUMPING DUTIES IN MEXICO FOR PRODUCTS MANUFACTURED BY AHMSA

In force as of March 21, 2019

	Steel Plate Sheet	Steel Plate Roll	Hot Rolled Steel Sheet in Roll	Cold Rolled Steel Sheet in Roll
Germany		137.0 and 166.01 US$/Ton*		
China	33.98%	335.6 and 354.92 US$/Ton*		65.99% to 103.41%*
France		67.54 and 75.59 US$/Ton*		
Kazakhstan				22.0%
Romania	67.6%			
Russia	36.8%	29.3%*	21.0%*	15.0%
Ukraine	60.1%		25.0%*	

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

Antidumping and Ant subsidy Investigation against AHMSA exports

With the elimination of the antidumping and dumping subsidies against the Mexican license plate in the USA as of February 1, 2007; the elimination of the antidumping duty by Canada against the same product on January 10, 2003, and the non-imposition of anti-dumping duties in Brazil, none of the exports of the products that AHMSA elaborates is currently subject to the payment of antidumping duties or in the USA as in Canada and Brazil, the company being able to take advantage of the market potential of NAFTA and South America to complement the supply of these regions and contribute to their productivity and competitiveness.

Likewise, the Company is not aware of any countervailing or antidumping duty against AHMSA products in any other jurisdiction. However, increases in the volume of exports of AHMSA and the expansion of its export markets may increase the risk of this type of claim against the company.

Investigation under Section 232 for steel products USA

Last April 20, 2017, the administration of the President of USA, Donald Trump, decided to initiate an investigation on imports of steel and aluminum in the United States of America, in order to establish trade remedy under section 232 of the Trade Expansion Act of 1962, which permits the imposition of restrictive measures in the spirit of protecting national security. The procedure contemplated the review by the Department of Commerce, with the participation and consultation of the Department of Defense. Derived from the report given by the Department of Commerce, on March 8, 2018, the US president by presidential decree, established tariff restrictions on imports of steel and aluminum, of the order of 25% and 10%, respectively, without distinction of the country. of origin, except Australia, Argentina, Brazil and South Korea, which managed to negotiate annual import quotas. In the case of Mexico, the measure covered 383 tariff fractions of the General Import and Export Tax Tariff ("TIGIE"), leaving virtually all of the Mexican steel exports to the US.

The measure has generated many opponents in the US market. Car manufacturers, food processors and various steel-and-aluminum-intensive industries have pointed out that tariffs raise costs and reduce their competitiveness. Steel exporting countries such as Japan, China, Canada, India, Turkey and the European Union have implemented reprisals, unleashed a commercial war that has included diversity of merchandise, not only steel and aluminum, such as food products, electronics, among others.

In this sense, Mexico has also implemented measures of reprisal in products such as cheese, tomato, pork, whiskey, among others and established a 25% tariff for 50 tariff fractions of steel products through publication in the DOF on June 5, 2018. The effectiveness of this measure will end at the time the measures to which Mexico is subject under Section 232 of the United States are eliminated.

For its part, the steel industry continues to fight for the implementation of a "mirror" measure with respect to Section 232 imposed by the United States, covering the 383 tariff fractions mentioned, in addition to continuing negotiations for an eventual extension of Mexico from the measure, given that its imposition has had a negative commercial impact, and has generated damage to the integrated value chains in the region, which seriously threaten the Mexican sugar industry and trade among the member countries. The new administration has indicated its intention to request the US government to eliminate the measure for Mexico.

As expected, the measures applied by the United States have generated a diversion of trade in iron and steel products to Mexico, which is why the Mexican steel sector has asked the government to keep the current 15% tariff in force in order to foresee the entry of Steel products under disloyal conditions, which expires on January 31, 2019 and which is expected to continue to be renewed in the future.

2.4 ENVIROMENTAL MATTERS

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

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

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

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

In 2016, a loan agreement with North American Development Bank (NADBANK) of MXN$399,182 million (USD$25 million) was entered into for the installation of a Main Emission Control Equipment BOF 2 and Converter 1 and 2.

In 2017, the engineering for the project of installation of dust-control equipment was completed in the Pelletizing Plant, with a value of USD$84,000.

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

UNIQUE ENVIRONMENTAL LICENSE

In March 2012, the Ministry of Environment and Natural Resources (“SEMARNAT”) authorized AHMSA the LAU, in terms of prevention and control of air pollution, which was subject to the fulfillment of conditions by each one of the business units.

In 2015, to comply with applicable environmental regulations in term of the General Law of Ecological Balance and Environmental Protection, the LAU for the operating units Pelletizing Plant, Coking Plant 1, Blast Furnace 5, Blast Furnace 6, BOF 1, Hot Rolling, Steckel Plate Line, Heavy Sections, Cold Rolled 1, Power Plant 1, Power Plant 2, Energy 1, Power Plant 5 and Energy 2, Rail Transport, Water Treatment 1, 2, Recovery of Materials (MINSA 2), Oxygen

Plants 2, 3, 4, 5, 6 and 8, and General Services was updated, and a new operating unit, which is Power Plant 7, was added.

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

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

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

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

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

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

For the year 2018, in order to comply with the environmental regulations applicable in terms of the law, the SEMARNAT was requested to update the LAU for the following items; Waste, in this section the amount of waste generation was increased, some are added, and others are not generated; Ammonium sulfate plant, said plant does not generate emissions, therefore a new evaluation was requested. Likewise, a reconsideration of conditions for coking areas 1 and 2 was requested, for the installation of a water treatment plant, since by study of laboratories we can corroborate that the waters used are within the maximum permissible limits; the clarification of a conditioner in the line of standardized plate and it was requested to eliminate a conditioner of the plant department AHMSA 2 Degassed in vacuum.

On the other hand, a request was made for the extension of compliance with conditions related to the coke's departments 1 and 2; we have partially advanced in the committed investment program and will comply satisfactorily with the requirements of the authority.

INSPECTIONS

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

In 2018, PROFEPA carried out the inspection to verify compliance with the BOFI department, however, the closure of the file was determined by updating the LAU in a timely manner.

ENVIRONMENTAL AUDIT

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

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

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

The Program includes 7 departments, of which Coker 1 and 2, Sinter Plant, Pelletizer, BOF1 and BOF and CC requested an extension of the deadline to continue working with the Action Plan, as well as the Comprehensive Water Management audit, a review of the program by the authority is made, this audit covers the water management at the plant level and its discharges.

In 2018, 2 Certificates of Clean Industry, Cold Rolling 1 and 2 were added, and Hot Rolling and Heavy Profiles were rectified by receiving a Level 2 Certification.

The following departments entered into the Program: Coke Plant 1 y 2, Sinter Plant, Pelletizer, BOF1 and BOF and CC, warehouses, Laboratories, Normalized Line and Electric Furnace, the Comprehensive Water Management Action Plan was authorized in September 2018 to September 2021, this audit covers water management at the plant level and its discharges.

ENVIRONMENTAL REGULATIONS

As in other industrialized countries, laws and environmental rules in México have become progressively severe during the last decade. This trend is likely to continue, as a result, it is possible that in the future, AHMSA and its operations are subject to stricter Mexican Environmental Laws. However, we aim to increase the value of the natural and human resources of our company, through compliance with all environmental, safety, health and quality regulations.

In 2015, the DOF published applicable laws and rules applicable to both AHMSA and affiliates of Grupo GAN, of which the most relevant are the Energy Transition Act, Nom-041-SEMARNAT-2015 and NOM_018-STPS-2015, whose effect is in 2018.

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

In 2017, the DOF published the Land Use Program in the Coal Region.

In 2018, the General Law of Sustainable Forestry Development was issued, and various articles of the General Law of Ecological Balance and Environmental Protection were modified, both laws related to aspects of the environment that the Company carries.

WASTE

2016

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

2017

- 18,674.67 tons of hazardous materials were generated at a cost of MXN$16,285,560.77 per disposal.

- 1,577.40 tons of RME were generated in 2017.

- 398.79 tons of pruning waste were sent to final disposal as extraordinary cleanings.

- Final disposal of 4,073.40 tons of Wastewater III, at a disposal cost of MXN$1,092,588.26.

2018

- In hazardous waste, there is a generation of 17,836.03 tons with a cost per provision of MXN$13,780,899.26.

- In terms of EMR, 1,585.90 tons are generated.

- 717.49 tons of pruning waste were sent as final cleanings.

- Final provisions of 3,818.78 tons of sewage sludge III, at a disposal cost of MXN$748,250.00.

Report of Greenhouse Gas Emissions (“GEI”)

In 2016, AHMSA’s volume of emissions totaled 7,967,787.50 tCo2 eq, and emissions of CO2 were calculated, with an intensity of 1.712 tons of CO2/tons of liquid steel (“TAL”):

In 2017, the verification of greenhouse gas emissions ("GEI") of AHMSA for the 2016 period was carried out by the Sustainable Solutions Int. Organization, and a verification report was issued on November 22, 2017.

The emission volume for the year 2017, AHMSA issued a total of 7,746,288.65 tCo2 eq., and prepared the calculation of CO2 emissions based on the applicable methodology, obtaining an intensity of 1,765 tons of Co2 / TAL.

The emission volume for the year 2018, AHMSA issued a total of 7,874,284 tCo2 eq., and prepared the calculation of CO2 emissions based on the methodology of the National Registry of Emissions (“RENE”), obtaining an intensity of 1.7409 tons of Co2 / TAL.

Environmental Impact Authorization

In 2017, the Manifest of Environmental Impact ("MIA") of the project "Plant of Force 9" was authorized.

In 2018, the MIA, Particular Modality of the "Electrolytic Washing Machine No. 5" project was authorized.

<u>SUBSIDIARIES</u>

Clean Industry

In 2018, Clean Industry certificates of the following subsidiaries have been maintained:

- ANTAIR has currently a certificate in force.
- RDM has one pending certificate and one certificate in force.
- BAZTAN has an agreement in force.
- MINOSA has three certificates in force.
- MICARE has two certificates in force and three pending certificates.
- MIMOSA has one certificate in force.
- In 2017, a certificate was granted to Hércules and CEMESA with a two-year effect.

Legal Requirements

In 2016, the following was carried out:

- Cuanana. Justified Technical Study (“ETJ”). An environmental compensation payment of MXN$280.6 thousand is made.
- RDM is made the compensation payment for the change of use of land ("CUS") of the project for MXN$10.3 million.
- Compañía de Electricidad de Coahuila (“CODECO”). The annual report of compliance of the project is filed, and the bond for the environmental compensation for the project is renewed.
- CEMESA. Preventive Report is entered to SEMARNAT.
- BAZTAN. MIA and ETJ are filed with SEMARNAT, Michoacán.

In 2017, the following was carried out:

- BAZTAN. The request for change of CUS of 7.92 hectares is authorized.

- Project “Tailing Dam 3, BAZTAN”. The development of the flora and fauna Rescue and Relocation program is at the final stage by the Agrarian University Antonio Narro. MXN$1,350,000.
- Project “Tailing Dam 3, BAZTAN”. Payment is made for environmental compensation to the Mexican Forestry Fund for the CUS in the forest land, which is intended to carry out soil restoration and reforestation in the amount of USD$479,943.
- Project Pachuca. A decision is obtained from PROFEPA, which imposes a fine of MXN$116,864 to MINOSA, derived from the fire in the grounds of Jometitlan in Epazoyucan occurred in June, which was imputed, and the bail was paid.
- La Perla Unit. In July 2017, a spillage of tailing of approximately 75,000 m3 occurred on an area of 42 hectares, which was responded fulfilling the urgent implementing measures established by PROFEPA, among the most important were the recovery of spilled tailing and place it in an existing tailing, hiring an expert company for company for recommendations for stabilizing the tailing, in addition, the UANL is hired to prepare an affectation study on the impacted area by the tailing, and the mine stops operations, and the area of the damaged curtain is repaired.

During 2018:

- Baztan Project Presa de Jales 3. The payment for environmental compensation to the Mexican Forest Fund is carried out by the CUS in forest land, which has as purpose to carry out actions and soil restoration.

- Stability studies were performed on Jales Dams from the Groupo Acerero (Hercules, BAZTAN, Pachuca, La Perla, CEMSA, MICARE, MIMOSA).

2.5 HUMAN RESOURCES

As of December 31, 2018, the Company had 18,389 workers. To this date, approximately 11,250 of these employees were unionized and approximately 7,139 were non-unionized.

During 2018, the Contract and Salary tabulations of AHMSA, MINOSA and all of its units, as well as of NASA, Monclova and Monterrey Plants, have been accepted and approved in Workers' Assemblies. This last company has a collective contract with CTM in Monclova Plant and Federation of Independent Trade Unions in Monterrey Plant.

2.6 RAW MATERIAL REQUIREMENTS

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

In 2018, AHMSA internally obtained approximately 74% of its requirements of metallurgical coal, 91% of its requirements of pellet, 80% of iron ore and 55% of its requirements of electricity from its own facilities under a self-generation permit from the Government of Mexico. The balance of electrical requirements from AHMSA is provided by the CFE at commercial market prices. AHMSA obtains natural gas from PEMEX at prevailing market prices. AHMSA also requires small amounts of limestone, which is supplied entirely by Refactarios Básico, S.A. de C.V. ("REBASA").

Historically, AHMSA, produced all its scrap. Due to the improvements made by AHMSA under investments and capital improvements Plan, the Company has become more efficient in its steel production. As a result, AHMSA's production of scrap metal has decreased, and since February 1996, AHMSA has purchased it from third parties to fulfill its requirements. In 2018, AHMSA bought 55% of its scrap requirements from third parties. The purchase was increased mainly by the entry into operation of the Electric Oven.

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

Mining Operations

Through MINOSA and CEMESA Units, AHMSA operates four iron ore mining units that provided most of its iron ore requirements in 2018.

Through MIMOSA Unit, AHMSA operates four underground coal mines and two open-pit mines, which supplied most of its requirements of metallurgical coal in 2018 and as a subproduct a thermal volume that is sold to CFE through CIC Corporativo Industrial Coahuila, S.A. of C.V. ("CICSA").

The MICARE unit operated two open pit mines and one underground mine in 2018 for the production of thermal coal, which is sold to CFE through CICSA.

The business of iron ore and coal mines is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, labor disputes, the encounter of unusual or unexpected geological conditions, changes in the environment and natural phenomena. Such occurrences could result in damage to or the destruction of the properties of minerals of the production facilities, mining delays, and monetary losses.

Iron Mine Operations

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

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

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

Iron Ore Production
(Millions of tons)

Unit	2016	2017	2018
Hércules (2)(3)	3.57	3.09	3.39
Manzanillo (1)	0.05	0.00	0.00
CEMSA	0.33	0.24	0.34
Total	3.95	3.33	3.73

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

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

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

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

Reserves of Iron Ore as of December 31, 2018 (1)
(Millions of tons, except percentages)

	Crude Mineral			Concentrate		
Unit	**Average Degree of Iron**	**Mineral Resources (2)**	**Mineral Reserves (3)**	**Weight**	**Recovered**	**Average Degree of Iron**
Hércules	26.3%	457.5	207.2	20.3%	42.1	64.2%
CEMESA (5)	32.8%	36.4	23.7	15.3%	3.6	64.3%
La Perla	32.9%	39.7	21.9	29.0%	6.4	61.8%
Manzanillo (4)	45.7%	50.0	0.3	70.0%	0.2	62.1%
Total		583.6	253.2		52.3	

(1) AHMSA's iron ore reserves are currently in the process of being certified at the end of December 31, 2018 by Tetratech USA, independent advisors, who are experts in geological mining and reserve determination. The table shows that this information was updated with information from the Company's internal geologists. The terms Mineral Resources and (2)

Mineral Resources (3) are used according to the definitions adopted and issued by the Canadian Institute for Mining, Metallurgy and Petroleum ("CIM" from Canada), according to the Canadian Standards 43-101.

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

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

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

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

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

Coal Mine Operations

MIMOSA Unit Mines. In 2018 it operated four mines of underground coal and one open pit. The underground mines of MIMOSA unit are located approximately 130 kilometers by rail from the steel company. In 2016, 2017 and 2018, the MIMOSA unit produced 1.39, 1.37 and 1.39 million tons of metallurgical coal respectively, 1.09, 1.71 and 1.76 million tons of thermal coal, respectively. Metallurgical coal was used for the production of coke, while thermal coal is used by electricity generating plants. The high amount of volatile material in thermal coal compared to metallurgical coal, as well as other characteristics of thermal coal makes it unsuitable for the production of coke. During the period from 2004 to 2008, part of the thermal coal produced by the MIMOSA Unit was sent to the MICARE unit for sale to CFE and the rest was sent to the Collection Center for sale to CFE directly; As of May 2008, MIMOSA unit sells directly to CFE in 2009 the surplus coal from MIMOSA unit, one part was sold to the collection center and the rest was sold to third parties, and all the metallurgical coal produced by MIMOSA unit was used in the steel production in AHMSA.

MIMOSA Unit operates two coal washing plants, which are used to clean off coal to remove non-combustible materials generated during the extraction process and reduce the ash content. A washing machine reduces the coal ash content from an average of 50.61% to an average 13.5%, for which AHMSA coking ovens are designed to operate, MIMOSA metallurgical coal is transported by rail via Línea Coahuila-Durango, S.A. de C.V. (50% of which is owned by AHMSA) to Monclova facilities at freight prices prevailing in the market.

During, 2016, 2017 and 2018, AHMSA, purchased 467 thousand, 452 thousand and 430 thousand respectively, of metallurgical coal from external suppliers. In addition, in 2018, it purchased 518 thousand tons of imported metallurgical coke.

MICARE Unit Mines, operate two open pit mines and an underground mine located in the State of Coahuila and Texas. In 2016, 2017 and 2018, MICARE Unit produced 5.9, 6.5 and 6.2 million tons of thermal coal, respectively.

In 2016, 2017 and 2018, MICARE and MIMOSA sold to the CFE and third parties 6.2, 6.7 and 5.9 million tons of thermal coal, respectively, including the thermal coal produced by MICARE Unit, and thermal coal produced by MIMOSA Unit.

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

Thermal Coal Sales
(Millions of Tons)

Sales	**2016**	**2017**	**2018**
MICARE and MIMOSA Units to CFE	6.2	6.7	5.9
Collection Centers	0	0	0
Total	6.2	6.7	5.9

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

In 2016, 2017 and 2018, MICARE Unit open pit mines produced 2.5, 3.6 and 3.9 million tons of thermal coal, respectively.

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

In 2016, 2017 and 2018, MICARE Unit underground mines produced 3.1, 2.7 and 2.2 million tons of thermal coal, respectively.

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

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

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

Production and Sale of Coal to Third Parties

(Millions of tons)

PRODUCTION AND SALES	2016	2017	2018
MIMOSA			
Metallurgical Coal (1)	1.31	1.37	1.39
Thermal Coal (1)	1.09	1.71	1.76
	2.48	3.08	3.15
MICARE			
Thermal Coal (2)	5.85	6.54	6.23
Total Production of Thermal Coal	**6.94**	**8.25**	**7.99**
Thermal Coal Sales			
(Increase) Decrease in Inventories of AHMSA (3)	-1.23	-1.69	-2.05
Purchases of Thermal Coal (4)	0.50	0.17	0.00
Total Sales of Thermal Coal (5)	6.21	6.73	5.94

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

Sales of Coal to Federal Electricity Commission and Third Parties

(Thousands of tons, except percentages)

	2016		2017		2018	
	Vol	%	Vol	%	Vol	%
Coal I	3,526	79%	3,520	86%	3,292	91%
Coal II	2,682	62%	3,216	80%	2,652	73%
Total	6,208		6,736		5,944	

(1) In 2016, 2017 and 2018 includes 504, 866 and 737 thousand tons respectively from purchases from external producers.

Thermal Coal Sales. MICARES Unit's thermal coal is sold to two plants of the CFE, Coal I and Coal II, located at approximately 10 kilometers from MICARE unit. In 2018, MICARE unit supplied approximately 91% and 73% of the thermal coal requirements of Coal I and Coal II, respectively.

In 2013, all MICARE unit thermal coal sales are made to CICSA which, in turn, sells all the coal to CFE.

In June 2018, CICSA signed a new contract with CFE with a value of MXN$23,728 million pesos and valid for 3 years (2019-2021); with a base price at that date which meant an increase in the weighted price of the two plants of 10% compared to the last price of December 2018 paid by CFE to CICSA; This price was also updated for its application as of January 1, 2019, which finally results in a weighted price increase of the two plants of 14% compared to the last price of December 2018, paying CFE to CICSA.

(Unaudited) Mining Reserves

AHMSA updates estimates of its reserves of coal in its MIMOSA and MICARE Units each year. The estimated reserves presented below were prepared by AHMSA's engineers, using evaluation methods that are generally used in the international miming industry, including standard mapping, drilling, sampling, analysis and geological model methods. In June 2018, an independent mining consultants company certified the reserves of MICARE and MIMOSA Units, in accordance with Canadian standards 43-101.

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

The term "reserves" refers to the part of the mineral resource that can be recovered economically and legally at the time of the estimate.

As of December 31, 2018, the Company has mineable reserves and salable reserves of its different minerals classified as proven and probable as follows:

Coal reserves as of December 31, 2018(1)- MIMOSA and MICARE Units
(Millions of tons)

Mine	Proven (2)	Probable (2)	Total	Proven Saleable (4)	Probably Saleable (4)	Total Saleable
MIMOSA Unit Metallurgical Coal (5)	188.5	0	188.5	81.8	0.0	81.8
MICARE Unit Thermal Coal	76.0	0	76.0	64.4	0.0	64.4
Total	**264.5**	**0.00**	**264.5**	**146.2**	**0.0**	**146.2**

(1) AHMSA's coal reserve as of December 31, 2018 have been estimated by AHMSA's employees.

(2) The proven reserves are the economically mineable part of the measured mineral resourced that have at least one preliminary feasibility study This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at all time of reporting, that economic extraction is justified; a proven mineable portion implies a high degree of certainty in amending factors (2014 CIM Definition Standards).

(3) Probable reserves are the economically mineable part of the indicated mineral resources that have at least one preliminary feasibility study. This study must include adequate mineral resources that have at least one preliminary feasibility study. This study must include adequate information on mining, processing metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified. In June 2018

MICARE Unit and MIMOSA Unit reserves were certified by an external expert Millcreek Mining Group.

(4) The term “saleable reserves” means estimated reserves including losses for coal to be within sale specifications such as the coal washing process. In the case of MIMOSA Unit, a recovery of 40% was assigned. A recovery of 82% for underground mining for saleable coal was applied to MICARE Unit.

(5) Includes thermal coal as a byproduct of metallurgical coal washing.

Mexican Regulating System for Mining Concessions

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

Mining concessions are awarded for exploration and exploitation. A mining concession allows its holder to explore and extract any mineral resource within a period of 50 years and is renewable for other 50 years, as long as its holder pays a nominal fee, and complies with the Mining Laws. In 2018, the amount accrued for these rights amounted to MXN$336 million.

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

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

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

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

Production of Other Minerals

In 2015, the RDM Unit reached a production of 966 thousand ounces of silver equivalent, and the BAZTAN Unit generates 3.8 tons of copper concentrate. In 2016, the RDM Unit reached a production of 611 ounces of silver equivalent, and the BAZTAN Unit generated 3.6 thousand tons of copper concentrate.

In 2018, the RDM Unit reached a production of 999 thousand ounces of silver equivalent, and the BAZTAN Unit generated 2.8 thousand tons of copper concentrate.

Dividends Policy

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

The General Corporate Law requires that 5% of the net income of the Company of each year (after statutory employee profit sharing and other deductions). Be transferred to the Legal Reserve until the reserve equals at least 20% of common stock. Mexican companies generally pay dividends from their retained earnings, after deducting the Legal Reserve. Under the Mexican Tax Laws, the Company shall be obliged to pay a tax at the rate in effect on the grossed-up base of any dividend if such dividends are paid from earnings which have not been subject to the tax on income. (“ISR”). Beginning 2014, dividends to individuals and foreigners will incur an additional 10% on the basis of the net tax income account generated from that date. As of December 31, 2018, 2017 and 2016, the amount of the Legal reserve amounts to MXN$105 (historical value).

Chapter 3. Financial Situation

3.1 RELEVANT FINANCIAL INFORMATION

Operating Results from 2016 through 2018. The following financial information is obtained from the company's audited financial statements. This information should be read in conjunction with the consolidated financial statements for the years ended December 2018, 2017 and 2016. Audited financial statements are prepared in accordance with IFRS.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31
(Millions of Mexican Pesos (MXN$))

	2018	**2017**	**2016**
Assets			
Current Assets:			
Cash and cash equivalent	$ 389	$ 1,677	$ 944
Trade Accounts receivable, net	5,555	4,494	2,667
Due from related parties, net	287	207	205
Other accounts receivable, net	1,620	1,150	1,385
Inventories, net	9,427	7,006	7,840
Prepaid expenses	128	41	154
Total current assets	17,406	14,575	13,195
Non-current:			
Due from related parties, net	486	485	485
Other long-term receivables	55	89	89
Guaranty deposits	1,069	882	835
Investments in shares of associates and joint ventures	105	81	80
Property, plant and equipment, net	41,617	43,070	44,979
Intangible assets, net	3,138	3,334	3,426
Other assets, net	948	678	525
Total non-current assets	47,418	48,619	50,419
Total assets	$ 64,824	$ 63,194	$ 63,614
Liabilities and stockholders 'equity			
Current liabilities:			
Financing debt	$ 11,158	$ 4,684	$ 2,847
Due to suppliers	10,505	8,738	6,382
Taxes payable	1,178	1,603	1,270

Due to related parties	1,148	511	438
Advances from customers	1,532	2,381	2,841
Other payables and provisions	2,508	2,010	2,114
Total current liabilities	28,029	19,927	15,892
Non-current liabilities:			
Financing debt	6,941	11,746	13,092
Due to related parties	7,162	7,212	6,330
Other payable and provisions	3,115	3,419	4,632
Employee retirement obligations	275	342	540
Deferred income Taxes	0	654	654
Total non-current liabilities	17,493	23,373	25,248
Total liabilities	45,522	43,300	41,140
Stockholders' equity:			
Capital Stock	13,187	13,187	13,187
Additional capital contribution	458	458	458
Retained earnings from prior years	5,574	7,433	10,586
Loss for the year	(749)	(1,859)	(3,153)
Other comprehensive income items	180	96	819
Controlling interest	18,650	19,315	21,897
Non-controlling interest	652	570	577
Total stockholders'' equity	19,302	19,894	22,474
Total liabilities and stockholders' equity	$ 64,824	$ 63,194	$ 63,614

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31
(Millions of Mexican Pesos (MXN$))

	2018	**2017**	**2016**
Net sales	$ 66,791	$ 54,745	$ 48,512
Cost of Sales	58,358	48,542	42,279
Depreciation	3,736	3,619	3,775
Gross Profile (loss)	4,697	2,584	2,458
Selling and administrative expenses	3,429	3,236	2,914
Other expenses (income) net	(256)	393	643
Operating (loss) income	1,524	(1,045)	(1,099)
Interest expense	2,026	1,595	1,523
Interest income	(133)	(109)	(196)
Foreign exchange loss, net	195	(25)	1,106

	2,088	1,461	2,433
Equity in (income) loss of joint ventures and associated	(23)	(20)	(29)
Loss before income taxes	(541)	(2,486)	(3,503)
Income Taxes expense	135	(629)	(333)
Consolidated net loss for the year	(676)	(1,857)	(3,170)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX:			
Items that may be reclassified subsequently to profit or loss: Translation effects of foreign subsidiaries	76	(118)	586
Items that will not be reclassified subsequently to profit or loss: Actuarial gains (losses) of employee benefits from termination and retirement	8	(605)	386
	84	(723)	972
Consolidated comprehensive net loss	$ (592)	$ (2,580)	$ (2,198)
Distribution of consolidated comprehensive net loss for the year:			
Controlling interest	$ (665)	$ (2,582)	$ (2,181)
Non-controlling interest	73	2	(17)
	$ (592)	$ (2,580)	$ (2,198)
Basic loss per share (in Mexican pesos)	$ (1.59)	$ (3.94)	$ (7.35)
Weighted average shares outstanding (thousands)	471,478	471,478	428,911

3.2 MANAGEMENT COMMENTS AND ANALYSIS ON OPERATING RESULTS AND FINANCIAL SITUATION

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

The consolidated financial statements have been prepared under NIIF.

Macroeconomic Effects in AHMSA

In Mexico, steel prices and a percentage of the thermal coal prices are referenced to international prices, but many of AHMSA costs (such as labor and certain inputs) are referenced to domestic prices. When inflation in Mexico exceeds the devaluation of the peso, the Company’s operating costs are directly affected by the aforementioned inflationary effect, resulting in a decline in the operations margin.

For 2016, the inflation rate amounted to 3.36%, while the peso registered a depreciation of 20.9%. In 2017, the inflation rate was 6.77% while the peso registered an appreciation of 4.49% and in 2018 the inflation rate was 4.83% while the peso registered 0.27%. There is no assurance that an increase in costs in pesos will be offset by an increase in incomes by price or exchange rate.

Sales volume, Product Mix and Average Selling Price

In recent years, AHMS's steel net sales have been affected by the demand for its products in the domestic market. The domestic market has historically been the main market for AHMSA in 2014, 2015, 2016, 2017 and 2018, approximately 84%, 86%, 85%, 87% and 88%, respectively, of total sales were aimed at this market. However, the national and international market is continuously assessed to maintain flexibility to access each market.

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

The table shows total income, and average price for each segmental for the periods.

	2018	**2017**	**2016**
Net Sales (millions of Mexican pesos)	66,791	54,745	48,512
Steel Segment:			
Net Sales of Steel Products (millions of Mexican pesos)	60,257	48,270	43,244
Volume (Thousands of tons):			
Flat Products	3,446	3,349	3,612
Coated Products	154	144	147
Other (mainly non-flat) (1)	183	217	398
Total Volume of Steel products	3,783	3,710	4,156
Average Selling Prices (pesos per tons) (2)	15,793	12,888	10,272
Operating Income (Loss) (millions of Mexican pesos)	3,549	879	933
Coal Segment:			
Net Sales (millions of Mexican pesos) (3)	5,407	5,807	4,508
Volume (thousands of tons)	5,944	6,565	5,621
Average Selling Price (pesos per tons) (2)	909	881	797
Operating Loss (millions of Mexican pesos)	(1,529)	(964)	(1,566)
Other Segment:			
Net Sales (millions of Mexican pesos) (4)	1,127	668	760
Operating Loss (millions of Mexican pesos)	(496)	(961)	(467)

(1) It also includes net sales pipes manufactures by third parties using hot rolled sheet supplied by AHMSA.
(2) Based on net sales of steel or thermal coal, as the case may be, divided by the total tons of steel or thermal coal sold. Changes in the average selling price of steel products reflect changes in price levels and product mix. The average selling price of the Steel Segment and Coal Segment do not consider other sales.
(3) Includes sales of coal purchased and resold by AHMSA. Sales of coal purchased were 0%, 10.9% and 13% of AHMSA’s net sales of thermal coal in 2016, 2017 and 2018, respectively.
(4) Other sales in the Other Segment includes sales of gold, silver and copper.

2018 Operating Results with respect to 2017

Sales Volume

Steel Segment. The volume of sales of steel products for 2018 was 3,783 thousand tons, an increase of 2% compared to 3,710 thousand tons of steel products sold in 2017. The volume is very similar due to the lack of materials premiums for consumption due to lack of liquidity. The volume of export sales decreased by 4.9%, going from 478 thousand tons in 2017 to 454 thousand tons in 2018. This decrease was due to the implementation of tariffs for art in the United States, as a result, a small number of orders.

Coal Segment. In 2018, AHMSA sold a volume of 5,944 thousand tons of thermal coal, a figure lower than the 6,565 thousand tons sold in the year 2017. The decrease was attributable to a decrease in the demand for coal by the Thermoelectric Power Plants of CFE, due to having high inventories of coal product of maintenance and rehabilitation in its production units.

Net Sales

Overall, AHMSA's net sales in 2018 were MXN$66,791 million, an increase of 22% with respect to AHMSA's net sales of MXN$54,745 million in 2017.

Steel segment. Net sales of the steel segment (including other sales) increased 24.8%, going from MXN$48,270 million in 2017 to MXN$60,257 million in 2018, mainly due to the increase in the average sales price, despite obtaining a similar sales volume to the previous year. The average sales price of AHMSA per ton of steel products had an increase of 22.5%, from MXN $12,888 in 2017 to MXN$15,793 in 2018.

Export sales represented 12.3% of sales revenue in 2018 (12.0% of sales volume of steel products for this year) compared to 12.3% of sales revenue of AHMSA in 2017 (12.9% of volume) sales of steel products for that year). The decrease was due to the decrease in sales volume as mentioned above.

In 2018 and 2017, AHMSA reported other sales of MXN$508 million and MXN$458 million, respectively. Other sales in the steel segment were mainly by-products of the coke and scrap iron plant.

Coal Segment. Thermal coal sales were MXN$5,407 million during 2018 compared to MXN$5,807 million reported in 2017, representing a decrease of 6.9%, this decrease is mainly due to a lower sales volume by 9%. The price of thermal coal per ton increases 3.2% from MXN$881 in 2017 to MXN$909 in 2018.

Segment Others. Other sales were MXN$1,127 million during 2018 compared to MXN$668 million reported in 2017, representing an increase of 68.8%. This segment includes sales of gold, silver and copper among others. The increase was mainly attributed to higher sales in our subsidiaries Moonen Yachts Holding BV and Aqwise Water Technologies, LTD for MXN$271 and MXN $158, respectively.

Cost of Sales, Depreciation; Gross Profit

Cost of sales (not including depressing) increases 20.2% in absolute terms, going from MNX$48,542 million in 2017 to MXN$58,358 million in 2018, after an increase in the cost of sales of the steel and coal segment. As a percentage of net sales, it decreases from 88.7% in 2017 to 87.4% in 2018.

Depreciation increases 3.2% from MXN$3,619 million (6.6% of net sales) in 2017 to MXN$3,736 million (5.6% of net sales) in 2018. Depreciation is calculated on a straight-line basis, so the fluctuations are generally in function to changes in the amount of depreciable assets.

The consolidated gross profit for AHMSA increases 81.8%, going from MXN$2,584 million during 2017 to MXN$4,697 million during 2018.

Steel segment. Cost of sales (not including depreciation) for AHMSA's steel segment increases 22.8% from MXN$41,522 million in 2017 to MXN$50,988 million in 2018. This is due to the higher purchase of imported raw material with a higher price, mainly imported Coke.

Energy costs increase 36.8% in 2018 with respect to 2017. This is due to increases in prices and consumption of natural gas and coke, mainly. In 2017, it represented 18.0% of net sales of the steel segment, while in 2018 it was 19.7% (it increased 10% from 2017 to 2018).

The depreciation charge is this segment increased 0.2% when registering MXN$3,012 million (6.2% of net sales of the steel segment) during 2017 against MXN$3,019 million (5.0% of net sales in the steel segment) in 2018.

Considering the factors cited above, AHMSA reported a gross profit of MXN$ 6,250 million (10.4% of net sales of the steel segment) during 2018, an increase of 67.3% compared to a gross profit of MXN$3,736 million (7.7% of net sales of the steel segment) during 2017. This increase is attributable to an increase in the sales price, despite registering a similar sales volume and having a higher cost of sales.

Carbon segment. The cost of sales (excluding depreciation) for the AHMSA coal segment remains unchanged at MXN$6,157 million (106% of net sales of thermal coal) in 2017 to MXN 6,155 million (114% of thermal coal net sales) in 2018. However, the cost per ton shows an increase of 10% as a result of an increase in the reduction of rejection coal due to an increase in the ash produced.

Additionally, energy costs increased 23.1%, going from MNX$463 million (8.0% of net sales of the coal segment) in 2017 to MXN $ 569 million (10.5% of net sales of the coal segment) in 2018, mainly due to an increase in the price of diesel, fuel used in the equipment for open pits and the highest cost of electric power by increasing the rate per kilowatt by 13.3%.

The costs of work control decrease from MXN$1,323 million (22.8% of net sales of the coal segment) in 2017 to MXN$1,127 million (20.9% of net sales of the coal segment) in 2018. The decrease is linked to the liquidation of the 63% of the unionized personnel of Mina 7 1/2 (in MICARE) for not developing this unit.

The depreciation charge is this segment increases in absolute terms by 22.1% of MX$494 million (8.5% of net sales of the coal segment) in 2017 to MXN$603 million (11.2% of net sales of the coal segment) in 2018.

AHMSA reported a gross loss in its thermal coal segment of MXN $ (1,351) million (25% of net sales of the coal segment) during 2018, compared to a gross loss of MXN$(845) million (14.5% of net sales of thermal coal) during 2017. The increase in the loss was mainly due to the decrease in sales volume and higher production costs due to increased ash.

Other Segment. Cost of sales (excluding depreciation) for AHMSA's other segment increased 40.9% from MXN$863 million (129.2% of net sales of other segments) in 2017 to MXN$1,215 million (107.8% of net sales of other segments) in 2018.

The service charge in this segment remains unchanged if changes in MXN$113 million (16.9% of net sales of the other segment) in 2017 to MXN$113 million (10.1% of net sales in the other segment) in 2018.

AHMSA reported a gross loss in its other segment of MXN $ (201) million (17.9% of net sales of the other segment) during 2018, compared to a gross loss of MXN$(308) million (46.1% of segment sales in others segment) during 2017.

Management and Sale Expenses

Management and sales expenses represented 5.1% and 5.9% of net sales for AHMSA for 2018 and 2017, respectively, increasing in absolute terms by 6%, from MXN$3,236 million in 2017 to MXN$3,429 million in 2018. The increase was mainly due to the increase in salary expenses.

Steel segment. AHMSA's steel segment management and sale expenses increased by 5.9% from MXN$2,755 million (5.7% of net sales of the steel segment) in 2017 to MXN$2,917 million (4.8% of net sales of the steel segment) in 2018.

Coal Segment. Management and sales expenses for the AHMSA coal segment increased by 30% from MXN$137 million in 2017 (2.4% of net sales of the coal segment) to MXN$178 million in 2018 (3.3% of segment net sales in the carbon segment).

Others Segment. Management and selling expenses for the other segment of AHMSA had a 2.8% decrease of MXN$344 million in 2017 (51.1% of net sales of the other segment) to MXN$334 million in 2018 (29.6% of net sales in the segment others).

Results before Financial Expenses and Income

In 2018, the profit before AHMSA's financial result was MXN$1,524 million (2.3% of net sales) compared to an MXN$(1,045) million loss (1.9% of net sales) in 2017.

Steel Segment. The profit before the financial result for the AHMSA steel segment was MXN$3,549 million in 2018 compared to the MXN$879 million profit in 2017. The increase in operating income was mainly due to an increase in income of 24.8% (22.5% increase in sales price and 2% in volume) despite the increase in the cost of 21.3% compared to the previous year.

Coal Segment. The loss before the financial result of the AHMSA coal segment was MXN$(1,529) million in 2018, compared to a loss of MXN$(964) million in 2017. The increase in the loss of operation is due to the previously mentioned concepts decrease in sales volume and increase in production costs due to increased ash.

Segment Others. The loss before the financial result of the other segment of AHMSA was MXN$(496) million in 2018, compared with a (loss) of MXN$(961) million in 2017.

2017 Operating Results with respect to 2016

Sales Volume

Steel Segment. The volume of sales of steel products for the year 2017 was MXN$3,710 or thousands of tons, a decrease of 10.7% with respect to the 4,156 thousand tons of steel products sold in 2016. The decrease was mainly due to three reasons: a maintenance in hot rolling machines that lasted more than the scheduled time, lack of raw material due to liquidity restrictions and events of force majeure. The volume of export sales decreased by 25%, going from 637 thousand tons in 2016 to 478 thousand tons in 2017. This decrease was due to lower production and even better price in the domestic market.

Coal Segment. In 2017, AHMSA sold a volume of 6,565 million tons of thermal coal, higher than the 5,621 thousand tons sold in the year 2016. The increase was attributable to a change in the feed mix of the Coal II plant (CFE) that required more thermal coal from AHMSA.

Net Sales

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

Steel segment. Net sales of the steel segment (including other sales) increased 11.6%, going from MXN$43,244 million in 2016 to MXN$48,270 million in 2017, mainly due to the increase in the average price of sales, which was partially compensated by the decrease in volume of tons sold. The average sales price of AHMSA per ton of steel products increased by 25.5% from MXN$10,272 in 2016 to MXN$12,888 in 2017.

Export sales represented 12.3% of sales revenues in 2017 (12.9% of sales volume of steel products for that year) compared to 13.9% of sales revenues of AHMSA in 2016 (15.3% of volume) sales of steel products for that year). The decrease was due to the decrease in sales volume as mentioned above.

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

Coal Segment. Thermal coal sales were MXN$5,807 million during 2017 compared to MXN$4,508 million reported in 2016, representing an increase of 28.8%, this increase is attributed to two causes: higher prices resulting from increases in the contract rates with CFE and higher sales volume as mentioned above. The price of thermal coal per ton increases 10.6% from MXN$797 in 2016 to MXN$881 in 2017.

Other Segment. Other sales were MXN$668 million during 2017 compared to MXN$760 million reported in 2016, representing a decrease of 12.2%. This segment includes sales of gold, silver and copper among others. The decrease was attributed mainly to lower sales at our subsidiary Moonen Yachts Holding BV.

Cost of Sales, Depreciation; Gross Profit

Cost of sales (not including depreciation) increases 14.8% in absolute terms, going from MXN$42,278 million in 2016 to MXN$48,542 million in 2017, after an increase in the cost of sales of the aforementioned segment and coal. As a percentage of net sales, they increase from 87.1% in 2016 to 88.7% in 2017.

Depreciation decreases 4.1% from MXN$3,775 million (7.8% of net sales) in 2016 to MXN$3,619 million (6.6% of net sales) in 2017. We use depreciation in a straight-line manner, so fluctuations will generally depend on to changes in the amount of depreciable assets.

The consolidated gross profit for AHMSA increases 5.1%, going to MXN$2,459 million during 2016 to MXN$2,584 million during 2017.

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

Energy costs increase 23.0% in 2017 compared to 2016. This is due to increases in prices and consumption of natural gas, imported coal and electric power. In 2016, it represented 16.3% of net sales of the steel segment, while in 2017 it was 18.0% (it increased 10% from 2016 to 2017).

The depreciation charge is this segment decreases 3.2% when registering MXN$3,113 million (7.2% of net sales of the steel segment) during 2016 against MXN$3,012 million (6.2% of net sales in the steel segment) in 2017.

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

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

Additionally, energy costs will increase by 26.4% from MXN$366 million (8.1% of net sales of the coal segment) in 2016 to MXN $ 463 million (8.0% of net sales of the coal segment) in 2017, mainly due to an increase in the price of diesel, fuel used in mine equipment.

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

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

AHMSA reported a gross loss in its thermal carbon segment of MXN $ (845) million (14.5% of net sales of the coal segment) during 2017, compared to a gross profit (loss) of MXN$(924) million (20.5% of net thermal coal sales) during 2016. Decrease was due mainly to better sale prices.

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

The depreciation charge in this segment increases in absolute terms by 3% of MXN$109 million (14.4% of net sales of the other segment) in 2016 to MXN$113 million (16.9% of net sales of the other segment) in 2017.

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

Administration and Sale Expenses

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

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

Coal Segment. Administration and sales expenses for the AHMSA coal segment decreased by 13.3% from MXN$158 million in 2016 (3.5% of net sales of the coal segment) MXN$137 million in 2017 (2.4% of net sales of the coal segment).

Others Segment. Administration and selling expenses for the other segment of AHMSA increased by 35.7% from MXN$253 million in 2016 (33.3% of net sales from the other segment) to MXN $ 344 million in 2017 (51.5% of net sales in the segment others).

Result before Financial Expenses and Income

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

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

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

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

Financial Products Expenses.

Financial product expenses include (i) interest earned on cash investments and financial instruments (ii) interest paid and financing and financial instruments and (iii) gains or losses on exchange rate fluctuations related to financial assets and monetary liabilities in foreign currencies.

Interest earned increased MXN $ 24 million from MXN$109 million in 2017 to MXN$133 million in 2018, mainly due to a higher gain in the year of 2018 due to interest earned on investments.

Interest expense recorded an increase of MXN$1,595 million in 2017 to MXN$2,026 million during 2018, mainly due to the increase in interest on financial liabilities, the financial state of the labor liabilities and interest paid by factoring the client portfolio, showing balances of MXN$616 million, MXN$498 million and MXN and MXN$73 million, respectively, during 2018 compared to MXN $ 426 million, MXN $ 416 million and MXN $ 0 million, respectively, in 2017.

During 2018 and 2017, the Company maintained a financial position in foreign currency, passive, net. During these years, the peso experienced a depreciation and appreciation in its value against the dollar, respectively, resulting in a net loss and gain from financial exchange fluctuations of MXN$195 million and MXN$25 million, respectively.

Considering these factors, the total of expenses and financial products, including exchange rate fluctuations, in 2018 and 2017 was a loss of MXN$2,088 million and MXN$1,461 million, respectively.

Tax on Income

AHMSA recorded a pre-tax loss of MXN$541 million and MXN$2,486 million in 2018 and 2017, respectively.

The Company is subject to ISR and some subsidiary to the Special Law on Mining ("DESM").

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

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

In 2018 and 2017, AHMSA reported ISR caused by MXN$444 million and MXN$441 million, respectively.

AHMSA recorded an income for the provision in deferred tax results for MXN$267 million and MXN$871 million in 2018 and 2017, respectively.

In 2018 and 2017, the Company recorded the provision in deferred DESM results for MXN$42 million and MXN$82 million, respectively.

As of December 31, 2018, and 2017, the Company shows a provision of tax deductions from the 100% deduction of payments that in turn are tax-exempt income for the workers for MXN$668 and MXN$555, respectively.

ISR in Mexico is calculated individually for AHMSA and each one of its subsidiaries. As of December 31, 2018, at the individual level, AHMSA does not have fiscal losses pending amortization.

Consolidated Net Loss

AHMSA recorded a consolidated net loss of MXN$676 million and MXN$1,857 million in 2018 and 2017, respectively.

Consolidated Comprehensive Loss

AHMSA recorded a consolidated comprehensive loss of MXN$592 million and MXN$2,580 million in 2018 and 2017, respectively.

Capital Investments

The following table shows the investment in AHMSA's capital for a three-year period ended December 21, 2018.

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

	2016	**2017**	**2018**
Permanent Restatement	1,129.6	908.8	1,081.5
Capital Improvements in Mines	321.4	719.0	1,064.7
Other (1)	1,419.0	449.7	514.9
Total Capital Disbursement Plan	MXN$2,870.0	MXN$2,077.5	MXN$2,661.2

(1) It includes asset replacements administrative investments of AHMSA, AHMSA International Inc. AHMSA Steel Israel LTD. ANTAIR, Hojalata Mexicana, S.A. de C.V., Corporativo Ansat, S.A. de C.V., RDM, BAZTAN and NASA.

AHMSA has had, and experts to continue to have liquidity and capital resources to finance investment programs (including environmental investments for each one of these plans) and provide working capital. As of December 31, 2018, AHMSA has entered into contractual commitments of MXN$2,689.7 million. The disbursements will be funded by AHMSA operation flow.

Liquidity and Capital Resources

AHMSA receives advances from customers for sales of steel, which are recorded as accounts payable and are amortized under the term of the relevant delivery period. As of December 31, 2018, AHMSA's current liabilities include MXN$1,532 millions of advances in accounts payable under these prepayment agreements.

The Company has negative working capital of MXN$10,623 million as of December 31, 2018, compared to negative working capital of MXN$5,352 million as of December 31, 2017.

In 2018, net cash flows obtained from operating activities were MXN$1,442 million, net cash flows used in investing activities were MXN$(2,537) million, and net cash flow obtained from financial activities were MXN$206 million.

As of December 31, 2018, the total consolidated financial debt was MXN$18,099 million, of which MXN$7,606 million is debt of AHMSA derived from the exit from Suspension of Payments.

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

On April 14, 2005, CEMSA Unit (before the merger) settled before the Fist District Civil Court of Monclova, Coahuila de Zaragoza, its debts arising from the Suspension of Payments. On April 15, 2005, this company requested from that court the lifting of the Suspension of Payments for each and every one of its creditors. On July11, 2005, a final decision was issued on the lifting of the Suspension of Payments of CEMSA Unit (before the merger), through the total payment to creditors of MXN$22 million made in April 2005.

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

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

With the objective of renewing the equipment and increasing the production capacity of the mines, MINOSA signed a leasing contract on November 19, 2009 with Caterpillar Crédito, S.A de C.V. SOFOM, ENR .. The current general conditions of the lease consist of financing 95% of the value of the current general lease units consist of financing 85% of the value of the equipment for a term of up to 60 months and a fixed interest rate of 7.75% per year. As of December 31, 2018, there is a balance of MXN$753 million (T.C., 19.6829, applicable for all amounts from U.S. to Pesos).

On October 5, 2012, the company FAMUR, SA, a Polish supplier, sold MINOSA a long-edge equipment with a value of MXN$379 million, which was agreed upon with the following conditions: 15% advance and 85% to be paid in seven years through quarterly amortizations with an interest rate of LIBOR + 3% per year. In December 2012, FAMUR, S.A., notified MINOSA that they had assigned the collection rights of said contract to the current Bank Gospodarstwa Krajowego, creditor of said debt, for which reason the debit was reclassified to a financial liability. The balance of said credit as of December 31, 2018 amounts to MXN$54 million.

On September 1, 2014, MINOSA and Caterpillar Crédito, S.A. of CV, signed a simple loan agreement for an amount of MXN$715 million representing 85% of the total value of the project, the construction of an electric generation plant, the above with an interest rate of 7.75% fixed, is considered a term of 18 months, and the amortization period is 54 months beginning in the year 2016. As of December 31, 2018, the balance is MXN$322 million.

In December 2014 the company Ferrit of the Czech Republic sold to MINOSA four locomotives valued at MXN$26million (TC 22.2879) Applies for all amounts of EUR to Pesos), which was agreed with the following conditions: 15% advance and 85% to be paid in four and a half years through semi-annual amortizations with an annual fixed rate of 5%. In February 2015, Ferrit notified MINOSA that it had assigned the collection rights of said contract to Ceska Bank, current creditor of that debt, so the debt was reclassified to a financial liability. The balance of said credit as of December 31, 2018 amounts to MXN $ 5 million.

In February 2015, Dos Repúblicas and Caterpillar Financial signed a credit agreement for the acquisition of machinery and equipment. This loan, with an annual interest rate of 7.75%, and a repayment period of up to 60 months. As of December 31, 2018, the balance is MXN$183 million.

On July 15, 2015, MINOSA and Caterpillar Crédito, S.A. of C.V., signed a simple credit agreement. This loan, with an annual interest rate of 6.75%, and a repayment period of up to 12 months. As of December 31, 2018, the balance is MXN$470 million.

In October 2015, the International Bank of Commerce granted DRCP a mortgage loan in the amount of MXN$154 million. This loan, with an interest rate of Prime + 1% per annum and a repayment period of 60 months. As of December 31, 2018, the balance is MXN$61 million.

On February 20, 2017, MINOSA and Caterpillar Crédito, S.A. de CV, signed a simple credit agreement for an amount of MXN $ 40 million representing 85% of the total value of the project on the construction of an electric power generator, the above with an interest rate of 7.75% fixed, is considered a disposition period of 18 months, and the amortization period is 54 months beginning in 2018. As of December 31, 2018, the balance is MXN$31 million.

In June 2017, MINOSA entered into an agreement for four years with UNIFIN Financiera, S.A.B. of C.V. (UNIFIN) of equipment that had previously been invoiced by MINOSA. This accounting contract qualifies as a capitalized lease, so a long-term liability of MXN$274 million was recorded as of June 30, 2017, with a fixed interest rate of 15.65% at the beginning of the lease, which corresponds to the lower amount between the fair value of the equipment, and the present value of the minimum payments for the lease. As of December 31, 2018, there is a balance to be paid of MXN$222 million.

In December 2017, May and June 2018, AHMSA entered into lease agreements for four years with UNIFIN Financiera, S.A.B. of C.V. (UNIFIN) of equipment that AHMSA had previously billed. These accounting contracts qualify as a capital lease, for which liabilities of MXN$343 million, MXN$249 million and MXN$73 million, respectively, were recorded, with a fixed interest rate of 16.64%, at the beginning of the lease, which corresponds to the lower amount between the fair value of the equipment and the present value of the minimum payments for the lease. As of December 31, 2018, there is a balance to be paid of MXN$615 million.

On August 15, 2018, AHMSA and Daimler Financial signed a simple credit agreement for MXN$2 million. This loan, with an annual interest rate of 10.9%, and a repayment period of 24 months. As of December 31, 2018, the balance is MXN$1.7 million.

In September 2018 the International Bank of Commerce granted to Dos Repúblicas a mortgage loan in the amount of MXN $ 492 million. This loan, with a Prime + 1.5% annual interest rate, a 12-month disposition period, and a 60-month amortization period beginning in the year 2019. As of December 31, 2018, the balance is MXN$9 millions.

On September 28, 2018, MINOSA and Almacenadora Afirme, S.A. signed a Simple Loan Opening Contract with Pledge Guarantee on Deposit Certificates and Pledge Bonds, Administration and Payment Trust, Guarantee and Solidarity Debt for MXN$2,635 million, with an interest rate of TIIE + 7% per annum and a term of amortization of 35 months. As of December 31, 2018, the balance is MXN $ 2,635 million.

On December 28, 2018, MINOSA and Almacenadora Afrime, SA, signed a Simple Credit Opening Contract with Pledge Bond on Deposit Certificates and Pledge Bonds, Trust in Administration and Payment, Guarantee and Solidarity Debt for MXN$117 million, with an annual interest rate of 13% and a repayment term of 6 semesters. As of December 31, 2018, the balance is MXN$117 million.

3.3 INTERNAL CONTROL

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

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

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

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

3.4 CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with NIIF requires the Company's management to make certain estimates and use certain assumptions that affect the accounting principles and the amounts disclosed in assets, liabilities, income and expenses. The estimates and assessments related are based in the experience and other factors that are considered prudent. The real results can differ from said estimates.

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

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

a) Property, machinery and equipment

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

b) Employee benefits from termination and retirement

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

c) Mineral reserves

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

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

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

d) Provisions for remediation of mining sites

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

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

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

e) Contingencies

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

f) Impairment of tangible and intangible assets

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

g) Evaluation of the situation of the company in operation

The consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern, so we will maintain continuous evaluation of said situation. As shown in the accompanying consolidated financial statements, during the years ended December 31, 2018, 2017 and 2016, the Company incurred consolidated net losses of $676, $1,857 and $3,170, respectively, and at those dates its current liabilities exceed its current assets for $10,623, $5,352 and $2,697, respectively. Additionally, on May 16, 2019, the payment obligation to the creditors of the Suspension of Payments is due. The Company's Management continues with its efforts to obtain additional funds, on March 8, 2019 a letter of terms and conditions ("Term Sheet") was signed to obtain a long-term financing for approximately USD$463 million and a line of credit of USD$100 million for working capital, subject to the satisfaction of the parties, whose formalization process for the terms should be completed no later than April 30, 2019. The accompanying consolidated financial statements do not include those adjustments related to the valuation and classification of the assets and the classification and amount of the liabilities, which may be necessary in case the Company could not continue in operation.

Tax on Income

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

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

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

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

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

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

A deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interest in joint ventures, except where the Company is able to control the reversal of the temporary difference, and when it is probable that the temporary differences associated with such investments and interest are recognized only insofar as it is probable that there will be sufficient taxable income against which those temporary are used, and it is expected that it will be reversed in the near future.

3.5 NEW ACCOUNTING PRINCIPLES

The Company adopted all the new standards and interpretations in force as of January 1, 2018, including annual improvements to NIIF, as described below:

NIIF 9, Financial Instruments

NIIF 9, Financial Institutions, replaced NIC 39, Financial instruments: recognition and mediation and came into force as of January 1, 2018. NIIF 9 includes the introduction of a new impairment model based on expected losses and limited changes to the requirements of classification and mediation of financial assets. Conversely, the new impairment model is based on the expected credit losses instead of the losses incurred and will be applied to financial instruments measured at amortized cost or fair value through other comprehensive income, to leases receivable, asset contracts, certain written loan commitments and financial guarantee contracts.

With respect to the impairment model based on expected losses, the initial adoption requirement of NIIF 9 is retrospective and establishes the option to adopt it without modifying the financial statements of previous years, recognizing the initial effect on retained earnings as of the date of adoption. On the other hand, in the case of hedge accounting, NIIF 9 allows the application with a prospective approach.

The Company had no impacts associated with the new fair value measurement category through other comprehensive results, as it currently does not have any qualifying instrument for this treatment; however, potential impacts could arise if your investment strategy changes in the future. Additionally, there were no impacts related to hedge accounting.

Finally, with respect to the new impairment model based on expected losses, the Company's Management, based on its evaluation, considers that it has no material effects to disclose.

NIIF 15, Revenue with customers

NIIF 15, Revenue with customers, became effective as of January 1, 2018. Under this standard, income recognition is based on the transfer of control, that is, it uses the notion of control to determine when a good or service is transferred to the client. The standard also presents a single comprehensive model for the accounting of revenue from contracts with customers, which introduces a five-step approach to income recognition: (1) identification of the contract; (2) identify performance obligations in the contract; (3) determine the price of the transaction; (4) assign the price of the transaction to each performance obligation in the contract; and (5) recognize income when the Company satisfies the performance obligation.

The Company's Management based on its evaluation concluded that it has no material effects on the financial information.

CINIIF 22, Interpretation of transactions in foreign currency and prepaid consideration.

This interpretation seeks to clarify the accounting of transactions that include the receipt or payment of an anticipated consideration in foreign currency. The interpretation is being issued to reduce the differences in practice related to the exchange rate used when a Company reports transactions denominated in a foreign currency, in accordance with NIC 21, Effects of changes in the exchange rate of the company foreign currency, in circumstances in which the consideration is received or paid before the asset, expense or income is recognized. It is effective for the periods of annual reports that begin after January 1, 2018.

The Company converts the anticipated considerations to the exchange rate of the date on which the transaction is carried out, whether received or paid and gives them a monetary treatment, for which reason, it had no impact on the adoption of this interpretation in your consolidated financial statements.

New NIIF and interpretations issued, not in force in the reporting period.

A series of new standards, modifications and interpretations have been issued, which have not yet entered into force for the periods ending on December 31, 2018, and which have not been adopted in advance by the Company.

A summary of these new standards and interpretations is included below, as well as the Company's evaluation of the potential impacts on the consolidated financial statements:

NIIF 16, Leases.

NIIF 16, Leases, replaces NIC 17, Leases, and related interpretations. This new standard incorporates the majority of leases in the statement of financial position for lessees under a single model, eliminating the distinction between operating and financial leases, while the model for lessors remains unchanged. NIIF 16 is effective as of January 1, 2019 and the Company decided to adopt it with the recognition of all the effects at that date, without modifying previous periods.

Under this norm, the tenants will recognize an asset by right of use and the corresponding lease liability. The right to use will depreciate according to the contractual term or in some cases, in its economic useful life. On the other hand, the financial liability is measured in its initial recognition, discounting at present value the minimum future income payments in accordance with a term, using a discount rate that represents the cost of the lease payment; subsequently, the liability accrues interest until its maturity.

The company will apply the extensions to not recognize an asset and a liability as previously described, for lease contracts with a term of less than 12 months (provided that they do not have purchase or revocation options) and for those contracts in which that the acquisition of an individual asset of the contract was less than US $ 5,000 (five thousand dollars). Therefore, payments for such rentals will continue to be recognized as expenses within operating income.

The Company has taken the necessary measures to implement the changes that the norm represent in terms of internal controls, tax matters and sistems, from the date of its adopotion.

The Company's management based on the analysis of the Company's financial leases as of December 31, 2018 based on the facts and circumstances existing as of that date, has evaluated that the impact of this change will not have a significant effect on those in the consolidated financial statements.

CINIIF 23, Interpretation of uncertain fiscal positions

This interpretation seeks to clarify the application of the recognition and measurement criteria established in NIC 12, Taxes on Income, when there are uncertain tax positions. Uncertain tax positions are those tax positions where there is uncertainty about whether the competent disc authority will accept the physical position under current tax laws. In such cases, the Company will recognize and measure its assets or liabilities for current or deferred taxes applying the requirements of NIC 12 based on tax profits (Losses), tax bases, unused tax losses, unused tax credits and tax rates. determined by applying this Interpretation.

The Company will apply CINIIF 23 for annual reporting periods beginning on or after January 1, 2019. In its application retrospectively under the requirements of NIC 8, by modifying comparative periods or retrospectively with the cumulative effect of its initial application as an adjustment in the initial balance of retained earnings, without modifying comparative periods.

The Company determined that the impacts of the implementation of this interpretation as of January 1, 2019 are not important considering the prevailing conditions of the tax positions it has taken at the date of adoption and the powers of the corresponding authorities to evaluate the tax positions maintained by the Company on this same date.

The Company's Management does not anticipate that the application of the modifications in the future will have an impact on the Company's financial statements.

Chapter 4. Management

4.1 EXTERNAL AUDITORS

In fiscal years 2018, 2017 and 2016, the Company’s external audit was conducted by Galaz, Yamazaki, Ruiz Urquiza, S.C. member of Deloitte Touche Tohmatsu Limited in Mexico (“Deloitte”).

For independence reasons in compliance with the Sole Issuer Circular and in accordance with the Securities Market Law, due to the conclusion of the five-year period, starting in fiscal year 2018, the partner in charge of the audit of the financial statements of the Company is the CPC Carlos A. López Vázquez partner in charge until December 31, 2017, both members of Deloitte.

During 2018 and 2016, the externals auditor consolidated financial statements of the Company´s have been issued without exceptions. In 2017, the external auditor opinion of the Company´s consolidated financial statements has been expressed with exceptions.

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

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

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

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

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

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

In fiscal years 2018, 2017, and 2016 Galaz, Yamazaki, Ruiz Urquiza, S.C. rendered advisory services additional to audit, mainly related to tax matters.

The total fees billed to us by Galaz, Yamazaki, Ruiz Urquiza, S.C. a member firm of Deloitte Touche Tohmatsu Limited in Mexico and its affiliates, including Deloitte Consulting, (collectively “Deloitte”) during the fiscal years ended December 31, 2018, 2017, and 2016, where MXN$35.3 million, MXN$24.1 million, and MXN$23.5 million, respectively.

4.2 MANAGEMENT AND EMPLOYEES

Directors

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

The current members of AHMSA Board of Directors are as follows:

Name	Position
Alonso Ancira Elizondo	Chairman of the Board
Xavier D. Autrey Maza	Vice-chairman of the Board
Manuel Ancira Elizondo	Board Member
Jorge Ancira Elizondo	Board Member
James Pignatelli	Board Member
Alfonso Lebrija Guiot (1)	Board Member
José M. González Sordo (1)	Board Member
Juan R. Elvira Quezada (1)	Board Member
Carlos Césarman Kolteniuk (1)	Board Member
Alternate board members for misters:	
Alonso Ancira Elizondo	N/A
Xavier D. Autrey Maza	N/A
Manuel Ancira Elizondo	José Eduardo Ancira Elizondo
Jorge Ancira Elizondo	Jorge Ordoñez Cortés
James Pignatelli	N/A
Alfonso Lebrija Guiot (1)	Luis G. Zazueta Domínguez (1)
José M. González Sordo (1)	N/A
Juan R. Elvira Quezada (1)	N/A
Carlos Césarman Kolteniuk (1)	N/A

(1) Independent Board Members.

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

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

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

Executive Directors

AHMSA´s current primary directors are as follows:

Name	Position
Luis Zamudio Miechielsen	Chief Executive Officer
Manuel Ancira Elizondo	Deputy General of Operations
Jorge Ancira Elizondo	Deputy General Director of Management and Operation
Andrés Gonzalez Saravia Coss	Legal Director
Luis Landois Garza	Sales and Marketing Director (from January 1, 2016)
Fernando Monroy Guajardo	Personnel Director (non-unionized)
Enrique Rivera Gómez	Personnel Director (unionized)
Gerardo Garcia Castelan	Supply Director
Armando Ferriz Dominguez	Corporate Operations Director (since June 1, 2006)
Homero Pérez Ramón	Rolling, Maintenance and Service Director (since November 1, 2006)
John Abbott	Corporate Finance and Planning Director
Jose Carlos Mireles Castillo	Financial Planning and Treasury Director
Ariel Martinez Cruz	Comptrollership and Systems Director
Arturo Arroyo Mendoza	Raw Material Operation Director
Homero Menchaca Falcon	NASA Director

Manuel Ancira Elizondo and Jorge Ancira Elizondo have been Directors for twenty-seven years. Armando Ferriz Dominguez has been Director for twenty-six years. Fernando Monroy Guajardo has been Director for twenty years, Enrique Rivera Gomez and Luis Zamudio Miechielsen have been Directors for eighteen years, Andres Gonzalez Saravia Coss and Homero Menchaca Falcón have been Directors for sixteen years. Luis Zamudio Miechielsen has been General Director for fifteen years. Gerardo Garcia Castelan has ten years as Director. John Abbott and Ariel Martinez Cruz have four years of being Directors. Arturo Arroyo Mendoza has been Director for more than three years, Luis Landois Garza, has three years of being Director, Homero Perez Ramon has been Director for two years. Since September 2018, Fernando Sanchez Villarreal is no longer Director and Jose Carlos Mireles Castillo was named Director from such date.

Compensation for Directors and Executives

For the year ended December 31, 2018, the total compensation paid or accumulated to AHMSA´s directors and CEOs in that year for services in all their capabilities was approximately MXN$407.9 million. AHMSA pays cash bonuses to it executive directors, based on the management´s evaluation of the performance of the position of each executive director, and its general contribution to AHMSA, the amount for 2018 was MXN$20.9 million.

4.3 BYLAWS AND OTHER AGREEMENTS

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

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

There are no clauses that limit the Company´s management over such required by the Securities Market Law.

4.4 OTHER CORPORATE GOVERNMENT PRACTICES

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

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

New Securities Market Law

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

The Board of Directors consists of 10 regular board members, of whom at least 25% are independent, and is composed of the following: Alonso Ancira Elizondo, Chairman of the Board, Xavier D. Autrey Maza, Deputy Chairman of the Board, Manuel Ancira Elizondo, board member, Jorge Ancira Elizondo, board member, James Pignatelli, board member, Alfonso Lebrija Guiot, independent board member, José M. Gonzalez Sordo, independent board member, Juan R. Elvira Quezada, independent board member and Carlos Césarman Kolteniuk, independent board member.

> At the Extraordinary Shareholder´s Meeting of December 12, 2006, it was decided that the three committees established by decision of the Board on October 22, 2002; i) Evaluation and Compensation Committee; (ii) Audit Committee; and (iii) Finance Planning Committee would cease to exist and to have function or activity whatsoever, and the members that were part of them would, therefore, halt participating in them.
>
> It was decided to create the new Corporate Practices Committee, and the new Audit Committee decided that its members would be appointed at the first session of the Board held for that purpose.

In the session of the Board of Directors held on February 23, 2017, pursuant to the Extraordinary General Shareholder´s Meeting on December 12, 2006, the Audit Committee and the Corporate Practices Committee were constituted.

- Said committees consist of at least 3 members appointed by the Board itself, all of whom must be independent directors. The Audit Committee may carry out the activities of the Corporate Practices Committee, and is composed of: Alfonso Lebrija Guiot, President, James Pignatelli and José M. Gonzalez Sordo. The Corporate Practices Committee is composed of: James Pignatelli, President, Alfonso Lebrija Guiot; Xavier D. Autrey Maza, Alonso Ancira Elizondo, Xavier D. Autrey Maza. Moreover, Juan Carlos Quintana Serur is the secretary for both committees.

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

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

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

- The Board Members are obliged to reveal any matter involving a conflict of interest, if any, if it favour a particular shareholder, if transactions with related parties are conducted observing the established rules, if they or third parties benefit from the use and enjoyment of the assets of the Company in contravention of the approved policies or make improper use of relevant information.

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

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

- The Commissary figure is eliminated, being the Board of Directors now responsible of such duties, through the Audit Committee, and the Corporate Best Practices Committee.

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

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

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

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

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

- The following obligations must be complied with regarding the disclosure of information:

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

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

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

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

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

4.5 AHMSA CONTROL

As of December 31, 2018 GAN, controlled approximately 302,370,294 shares, or 64.1% of AHMSA;s common shares. Xavier Desiderio Autrey Maza, member of the family Ancira, and minimally certain AHMSA's officers also directly controlled 14,401,883 common shares of AHMSA as of December 31, 2018.

The following chart shows certain information as of December 31, 2018 regarding the ownership of GAN and the executives and directors of AHMSA, as a group, of issued Common Shares:

	Shares	Percentage (1)
GAN (6)	302,370,249	64.1%
Board Members and Directors (2)	14,401,883	3.0%
Board Members and Directors:		
Xavier Desiderio Autrey Maza (3)	4,239,855	
Manuel Arturo Ancira Elizondo (4)	4,800,371	
Alonso Ancira Elizondo	3,443,061	
María de Lourdes Ancira Elizondo(5)	473,796	
María Herlinda Ancira Elizondo (5)	473,796	
Jorge Alberto Ancira Elizondo	845,004	
Lorenzo González Merla	126,000	
Total	14,401,883	

(1) Percentages based on the aggregate 471,563,023 common shares fully subscribed and paid as of December 31, 2018.
(2) It includes shares controlled by Board Members and Directors of AHMSA, including those who are members of Families Ancira and Autrey.
(3) In direct ownership with his wife, Maria Teresa Holschneider G.
(4) In direct ownership with his wife, Carola García de Ancira.
(5) Sisters of Misters Ancira.
(6) It includes 10,000,000 outstanding shares pursuant to GAN's Suspension of Payments process.

4.6 TRANSACTIONS WITH RELATED PARTIES

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

Railway transportation and administrative services

The associated Company LCD rendered railway transport services to AHMSA of MXN$298 million, MXN$325 millions and MXN$377 millions during 2016, 2017 and 2018.

AHMSA provided administrative services to LCD in 2016, 2017 and 2018; the amount charge for these services was MXN$25 millions, MXN$25 millions and MXN$26 millions, respectively.

Related-party Transactions

In 2016, 2017 and 2018 AHMSA sold steel products to related parties, primarily to Distribuidora Essex, S.A. de C.V., in the amount of MXN$17 millions, MXN$39 millions and MXN$21 millions, and MXN$21 millions respectively.

Financial Transactions

In 2015 and 2017, MINOSA obtained funding of USD$12 million from one of its indirect shareholders, which bears annual interest of 7%with maturity at the request of the shareholder. The outstanding amount as of December 31, 2018 is MXN$247 millions.

In 2015 MINOSA obtained financing of MXN$50 million from Inmobiliaria Indias Occidentales, S.A. de C.V., which bore annual interest of 8.5%, with maturity at the request of the grantor's funding. As of December 31, 2018, the outstanding balance is MXN$30 millions.

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

As of December 31, 2018, GAN has a debt under Suspension of Payments in favor of the Company of MXN$107 million, which is presented net of payables to GAN itself. On December 31, 2015, GAN entered into a debt recognition agreement with AHMSA, whereby GAN and AHMSA agreed to settle all payment obligations, once GAN;s Suspension of Payments is lifted.

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

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

In January 2016, MINOSA sold to CIMSA certain loan rights payable to AHMSA at MXN$ 130 million, which were presented in accounts payable by related parties in the short term.

The benefits granted to key management personnel of the Company were MXN$829 millions, and MXN$760 millions in 2018 and 2017, respectively.

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

4.7 OTHER EVENTS

Liquidity

Due to the instability in the international steel prices in the last few years, and in addition to the tariff restrictions on the Company's products in the US as of June 2018 (section 232) that caused a decrease in demand and price, the Company's results of operations and cash flow have been affected, which has generated delays in fulfilling their short-term obligations, mainly in the payment to suppliers. As part of the efforts of the Company's Management to obtain additional resources in September 2018, a bank loan was obtained, which was mainly used for working capital. Likewise, to strengthen its financial situation, the Administration is analyzing other financing options, as well as the return to the capital markets, which is expected to improve cash flow in the short and medium term.

Foreign Investments

AHSMA Steel Israel, LTD

This subsidiary in Israel has invested in various projects, which include Arava Mines LTD (100% subsidiary) engaged in the exploration and preparation of a cooper mine and Aqwise Water Technologies LTD (50.1% shareholding), which is engaged in the development of technology for wastewater treatment. As of December 31, 2018, 2017 and 2016, accumulated resources of USD$275, USD$260 and USD$247 millions have been invested in these companies, mainly in the exploration and preparation of the copper mine.

Mexicans & Americans Trading Together, Inc. (“MATT BIz”)

Subsidiary in the United States of America in order to have a greater media and strategic presence for the group. As of December 3, 2018, 2017 and 2016, MATT Biz has incurred accumulated expenses of USD$48, USD$46 and USD$43 millions, respectively, derived from the support to a non-profit company engaged in encouraging the Mexican and American bicultural community to understand and solve major problems between the two Nations, activity according to the strategy of the Group’s international presence.

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

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

Moonen Yachts Holding B.V. (“Moonen”)

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

As of December 31, 2018, 2017 and 2016, accumulated flows of €20, €24 and €16 million euros, respectively, have been disbursed.

Odyssey Marine Explorations, Inc. (“Odyssey”)

In March 2015,MINOSA, as part of an investment option to hold major interest in several mine projects, granted funding to Odyssey of up to USD$14,75 million, which bore annual interest of 8%, with open maturing on demand of MINOSA. During 2016 and 2017, MINOSA granted additional loans of USD$2 and USD$2.6 million, respectively, at an annual rate of 10%.

In March 2018 and December 2017, MINOSA sold to AHMSA USD$1.1 and USD$18.3 million, respectively, of its account receivable from Odyssey for US$0.4 and US $6 million, determined by a market value study, for which a deterioration of MXN$20 and MXN$309, respectively, was recorded in 2018 and 2017, respectively, charged to results, was recorded.

Chapter 5. Stock Market

5.1 SHARE BEHAVIOR IN THE STOCK MARKET

On December 20, 1993, AHMSA's shares were listed in the BMV. On December 1996, The Company's ADS , each representing 5 shares of the capital, were listed on the New York Stock Exchange. The ADS's were issued by Morgan Guaranty Trust Company of New York, as depositary.

Currently, and as a result of the Suspension of Payments effective from May 26, 1999, the BMV ordered the suspension of the registration of our ordinary shares with the RNV. In response, the New York Stock Exchange suspended AHMSA's ADS and Convertible Bond, and they were removed from the list of the New York Stock Exchange on September 8, 2000.

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

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

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

As of December 31, 2016, capital stock is represented by 471,563,023 nominative shares, without par value, fully subscribed and paid, single series, which are registered in the restatement and registration process with the National Securities Registry ("RNV"), registration that is currently suspended.

Chapter 6. Persons in Charge

The people listed below filed responsibility letters with the CNBV (National Banking and Securities Commission) and the Stock Exchange, as part of the presentation of this 2018 Annual Report, whereby they stated that they have no knowledge of relevant information that has been omitted, misrepresented, or misled in this report:

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

The undersigned state under oath that, in the scope of our duties, we prepared the information related to the issuer contained in this 2018 Annual Report, which to the best of our knowledge, reasonably reflects its situation. Furthermore, we state that we are not aware of any relevant information that has been omitted or misrepresented in this Annual Report, or that it contains information that could mislead investors.

Mr. Andrés González-Saravia Coss
Chief Legal Officer

Mr. Luis Enrique Zamudio Miechielsen
Chief Executive Officer

Mr. Ariel Martinez Cruz
Comptrollership and Systems Director
Responsible for preparing and sending financial information.

Capítulo 6. Personas Responsables

Las Personas que a continuación se indican presentaron a la CNBV y a la Bolsa cartas responsivas como parte de la presentación de este Reporte Anual 2018, en donde manifestaron que no tienen conocimiento de información relevante alguna que haya sido omitida, falseada o que induzca al error en el presente reporte:

Nombre	Puesto	Institución
Ing. Luis Enrique Zamudio Miechielsen	Director General	Altos Hornos de México, S.A.B. de C.V.
Lic. Andrés González-Saravia Coss	Director Jurídico	Altos Hornos de México, S.A.B. de C.V.
C.P. Ariel Martínez Cruz	Director de Contraloría y Sistemas	Altos Hornos de México, S.A.B. de C.V.

Los Suscritos manifestamos bajo protesta de decir verdad que, en el ámbito de nuestras respectivas funciones, preparamos la información relativa a la emisora contenida en el presente Reporte Anual 2018, la cual, a nuestro leal saber y entender, refleja razonablemente su situación. Asimismo, manifestamos que no tenemos conocimiento de la información relevante que haya sido omitida o falseada en este Reporte Anual o que el mismo contenga información que pudiera inducir a error a los inversionistas.

Lic. Andrés González-Saravia Coss
Director Jurídico

Ing. Luis Enrique Zamudio Miechielsen
Director General

C.P. Ariel Martinez Cruz
Director de Contraloría y Sistemas
Responsable de elaboración y
envío de información financiera

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

Consolidated Financial Statements for the Years Ended December 31, 2018, 2017 and 2016, and Independent Auditor´s Report Dated April 11, 2019

Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Blvd. Harold R. Pape 307-C
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Independent Auditors' Report to the Board of Directors and Stockholders of Altos Hornos de México, S. A. B. de C. V.

(In millions of Mexican pesos)

Opinion

We have audited the accompanying consolidated financial statements of Altos Hornos de México, S. A. B. de C. V. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2018, 2017 and 2016, 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, 2018, and 2016, and their consolidated financial performance and their consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

Basis for Qualified Opinion in 2017

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

We conducted our audits in accordance with International Standards on Auditing (ISA). 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.

Material Uncertainty related to Going Concern

As mentioned in to Note 6 g) in the accompanying consolidated financial statements, which indicates that the Company incurred net losses during the years ended December 31, 2018, 2017 and 2016 and as of those dates, the Company's current liabilities exceeded its current assets. These events or conditions, along with other matters as set forth in such Note indicate the existence of material uncertainty regarding the Company's ability to continue as a going concern. The management's plans in this regard are described in such Note. Our opinion has not been modified in relation this matter.

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Key Audit Matters

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

Impairment of long-lived assets

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

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

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

The results of our audit procedures were reasonable.

Compliance of consolidated financial debt covenants

The Company has consolidated financial debt (not including liabilities in suspension) as of December 31, 2018 for Ps.10,493, which includes certain activities that will or will not be carried out and therefore, its compliance must be monitored. The identification of the commitments and obligations to which the Company is subject as a result of these contracts is a complex process that requires technical capacity, professional judgment and communication between the personnel of the different areas of the Company.

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

i. Ensure proper approval by the Board of Directors of the Company for the contracting and restructuring of the long-term debt.
ii. Review compliance with the restrictions and obligations of not to do established in the debt contracts.
iii. 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.
iv. Review the adequate disclosure of financial risks in the consolidated financial statements.
v. Review the correct presentation of the consolidated financial liabilities according to the maturities (current and long-term portion), as well as the correct presentation of the operating and financing flows in the consolidated financial statements of cash flows.

The Note 16 to the consolidated financial statements presents the main characteristics of long-term debt. The results of our audit procedures were reasonable.

Other Information

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

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

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

Other matter

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of readers.

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 IFRS, 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 consolidated 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 ISA 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.

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- 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 auditors' 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. Edgar Almaguer Martínez
April 11, 2018

ALTOS HORNOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018, 2017 AND 2016
(Millions of Mexican pesos (Ps.))

	Notes	2018	2017	2016
Assets				
Current assets:				
Cash and cash equivalents	8	Ps. 389	Ps. 1,677	Ps. 944
Trade accounts receivable, net	9	5,555	4,494	2,667
Due from related parties, net	23	287	207	205
Other accounts receivable, net	10	1,620	1,150	1,385
Inventories	11	9,427	7,006	7,840
Prepaid expenses		128	41	154
Total current assets		17,406	14,575	13,195
Non-current:				
Due from related parties, net	23	486	485	485
Other long-term receivables	10	55	89	89
Guaranty deposits		1,069	882	835
Investments in shares of associates and joint ventures	12	105	81	80
Property, plant and equipment, net	13	41,617	43,070	44,979
Intangible assets, net	14	3,138	3,334	3,426
Other assets, net	15	948	678	525
Total non-current assets		47,418	48,619	50,419
Total assets		Ps. 64,824	Ps. 63,194	Ps. 63,614
Liabilities and stockholders' equity				
Current liabilities:				
Financing debt	16	Ps. 11,158	Ps. 4,684	Ps. 2,847
Due to suppliers		10,505	8,738	6,382
Taxes payable		1,178	1,603	1,270
Due to related parties	23	1,148	511	438
Advances from customers		1,532	2,381	2,841
Other payables and provisions	17	2,508	2,010	2,114
Total current liabilities		28,029	19,927	15,892
Non-current liabilities:				
Financing debt	16	6,941	11,746	13,092
Employee retirement obligations	18	7,162	7,212	6,330
Deferred income taxes	19	3,115	3,419	4,632
Other payables and provisions	17	275	342	540
Due to related parties	23	-	654	654
Total non-current liabilities		17,493	23,373	25,248
Total liabilities		45,522	43,300	41,140
Commitments and contingencies	30			
Stockholders' equity:				
Capital stock	21	13,187	13,187	13,187
Additional capital contribution		458	458	458
Retained earnings from prior years		5,574	7,433	10,586
Loss for the year		(749)	(1,859)	(3,153)
Other comprehensive income items	22	180	96	819
Controlling interest		18,650	19,315	21,897
Noncontrolling interest	21	652	579	577
Total stockholders' equity		19,302	19,894	22,474
Total liabilities and stockholders' equity		Ps. 64,824	Ps. 63,194	Ps. 63,614

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, 2018, 2017 AND 2016
(Millions of Mexican pesos (Ps.), except per share data)

	Notes	2018	2017	2016
Net sales	24	Ps. 66,791	Ps. 54,745	Ps. 48,512
Cost of sales		58,358	48,542	42,279
Depreciation		3,736	3,619	3,775
Gross profit (loss)		4,697	2,584	2,458
Selling and administrative expenses		3,429	3,236	2,914
Other (income) expenses, net	25	(256)	393	643
Operating income (loss)		1,524	(1,045)	(1,099)
Interest expense	26	2,026	1,595	1,523
Interest income	26	(133)	(109)	(196)
Foreign exchange loss (gain), net		195	(25)	1,106
		2,088	1,461	2,433
Equity in income of investments in shares of associates and joint ventures	12	(23)	(20)	(29)
Loss before income taxes		(541)	(2,486)	(3,503)
Income taxes expense (benefit)	19	135	(629)	(333)
Consolidated net loss for the year	29	(676)	(1,857)	(3,170)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX:				
Items that may be reclassified subsequently to profit or loss:				
Translation effects of foreign subsidiaries		76	(118)	586
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gains (losses) of employee benefits from termination and retirement		8	(605)	386
	22	84	(723)	972
Consolidated comprehensive net loss		Ps. (592)	Ps. (2,580)	Ps. (2,198)
Distribution of consolidated comprehensive net loss for the year:				
Controlling interest		Ps. (665)	Ps. (2,582)	Ps. (2,181)
Noncontrolling interest	21	73	2	(17)
		Ps. (592)	Ps. (2,580)	Ps. (2,198)
Basic loss per share (in mexican pesos)		Ps. (1.59)	Ps. (3.94)	Ps. (7.35)
Weighted average shares outstanding (000's)		471,878	471,878	428,911

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, 2018, 2017 AND 2016
(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, 2015	357,872,502	Ps.	6,129	Ps.	458	Ps.	10,586	Ps.	(117)	Ps.	17,056	Ps.	565	Ps.	17,621
Increase in capital stock	113,602,618		7,058		-		-		-		7,058		-		7,058
Comprehensive loss	-		-		-		(3,153)		972		(2,181)		(17)		(2,198)
Noncontrolling interest withdrawal	-		-		-		-		-		-		(7)		(7)
Loss in purchase of equity of noncontrolling interest	-		-		-		-		(36)		(36)		36		-
Balances as of December 31, 2016	471,475,120	Ps.	13,187	Ps.	458	Ps.	7,433	Ps.	819	Ps.	21,897	Ps.	577	Ps.	22,474
Increase in capital stock	2,640		-		-		-		-		-		-		-
Comprehensive loss	-		-		-		(1,859)		(723)		(2,582)		2		(2,580)
Balances as of December 31, 2017	471,477,760	Ps.	13,187	Ps.	458	Ps.	5,574	Ps.	96	Ps.	19,315	Ps.	579	Ps.	19,894
Comprehensive loss	-		-		-		(749)		84		(665)		73		(592)
Balances as of December 31, 2018	471,477,760	Ps.	13,187	Ps.	458	Ps.	4,825	Ps.	180	Ps.	18,650	Ps.	652	Ps.	19,302

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, 2018, 2017 AND 2016
(Millions of Mexican pesos (Ps.))

	2018	2017	2016
Operating activities:			
Resources generated by operations:			
Loss before income taxes	Ps. (541)	Ps. (2,486)	Ps. (3,503)
Items related to investing activities:			
Depreciation and amortization	4,211	4,185	4,505
Equity in income of associated and joint ventures	(23)	(20)	(29)
Assets impairment	-	-	488
(Gain) loss on sales of property, plant and equipment, net	(266)	148	(51)
Gain on sale of shares	-	(62)	-
Reserve of assets subject to disposal	-	-	49
Interest income	(133)	(109)	(196)
Allowance for doubtful accounts	20	309	103
Items related to financing activities:			
Interest expense	2,026	1,595	1,523
Foreign exchange loss (gain), net	195	(25)	1,106
Effect on results SP	-	-	59
	5,489	3,535	4,054
(Increase) decrease in:			
Trade accounts receivable, net	(1,168)	(1,788)	(1,160)
Due from related parties, net	(100)	1	32
Other short and long term accounts receivable, net	(460)	93	(134)
Inventories, net	(2,118)	855	(575)
Prepaid expenses	(17)	-	(59)
Increase (decrease) in:			
Due to suppliers	2,126	2,406	941
Taxes payable	(216)	(23)	333
Due to related parties	(42)	73	11
Other payables and provisions	105	(74)	97
Advances from customers	(817)	(473)	1,575
Employee retirement obligations, net	(530)	(400)	(685)
Other long-term payables	43	(3)	(7)
Cash flow obtained (used) in operating activities:			
Income tax (paid) recovered	(566)	(241)	50
Interest expenses paid	(415)	(328)	(258)
Interest income received	128	108	76
	(4,047)	206	237
Net cash flow provided by operating activities	1,442	3,741	4,291
Investing activities:			
Additions to property, plant and equipment	(2,332)	(1,593)	(1,777)
Cash provided by sales of property, plant and equipment	332	69	178
Dividend from associated company	-	20	60
Investment in shares of associated companies	-	-	5
Cash provided by sales of shares	15	30	-
Guaranty deposits	(187)	(47)	(99)
Interest received	5	9	8
Other short term accounts receivable	-	-	(41)
Other assets, net	(65)	(108)	12
Purchase of equity of noncontrolling interest	-	-	(7)
Intangible assets, net	(305)	(546)	(441)
Net cash flow used in investing activities	(2,537)	(2,166)	(2,102)
Financing activities:			
Financing debt	5,991	2,597	1,357
Financial debt paid	(4,772)	(2,508)	(1,965)
Due to related parties	-	-	(51)
Payment released of lifting of Suspension of Payments	-	-	(388)
Interest paid	(1,013)	(802)	(669)
Net cash flow provided (used in) by financing activities	206	(713)	(1,716)
(Decrease) increase in cash and cash equivalents	(889)	862	473
Adjustments to cash flow due to exchange rate fluctuations	(399)	(129)	(39)
Cash and cash equivalents:			
Beginning of year	1,677	944	510
End of year	Ps. 389	Ps. 1,677	Ps. 944

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. and subsidiaries (the "Company" or "AHMSA") 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 the date on which the sentence was signed, due on May 16, 2019 (see Note 32). Likewise, it is established that creditors may capitalize part of the debt in shares of AHMSA.

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

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

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

Note 3. Other events

a) Liquidity

Due to the instability in international steel prices in recent years, in the addition to the tariff restrictions on products of the Company in the United States of America as of June 2018 (section 232) that caused a decrease in demand and price, the Company's operating results and cash flows have been adversely affected which has generated delays in meeting its short-term obligations, mainly in payment to suppliers. As part of Managements attempt to obtain additional resources in September 2018, a line of credit was utilized, which was mainly used for working capital. Management is evaluating others options to obtain financing, as well as the re-entry to the capital markets, which would allow it to improve its cash flows 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, 2018, 2017 and 2016, AHMSA has accumulated advanced funds of US$275, US$260 and US$247, respectively, to these subsidiaries, mainly in the copper mine preparation and exploration resources.

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

A subsidiary located in the United States of America ("USA") to allow for greater strategic presence in the media for the group. As of December 31, 2018, 2017 and 2016, MATT Biz has incurred accumulated expenses of US$48, US$46 and US$43, respectively, arising from the support of a non -profit company dedicated to encourage the Mexican and American bicultural community to understand and resolve the main problems between the two nations, activity that is consistent with the group's international presence strategy.

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

Through this same subsidiary US$11.3 has been invested in Boom Financial, Inc. ("Boom"), which is engaged in sending money through cell phones. As of December 31, 2018, MATT Biz has a 5% ownership in Boom.

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

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

As of December 31, 2018, 2017 and 2016, the Company has spent cash flows of €20, €24 and €16 million Euros, respectively.

Odyssey Marine Exploration, Inc. ("Odyssey")

In March 2015, Minera del Norte, S.A. de C.V. ("MINOSA") subsidiary of AHMSA, granted funding to Odyssey of up US$14.75 as part of an investment option through which MINOSA could obtain a majority ownership interest in several mine projects. If the investment option is not exercised, the investment will bear an interest rate of 8% per annum with expiration when MINOSA demands its payment. During 2016 and 2017, MINOSA granted loans for an additional US$2 and US$2.6, respectively, at a rate of 10% per annum.

As of March 2018 and December 2017, MINOSA sold AHMSA its account receivable from Odyssey with a book value of US$1.1 and US$18,3 million, respectively, for US$0.4 and US$6 million, determined by a market value study, for which an impairment of Ps.20 and Ps.309, respectively, was recorded with a charge to results. (See Note 25).

Note 4. Basis of presentation

a) Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of readers.

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, 2018, 2017 and 2016 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.B. 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, as it is classified as joint venture.

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

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

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 instruments

Financial assets

Through December 31, 2017, the Company classified financial assets into the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depended on the purpose for which the financial assets were acquired. Beginning January 1, 2018, in accordance to the adoption of IFRS 9, Financial Instruments, the Company subsequently classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition.

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

Classes of financial assets under IAS 39, in effect through December 31, 2017

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired mainly for the purpose of being sold in the short term. Derivative financial instruments are also classified as held for trading unless they are designated as hedges.

Financial assets recorded at fair value through profit or loss are initially recognized at fair value, and transaction costs are recorded as an expense in the consolidated statement of operations and other comprehensive results. Gains or losses due to change s in fair value of these assets are presented in profit or loss of 2017.

Beginning January 1, 2018, financial assets at fair value through profit or loss still maintain their classification according to the assessment of their business model, however, financial assets previously classified in this category at December 31, 2017, did not suffer measurement impacts and were classified as described in note vii of this section.

ii. Loans and accounts receivable

Accounts receivable are non-derivative financial assets with fixed or specific payments that are not traded in an active market. They are included as current assets, except for maturities greater than 12 months after the date of the consolidated balance sheet, which are classified as non-current assets.

Loans and receivables are initially valued at fair value plus directly attributable transaction costs and, subsequently, at amortized cost, using the effective interest method. When circumstances indicate that amounts receivable will not be collected in the amounts initially agreed or will be collected in a different period, accounts receivable are impaired.

Beginning January 1, 2018, loans and receivables are considered within the class of financial assets at amortized cost (see number v in this section).

iii. Investments held to maturity

If the Company has a demonstrable intention and capacity to hold debt instruments to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if they are expected to be settled within the following 12 months, otherwise, they are classified as non-current assets.

They are initially recognized at fair value plus any directly attributable transaction cost, subsequently, they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or written off on the day they are transferred to or through the Company. As of December 31, 2018 and 2017, the Company does not have this type of investment.

iv. Investments available for sale

Investments available for sale are non-derivative financial assets designated to this category or that do not fall under any of the other categories. They are included as non-current assets, unless their maturity is less than 12 months or management intends to dispose of that investment within the following 12 months after the date of the consolidated statement of balance sheets.

Investments available for sale are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these assets are recorded at fair value (unless they cannot be measured at their value in an active market, and the value is not reliable, in this case, they will be recognized at cost less impairment).

Gains or losses arising from changes in the fair value of monetary and non-monetary instruments are directly recognized in the consolidated statement of operations and other comprehensive results in the period in which they occur.

When investments classified as available for sale are sold or impaired, the fair value accumulated adjustments recognized in equity are reclassified to the consolidated statement of operations and other comprehensive results. As of December 31, 2017, the Company does not have this type of investment.

Classes of financial assets under IFRS 9, in effect beginning January 1, 2018:

Financial assets at amortized cost

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

v. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are financial assets: i) held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset s; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2018, the Company does not have financial assets at fair value through other comprehensive income.

vi. Financial assets at fair value through profit or loss

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

Despite the mentioned classifications, the Company can apply the following irrevocable elections in the initial recognition of a financial asset:

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

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

As of December 31, 2018, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

Through December 31, 2017, the Company assessed whether there was objective evidence of impairment of each financial asset or group of financial assets. An impairment loss was recognized if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and provided that the loss event (or events) had an impact on the estimated future cash flows derived from the financial asset or group of financial assets that could be reliably estimated.

New impairment policy from the adoption of IFRS 9

Beginning January 1, 2018, the Company used a new impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the initial recognition of the asset at each reporting date, using as a reference the past experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an assessment of both, the current management and the forecast of future conditions.

i. Trade receivables

The Company adopted the simplified expected loss calculation model, through which expected credit losses are recognized during the account receivable's lifetime.

The Company performs an analysis of its portfolio of customer receivables, in order to determine if there are significant customers for whom it requires an individual assessment; meanwhile, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, type of market, sector, geographic area, etc.), are grouped to be evaluated collectively.

In its impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, and also observable data indicating that there is a significant decrease in the estimated cash flows to be received, including arrears. For purposes of the historical estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

• The debtor does not fulfill its financial agreements; or

• Information obtained internally or from external sources indicates that it is unlikely that the debtor will pay its creditors, including the Company, in its entirety (without considering any guarantee held by the Company).

The Company defined the breach threshold as the period from which the recovery of the account receivable subjected to analysis is marginal, considering the internal risk management customers.

ii. Other financial instruments

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If at the presentation date, the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In measuring the expected credit losses, the Company does not necessarily identify all the possible scenarios. However, it considers the risk or probability that a credit loss occurs, reflecting the possibility that the payment default occurs and does not occur, even if that possibility is very low. In addition, the Company determines the period for the default to occur, and the recoverability rate after default.

Management assesses the impairment model and the inputs used therein at least once every 3 months, in or der to ensure that they remain in effect based on the current situation of the portfolio.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset. 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 measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at amortized cost or fair value through other comprehensive income (FVTOCI), the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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 costs of long wall preparation and are capitalized in produced (mined) inventory. They are valued using costs incurred and are charged to results of the year when the underlying mineral is sold, which normally occurs within a period of less than twelve months.

When an impairment indicator suggests that the carrying amounts of inventories might not be recoverable, the Company reviews such carrying amounts, estimates the net realizable value, based on the most reliable evidence available at that time. Impairment is recorded if the net realizable value is less than the book value. Impairment indicators considered for these purposes are, among others, obsolescence, a decrease in market prices, damage, and a firm commitment to sell.

d) Investments in shares of associates and joint ventures

An associate company 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 there 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 balance sheet 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) 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.

g) 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.

h) Leasing

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

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (see subsection t). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

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.

The Company performed its annual impairment study, as of December 31, 2018, 2017 and 2016, concluding that no impairment charge was necessary in the steel segment; 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.

Additionally, the study was prepared for the thermal coal segment where it was determined as December 31, 2018 does not exist impairment. Additionally, an impairment was determined for in the years 2017 and 2016 for Ps.593 and Ps.488, respectively. The impairment related to 2016, was recorded with a charge to income in said year, within the item for other expense (income), net in the consolidated statements of operations and other comprehensive results (Note 25). The Company did not record the resulting impairment in 2017.

j) Other assets

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) 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 IFRS 9, *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.

– Derecognition of financial liabilities

The Company derecognition financial liabilities if, and only if, the obligations are met, cancelled or have expired. The difference between the carrying amount of the financial liability written off and the consideration paid and payable is recognized in profit or loss.

l) *Derivative financial* instruments and hedging activities

The Company's policy is not to carry out transactions with derivative financial instruments for the purpose of speculation.

The Company designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in 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 effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Company designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The Company designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognized in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis – the Company applies straight-line amortization. Those reclassified amounts are recognized in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognized non-financial item. Furthermore, if the Company expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of operations and other comprehensive results. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of operations and other comprehensive results in the same line item as the hedged position. As of December 31, 2018 and 2017, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in stockholders' equity. The effective portion is temporarily recorded in comprehensive income, within stockholders' equity and is reclassified to profit or loss when the hedged position affects these. The ineffective portion is immediately recorded profit or loss.

m) 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.

n) 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.

o) 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 consolidated balance sheet 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.

p) 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 ("ISR").

q) Income taxes

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

Income Tax 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.

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 consolidated statement of operations and other comprehensive results 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

Revenues comprise the fair value of the consideration received or to receive for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of consolidated statement of operations and other comprehensive results, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers with the objective that goods are accommodated in attractive and favorable spaces at their facilities.

From January 1, 2018, to recognize revenues from contracts with customers, the comprehensive model for revenue recognition is used, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when the Company satisfies a performance obligation.

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

Performance obligations from the sale of goods and products are not separable, and are not partially met, so they are satisfied at a point in time, when the control of the products sold has been transferred to the customer which is given at the time to shipped or deliver the goods promised to the customer and the customer assumes responsibility for them, generally this happen in national sales cases when the goods are shipped for send to the customer. In the international sales this generally happen when delivered the inventory in the country borders and the exporting by sea in a ship, according with the negotiating contract terms. The revenue for services is recognized during the service period. The Company recognizes an account receivable when the performance obligations have been met, recognizing the corresponding revenue.

Revenue is calculated as at fair value consideration received or receivable and considering the estimated revenue for customer returns, discount and other similar discount. These discounts and incentives to customers are recognized as a reduction in revenue. Therefore, the allocation of the price is direct on the performance obligations of production, distribution and delivery, including the effects of variable consideration.

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

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.

The Company's management adopted IFRS 15, *Revenue from contracts with customers* on January 1, 2018 using the modified retrospective method applied to the contracts in force on the date of adoption, for which reason the accounting policy applied as of said date, is not comparable to that used for the year ended December 31, 2017.

t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

u) Basic losses per share

Basic losses per share has been calculated by dividing the net loss of controlling interest by the weighted average number of shares outstanding during the year.

Since the convertibility of the convertible bonds is limited by the Suspension of Payments, no diluted earnings per share are calculated.

Note 6. Critical accounting judgments and key sources of estimation uncertainty

For the preparation of the consolidated financial statements in conformity with IFRS, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The information on such judgments and estimates is included in the accounting policies and/or notes to the consolidated financial statements. Following is a summary of the main judgments and estimates used:

a) Property, plant and equipment

The estimated useful life of property, machinery and equipment is used to determine the depreciation of assets. Such useful lives are defined according to technical studies prepared by the Company's internal specialized personnel, where external specialists also participate. Determined useful lives are reviewed periodically and are based on the current conditions of the assets and the estimate of the period during which they will continue to generate economic benefits. If there are changes in the useful lives estimate, the depreciation amount and carrying amount of property, plant and equipment could be affected prospectively.

b) Employee retirement obligations

Assumptions are used to determine the best estimate of these benefits. Such estimates, like the assumptions, are established jointly with independent actuaries. These assumptions include the demographic hypothesis, discount rates and expected increases in remunerations and future permanence, among others. Even though the assumptions used are estimated to be appropriate, a change thereto could affect the value of the employee benefit liabilities and the consolidated statements of operations and other comprehensive results of the period in which it occurs.

c) Ore reserves

The Company applies judgments and makes estimates in the determination of its ore reserves and resources, based on methods and standards recognized in the mining industry, and are performed by competent internal personnel, supported by historical experiences. The reports that support these estimates are prepared periodically. The Company periodically reviews such estimates supported by recognized external experts to certify its ore reserves.

There are several uncertainties on estimating ore reserves. The assumptions valid at the time of the estimate can significantly change when new information is available. Changes in ore quotations, foreign exchange rates, production costs, metallurgical recovery estimates or in discount rates can change the economic status of the reserves and, lastly, they can result in the restatement of the reserves.

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

d) Provision for remediation of mining places

Estimated costs for closing mining units for the legal and implicit obligations required to restore the operating locations are recognized at present value in the period in which they are incurred. Estimated remedial costs include dismantling and removal of structures, remediation of mines, operation facilities, as well as reparation and reforestation of the affected areas.

The provisions for the remediation of mining places are performed at present value using a risk-free rate at the time the obligation is recognized, and are based on the understanding of the legal requirements and the Company's social responsibility policy. Environmental costs are estimated also using the work of internal specialists. Management applies its judgment and experience to estimate dismantling costs in the mine lives.

Costs incurred in future periods may differ from the provisioned amounts. In addition, future changes that may arise in the applicable legal environment and regulations, changes in mine live estimates and discount rates may affect the carrying amount of the provision.

e) Contingencies

Due to their nature, contingencies can solely be solved when one or more future events or one or more uncertain facts that are not entirely under the Company's control occur or not occur. The assessment of such contingencies significantly requires exercising judgments and estimates on the possible result of such future events. The Company assesses the possibility of losing its lawsuits and having contingencies according to the estimates performed by its legal advisors. Such assessments are reconsidered periodically.

f) Impairment of tangible and intangible assets

Determining whether tangible and intangible assets are impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the Company's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

g) Evaluation of going concern

The consolidated financial statements are prepared under the assumption that the company continues as a going concern, even with what is mentioned in Note 3 a), the Company's management should continually evaluate this situation. As indicated in the accompany consolidated financial statements for the years ended December 31, 2018, 2017, and 2016, the Company incurred net losses of Ps.676, Ps.1,857 and Ps.3,170, respectively, and at those dates, the Company's current liabilities exceeded its current assets by Ps.10,623, Ps.5,352 and Ps.2,697 respectively. Additionally, as mentioned on Note 2, on May 16, 2019 the payment obligation to the creditors of the "suspension of payments" is due. Management continues with the attempt to obtain additional recourses, as is mentioned in Note 32, on March 8, 2019, a term sheet was signed, to obtain long-term financing of approximately US$463 and a credit line for US$100 for working capital, subject to the satisfaction of both parties, whose formalization process of the terms must be completed no later than April 30, 2019. The consolidated financial statements do not include adjustments related to the valuation and classification of assets or liabilities and the adjustments that could be necessary should the Company not be able to continue its operations.

Note 7. Transactions that did not affect cash flows

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

		2018		2017		2016
Equipment and mining concessions.................	Ps.	638	Ps.	483	Ps.	800
Increase in capital stock (see Note 2)...............		-		-		7,058
Total	Ps.	638	Ps.	483	Ps.	7,858

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:

		2018		2017		2016
Cash and bank deposits....................................	Ps.	295	Ps.	366	Ps.	284
Cash equivalents..		94		1,311		655
Financial instruments available for sale equity securities..		-		-		5
Total	Ps.	389	Ps.	1,677	Ps.	944

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

Cash equivalents correspond to investments in instruments in money markets.

Note 9. Trade accounts receivable, net

Trade accounts receivable arise from the sale of products and services to unrelated third parties and are valued at amortized cost.

Trade accounts receivable include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Company has not recognized an impairment because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not have any collateral or other credit improvements to those balances, nor does it have the legal right to offset them against any amount that the Company owes to the counterpart, except because as of December 31, 2018, 2017 and 2016, there are accounts receivable of Ps.191, Ps.288 and Ps.87, respectively, which guarantee financial liabilities.

Age of accounts receivables:

		2018		2017		2016
Current balance	Ps.	4,244	Ps.	3,952	Ps.	2,504
Overdue balance, but recoverable		1,311		542		163
Signs of balance impairment		193		145		127
		5,748		4,639		2,794
Estimated impairment balance		(193)		(145)		(127)
Total	Ps.	5,555	Ps.	4,494	Ps.	2,667

Age of receivables of overdue balance, but recoverable:

		2018		2017		2016
1-59 days	Ps.	1,234	Ps.	542	Ps.	163
60-120 days		77		-		-
Total	Ps.	1,311	Ps.	542	Ps.	163

The following table shows the movement of credit-impaired with the simplified model of impairment used by the Company, as follow:

		2018		2017		2016
Balance at beginning of the year	Ps.	145	Ps.	127	Ps.	110
Increases in estimated		48		19		23
Cancellations in the estimated		-		(1)		(6)
Balance at end of the year	Ps.	193	Ps.	145	Ps.	127

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.

Increases in the allowance for impairment of trade and other accounts receivable and cancellations, when they do not imply the derecognition of an account receivable, are recognized in the consolidated statement of operations and other comprehensive results under net sales.

The Company does not have any guarantee or important collateral that covers the exposure to credit risk of its financial assets, however does have a credit insurance for costumers with high risk (see note 20 b)).

As of December 31, 2018, 2017 and 2016, the accounts receivable from the Company's 10 main customers represent 52%, 59% and 49%, respectively, of the total trade accounts receivable

Note 10. Other accounts receivable, net

The balance in other accounts receivable consists of the following:

		2018		2017		2016
Non realized value added tax, net	Ps.	574	Ps.	460	Ps.	470
Odyssey (see Note 3b))		437		452		388
Loans to employees		330		256		233
Pro-Agroindustria, S.A. de C.V.		114		114		119
Recoverable taxes		323		94		139
Other		302		225		181
		2,080		1,601		1,530
Less – Allowance for doubtful accounts		(460)		(451)		(145)
Total	Ps.	1,620	Ps.	1,150	Ps.	1,385

The balance account receivable from Pro-Agroindustria, S.A de C.V. for Ps.114, corresponds to the remaining receivable of US$5.8 derived from the sale of assets to PEMEX through the subsidiary Agro Nitrogenados, S.A. de C.V. (AGROS) in 2014, which due to the uncertainly of its recovery created a reserve for uncollectible accounts for the same amount.

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

		2018		2017		2016
Loans to employees	Ps.	46	Ps.	65	Ps.	81
DD Impulsora Deportiva		-		15		-
Other		9		9		8
Total	Ps.	55	Ps.	89	Ps.	89

The Company grants loans to its workers to acquire or improve their houses, or sells houses that were built for them, whose amount will be recovered in a maximum term of 10 years, bearing annual interest of 6% on unpaid balances, pursuant to a collective bargaining agreement.

Loans to employees as of December 31, 2018, 2017 and 2016 includes Ps.27, Ps.29 and Ps.20, respectively, of loans to key management personnel.

Note 11. Inventories, net

Inventories consist of the following:

		2018		2017		2016
Finished goods	Ps.	2,688	Ps.	1,697	Ps.	1,739
Operating materials		1,698		1,598		1,465
Metallurgical coal		1,189		808		385
Production-in-process		770		727		1,011
Iron ore		754		291		916
Steam coal		718		534		283
Scrap and briquette		583		522		986
Goods-in-transit		380		361		397
Other raw materials		319		211		301
Costs of long walls preparation		299		257		357
Vessels in process		29		-		-
Total	Ps.	9,427	Ps.	7,006	Ps.	7,840

As of December 31, 2018, 2017 and 2016 a reduction due to obsolete inventories of Ps.280, Ps.247 and Ps.244, respectively, relating to operating materials has been recognized.

As of December 31, 2018, 2017 and 2016, the Company has Ps.181, Ps.65 and Ps.642, respectively, of inventories to guarantee financial liabilities.

Note 12. Investments in shares of associates and joint ventures

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

		2018		2017		2016
LCD (see Note 4c))	Ps.	102	Ps.	78	Ps.	78
Other		3		3		2
Total	Ps.	105	Ps.	81	Ps.	80

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

		2018		2017		2016
Total assets	Ps.	358	Ps.	315	Ps.	341
Total liabilities		154		158		184
Net assets	Ps.	204	Ps.	157	Ps.	157
Company's share of net assets	Ps.	102	Ps.	78	Ps.	78
Net sales	Ps.	666	Ps.	568	Ps.	609
Income for the year	Ps.	41	Ps.	39	Ps.	51
Company's share of profits	Ps.	23	Ps.	20	Ps.	29

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 2018, 2017 and 2016 of the property, plant and equipment consisted of the following:

	2017	Additions	Transfers	Translation effect	Costs for retirement	2018
Investment:						
Land	Ps. 3,890	Ps. 78	Ps. -	Ps. 18	Ps. (60)	Ps. 3,926
Buildings	18,613	48	495	(2)	-	19,154
Machinery and equipment	83,175	1,465	(148)	(6)	(518)	83,968
Machinery and equipment under finance lease	4,346	699	(410)	-	-	4,635
Furniture and fixtures	599	1	1	-	-	601
Vehicles	597	10	-	(1)	(11)	595
Airplanes	1,143	-	-	-	-	1,143
Computers	762	1	-	-	(7)	756
Construction-in-progress	3,393	83	-	-	-	3,476
Total investments	116,518	2,385	(62)	9	(596)	118,254
Depreciation:						
Buildings	12,270	286	-	1	-	12,557
Machinery and equipment	58,043	2,857	240	3	(463)	60,680
Machinery and equipment under finance lease	742	491	(302)	-	-	931
Furniture and fixtures	565	7	-	-	-	572
Vehicles	545	21	-	(3)	(4)	559
Airplanes	541	48	-	-	-	589
Computers	742	14	-	-	(7)	749
Total depreciation	73,448	3,724	(62)	1	(474)	76,637
Net investment	Ps. 43,070	Ps. (1,339)	Ps. -	Ps. 8	Ps. (122)	Ps. 41,617

	2016	Additions	Transfers	Translation effect	Costs for retirement	2017
Investment:						
Land	Ps. 4,070	Ps. 66	Ps. (2)	Ps. (19)	Ps. (225)	Ps. 3,890
Buildings	18,577	175	(142)	3	-	18,613
Machinery and equipment	84,589	1,100	(2,394)	(119)	(1)	83,175
Machinery and equipment under finance lease	3,096	543	707	-	-	4,346
Furniture and fixtures	609	3	(6)	(7)	-	599
Vehicles	615	16	(4)	(7)	(23)	597
Airplanes	1,143	-	-	-	-	1,143
Computers	768	1	-	(1)	(6)	762
Construction-in-progress	3,241	174	-	(22)	-	3,393
Total investments	116,708	2,078	(1,841)	(172)	(255)	116,518
Depreciation:						
Buildings	12,081	271	(81)	(1)	-	12,270
Machinery and equipment	56,781	3,000	(1,690)	(46)	(2)	58,043
Machinery and equipment under finance lease	537	266	(61)	-	-	742
Furniture and fixtures	565	8	(5)	(3)	-	565
Vehicles	541	32	(4)	(4)	(20)	545
Airplanes	495	46	-	-	-	541
Computers	729	20	-	(1)	(6)	742
Total depreciation	71,729	3,643	(1,841)	(55)	(28)	73,448
Net investment	Ps. 44,979	Ps. (1,565)	Ps. -	Ps. (117)	Ps. (227)	Ps. 43,070

	Beginning of 2016	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

As of December 31, 2018, the Company has projects in process of Ps.566, corresponding mainly to an electrolytic washing machine and acquisition of equipment for the modernization of the strip line. As of December 31, 2017, the Company has projects in process of Ps.1,114, corresponding mainly to a vacuum degassing system and to an electrolytic washing machine. As of December 31, 2016, the Company has projects in process of Ps.1,376, corresponding mainly to a vacuum degassing system, the rehabilitation of a coke plant and to the strip line modernizing project.

As of December 31, 2018, 2017 and 2016, the net balance of property, plant and equipment includes Ps.579, Ps.668 and Ps.763, respectively, for costs for capitalized loans. In 2018, 2017 and 2016, no loan costs were capitalized.

As of December 31, 2018, 2017 and 2016, fixed assets owned by the Company with a book value of approximately Ps.10,714, Ps.8,647 and Ps.6,007, respectively, 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, 2018, 2017 and 2016, the Company has a machinery and equipment financial lease net balance of Ps.782, Ps.781 and Ps.823, respectively (see Note 16), without including the capital leases for a value that mentioned in the following paragraph.

In 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 2017 and 2018, MINOSA and AHMSA, entered into a four-year lease with UNIFIN Financiera, S.A.B. de C.V. ("UNIFIN") of equipment that had previously been invoiced to MINOSA and AHMSA. There contracts qualify as finance leases and therefore a long-term liability of Ps.939 was recorded at the beginning of the leases reflecting the present value of the minimum lease payments.

In 2017 and 2018, MINOSA and some of its subsidiaries entered into leases in US dollars for 5 and 4 years with Maquinaria Diesel, S.A. de C.V. (MADISA). This accounting contracts qualifies as a capitalized lease for which a long-term liability was recorded for Ps.438 at the beginning of the lease, which corresponds to the lower amount between the fair value of the equipment and the present value of the minimum payments for the lease.

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:

	2018	2017	2016
Buildings	2%	2%	2%
Machinery and equipment (includes finance lease)	5%	5%	5%
Furniture and fixtures	8%	8%	8%
Vehicles	15%	16%	16%
Airplanes	4%	4%	4%
Computers	24%	25%	27%

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 January 1, 2016	Ps. 7,157	Ps. (3,289)	Ps. 3,868
Additions	441	-	441
Effect of foreign currency exchange differences	297	-	297
Impairment (see Note 5 i))	-	(488)	(488)
Amortization	-	(692)	(692)
Depleted investments	(1,586)	1,586	-
Balance as of December 31, 2016	6,309	(2,883)	3,426
Additions	546	-	546
Effect of foreign currency exchange differences	(72)	-	(72)
Amortization	-	(566)	(566)
Depleted investments	(146)	146	-
Balance as of December 31, 2017	6,637	(3,303)	3,334
Additions	305	-	305
Effect of foreign currency exchange differences	(26)	-	(26)
Amortization	-	(475)	(475)
Balance as of December 31, 2018	Ps. 6,916	Ps. (3,778)	Ps. 3,138

The Company has carried out the following significant mine developments:

	Extractable Reserves to 2018 (Millions/Tons) Unaudited	Unamortized balances 2018	2017	2016
Steam coal:				
Dos Republicas mine.........	11.0	Ps. 1,269	Ps. 1,472	Ps. 1,727
Mine VII..........................	2.4	50	116	216
Pits................................	7.0	34	64	22
		1,353	1,652	1,965
Metallurgical coal:				
Mine V............................	4.3	138	155	147
Mine VII..........................	8.7	79	127	188
Mine X............................	114.4	989	735	517
Pits................................	4.2	49	98	126
Mining concessions...........		370	370	370
		1,625	1,485	1,348
Iron ore:				
H-14 pit..........................	4.1	93	117	40
		93	117	40
Gold and Silver:				
Santa Gertrudis mine.........	0.1	22	23	24
Santa Rosario mine...........	0.4	38	47	40
El Cristo mine..................	0.3	7	10	9
		67	80	73
Total		Ps. 3,138	Ps. 3,334	Ps. 3,426

Note 15. Other assets, net

Other assets consisted of the following:

	2018	2017	2016
Laminating rollers (Note 5 j))................................	Ps. 297	Ps. 271	Ps. 229
Employee housing developments (Note 5 j)).........	142	123	131
Commission for opening credit line.....................	137	-	-
Costs of long walls preparation (Note 5 c))...........	105	109	39
Prepaid expenses for goods................................	186	151	94
Other..	81	24	32
Total	Ps. 948	Ps. 678	Ps. 525

The rollforward of the Company's laminating rollers and employee housing developments were as follows:

Laminating rollers	Beginning of 2016	Additions retirements, net	2016	Additions retirements, net	2017	Additions retirements, net	2018
Investment..................	Ps. 353	Ps. 43	Ps. 396	Ps. 91	Ps. 487	Ps. 74	Ps. 561
Accumulated amortization	(118)	(49)	(167)	(49)	(216)	(48)	(264)
	Ps. 235	Ps. (6)	Ps. 229	Ps. 42	Ps. 271	Ps. 26	Ps. 297

Employee housing developments		Beginning of 2016		Additions retirements, net		2016		Additions retirements, net		2017		Additions retirements, net		2018
Investment....................	Ps.	447	Ps.	(2)	Ps.	445	Ps.	-	Ps.	445	Ps.	28	Ps.	473
Accumulated amortization		(305)		(9)		(314)		(8)		(322)		(9)		(331)
	Ps.	142	Ps.	(11)	Ps.	131	Ps.	(8)	Ps.	123	Ps.	19	Ps.	142

Note 16. Financing debt

Financing debt is as follows:

Institution	Currency	Interest rate		2018		2017		2016
Financial lease:								
Caterpillar Crédito	U.S. dollars	7.75%		753		711		589
Capital lease:								
Air Liquide	U.S. dollars	8.00%	Ps.	2,438	Ps.	2,608	Ps.	2,903
UNIFIN	Mexican pesos	16.64%		615		343		-
UNIFIN	Mexican pesos	15.65%		222		258		-
MADISA	U.S. dollars	7.75%		384		157		-
Other financing debt:								
Liability released from the Suspension of Payments	Mexican pesos	0%		7,606		7,606		7,606
Almacenadora Afirme	Mexican pesos	TIIE + 7.0 pts		2,752		-		-
Almacenadora Afirme	Mexican pesos	TIIE + 5.5 pts		181		1,390		1,407
Banco Afirme	Mexican pesos	TIIE + 7.0 pts		1,450		-		-
Caterpillar Crédito	U.S. dollars	7.75%		353		678		941
Caterpillar Crédito	U.S. dollars	6.75%		470		300		-
Caterpillar Financial Services Corporation	U.S. dollars	7.75%		183		416		631
American Express Company México, S.A. de C.V.	Mexican pesos	18.00%		240		339		266
Famur	U.S. dollars	LIBOR + 3 pts		54		109		171
Banco Afirme	Mexican pesos	TIIE + 5.5 pts		-		439		872
CIC Corporativo Industrial Coahuila, S.A. de C.V.	U.S. dollars	6.83%		-		354		-
PRIMETALS	U.S. dollars	5.50%		-		168		157
Banco Afirme	Mexican pesos	TIIE + 4.9 pts		-		12		62
Various	Various	Various		398		542		334
				18,099		16,430		15,939
Current portion				(11,158)		(4,684)		(2,847)
Long-term of financing debt			Ps.	6,941	Ps.	11,746	Ps.	13,092

- 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, 2018 amounts to Ps.15. MINOSA's financial lease obligations are guaranteed by the lessor's title of ownership on the leased assets.

In 2012 and 2014, MINOSA obtained loans from CATERPILLAR in the aggregate of US$27 and US$36, respectively, which resources have been disposed and were allocated to the construction of two power plants, maturing in 6 years. In order to ensure the payment of such loans, on March 12, 2014, MINOSA entered into an agreement with Caterpillar Crédito whereby it pledges certain assets of its own.

In 2017, MINOSA obtained a credit line with CATERPILLAR for a total of US$28 with a maturity of two years, whose resource will be used for working capital purposes.

During 2015 and 2016, the subsidiary Dos Republicas Coal Partnership ("DOS REPUBLICAS") obtained financing of US$42 from Caterpillar Financial Services Corporation, maturing in 4 years, for the purchase of mining equipment, guaranteed with the equipment itself.

- AFIRME

Since 2013, Banco AFIRME, S.A. ("AFIRME") and Almacenadora Afirme, S.A. de C.V. ("ALMACENADORA") has granted MINOSA lines of credit.

In September 2018, AFIRME and ALMACENADORA provide with a loan to MINOSA for Ps.1,450 and Ps.2,635, respectively, with a due date in December 2021, beginning with monthly payments on January 2019. On December 2018, ALMACENADORA gives an additional loan to MINOSA for Ps.117 under the same terms and conditions for interest rate and due date.

In September 2018, AHMSA performed with ALMACENADORA structured trading operations to finance inventories for Ps.1,044. Outstanding balance as of December 31, 2018 is Ps.181.

In May 2018, AFIRME gave a credit line to MINOSA of US$40 with annual interest rates LIBOR plus $7.6% with a due date in December 2018. As of December 31, 2018, this debt was settled.

- 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 capital leases; therefore, a long-term financial liability of US$140 (Ps.2,410 nominal value) was recorded at the inception of the lease, which corresponds to the lesser of the fair value of the plants and the present value of the minimum payments for the lease (see Note 13).

- CICSA

In 2017, CIC Corporativo Industrial Coahuila, S.A. de C.V. ("CICSA") granted MINOSA US$25 in financing for working capital, with a one-year maturity. MINOSA settled the financing in full in May 2018.

- UNIFIN

In 2017 and 2018, MINOSA and AHMSA, entered into a four-year lease with UNIFIN of equipment that had previously been invoiced to MINOSA and AHMSA. These contracts qualify as finance leases and therefore a long-term liability of Ps.939 was recorded at the beginning of the lease reflecting the present value of the minimum lease payments.

- MADISA

In 2017, MINOSA entered into a lease in US dollars for 5 years with MADISA. This contract qualifies as a capitalized lease for which a long-term liability was recorded for Ps.148 (nominal value) at the beginning of the lease, which corresponds to the lower amount between the fair value of the equipment and the present value of the minimum payments for the lease.

In June 2018, MINOSA entered into a lease in US dollars for 4 years with MADISA. This contract qualifies as a capitalized lease for which a long-term liability was recorded for Ps.179 (nominal value) at the beginning of the lease, which corresponds to the lower amount between the fair value of the equipment and the present value of the minimum payments for the lease.

In August 2018, Compañía del Real del Monte y Pachuca, S.A. de C.V. entered into a lease in US dollars for 4 years with MADISA. This contract qualifies as a capitalized lease for which a long-term liability was recorded for Ps.111 (nominal value) at the beginning of the lease, which corresponds to the lower amount between the fair value of the equipment and the present value of the minimum payments for the lease.

- 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 and July 2017, AHMSA reached an agreement to restructure its liabilities with machinery suppliers Primetals Technologies USA LLC, Primetals Technologies México, S. de R.L. and Primetals Austria GMBH ("PRIMETALS"), at an annual rate of 5.5%, maturing in 2 years. In December 2018, this liability was settled.

Some subsidiaries have exercised additional short-term credit lines, which balance payable as of December 31, 2018, 2017 and 2016 of Ps.398, Ps.542 and Ps.334, respectively, with an interest rate fluctuating between 3% and 10%.

The fair value of the financial lease liabilities and the value of the other bank liabilities are approximately equal to their carrying amount.

As December 31, 2018, 2017 and 2016, the Company complied with all covenants stipulated in the financing contract, or has obtained the respective waivers.

Minimum commitments under capitalized financial leases are as follows:

	2018	2017	2016
Lease obligations creditors	Ps. 6,344	Ps. 6,145	Ps. 5,523
Unearned interest	(1,932)	(2,068)	(2,031)
Present value of obligations	4,412	4,077	3,492
Current portion of obligations	(677)	(595)	(437)
Long-term portion of financial lease obligations	Ps. 3,735	Ps. 3,482	Ps. 3,055

The long-term portion of financing debt as of December 31, 2018 matures as follows:

Year ending December 31,		Balance
2020	Ps.	2,265
2021		2,293
2022		561
2023		200
2024 and thereafter		1,622
	Ps.	6,941

Note 17. Other payables and provisions

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

		2018		2017		2016
Tax provision	Ps.	801	Ps.	555	Ps.	616
Employee benefits (see Note 5m))		460		434		475
Termination reserve (see Note 18)		395		396		183
Mines sites remediation reserve (see Note 30 II b))		94		92		74
Withholdings on Infonavit credit		54		52		44
Outstanding severance payments		46		40		121
Other		658		441		601
Total	Ps.	2,508	Ps.	2,010	Ps.	2,114

As of December 31, 2018, 2017 and 2016, the Company recorded a tax provision of Ps.668, Ps.555 and Ps.616, respectively, from the entire deduction of payments, which, in turn, is tax-exempt income for workers. In Addition, as December 31, 2018, exist others fiscal exposures for Ps.133.

Each year some workers chose their voluntary retirement option at the beginning of the year, therefore, of employee benefits by termination and retirement as of December 2018, 2017 and 2016 of Ps395, Ps.396 and Ps.183, respectively, were classified as a short-term balance. (See Note 18).

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

		2017		Additions (cancellations), net		Payments		2018
Tax provisions	Ps.	555	Ps.	246	Ps.	-	Ps.	801
Employee benefits		434		460		(434)		460
Termination reserve		396		395		(396)		395
Mines sites remediation reserve, short and long term		204		45		-		249
Other		25		-		(5)		20
Total	Ps.	1,614	Ps.	1,146	Ps.	(835)	Ps.	1,925

	2016	Additions (cancellations), net	Payments	2017
Tax provisions	Ps. 616	Ps. (61)	Ps. -	Ps. 555
Employee benefits	475	434	(475)	434
Termination reserve	183	396	(183)	396
Mines sites remediation reserve, short and long term	190	34	(20)	204
Other	62	-	(37)	25
Total	Ps. 1,526	Ps. 803	Ps. (715)	Ps. 1,614

	Beginning of 2016	Additions (cancellations), net	Payments	2016
Tax provisions	Ps. 229	Ps. 387	Ps. -	Ps. 616
Employee benefits	366	475	(366)	475
Termination reserve	586	183	(586)	183
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

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

	2018	2017	2016
Mines rights and social security fees to be paid in installments	Ps. 600	Ps. 866	Ps. 999
Minera Zapalinamé, S.A. de C.V.	133	230	208
Mines sites remediation reserve (see Note 6 d))	249	204	190
	982	1,300	1,397
Current portion	(707)	(958)	(857)
Total	Ps. 275	Ps. 342	Ps. 540

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, 2018, 2017 and 2016, the outstanding balance is Ps.600, Ps.866 and Ps.999, respectively.

The short-term portion of mining rights and social security fees in installments as of December 31, 2018, 2017 and 2016 of Ps.480, Ps.636 and Ps.575, respectively, are presented within taxes payable. In addition, the current portion of the liabilities with Minera Zapalinamé, S.A. de C.V., of Ps.133, Ps.230 and Ps.208, respectively, is presented within the supplier line item.

As of December 31, 2018, 2017 and 2016, 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$16, 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:

		2018		2017		2016
Defined benefit obligation	Ps.	7,820	Ps.	7,864	Ps.	6,752
Current portion (see Note 17)		(395)		(396)		(183)
Defined benefit obligation long term		7,425		7,468		6,569
Plan assets at fair value		(263)		(256)		(239)
Unfunded status	Ps.	7,162	Ps.	7,212	Ps.	6,330

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

	2018	2017	2016
Discount rate(s)	9.20%	7.80%	7.50%
Expected rate(s) of salary increase	5.00%	5.00%	5.00%
Return of plan assets	9.20%	7.80%	7.50%

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:

		2018		2017		2016
Service costs	Ps.	296	Ps.	272	Ps.	304
Plan amendments		-		-		(72)
Loss due settlements		33		-		-
Interest cost		519		435		409
Less - Actual return on plan assets		(20)		(18)		(15)
Net periodic cost	Ps.	828	Ps.	689	Ps.	626

Amounts recognized of the net cost of the period in the consolidated statements of operations and other comprehensive results are as follows:

		2018		2017		2016
Cost of sales	Ps.	290	Ps.	269	Ps.	287
Selling and administrative expenses		39		3		(55)
Interest expenses, net		499		417		394
Total	Ps.	828	Ps.	689	Ps.	626

Changes to the present value of the defined benefit obligation:

		2018		2017		2016
Defined benefit obligation as of January 1,........	Ps.	7,864	Ps.	6,752	Ps.	7,534
Service costs........		296		272		304
Interest cost........		519		435		409
Plan amendments........		-		-		(72)
Loss due settlements........		33		-		-
Payments........		(865)		(459)		(867)
Actuarial (gain) loss on the obligation		(27)		864		(556)
Defined benefit obligation as of December 31,....	Ps.	7,820	Ps.	7,864	Ps.	6,752

Changes to the fair value of plan assets:

		2018		2017		2016
Plan assets at fair value as of January 1,........	Ps.	256	Ps.	239	Ps.	234
Expected yield........		20		18		15
Actuarial losses generated		(13)		(1)		(10)
Plan assets at fair value as of December 31,........	Ps.	263	Ps.	256	Ps.	239

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.551; if the discount rate decreased -1%, the defined benefit obligation would increase Ps.488. If the expected salary growth increases by +1%, the defined benefit obligation would increase by Ps.180; If the expected salary growth decreases by -1% the defined benefit obligation would decrease by Ps.161.

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 2018, 2017 and 2016 was Ps.300, Ps.283 and Ps.268, 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 DESM was added to the holders of mining concessions, which can be determined by applying the rate of 7.5% on the difference from reducing certain deductions from taxable income for ISR purposes. DESM is deductible for ISR purposes; therefore, the net effect is the deferred tax recorded as of December 31, which was 5.25%.

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

		2018		2017		2016
Current ISR	Ps.	444	Ps.	441	Ps.	144
Deferred ISR		(267)		(871)		(701)
ISR from tax contingency		-		(117)		312
Deferred DESM		(42)		(82)		(88)
Total	Ps.	135	Ps.	(629)	Ps.	(333)

b) Tax loss carryforwards

As of December 31, 2018, the Company has tax loss carryforwards for income tax, all of which are indexed for inflation. Such carryforwards are calculated based on the results of each subsidiary of AHMSA, rather than on a consolidated basis. A summary of those balances of the Company and its subsidiaries is presented below:

Expiration		Tax loss carryforwards
2019	Ps.	183
2020		76
2021		363
2022		124
2023		60
2024		278
2025		307
2026		212
2027		85
2028		262
	Ps.	1,950

On December 31, 2018, the Company recognized an amount of deferred tax assets related to net operating losses in the operation of some foreign subsidiaries cannot be recovered, as the Company does not expect to generate taxable income in the future against which the operating losses could be used.

c) Deferred income taxes

The deferred taxes liabilities are as follows:

		2018		2017		2016
Deferred ISR	Ps.	2,905	Ps.	3,167	Ps.	4,298
Deferred DESM		210		252		334
Total	Ps.	3,115	Ps.	3,419	Ps.	4,632

l) Deferred ISR

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

		2018		2017		2016
Deferred assets:						
Employee benefits from termination and retirement	Ps.	1,900	Ps.	1,948	Ps.	1,663
Provisions and reserves		479		483		436
Advances from customers		133		84		229
Tax loss carryforwards		178		119		205
Current employee benefits		134		123		150
Deferred DESM		63		76		100
Intangible assets		67		7		-
Others		91		103		116
Deferred liabilities:						
Property, plant and equipment		(5,910)		(6,075)		(7,058)
Intangible assets		-		-		(91)
Inventories		(19)		(14)		(27)
Investment in shares of associated companies		(21)		(21)		(21)
Total	Ps.	(2,905)	Ps.	(3,167)	Ps.	(4,298)

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:

		2018		2017		2016
Beginning balance	Ps.	(3,167)	Ps.	(4,298)	Ps.	(4,833)
Deferred income tax provision		267		871		701
Other concepts of comprehensive results:						
Actuarial (losses) gains from employee benefits from termination and retirement		(5)		260		(166)
Total	Ps.	(2,905)	Ps.	(3,167)	Ps.	(4,298)

The balance of deferred tax recognized in capital as of December 31, 2018, 2017 and 2016 corresponds to the effect of employee benefits from termination and retirement of Ps.356, Ps.361 and Ps.101, 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:

	2018	2017	2016
Statutory income tax rate	30%	30%	30%
Deferred DESM	8	3	3
ISR from tax contingency	-	4	(9)
Tax balances restatement effect	38	8	1
Inflationary component	(44)	(10)	(5)
Nondeductible expenses	(34)	(4)	(1)
Effects of accelerated depreciation	(17)	(3)	(3)
Equity in income of associated companies	4	1	1
Valuation allowance for tax loss carryforwards	(19)	(3)	(5)
Other	9	(1)	(2)
Effective rate	(25)%	25%	10%

II) Deferred DESM

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

	2018	2017	2016
Property, plant and equipment	Ps. (330)	Ps. (392)	Ps. (454)
Intangible assets	(7)	(7)	(17)
Inventories	6	13	20
Provisions and reserves	33	28	24
Current employee benefits	39	59	54
Other	49	47	39
Total	Ps. (210)	Ps. (252)	Ps. (334)

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 25 per cent of the Company's revenues are attributable to sale transactions with solely four customers. Also, sales to the Company's twenty largest steel customers together represented 55%, 55% and 66%, of the Company's total steel sales for the years ended December 31, 2018, 2017 and 2016, respectively. In 2018 and 2016, no customer represented over 10% of the Company's total revenues, with the exception of 2017, in which only two of the Company's customers represented more than 10% of total revenues. However, Management believes that there is no risk concentration due to the low credit risk of these customers, which is determined according to the Company's credit policies (see Note 9).

The Credit Committee has implemented a credit policy under which each new customer is individually analyzed with respect to its solvency before offering it the Company's payment and delivery standard terms and conditions. The Company's review includes visits to the customer's facilities, review of its financial statements, commercial references and credit insurance; the latter if the sector is considered at medium or high risk. Credit limits are established to each customer, which represent the amount of maximum credit, which requires the approval by the Credit Committee. These limits are revised annually or every time customers request an increase of their line of credit. Customers that do not satisfy the Company's credit policies can solely conduct transactions through advance payments.

Over 70 per cent of the customers have conducted transactions with the Company during over 10 years, and there is no important bankruptcy or losses from doubtful accounts in the last 15 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.

	2019	2020	2021	2022	2023 and thereafter	Total
As of December 31, 2018						
Financing debt	Ps. 11,158	Ps. 2,264	Ps. 2,292	Ps. 562	Ps. 1,823	Ps. 18,099
Interest payable[1]	1,050	455	319	177	-	2,001
Due to suppliers	10,505	-	-	-	-	10,505
Taxes payable	1,178	80	37	2	-	1,297
Due to related parties	1,148	-	-	-	-	1,148
Advances from customers	1,532	-	-	-	-	1,532
Other payables and provisions	2,508	39	39	39	39	2,664
Total	Ps. 29,079	Ps. 2,838	Ps. 2,687	Ps. 780	Ps. 1,862	Ps. 37,246

	2018	2019	2020	2021	2022 and thereafter	Total
As of December 31, 2017						
Financing debt	Ps. 4,684	Ps. 8,388	Ps. 614	Ps. 656	Ps. 2,088	Ps. 16,430
Interest payable[1]	621	382	346	200	-	1,549
Due to suppliers	8,738	-	-	-	-	8,738
Taxes payable	1,603	126	66	38	-	1,833
Due to related parties	511	654	-	-	-	1,165
Advances from customers	2,381	-	-	-	-	2,381
Other payables and provisions	2,010	29	29	28	26	2,122
Total	Ps. 20,548	Ps. 9,579	Ps. 1,055	Ps. 922	Ps. 2,114	Ps. 34,218

	2017	2018	2019	2020	2021 and thereafter	Total
As of December 31, 2016						
Financing debt	Ps. 2,847	Ps. 2,082	Ps. 8,203	Ps. 462	Ps. 2,345	Ps. 15,939
Interest payable[1]	579	363	315	237	116	1,610
Due to suppliers	6,382	-	-	-	-	6,382
Taxes payable	1,270	207	152	65	-	1,694
Due to related parties	438	-	654	-	-	1,092
Advances from customers	2,841	-	-	-	-	2,841
Other payables and provisions	2,114	29	29	29	29	2,230
Total	Ps. 16,471	Ps. 2,681	Ps. 9,353	Ps. 793	Ps. 2,490	Ps. 31,788

[1] Projected interest was determined based on different types of interest rates on loans (see Note 16) and assuming a closing exchange rate of Ps.19.68, Ps.19.74 and Ps.20.66 as of December 31, 2018, 2017 and 2016, 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)).

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-nine per cent of the Company's revenues are in U.S. dollars and fifty-one 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.694, Ps.782 and Ps.884 in 2018, 2017 and 2016, respectively, which would result in a loss of the exchange currencies by such amounts.

Foreign currency balances were:

		2018		2017		2016
Monetary assets:						
U.S. dollar	US$	223	US$	204	US$	101
Other currencies		10		-		-
		233		204		101
Monetary liabilities:						
U.S. dollar		572		581		516
Other currencies		13		19		18
		585		600		534
	US$	(352)	US$	(396)	US$	(433)

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

	April 10, 2019	December 31, 2018	December 31, 2017	December 31, 2016
U.S. dollar	18.97	19.68	19.74	20.66
EURO	21.30	22.29	23.53	21.92
British pound	24.66	25.10	26.71	25.79
Shekel (Israel)	5.22	5.29	5.65	5.38
Japanese yen	0.17	0.17	0.18	0.18

As of April 10, 2019, the unaudited foreign currency position is similar to that of December 31, 2018.

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, 75% 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

	2018			2017			2016		
	Number of shares		Book value	Number of shares		Book value	Number of shares		Book value
Fixed capital.........	36,668,998	Ps.	250	36,668,998	Ps.	250	36,668,998	Ps.	250
Variable capital......	434,808,762		9,248	434,808,762		9,248	434,806,122		9,248
Restatement effect.	-		3,689	-		3,689	-		3,689
	471,477,760	Ps.	13,187	471,477,760	Ps.	13,187	471,475,120	Ps.	13,187

As of December 31, 2018, common stock consisted of 471,477,760 ordinary nominative shares, without par value, fully subscribed and paid. There is one series of shares, of which 36,668,998 are classified as fixed capital and 434,808,762 as variable capital. There is no distinction between the rights associated with the Company's variable and fixed capital.

Pursuant to a general ordinary stockholders' meeting on April 17, 2015, the stockholders approved a new issuance of variable common stock of Ps.13,762, subject to the condition that a final lifting of the Company's Suspension of Payments judicial process is declared. If applicable, 227,669,803 common shares without par value will be issued and remain in treasury until the corresponding issuance of common stock is subscribed. As mentioned in Note 2, creditors that chose to change their collection rights (for Ps.7,058) per share were granted 113,605,258 shares, are subject to final reconciliations. In addition, there is approximately 29,728,405 shares of existing minority shareholders pending of subscription at the date of the capital increase to avoid dilution, (once the corresponding subscription notices are made), this would give a maximum of subscribed and paid shares of 501,206,165.

Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to income tax payable by the Company at the rate in effect upon distribution. Any tax paid on such distribution, may be credited against the income tax payable for the year in which the tax on the dividend is paid and the two fiscal years following such payment. Beginning 2014, dividends to individuals and foreigners will be subject to an additional tax of 10% on the base of the net tax income account arisen from that date.

Accumulated earnings include the legal reserve according to the General Corporate Law, which requires that at least 5% of net income of the year be transferred to a legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2018, 2017 and 2016, the legal reserve, was Ps.105 (nominal value).

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

		2018		2017		2016
Contributed capital account	Ps.	75,880	Ps.	72,383	Ps.	67,794
Net tax income account		2,973		2,934		2,337
Total	Ps.	78,853	Ps.	75,317	Ps.	70,131

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

As of December 31, 2018, 2017 and 2016, the following Company's subsidiaries have noncontrolling interest:

		2018			2017			2016	
		Book Value	Noncontrolling Interest		Book Value	Noncontrolling Interest		Book Value	Noncontrolling Interest
AGROS	Ps.	584	19.3%	Ps.	532	19.3%	Ps.	504	19.3%
Hojalata Mexicana, S.A. de C.V.		42	49.0%		40	49.0%		36	49.0%
Aqwise Water Technologies, LTD		24	49.9%		5	49.9%		35	49.9%
Antair, S.A. de C.V. ("ANTAIR")		1	0.1%		1	0.1%		1	0.1%
Hullera Mexicana, S.A. de C.V.		1	4.6%		1	4.6%		1	4.6%
Total	Ps.	652		Ps.	579		Ps.	577	

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:

		Beginning of 2016		Movements during the year		2016		Movements during the year		2017		Movements during the year		2018
Items that may be reclassified subsequently to profit or loss:														
Cumulative translation adjustment	Ps.	724	Ps.	586	Ps.	1,310	Ps.	(118)	Ps.	1,192	Ps.	76	Ps.	1,268
Items that will not be reclassified subsequently to profit or loss:														
Defined employee benefits effect		(771)		386		(385)		(605)		(990)		8		(982)
Loss on purchase of equity of noncontrolling interest		(70)		(36)		(106)		-		(106)		-		(106)
Total	Ps.	(117)	Ps.	936	Ps.	819	Ps.	(723)	Ps.	96	Ps.	84	Ps.	180

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, 2018, 2017 and 2016 were as follows:

	2018			
	Holding	Associated	Other related parties	Total
Income:				
Sales	Ps. -	Ps. -	Ps. 21	Ps. 21
Administrative services	Ps. -	Ps. 26	Ps. 19	Ps. 45
Other	Ps. -	Ps. -	Ps. 26	Ps. 26
Expenses:				
Rail road transportation services	Ps. -	Ps. 377	Ps. -	Ps. 377
Fuels and lubricants	Ps. -	Ps. -	Ps. 706	Ps. 706
Materials and supplies	Ps. -	Ps. -	Ps. 36	Ps. 36
Advertising	Ps. -	Ps. -	Ps. 1	Ps. 1
Services	Ps. -	Ps. -	Ps. 13	Ps. 13
Guarantee fees	Ps. 10	Ps. -	Ps. -	Ps. 10
Air transportation services	Ps. -	Ps. -	Ps. 32	Ps. 32
Interest	Ps. -	Ps. -	Ps. 22	Ps. 22
Other	Ps. -	Ps. -	Ps. 41	Ps. 41

	2017			
	Holding	Associated	Other related parties	Total
Income:				
Sales	Ps. -	Ps. -	Ps. 39	Ps. 39
Dividends	Ps. -	Ps. 20	Ps. -	Ps. 20
Administrative services	Ps. -	Ps. 25	Ps. 20	Ps. 45
Guarantee fees	Ps. 8	Ps. -	Ps. -	Ps. 8
Other	Ps. -	Ps. -	Ps. 22	Ps. 22
Expenses:				
Rail road transportation services	Ps. -	Ps. 325	Ps. -	Ps. 325
Fuels and lubricants	Ps. -	Ps. -	Ps. 649	Ps. 649
Materials and supplies	Ps. -	Ps. -	Ps. 44	Ps. 44
Advertising	Ps. -	Ps. -	Ps. 38	Ps. 38
Services	Ps. -	Ps. -	Ps. 12	Ps. 12
Guarantee fees	Ps. 7	Ps. -	Ps. -	Ps. 7
Air transportation services	Ps. -	Ps. -	Ps. 20	Ps. 20
Interest	Ps. -	Ps. -	Ps. 17	Ps. 17
Other	Ps. -	Ps. -	Ps. 37	Ps. 37

	2016							
		Holding		Associated		Other related parties		Total
Income:								
Sales	Ps.	-	Ps.	-	Ps.	17	Ps.	17
Dividends	Ps.	-	Ps.	60	Ps.	-	Ps.	60
Administrative services	Ps.	-	Ps.	25	Ps.	14	Ps.	39
Guarantee fees	Ps.	24	Ps.	-	Ps.	-	Ps.	24
Other	Ps.	-	Ps.	-	Ps.	19	Ps.	19
Expenses:								
Rail road transportation services	Ps.	-	Ps.	298	Ps.	-	Ps.	298
Fuels and lubricants	Ps.	-	Ps.	-	Ps.	503	Ps.	503
Materials and supplies	Ps.	-	Ps.	-	Ps.	49	Ps.	49
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

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

		2018		2017		2016
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")		130		70		70
Promotora de Vivienda México, S.A. de C.V.		-		-		1
Compañía Mercantil Río Hondo, S.A. de C.V.		-		-		1
Distribuidora ESSEX, S.A. de C.V.		-		2		-
Other		53		31		29
		300		220		218
Less – Allowance for doubtful accounts		(13)		(13)		(13)
Total	Ps.	287	Ps.	207	Ps.	205
Due from related parties, long-term:						
GAN	Ps.	447	Ps.	447	Ps.	447
Loans to key management		39		38		38
	Ps.	486	Ps.	485	Ps.	485

		2018		2017		2016
Due to related parties, short-term:						
CIMSA	Ps.	637	Ps.	-	Ps.	-
Stockholders		247		237		155
GAN		138		158		166
LCD		62		20		17
Inmobiliaria Indias Occidentales, S.A. de C.V.		30		25		25
Coel del Norte, S.A. de C.V.		13		13		21
Comercial ESSEX, S.A. de C.V.		-		45		29
Other		21		13		25
Total	Ps.	1,148	Ps.	511	Ps.	438
Due to related parties, long-term:						
CIMSA	Ps.	-	Ps.	637	Ps.	637
LCD		-		16		16
Other		-		1		1
Total	Ps.	-	Ps.	654	Ps.	654

In 2015 and 2017, MINOSA obtained financing for a total of US$12 million from one of its indirect stockholders, which bears annual interest of 7%, maturing upon request of the stockholder. The unpaid balance as of December 31, 2018, 2017 and 2016 is Ps.247, Ps.237 and Ps.155, respectively.

In 2015, MINOSA obtained financing of Ps.50 from Inmobiliaria Indias Occidentales, S.A. de C.V., which bears annual interest of 8.5%, maturing upon request of the financing grantor. The unpaid balance as of December 31, 2018, 2017 and 2016 is Ps.30, Ps.25 and Ps.25, respectively.

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, 2018, GAN has a debt under Suspension of Payments in favour of the Company of Ps.107, which is presented net of accounts payable to GAN itself. On December 31, 2015, GAN entered into a debt recognition agreement with AHMSA, whereby GAN and AHMSA agree to offset the entire payment obligations once GAN's suspension of payments is lifted.

Because AHMSA is guarantor of certain receivables from GAN, GAN's creditors claimed these loans during AHMSA's Suspension of Payments process for Ps.447, an amount that is receivable from GAN.

Since February 1997, AHMSA has been paying GAN a 2.5% commission on bank loans and advances from customers where GAN is the guarantor. Also, it receives the same commission for the credits in charge of GAN, where AHMSA is endorsed.

In January 2016, MINOSA sold to CIMSA certain credit rights to AHMSA for Ps.130, which is shown in due from related parties, short-term.

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.829, Ps.760 and Ps.774 for years 2018, 2017 and 2016, respectively.

Note 24. Net sales

Net sales were as follows:

		2018		2017		2016
Steel	Ps.	59,749	Ps.	47,811	Ps.	42,693
Steam coal		5,403		5,784		4,477
By-products		317		263		253
Services		582		430		527
Other sales		740		457		562
Total	Ps.	66,791	Ps.	54,745	Ps.	48,512

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.615, Ps.474 and Ps.491 in 2018, 2017 and 2016, respectively.

Note 25. Other expenses (income)

Other expenses (income) include the following:

		2018		2017		2016
(Gain) loss on fixed assets sales	Ps.	(266)	Ps.	148	Ps.	(51)
Impairment of Odyssey's account receivable (see Note 3b))		20		309		-
Gain on sale of shares		-		(62)		-
Impairment of intangible assets (see Note 5 i))		-		-		488
Allowance for doubtful accounts (see Note 10)		-		-		103
Lifting of Suspension of Payments effects (see Note 2)		-		-		59
Reserve of assets subject to disposal		-		-		49
Other income		(10)		(2)		(5)
Total	Ps.	(256)	Ps.	393	Ps.	643

Note 26. Financial expense and income

		2018		2017		2016
Interest expense:						
Financing debt interest	Ps.	1,020	Ps.	698	Ps.	654
Employee retirement obligations interest cost (see Note 18)		499		417		394
Surcharges and updates taxes		218		180		193
Interest paid to suppliers		138		147		118
Tax provisions (see Note 17)		90		56		75
Commissions and others		51		89		27
Guarantee fees (see Note 23)		10		8		62
Total	Ps.	2,026	Ps.	1,595	Ps.	1,523

		2018		2017		2016
Interest income:						
Interest income on cash equivalents...................	Ps.	87	Ps.	28	Ps.	18
Interest income Odyssey (see Note 3 b))..............		-		32		23
Moratorium interests..		8		22		17
Interest income on guaranty deposits..................		5		9		8
MeetMe Warrants (see Note 3b))........................		-		-		88
Guarantee fees paid (see Note 23).....................		-		7		24
Other..		33		11		18
Total	Ps.	133	Ps.	109	Ps.	196

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 2018, 2017 and 2016 was Ps.478, Ps.354 and Ps.266, respectively.

Non-cancellable operating lease commitments are:

		Amount
2019	Ps.	14
2020		14
2021		13
2022		13
2023		2
	Ps.	56

Note 28. Mineral reserves (unaudited)

The Company's mines operate under a concession agreement for exploration and exploitation with the Mexican Mining Board. These licenses operate under terms of 50 years. In 2018, 2017 and 2016, the amounts paid for these rights were Ps.410, Ps.427 and Ps.358, 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 June 2018 for the coal mines, and in December 2018 for the iron ore mines, based on the Canadian Standard 43-101.

As of December 31, 2018, 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	242.6	10.6	253.2	48.7	3.6	52.3	11
Steam coal	76.1	0.0	76.1	64.4	0.0	64.4	13
Metallurgical coal	188.5	0.0	188.5	81.8	0.0	81.8	44

(Unaudited thousands of metric tons)

Mineral	Mining			Salable			Years to sale
	Proven	Probable	Total	Proven	Probable	Total	
Copper	1,559.2	732.1	2,291.3	19.3	11.9	31.2	11

* In the case of metallurgical coal the salable reserve of the steam coal by-product is not included.

A probable reserve is the economically minable portion of an indicated resource, and in some circumstances, a measured resource. The certainty in the modifying factors applied to the probable mineral reserve is lower than that of those applied to proven reserves.

A proven reserve is the economically viable portion of a measured resource. A proven minable reserve implies a high degree of certainty in modifying factors (2014 CIM Definition Standards).

For iron ore, we believe there are 330 million additional tons that are classified as potential resources. Currently, we have a drilling program and an exhaustive metallurgical research program, whose purpose is to integrate most of these resources into the proven reserves classification as the results confirming this are received.

The RDM subsidiary has resources certified under the Canadian standard 43-101, prepared by an expert in the matter in 2008. The resources are located at the tailing dam and amount to 95 million tons of gold and silver ore of 0.19 and 39.32 grams per ton, respectively. In 2009 a pre-feasibility study and a feasibility study in 2012 and 2015 on this mineral was elaborated by two expert companies, classifying as mineral reserves such slabs, reporting a recovery of 70% and 62% for gold and silver, respectively, therefore, after processing in a new plant would get 10.6 tons of gold and 2,443 tons of silver.

Additionally, RDM has resources of Gold and Silver ore in its, Rosario, El Cristo, Gertrudis and Cupula mines that accumulate a volume of 3,702,276 tons with grades of 127.4 gr / ton of Silver and .59 gr /ton of Gold.

Note 29. Summary of financial data by industry segment

The table below provides certain financial information related to the Company's industry segments. Intersegment transactions were not significant.

		2018		2017		2016
Net sales:						
Steel	Ps.	60,257	Ps.	48,270	Ps.	43,244
Steam coal		5,407		5,807		4,508
Other		1,127		668		760
Total	Ps.	66,791	Ps.	54,745	Ps.	48,512

		2018		2017		2016
Consolidated net income (loss) for the year:						
Steel	Ps.	1,255	Ps.	(55)	Ps.	(1,465)
Steam coal [2]		(1,389)		(905)		(1,283)
Other [3]		(542)		(897)		(422)
Total	Ps.	(676)	Ps.	(1,857)	Ps.	(3,170)
Depreciation and amortization [1].						
Steel	Ps.	3,174	Ps.	3,207	Ps.	3,276
Steam coal		910		857		1,113
Other		127		121		116
Total	Ps.	4,211	Ps.	4,185	Ps.	4,505
Capital expenditures:						
Steel	Ps.	2,087	Ps.	1,277	Ps.	1,322
Steam coal		183		188		304
Other		62		128		151
Total	Ps.	2,332	Ps.	1,593	Ps.	1,777

		2018		2017		2016
Interest income:						
Steel	Ps.	103	Ps.	54	Ps.	73
Steam coal		8		6		3
Other		22		49		120
Total	Ps.	133	Ps.	109	Ps.	196
Interest expense:						
Steel	Ps.	1,841	Ps.	1,412	Ps.	1,385
Steam coal		163		176		127
Other		22		7		11
Total	Ps.	2,026	Ps.	1,595	Ps.	1,523

(1) Includes Ps.475, Ps.566 and Ps.692 of amortization in 2018, 2017 and 2016, respectively.
(2) Includes impairment of Ps.488 in 2016.
(3) Includes allowance for doubtful accounts of Ps.20 and Ps.309 as of December 31, 2018 and 2017, 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, 2018, 2017 and 2016, of the total net sales, 89%, 89% and 88%, respectively, correspond to domestic sales and 11%, 11% and 12%, respectively, to foreign sales.

Note 30. Commitments and contingencies

I) Commitments

a) Coal supply agreement

In June 2018, MINOSA executed a supply agreement from January 2019 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 14.7 million tons and a maximum of 21 million tons of coal supplied by MINOSA for a term of 3 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, 2018, 2017 and 2016, the Company had commitments of US$134, US$197 and US$135, respectively, 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, 2018, contingent payments amounted to US$8.

d) As of December 31, 2018, approximately US$127 are contracted for 2019, derived from purchases of raw materials.

II) Contingencies

a) Tax assessments:

As of December 31, 2018, 2017 and 2016, there are tax assessments of Ps.575, Ps.415 and Ps.451 (nominal value), respectively, 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. As of December 31, 2018, the estimated amount of investment for the total compliance with environmental legislation is US$176, which mainly includes projects to control emissions to the atmosphere and cleanliness of water. Some of the projects are in the process of implementation and others have been agreed but behind the original investment program; therefore, the PROFEPA could carry out inspection procedures and, if applicable, establish sanctions for agreements that have not been complied with.

On February 4, 2015, AHMSA signed an agreement with PROFEPA whereby a commitment was established to invest in emission control equipment in certain departments of the Company, with a value of US$65 valid for 2018. Said agreement was fulfilled in part of the investments and the rest were requested and approved in a new term before the SEMARTNAT together with the update of the "Unique Environmental License" (LAU), which is mentioned in the following paragraph.

In December 2017, in order to comply with the environment regulations applicable under the terms of the General Law of Ecological Equilibrium and Environmental Protection, the LAU was updated to include new operational areas such as power generation plants, standardized line, among others, and also requesting the extension of terms of investment conditions and of the framework agreement projects that were not concluded, in which SEMARNAT resolves and authorizes the extension to 2021 of the compliance deadlines of 14 conditions stipulated in this license, which represent an estimated investment of US$154 in projects for the control of air emissions. In 2018 the investments concluded were for US$10 and US$144 are still outstanding in order to comply with the LAU.

It is important to note that the LAU does not include or authorize projects related to the use and management of water, however these are under the voluntary audit process with PROFEPA, whose estimated investment amount is US$21, and US$12 of projects that are in the process of execution and of those that have already been disbursed US$1.1, having a total investment amount of US$32 approximately.

Additionally, derived from the extraordinary inspection carried out by PROFEPA in 2010 to five departments and on four different topics, which were assigned to comply with the observations noted by the authority, at the date of the 20 administrative procedures against, 19 have been concluded. satisfactorily and closed the procedures, leaving only 1 open procedure in the subject of atmosphere, to the date is awaiting the respective resolution. It should be noted that the non-compliance of the programs and commitments presented in the resolutions, would cause a recidivism, giving rise to partial or total closure of the facilities of the departments inspected by PROFEPA.

Likewise, for its mining operations the Company is subject to the provisions contained in the General Law of Ecological Balance and Environmental Protection, which establishes that any ecological damage caused must be corrected. As of December 31, 2018, 2017 and 2016, a provision has been recorded for Ps.249, Ps.204 and Ps.190, respectively, relating to the rehabilitation of the ecological damage caused by their developments and mine preparations in accordance with the provisions of said Law.

On the other hand, as regards the Clean Industry program promoted by PROFEPA through the application of environmental auditing by certified auditors, as of December 31, 2018, the Company has 36 operational units within this "Clean Industry" program, of which; 18 departments have a current "Clean Industry Certificate", 14 departments with an agreement for works and activities in execution, and 4 in the process of preparing the audit report and action plan to agree on with authority.

c) MINOSA is undergoing lawsuits related to third parties affected by mining operations. Company management, based on the opinion of its legal advisors and the fact that certain favorable resolutions have already been granted, expects that the possible obligation not demand the use of economic resources.

Note 31. Adoption of new and revised International Financial Reporting Standards

Changes in accounting policies and disclosures

I. New standards and changes adopted by the Company

The Company adopted all new standards and interpretations in effect as of January 1, 2018, including the annual improvements to IFRS, as described below:

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments, replaces IAS 39, Financial Instruments: Recognition and Measurement.* This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company had no impacts associated with the new measurement category of fair value through other comprehensive income, because it currently does not have any instrument that qualifies for this treatment; however, potential impacts could arise if its investment strategy was changed in the future. In addition, there were no impacts related to hedge accounting.

Finally, regarding the new expected credit loss model, the Company's management has concluded it did not have material effects that need to be disclosed.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenues From Contracts with Customers*, is effective for periods beginning January 1, 2018. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer. The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers, which introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation.

The Company's management in base of the evaluation conclude that do not have material effect in the financial information.

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018.

The Company translates advance considerations at the exchange rate on the date of the transaction, either received or paid, and recognizes them as nonmonetary items; therefore, it did not have significant impacts in the adoption of this interpretation in its consolidated financial statements.

II. New standards and interpretation, not in force in the reporting period

A number of new standards, amendments and interpretations have been issued, are not yet effective for reporting periods ended December 31, 2018, and have not been early adopted by the Company.

Below is a summary of these new standards and interpretations as well as the Company's assessment as to the potential impacts on the consolidated financial statements:

IFRS 16, Leases

IFRS 16, *Leases*, supersedes IAS 17, Leases, and the r elated interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and financial leases, while the model for lessees remains without significant changes. IFRS 16 is effective beginning January 1, 2019, and the Company decided to adopt it with the recognition of all the effects as of that date, without changing prior years.
Under IFRS 16, lessees will recognize a right-of-use asset and the corresponding lease liability. The right of use will be depreciated based on the contractual term or, in some cases, on its economic useful life. On the other hand, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

The Company will apply the exemptions to not to recognize an asset and a liability as described above, for lease agreements with a term of less than 12 months (provided that they do not contain purchase or term renewal options) and for those agreements where the acquisition of an individual asset of the contract was less than US$5,000 (five thousand dollars). Therefore, payments for such leases will continue to be recognized as expenses within operating income.

The Company has taken the action required for implementing the changes derived from this standard and the related impacts on internal control, tax matters and systems, as of the adoption date.

Management based on the Company finance leasing analysis as of December 31, 2018 and based on the facts to date, had been evaluated that the impact in this change will not have effect in the consolidated financial statements.

IFRIC 23, Interpretation on Uncertainty Over Income Tax Treatments

This new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, Income taxes when there is uncertainty over income tax treatments. Uncertain tax treatments are tax treatments for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, modifying comparative periods or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company determined that the impacts of the implementation of this Interpretation as of January 1, 2019 are not material considering the prevailing conditions of the tax positions that it has taken at the date of adoption and the faculties of the competent authorities to assess tax positions held by the Company at the same date.

The Company does not anticipate that the applicable modifications in the future will have an impact in the consolidated financial statements.

Note 32. Subsequent events

On March 8, 2019, a term sheet was signed, in order to obtain a long-term financing of approximately US$463 and a line of credit for US$100 for working capital, subjected to the satisfaction of both parties, whose formalization process must be completed no later than April 30, 2019, the financing would be used to settle the debt to the creditors of the "Suspension of Payments" that is mentioned in the Note 2, the Company expects to settle the debt on the due date.

Note 33. Consolidated financial statements issuance authorization

On April 10, 2019, 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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