

The Entity is subject to ISR and through December 31, 2013, to ISR and IETU, therefore, the income tax payable was the higher between ISR and IETU through 2013.

ISR - The rate was 30% in 2015, 2014 and 2013 and as a result of the new 2014 ISR law (2014 Tax Law), the rate will continue at 30% thereafter. The Entity incurred ISR on a consolidated basis until 2013 with its Mexican subsidiaries. As a result of the 2014 Tax Law, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the deferred income tax benefit calculated as of that date over a 10 year period beginning in 2014, as illustrated below.

While the 2014 Tax Law repealed the tax consolidation regime, an option was established, which allows groups of companies to determine a joint calculation of ISR (tax integration regime). The new regime allows groups of consolidated companies that share common direct or indirect ownership of more than 80%, certain benefits in the tax payment (when the group of companies include both profit and loss entities in the same period), which can be deferred over three years and reported, as updated, at the filing date of the tax declaration corresponding to the tax year following the completion of the aforementioned three-year period.

The Entity and its subsidiaries opted to join the new scheme, so determined income tax for the year 2015 and 2014 as previously described.

Pursuant to transitory article 9, section XV, subsection d) of the 2014 Law, given that as of December 31, 2013 the Entity was considered to be a tax holding entity and was subject to the payment scheme contained in Article 4, Section VI of the transitory provisions of the ISR law published in the Federal Official Gazette on December 7, 2009, or article 70-A of the ISR law of 2013 which was repealed, it must continue to pay the tax that it deferred under the tax consolidation scheme in 2007 and previous years based on the aforementioned provisions, until such payment is concluded.

IETU - IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The rate was 17.5%.

As of 2008, the Asset Tax Law (LIMPAC) was eliminated, but under certain conditions the amount of this tax paid in the 10 years immediately prior to that in which ISR is first paid may be recovered in accordance with applicable tax provisions. Furthermore, unlike ISR, until 2013, IETU was incurred separately, and not on a consolidated basis.

a. Income taxes (benefit) expenses are as follows:

	2015	2014	2013
ISR:			
Current	\$ 3,241,327	\$ 3,466,055	\$ 4,045,888
Deferred	(67,975)	(792,386)	(324,180)
	\$ 3,173,352	\$ 2,673,669	\$ 3,721,708

b. Following is an analysis of the deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

	2015	2014	2013
ISR deferred (asset) liability:			
Property, machinery and equipment	\$ 2,376,674	\$ 1,813,516	\$ 1,816,811
Inventories	(218,291)	(265,077)	(57,502)
Accounts receivable from installment sales	-	-	546,039
Advances from customers	(779,579)	(305,217)	(440,750)
Natural gas and metals swaps and forwards	(63,684)	(142,177)	(171,616)
Revenues and costs by percentage-of-completion method	176,109	150,881	352,819
Allowances for assets and reserves for liabilities	(665,218)	(768,605)	(900,933)
Other, net	(327,754)	(218,035)	(231,988)
Deferred ISR on temporary differences	498,257	265,286	912,880
Effect of tax loss carry-forwards	(1,498,206)	(694,431)	(618,209)
Allowance for deferred tax	238,605	-	-
Deferred ISR payment (long-term CUFINRE)	9,050	20,318	19,974
	(752,294)	(408,827)	314,645
Total deferred tax asset	2,143,195	1,754,350	1,432,369
Total deferred tax liability taxes liability	\$ 1,390,901	\$ 1,345,523	\$ 1,747,014

c. The activity of deferred tax (asset) liability during the year are as follows:

	2015	2014	2013
Opening balance	\$ (408,827)	\$ 314,645	\$ 663,583
Income tax applied to results	(67,975)	(792,386)	(324,180)
Recognized in other comprehensive income	(275,492)	68,914	19,236
Effect of consolidation and other items	-	-	(43,994)
Closing balance	\$ (752,294)	\$ (408,827)	\$ 314,645

d. Following is a reconciliation of the statutory and effective ISR rates expressed as a percentage of income before income taxes:

	2015	2014	2013
	%	%	%
Statutory rate	30	30	30
Add (deduct) the effect of permanent differences -			
Nondeductible expenses	4	2	-
Share in income of associated companies	(4)	(4)	(2)
Non-taxable gain on disposal of shares	-	-	(8)
Effective rate	30	28	20

e. Unused tax loss carryforwards for which a deferred income tax asset and an advanced income tax payment, respectively, have been recognized, may be recovered provided certain requirements are fulfilled. Their maturities and restated amounts at December 31, 2015 are as follows:

Year of expiration	Tax loss carryforwards
2017	\$ 105,594
2018	1,224
2019	49,312
2020 and thereafter	4,044,883
	4,201,013
Tax loss carryforwards of foreign subsidiary without expiration term	629,614
Total	\$ 4,830,627

f. Tax consolidation

The income tax liability at December 31, 2015 concerning the effects of benefits and tax deconsolidation shall be paid in the following years:

Year	
2016	\$ 11,776
2017	34,804
2018	58,778
2019 and thereafter	354,869
	\$ 460,227

g. Tax integration

The ISR liability derived from the integration will be paid within four years; at December 31, 2015 and 2014, this liability was \$739,397 and \$132,261, respectively.

h. The Entity has recorded a long-term ISR payable derived from a Decree dated December 26, 2013 which establishes that the ISR generated by installment sales can be settled over three years by paying 33.3% of the outstanding amount each year, since the tax benefit of deferring ISR on installment sales was eliminated. Their maturities and restated amounts at December 31, 2015 are as follows:

Year	
2016	\$ 127,027
2017	127,027
	\$ 254,054