



2017 Annual Report

CORPORATE PROFILE

Grupo Carso is one of the largest and most important, diversified conglomerates in Latin America. It is comprised by four sectors that have been defined as strategic: the business, infrastructure, construction and energy sectors.

The Group has a major presence in the Mexican economy, where it has maintained market leadership thanks to an exceptional portfolio made up of formats, products and services.

Since its incorporation over 35 years ago, Grupo Carso has stood out because of its dynamics, process and technology innovations and sustainable resource management. It has achieved operational synergies within its sectors. Profitability and constant cash flows have been generated, which has translated into a history of long-term value creation for the Stockholders.

Tlalnepantla Shopping Center



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Arnelec Plant

North Arc Beltway



Samalayuca-Sásabe Gas Pipeline

Divisions, products and services



Commercial and Consumer

Grupo Sanborns

It operates some of the most successful commercial formats in Mexico, with widely recognized brands. Through 443 units and one million 207 thousand square meters of commercial area, it serves a large percentage of consumers of medium, medium-high and high-income segments.

Formats

- Department stores and boutiques
- Shops-Restaurants
- Electronics and technology stores

Main Brands:

- Sears
- Sanborns
- iShop
- MixUp
- Saks Fifth Avenue

53.2%

Contribution to Sales

39.9%

Contribution to Operating Income



Industrial and Manufacturing

Grupo Condumex

The sector operates a portfolio of products and services focused on satisfying the needs of the telecommunications, construction, electrical, energy, automotive and mining industries.

Services and Products

- Cables (energy, telecommunications, electronic, coaxial, optic fiber, and for mining and automotive use, among others),
- Electric harnesses for automotive use,
- Precision steel pipes,
- Transformers,
- Alternative energy,

Main Brands:

- Condumex
- Latincasa
- Vinanel
- Condulac
- IEM
- Precitubo
- Sitcom
- Microm
- Sinergia
- Equiter
- Logtec

30.8%

Contribution to Sales

34.3%

Contribution to Operating Income



Infrastructure and Construction

Carso Infraestructura y Construcción

It serves five segments: chemical and oil industry, pipeline installation, infrastructure, civil construction and housing development.

It is dedicated to the construction of:

- Roads, tunnels, water treatment plants and infrastructure in general,
- Oil rigs and equipment for the chemical and oil industry,
- Oil and geothermic well drilling, and drilling services,
- Shopping centers, industrial plants, office buildings and housing,
- Installations for telecommunications, gas pipelines and water pipes

Main Brands:

- CICSA
- Swecomex
- Bronco Drilling
- Cilsa
- GSM
- PC Construcciones
- Urvitec

18.5%

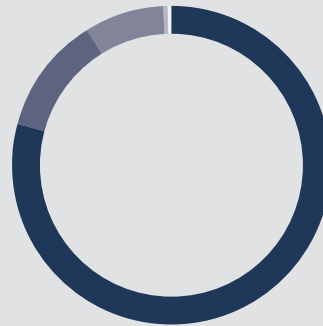
Contribution to Sales

16.5%

Contribution to Operating Income



Geographic Presence



Sales Breakdown by Geographic Division

- Mexico **79.4%**
- North America **11.8%**
- Central, South America and the Caribbean **8.1%**
- Europe **0.4%**
- Rest of the World **0.3%**

Energy

Carso Energy

Participates in the energy and oil industry. Currently, it supplies gas transportation services for the Federal Electricity Commission (Comisión Federal de Electricidad). The division has the aim to take advantage of business opportunities derived from the energy reform in Mexico and other markets.

It is dedicated to:

- Gas transportation services

Main Brands:

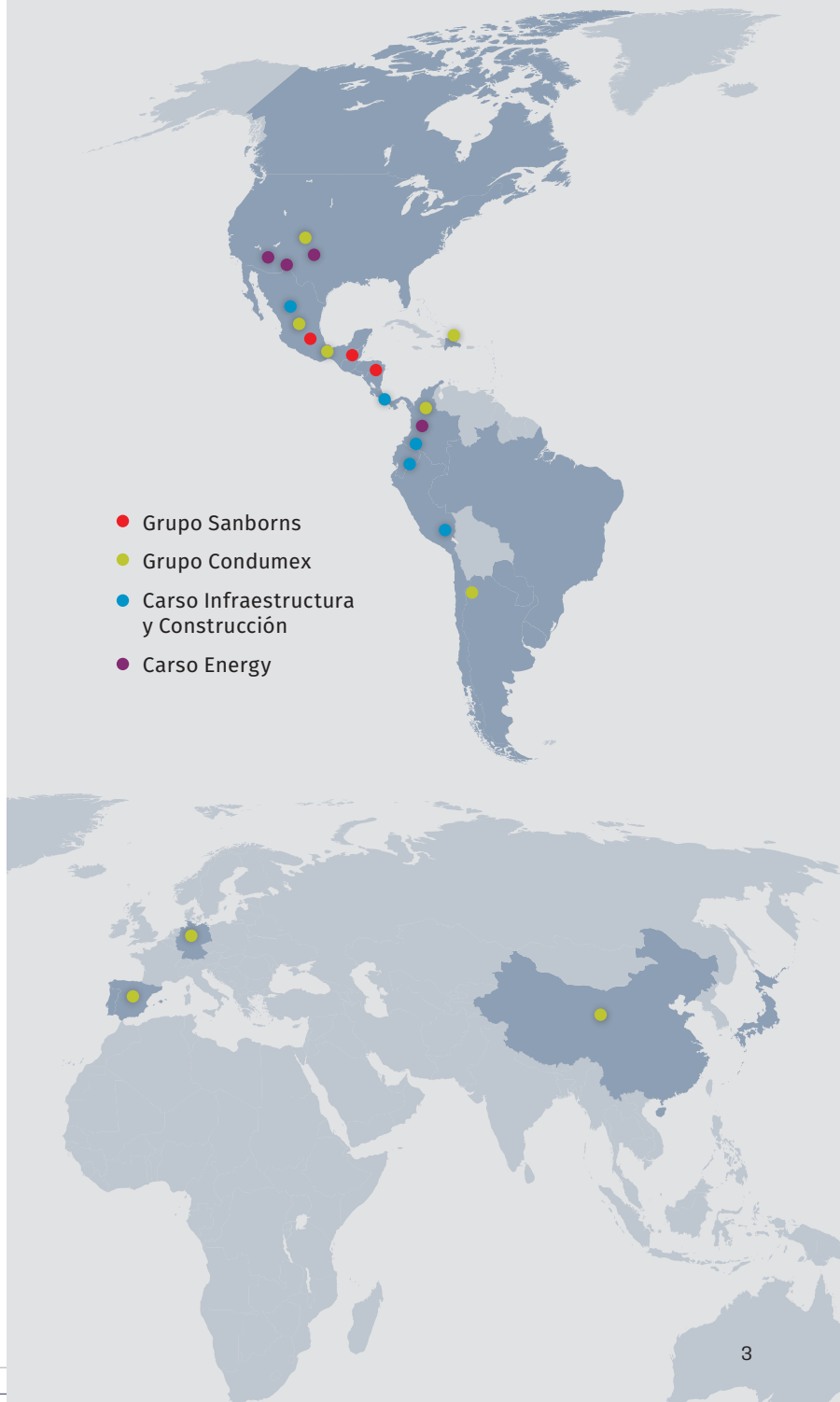
- Carso Energy
- Carso Oil & Gas
- Carso Electric

0.1%

Contribution to Sales

-0.2%

Contribution to Operating Income



Key Financial Information

(Amounts in thousands pesos, except earnings per share)	2015	2016	2017	Var% 2017-2016
Sales	88,223,816	95,187,635	93,592,613	-1.7%
Gross Profit	25,562,314	28,470,025	28,981,097	1.8%
Operating Income	10,329,259	13,725,876	12,941,490	-5.7%
EBITDA	12,570,512	14,578,076	13,871,725	-4.8%
Controlling Participation in Net Income	6,196,155	9,524,896	10,033,633	5.3%
Earnings per Share (EPS)*	2.72	4.20	4.42	5.2%

Margins

Gross	29.0%	29.9%	31.0%	1.1 pp
Operating	11.7%	14.4%	13.8%	-0.6 pp
EBITDA	14.2%	15.3%	14.8%	-0.5 pp
Net	7.0%	10.0%	10.7%	0.7 pp

Revenues

Commercial	44,413,058	47,593,847	49,768,427	4.6%
Industrial	26,951,014	29,048,773	28,782,821	-0.9%
Infrastructure and Construction	17,259,620	19,143,008	17,273,500	-9.8%
Energy	2,588	0	62,443	0.0%

EBITDA**

Commercial	5,707,369	6,465,469	6,332,165	-2.1%
Industrial	4,052,744	5,127,274	4,849,287	-5.4%
Infrastructure and Construction	2,714,185	2,948,794	2,696,770	-8.5%
Energy	-33,120	-80,351	-15,800	-80.3%

EBITDA Margins

Commercial	12.9%	13.6%	12.7%	-0.9 pp
Industrial	15.0%	17.7%	16.8%	-0.9 pp
Infrastructure and Construction	15.7%	15.4%	15.6%	0.2 pp
Energy	-1279.8%	NA	-25.3%	NA pp

Total Assets	94,184,910	109,556,349	118,847,930	8.5%
Total Liabilities	30,390,542	37,976,185	37,916,273	-0.2%
Stockholders' Equity	63,794,368	71,580,164	80,931,657	13.1%
Compounded Average Outstanding Shares ('000)	2,281,190	2,268,787	2,267,779	0.0%

* EPS: Calculated as Controlling Participation in Net Income divided by the compounded average shares outstanding. Amount in pesos.

** EBITDA: Income before income taxes plus depreciation and amortization, interest expense, impairment of machinery and equipment and exploration expenses, and effect on valuation of derivative financial instruments, less interest income, net foreign exchange gain, surplus from appraisals of shopping centers and equity in earnings of associated companies and joint ventures. See conciliation in Note 30 of the Financial Statements.

pp: Variation in percentage points

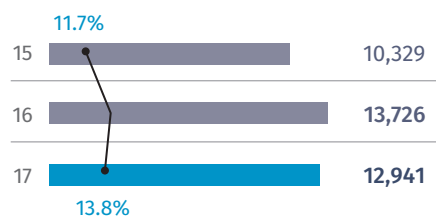
Sales

(million Pesos)



Operating Income

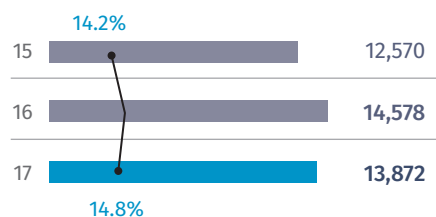
(million Pesos)



● Operating Margin

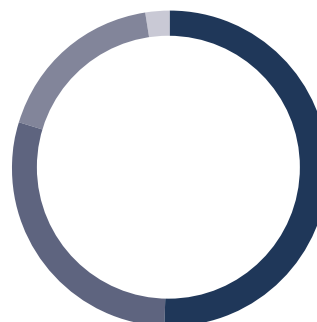
EBITDA*

(million Pesos)



● EBITDA Margin

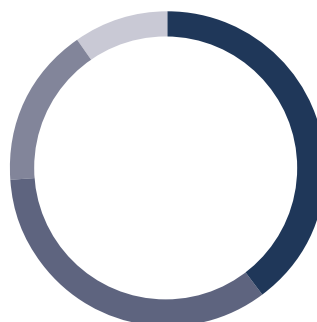
*Note: EBITDA for 2015 does not include machinery and equipment wear and tear and exploration expenses nor surplus derived from shopping mall appraisals. EBITDA for 2016 does not include \$1,242 million for profit on the purchase of SROM real property shares, fixed asset impairment, nor reevaluation of investment assets. EBITDA for 2017 does not include \$1,332 million resulting from profits on dilution and sale of shares of associated companies (GMexico Transportes), nor reevaluation of investment assets, nor fixed asset impairment.



Sales Breakdown by Subsidiary

(million Pesos)

- **53.2%** Commercial and Consumer: 49,768
- **30.8%** Industrial and Manufacturing: 28,783
- **18.5%** Infrastructure and Construction: 17,273
- **0.1%** Energy: 62
- **-2.5%** Other: -2,295



Operating Income Breakdown by Subsidiary

(million Pesos)

- **39.9%** Commercial and Consumer: 5,158
- **34.3%** Industrial and Manufacturing: 4,441
- **16.5%** Infrastructure and Construction: 2,137
- **-0.2%** Energy: -24
- **9.5%** Other: 1,229

Letter to Shareholders

Economic Outlook

During 2017, although it involved some uncertain times, such as the renegotiation of the North America Free Trade Agreement, inflation and interest rates in the United States of America and Mexico, the financial environment world-wide was less volatile than in the preceding year.

U.S. economy grew by 2.3% during 2017, triggered by a 6.7% increase in the consumption of durable goods, due to an increase in real wages and a low unemployment level, as well as to an increase in private investment by 3.2%. The Federal Reserve continued stabilizing its monetary policies increasing its rate by 75 basis points during 2017, closing the reference rate at 1.50%, forecasting that the strength of the U.S. internal economy and a tax reform, will exert pressure on inflation.

In Mexico, Gross Domestic Product grew by 2.0%, slightly below 2016. Primary activities and services were able to counteract the marginal decrease in industrial activities, resulting mainly from a decreased oil production. The 3.8% growth of formal employment and of 7.5% in remittances expressed in Mexican pesos terms, fostered

the growth of domestic consumption by over 3%. Inflation was at 6.8% during the year, due to increased oil and gas prices, as well as foodstuffs during the year.

The Mexican peso revalued against the U.S. dollar by 5.2% in 2017 closing at \$19.70, touching a maximum of \$22.00 at the beginning of that year.

The trade deficit reduced due to the impulse in exports to the United States of America, which increased by 8.1% and were able to compensate a higher oil deficit of U.S. \$18,402 million in 2017. In turn, Banco de Mexico continued its restrictive monetary policy to control inflation, increasing five times the reference rate during 2017, going from 5.75% to 7.25%.

The manufacturing platform, which is fundamental for our exports, the expected investments in coming years in the energy sector, infrastructure and the expectation of a reasonable renegotiation of the NAFTA (TLCAN), strengthen the country in the face of the coming domestic and international challenges, but all of this might change in view of the uncertainty of Mexico's political times.



A higher participation in associated companies was reflected in an increase of **6.4%** in the net income, while earnings per share totaled **\$4.42 pesos**



Sanborns Palmas

Grupo Carso

In 2017, we were able to maintain good performance in spite of decreased economic activity associated with public works, Petroleos Mexicanos (PEMEX) and Comisión Federal de Electricidad (CFE), in view of the diversity of the areas of activity in which we participate. Grupo Carso sales amounted to a total of \$93,593 million, compared to \$95,188 million in the preceding year. Operating income and EBITDA were \$12,941 and \$13,872 million, decreasing 5.7% and 4.8%, respectively. On the other hand, an increased participation in associated companies resulted in an increase in net income of 5.3% and the net income per share was \$4.42, compared to \$4.20 in the previous year.

In Grupo Sanborns, although having faced the temporary closure of several units after the Mexico City earthquake, as well as the permanent closure of Sanborns and Sears Galerías Coapa—the latter being our fourth major store—sales increased by 4.6% thanks to the product mix of all formats. We continued with the credit strategy and development of own brands policies in Sears and began integrated sales and improving space efficiency in Sanborns. Our sales strategy for e-commerce is being complemented by the development of a marketplace in ClaroShop, to increase product volume and on-line purchase services with the possibility of click-and-collect.

Grupo Condumex sales for 2017 were practically the same as the preceding year, decreasing only by 0.9%, when 2016 represented a record year in sales. The automotive business continued supplying parts for the domestic and international markets, showing solid performance thanks to a reduced cost structure and high quality and efficiency levels. During the year, one of our major customers, General Motors, granted the “2016 GM Supplier Quality Excellence Award” to three of our assembly plants: Apaseo el Grande for the third time, San Felipe for the fourth time and San Diego de la Unión for the first time, as suppliers with the highest quality and performance levels. On the other hand, our partner APTIV (formerly known as Delphi) granted the Cordaflex plant the “2016 Pinnacle Award for Supplier Excellence”, as well as the “2016 Above & Beyond” award, to acknowledge the plant’s commitment to quality, value and cost performance.

The sales of Carso Infraestructura y Construcción (CICSA) decreased 9.8% mainly due to the completion of major projects and fewer bids submitted for construction, infrastructure and petroleum projects; in addition to the fact that the projects we were able to win in consortium with third parties do not consolidate the operational figures. In CICSA, we have adapted to the complex macroeconomic and industry dynamics, where despite a major reduction in public projects, we have sought business

\$93,593

million pesos in sales of
Grupo Carso in 2017



Automotive Cable at Arcomex Plant



"Independencia I" Jack-Up Rig

diversification. We participated in the construction of the terminal building and Landing Strip 3 of the mega infrastructure project which is the new Mexico International Airport (NAIM being the Spanish acronym), in association with other corporations. Together with FCC, we began the six-lane expansion project for the Corredor de Las Playas Tramo 1 Chorrera Santa Cruz in Panamá and the improvement of the Los Chinamos-El Ayote road in Nicaragua.

The Carso Energy Division began recording revenues during 2017, both on petroleum production and sales through our corporation, Tabasco Oil Company in Colombia, as well as from the yields for gas transportation to the CFE using the two gas ducts in Texas, in the U.S., where we have a 51% economic interest, although we do not consolidate the operational results. On the other hand, construction of the Samalayuca-Sásabe gas duct between the States of Chihuahua and Sonoria is continuing. At Carso Energy, we continue to seek business opportunities, as is the case of alternate energies, where we have partnered up for exploration and further generation of energy in two geo-thermal fields.

Grupo Carso participates in various associated corporations, such as Elementia, GMéxico Transportes, Trans-Pecos Pipeline LLC, Comanche Pipeline LLC, Constructora Terminal del Valle de Mexico, Cargi-Propen e Inmuebles SROM, which are not consolidated, but if sales were considered as well as EBITDA pro rata of these corporations, Grupo Carso would record \$17,470 and \$5,260 million pesos, respectively.

Grupo Carso's financial position continues to be solid: total assets increased 8.5% amounting to \$118,848 million and consolidated capital and reserves increased 13.1%, at \$80,932 million. Total liabilities were \$37,916 million.

To date, Grupo Carso maintains a corporate structure and a financial strength that will allow us to benefit from future opportunities. The net cash flow generated by operational activities was \$9,650 million and total debt decreased 12.7%, to \$10,227 million. During June and November 2017, Grupo Carso paid an ordinary dividend for a total of \$0.90 per share in cash or with Series A-1 shares

or a combination of both, at the election of each stockholder. Capital Expenditures amounted to \$5,831 million in the year.

On sustainability, Fundación Carlos Slim develops over 90 programs and projects in 13 different areas, among them: education, employment, health, sports, culture and the environment, with in excess of 45 million beneficiaries in Mexico and other Latin American countries. Particularly relevant for the Foundation was in 2017, the initiative "México Unido" ["Mexico United"] for taking care of the damages resulting from the September earthquakes. During the emergency stage, the Group as a whole, with outstanding cooperation from its corporations and volunteers, responded immediately to the basic needs of thousands of affected individuals, by supplying basic staples, camping tents, blankets and sleeping mats, water purifiers and telecommunication services.

For the reconstruction and transformation stages, we launched a fund-raising campaign where for each Mexican peso received, the Foundation would pay five more. We had a response from over 217 thousand donors, who placed their trust in ourselves: we received donations amounting to \$412.4 million pesos plus \$2,061.8 million pesos provided by the Foundation. The resources have been destined to housing reconstruction, infrastructure for health and education and the rescue of our cultural heritage. As we established since the beginning, we have accounted for such funds on a monthly basis, with full transparency regarding the acts and application of resources in the Foundation webpage.

Finally, on behalf of the Board of Directors, I thank the Stockholders, our clients and suppliers for the trust they have placed in us. Thanks to all our human team. I am inviting you to continue being motivated, enabling Grupo Carso to attain the goals that we have defined and to continue improving your performance every year, thereby valuably contributing to Mexico's development.

Sincerely yours,
Carlos Slim Domit

Chairman of the Board of Directors

Management's Discussion and Analysis

REPORT OF THE CHIEF EXECUTIVE OFFICER TO THE BOARD OF DIRECTORS ON THE RESULTS OF FISCAL YEAR 2017

In 2017, Grupo Carso's total sales were \$93,593 million, which represented a 1.7% decrease as compared to 2016. This reduction is due mainly to the completion of works by Carso Infraestructura y Construcción (CICSA), due to the lack of bids tendered for infrastructure and services to the oil industry and to the fact that several major contracts where CICSA participates are not consolidated. During 2017, decreased demand was observed for Telecom cables and Condumex transformers, division which represented 30.8% of total revenues. On the other hand, increased sales were observed in Grupo Sanborns, division which represented 53.2% of total sales, as well as in Carso Energy, business that began to record results on the extraction and sale of oil in Colombia.

During 2017 Grupo Carso recorded \$1,641 million in Other Income, of which \$1,246 million represented earnings on the dilution and sale of Grupo México Transportes, S.A. de C.V. shares.

Operating profit went from \$13,726 million in 2016 to \$12,941 million in 2017, which meant a 5.7% decrease. This decrease is explained mainly by lower margins in Grupo Sanborns –business affected by the earthquakes, inflation and uncollectible accounts– also by lower margins in the Condumex automotive division –which had shown record levels in 2016 from the Peso-Dollar devaluation– and lastly, by the completion of several projects in CICSA, which have been substituted to a great extent by non-consolidated projects, such as the Terminal building and Landing Strip 3 at the new Mexico International Airport Terminal (NAIM).

EBITDA amounted to \$13,872 million, decreasing 4.8%. For purposes of computing this indicator, the

extraordinary entries mentioned above were not considered, nor other non-cash items. EBITDA margin was 14.8%, decreasing 50 basis points, compared to the EBITDA margin for the preceding year.

As regards the financial results, comprehensive cost of financing was \$669 million, which was impacted by increased net interest paid and by an exchange loss, mainly. This cost compared favorably against an overall positive financing result of \$715 million recorded during 2016.

Despite the extraordinary effects mentioned, due to an increased participation in the profits of associated corporations, the net profits of the Grupo Carso holding company increased 5.3% in 2017, amounting to \$10,034 million. This compared favorably against \$9,525 million in 2016. The net margin increased from 10.0% in 2016 to 10.7% in 2017, as percentage of sales.

Total debt as at December 31, 2017, decreased 12.7%, it being \$10,227 million. Net debt was \$5,118 million, quite similar to the debt of \$5,365 as at December 31, 2016. The 19.6% decrease in cash and equivalents was explained mainly by the construction of gas ducts by Carso Energy and payment of dividends, among other entries. The financial position of the Group is maintained healthy, recording a net debt to twelve-month EBITDA ratio of 0.37 times, while the interest coverage index measured as EBITDA/Interest Paid, was 24.1 times.

Currently, Grupo Carso has been authorized a short- and long-term securitized notes program for market issuance up to \$10,000 million or the equivalent thereof in UDIS (Spanish acronym for investment units). On March 16, 2018, an issuance of \$3,000 million for a term of 3 years took place.



Sears Portal San Angel

Commercial and Consumer

DIVISION

Grupo Sanborns

During 2017, commercial and consumer division sales amounted to \$49,768 million, which meant \$2,174 million more, and represented a 4.6% increase as compared to the preceding year.

Earnings for credits increased 13.4%, amounting to a total of \$3,609 million against \$3,183 million recorded in 2016.

Sanborns Vallejo



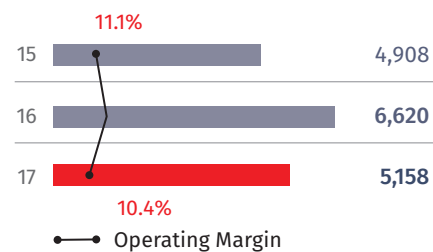
Sales

(million Pesos)



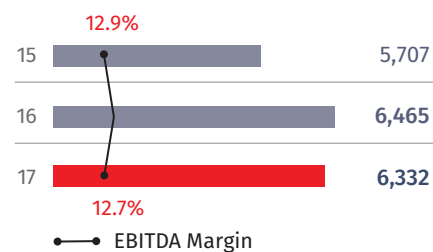
Operating Income

(million Pesos)



EBITDA

(million Pesos)



443

units operating at the end of December



Sears Portal San Angel

Operating income went from \$6,620 million in 2016 to \$5,158 million in 2017, which meant a 22.1% drop, mainly due to profits generated in 2016 on the acquisition of 14% of the shares of Inmuebles SROM, S.A. de C.V. for Sears Mexico Holdings Corp.

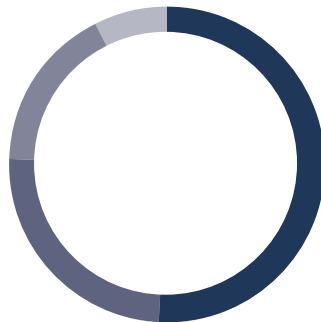
Sanborns Vallejo Drugstore



For purposes of computing annual EBITDA, extraordinary items were not considered; therefore, this indicator stood at \$6,332 million in 2017, and EBITDA margin at 12.7%.

The holding controlling profit, without considering Other Income recorded in 2016, increased 7.9% to \$3,958 million in 2017 from \$3,667 million in the prior year.

The expansion plan continued during the year. Capital expenditures made by Grupo Sanborns amounted to \$1,584 million. At the end of December, 443 units were in operation.



Sales by Format

- Sears **51.1%**
- Sanborns **24.7%**
- Promusa **16.9%**
- Other **7.3%**



Sanborns Atizapán



Sears Portal San Angel

EBITDA totaled **\$6,332** million pesos in 2017 with a **12.7%** margin

Industrial and Manufacturing

DIVISION

Grupo Condumex

The sales of Grupo Condumex were maintained at levels similar to those of 2016, decreasing 0.9% for a total of \$28,783 million, in comparison with \$29,050 million registered in the preceding year.

Armored Room



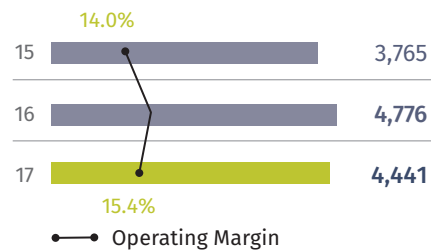
Sales

(million Pesos)



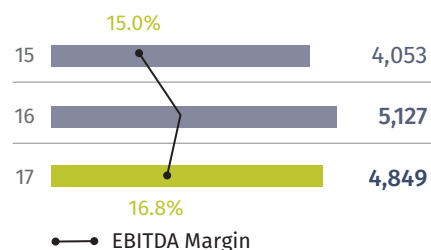
Operating Income

(million Pesos)



EBITDA

(million Pesos)





Automotive Harnesses at Arcomex Plant



Arcomex Plant

Operating Income
totaled **\$4,441**
million pesos



Magneto Plant



Automotive Harnesses at Arcomex Plant

\$325.4

million pesos
in capital
expenditures

Sales in the automotive sector were outstanding, where the domestic volume was maintained, as well as the one for direct and indirect export of cables and harnesses, mainly to the United States, which helped to compensate decreased volumes in the Telecom and Construction divisions. Sales of cables and transformers for distribution of energy still maintain low dynamics.

Condumex Plant in Vallejo

Operating income and EBITDA totaled \$4,441 million and \$4,849 million, which represented cuts of 7.0% and 5.4%, respectively, as compared to the figures for the preceding year, which was a record year in earnings in this division.

On the other hand, net profits for the Grupo Condumex holding company decreased by 14.2% amounting to a total of \$2,788 million, compared to \$3,249 million in 2016.

Capital expenditures at Grupo Condumex amounted to \$325.4 million during the year and were disbursed mainly to maintain in good working condition the Group's industrial facilities.



"Independencia I" Jack-Up Rig



Acatúnel

Infrastructure and Construction

DIVISION

Carso Infraestructura y Construcción

The annual sales of Carso Infraestructura y Construcción decreased 9.8%, amounting to \$17,273 million during 2017. This was explained mainly by fewer bids submitted on infrastructure projects and those related to the oil industry; as well as the completion of major projects, both for infrastructure and for civil construction, where the replacement of new construction projects was carried out in association with other corporations and do not consolidate, and are not reflected in the results for this division. This is the case, for example, of Landing Strip 3 and the Terminal building for the new Mexico International Airport.

Funnels of the NAIM



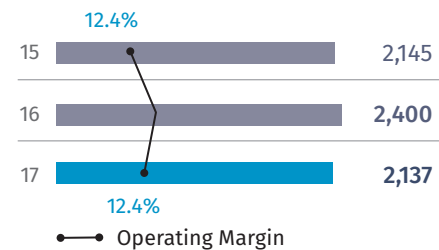
Sales

(million Pesos)



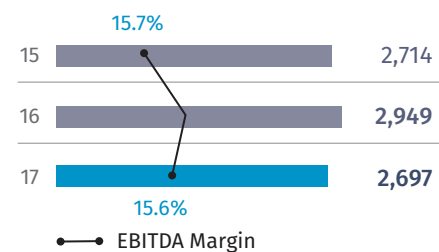
Operating Income

(million Pesos)



EBITDA

(million Pesos)





Emissor Oriente Tunnel



Guadalajara By-pass Road

Regarding operating income and EBITDA, these items recorded a decrease of 9.8% and 8.5% during the year, while margins were maintained at 12.4% and 15.6%, respectively. This was due to the recovery of earnings in two projects, having already recognized its costs.

At the level of the controlling income, it went from \$1,245 million in 2016 to \$1,636 million in 2017, thus representing an improvement of 31.4%, which is explained by the recovery of income as mentioned in the preceding paragraph.

The project mix at the close of 2017 included the Emissor Oriente Tunnel, the Mitla-Tehuantepec road, the Cuatro Caminos ETRAM, the real estate development known as Nuevo Veracruz, Telecom facility services and the construction of the Samalayuca-Sásabe gas duct. In the non-consolidated projects, there are the works for the Landing Strip 3 and the terminal building for the new Mexico International Airport.

\$1,636
million pesos in
controlling net income

The backlog of Carso Infraestructura y Construcción was **\$12,430** million pesos

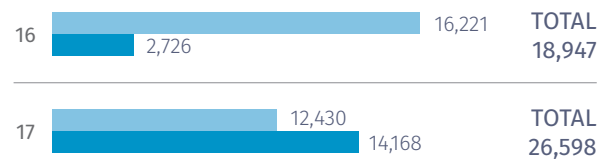


The Carso Infraestructura y Construcción backlog amounted to \$12,430 million as at December 31, 2017, compared to \$16,221 million in 2016. This figure does not include \$14,168 million corresponding to projects developed jointly with third parties, with which the backlog would be \$26,598 million.

Capital Expenditures carried out by Carso Infraestructura y Construcción during 2016 were \$67.4 million.

Annual Backlog*

(million Pesos)



■ Consolidated ■ In Consortium (not consolidated)

* Amount of outstanding works for construction excluding projects in association with other companies.



Southern Urban Toll Road

Energy

DIVISION



Samalayuca-Sásabe gas duct

Sales

(million Pesos)

15	■	3
16		0
17	■	62

Note: As of 2017, Carso Energy does not reflect the income generated by the Jack-Up "Independencia I" but the income from the production and sale of oil through Tabasco Oil Company.

Operating Income

(million Pesos)

15	■	-630
16	■	-82
17	■	-24

EBITDA

(million Pesos)

15	■	-33
16	■	-80
17	■	-16

Carso Energy

The sales of Carso Energy were \$62 million, mainly derived from income registered by the production and sale of oil of our company in Colombia: Tabasco Oil Company (TOC).

Compression Station in Waha-Texas



Carso's participation in the Waha-Presidio and Waha-San Elizario gas ducts is **51%**



Waha-Presidio gas duct

\$347

million pesos of
controlling net income

The expenses in connection with the TOC operation start-up in Colombia and those explained by our participation in bids for the oil rounds, where Carso Oil and Gas, S.A. de C.V. was adjudicated the Contractual Area blocks 12 and 13 for exploitation and exploration of hydro-carbons, explain the operating losses and accrued EBITDA, which were of \$24 million and \$16 million, compared to losses of \$82 million and 36 million in the preceding year, respectively.

The effects in connection with exchange fluctuations were reflected in net profit of the Carso Energy holding company, which increased by 16.8% amounting to \$347 million, in comparison with \$297 million registered in the preceding year. The Waha-Presidio and Waha-San Elizario gas ducts, both in the State of Texas, U.S.A., with a 42" diameter capacity and a length of 238 and 313 kilometers, respectively, are already providing gas transportation services to the Comisión Federal de Electricidad (CFE). Although both gas ducts have recorded earnings during 2017, because they are in consortium, they are not consolidated and, therefore, are not reflected in the operating results of this division, but in the profit-sharing of the associate corporations. Carso's participation in both is 51%.

Samalayuca-Sásabe gas duct



The Samalayuca-Sásabe gas duct, located between the states of Chihuahua and Sonora, with a 36" diameter capacity and a length of 624 kilometers, continued with the construction and progress in the procurement of the right-of-way at December 2017. This gas duct was adjudicated in September 2015 by the CFE to Carso Electric, which has a 100% interest in the project.

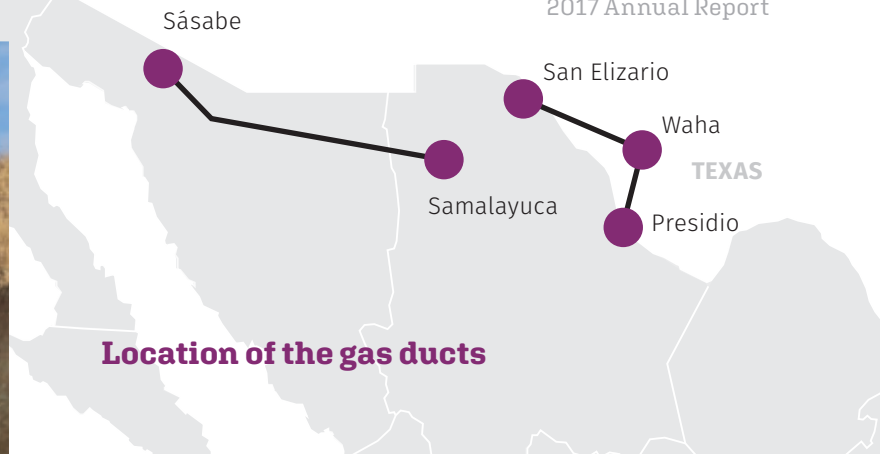
Lastly, it is important to mention that in the fourth quarter of the year, Carso Energy made a capital contribution to a corporation holding permits for the exploration of two geothermal energy fields in the States of Baja California and Guanajuato, thus obtaining a 70% interest in the business. In both fields the exploration program has already started.

Capital expenditures at Carso Energy during 2016 were \$3,843.6 million.



CICSA Ducts Team

Samalayuca-Sásabe gas duct



Location of the gas ducts

As of 2017, the Waha-Presidio and Waha-San Elizario gas ducts located in the state of Texas, U.S.A are already generating income from the transportation of gas to the Mexican Federal Electricity Commission (Comisión Federal de Electricidad or CFE).

Waha-Presidio

- Participation of Carso Energy **51.0%** stake
- Length **238** kms and diameter 42 inches,
- 25-year rents in USD for the gas transportation contract

Waha-San Elizario

- Participation of Carso Energy **51.0%** stake
- Length **313** kms and diameter 42 inches,
- 25-year rents in USD for the gas transportation contract

In September 2015, the CFE selected Carso Electric, a subsidiary of Carso Energy S.A. for the construction and operation of a gas duct in the State of Chihuahua, Mexico:

Samalayuca-Sásabe

- Carso Energy **100.0%** stake (Consolidates with Grupo Carso)
- USD \$**471** was offered as NPV
- Length **624** kms and diameter 36 inches,
- 25-year rents in USD for the gas transportation contract
- Estimated Start of Operations: 2018

ASSOCIATED COMPANIES

The main associated companies where Grupo Carso participates, are: Elementia (36.2%), a manufacturer of various construction materials, such as cement, copper pipes, metal sheets, among others; GMexico Transportes (15.1%), cargo and intermodal railway transportation corporation in Mexico; Trans-Pecos Pipeline, LLC (51%), owner and operator of the Waha-Presidio gas duct in Texas, U.S.A.; Comanche Pipeline, LLC (51%), owner and operating of the Waha-San Elizario gas duct in Texas, U.S.A.; Constructora Terminal del Valle de Mexico (14.3%), a building consortium for the terminal of the new Mexico International Airport (NAIM); Cargi-Propen (25%), a building consortium for the Landing Strip 3 of the NAIM; and, Inmuebles SROM (14%), real estate corporation owner of shopping malls in Mexico. The pro rata sales and EBITDA of these corporations that would correspond to Grupo Carso are \$17,470 and \$5,260 million.

Sincerely yours,
Antonio Gómez García
 Chief Executive Officer

Social Responsibility Activities

Social Performance

We work through the Fundación Carlos Slim, with a high sense of social accountability, efficiency and timeliness, carrying out over 90 programs and projects in 13 different areas; among others, education, employment, health, sports, culture and the environment, reaching out to over 45 million beneficiaries in Mexico and other Latin American countries. Particularly relevant for the Foundation in 2017 was the “México Unido” initiative to repair the damages caused by the September earthquakes. During the emergency stage, the Group as a whole, and with outstanding work carried out by its corporations and volunteers, responded

“Mexico Unido” initiative for repairing the damages caused by the September earthquakes



immediately to the basic needs of thousands of affected persons, providing basic staples, camping tents, blankets and mats, water purifiers and telecommunication services.

For the reconstruction and transformation stages, an invitation was extended to the effect that for each peso received as contribution, the Foundation would contribute five pesos more. A response of over 217 thousand donors was received who deposited their trust in us, and donations were received amounting to \$412.4 million, to which \$2,061.8 million were added by the Foundation. The use of said resources has been the reconstruction of housing, health and education infrastructure and the rescue of our cultural heritage. As established from the beginning, month by month accounts have been posted, with full transparency, on the acts and application of the resources in the Foundation webpage. For further information, refer to <http://www.fundacioncarlosslim.org/>

In addition to the Foundation’s activities, the Grupo Carso businesses have invested in education, health and infrastructure and community development, through the following initiatives:

- Corporate Volunteers at the Condumex work places,
- Participation in annual campaigns to prevent and control health conditions, in cooperation with the Carlos Slim Health Institute [Instituto Carlos Slim de la Salud],
- The Mexico History Carso Study Center [Centro de Estudios de Historia de Mexico Carso (CEHM being the Spanish acronym)],
- The Carso Training Centers for the general public,
- The Carso Research and Development Center [Centro de Investigación y Desarrollo Carso (CIDECA being the Spanish acronym)],

Free training for the general public on residential and commercial low-voltage electrical installations



- Academic liaising for technological innovation projects by Condumex and Carso Infraestructura y Construcción,
- Real Estate rescue program in Sanborns,
- Program for hiring individuals with different capabilities in Sanborns and Sears through the Mexican Federation of Organizations on Behalf of Disabled Individuals [Confederación Mexicana de Organizaciones a Favor de la Persona con Discapacidad (CONFED being the Spanish acronym), the Multiple Service Center [Centro de Atención Múltiple (CAM being the Spanish acronym), the YMCA and the DIF,
- Free courses at the “Capacítate para el Empleo” [Train for the Job] platform at the Fundación Carlos Slim, for access by the general public to the job exchange, which includes recruiting processes for the Grupo Carso companies.

Environmental Performance

For Sustainability Policies, GRI-4 indicators and general environmental indicators for energy, water, biodiversity, emissions, effluents and residues, awards, certifications, recognitions and volunteer programs, please refer to the Carso Sustentable Report, available at: <http://www.carso.com.mx/ES/responsabilidad-social/Paginas/carso-sustentabilidad.aspx>

Grupo Sanborns

During 2017, Grupo Sanborns continued complying with the applicable environmental standards, mainly on matters of residual water control and registration, emissions into the atmosphere, as well as for management and final disposal of solid residues and hazardous materials, through companies authorized by the respective environmental or health authorities.

Grupo Condumex and Carso Infraestructura y Construcción

Activities were initiated for the transition of the Environmental Management System Standard ISO 14001 in its 2015 version, in order to renew the ISO certifications granted to the Condumex plants. At the close of 2017, 62 plants were certified and 33 were into an updating process.

Implementation of the Urban Solid, Special Management and Hazardous Residue Management Plan was improved, supplemented by the environmental awareness campaigns aimed at the personnel engaged in the various sectors. In 2017, a total of 4.4 tons of special management residue was ceased to be sent for sanitary filling, and 1,274 tons of hazardous residues were disposed of.

On matters of energy, during the year 52,689 KWh of electricity were saved, thanks to the use of LED type saving lamps and the installation of capacitor banks at the corporate offices.

On the other hand, regarding activities for biodiversity protection, 41,503 flora and 873 fauna individuals were rescued. Storage activities were carried out in nurseries, for 155,655 healthy plants apt for ulterior re-planting and 138.98 hectares were reforested.



Nurseries for reforestation

Labor, Health and Safety Performance

Grupo Carso is a source of employment for over 70 thousand permanent and temporary jobs in Mexico, Latin America and some European countries. During 2017, there was a 5.1% decrease in employment, as compared to the previous year. The Group employees earn salaries as specified by the law, the market, their performance and their level of responsibility within the work area to which they pertain. Within the Benefit Programs established in the three Grupo Carso divisions, there are:

- Digital scholarships and other grants for the children of employees and their direct family members,
- Home-Office programs, flexible working hours for mothers and fathers, financial support for funeral expenses and paid leaves of absence,
- Self-Management Programs for Safety and Health in the Workplace at Grupo Condumex,
- Program for Developing Professionals at Carso Infraestructura y Construcción and at Condumex (PRODES),
- Health prevention campaigns with the cooperation of the Mexican Social Security Institute (IMSS being the Spanish acronym) and the Ministry of Health (SSA being the Spanish acronym),
- Civil Protection Programs with training for volunteer brigades,
- Personal development programs through ASUME, CRESE and the Social Well-being Program,
- Courses through the “Capacítate para el Empleo” [Train for the Job] platform at the Fundación Carlos Slim for basic training of the operational personnel,

- Education and Training programs on sales and management skills,
- Courses, conferences and workshops given by the Carso Training Center.

Taking into account the courses, conferences and workshops in Mexico City, Guadalajara and Monterrey, given by the Carso Training Center and the Sears Training Center, with 96 training rooms at the operational units, as well as the 49 training rooms at the Sanborns corporate offices, the Viaducto Plant and the foreign locations, including Panama and El Salvador, during the year, a total of 54,225 courses were given, with 99,396 graduates, which includes technical, operational, developmental and safety and health training. In Sanborns, the training program was aimed at strengthening four general issues: Communications, Customer Service, Team Work and Service Quality, from the executive to the operational levels. In addition, a major program was established in Sanborns for Civil Protection, with the participation of 4,223 employees.

At Sears, personnel were trained and educated for the two new stores: San Ángel and Querétaro La Victoria, as well as for the Perisur expansion, which represented the generation of 502 direct jobs.

As a result of the September 2017 earthquakes, the Villa Coapa, Insurgentes, Buenavista and Centro Histórico stores were closed. All the employees affected by the closure of their units were relocated temporarily or permanently to fill vacancies in other units.



Grupo Carso Friendship Race, in the "Social Well-being" Program

574 Carso digital scholarships [Becas Digitales Carso] were granted for children of employees and 506 Telmex scholarships were granted to employees or their children during the year. One person was hired under the Developing Professionals Program at CICSA. Also, 574 employees benefitted from flexible working hours and 78 with the Home Office program, which was implemented for the first time this year.

The ASUME Program (Spanish acronym for Asociación de la Superación por Mexico) comprised a scope of 173 Groups and 2,582 employees who graduated from Grupo Carso companies.

Continuity was given to the Human Quality and Social Liability Management System in Corporations [Sistema de Gestión de Calidad Humana y Responsabilidad Social en la Empresa (CRESE being the Spanish acronym)], certifying six new units and re-certifying 22 units at Sears (stores, credit, technical service and logistics centers), for a total of 99 certified units, i.e., a 52% increase as compared to the preceding year. At Sanborns, we were able to recertify the Viaducto Commissary and, for the first time, the Tlalnepantla Commissary and the Chocolate Factory, to be distinguished as socially responsible corporations. Through the practices established by the standard, internal programs were worked on, that contribute to sustainable human development of our employees, their families and

the environment, both at the corporation, and its investors and suppliers.

Three fundamental aspects were worked on in the Social Well-being Program: Education, Health, Culture and Recreation. In 2017, 35,971 individuals were benefitted by the various programs, including Grupo Carso employees and their families, which represented 1,179 individuals more as compared to the preceding year.

We continued working on the platform known as "Capacítate para el Empleo" [Train for the Job] at the Fundación Carlos Slim, for the basic training of operating personnel and middle management at Sears, Sanborns, Condumex and CICSA, via on-line courses specializing in: Sales Person, Computer Equipment Installation Technician and Repairman, Air Conditioning Repairman, Cashier, Wrapper and Warehouse Clerk. Throughout the year, 652 Grupo Carso employees were trained for various trades, and 3,160 new employees were hired in Sears, which were trained at said platform.

For further information and details on the sustainability activities, please refer to the sustainability activity section of the Grupo Carso, S.A.B. de C.V. webpage at http://www.carso.com.mx/ES/responsabilidad-social/Paginas/gestion_rse_carso.aspx

Sears Training Courses



Board of Directors

Board Members	Position*	Years as Board Member**	Type of Member***
Carlos Slim Domit	COB – Grupo Carso COB – Grupo Sanborns COB – América Móvil COB – Teléfonos de México	Twenty-Seven	Patrimonial Related
Antonio Cosío Ariño	CEO – Cía. Industrial de Tepeji del Río	Twenty-Seven	Independent
Arturo Elías Ayub	Director of Strategic Alliances, Communication and Institutional Relations – Teléfonos de México CEO – Fundación Telmex	Twenty	Related
Claudio X. González Laporte	COB – Kimberly Clark de México	Twenty-Five	Independent
José Humberto Gutiérrez Olvera Zubizarreta	Business Consultant	Twenty-Seven	Independent
Daniel Hajj Aboumrad	CEO – América Móvil	Twenty-Three	Related
David Ibarra Muñoz	CEO – Despacho David Ibarra Muñoz	Sixteen	Independent
Rafael Moisés Kalach Mizrahi	CEO and COB – Grupo Kaltex	Twenty-Four	Independent
José Kuri Harfush	COB – Janel	Twenty-Eight	Independent
Juan Antonio Pérez Simón	COB – Sanborn Hermanos Vice-Chairman – Teléfonos de México	Twenty-Eight	Independent
Patrick Slim Domit	Vice-Chairman – Grupo Carso Vice-Chairman – América Móvil CEO – Grupo Sanborns Commercial Director of Mass Market – Teléfonos de México COB – Grupo Telvista COB – Sears Operadora México	Twenty-Two	Patrimonial Related
Marco Antonio Slim Domit	COB – Grupo Financiero Inbursa COB – Inversora Bursátil COB – Seguros Inbursa COB – Impulsora del Desarrollo y el Empleo en América Latina	Twenty-Two	Patrimonial Related

* Based on information from the Board members.

** Seniority as board member was considered since 1990, year when the shares of Grupo Carso, S.A.B. de C.V. were listed in the Mexican Stock Exchange.

*** Based on information from the board members.

COB: Chairman of the Board.

CEO: Chief Executive Officer.

Independent directors in accordance with the definition of the Mexican Securities Market Law.



North Arc Beltway

Alternate Board Members	Position*	Years as Board Member**	Type of Member***
Julio Gutiérrez Trujillo	Business Consultant	Thirteen	Independent
Antonio Cosío Pando	General Manager – Cía. Industrial de Tepeji del Río	Sixteen	Independent
Alfonso Salem Slim	Vice-Chairman – Impulsora del Desarrollo y el Empleo en América Latina COB – Inmuebles Carso	Seventeen	Patrimonial Related
Antonio Gómez García	CEO – Grupo Carso CEO - Carso Infraestructura y Construcción COB and CEO – Grupo Condumex	Fourteen	Related
Fernando G. Chico Pardo	CEO – Promecap COB – Grupo Aeroportuario del Sureste	Twenty-Eight	Independent
Alejandro Aboumrad Gabriel	COB – Grupo Proa	Twenty-Seven	Independent
Treasurer			
Arturo Spínola García	CFO and Administration Director – Carso Infraestructura y Construcción and Grupo Condumex	Four	
Secretary			
Alejandro Archundia Becerra	General Manager Corporate Legal – Grupo Condumex	Five	

* Based on information from the Board members.

** Seniority as board member was considered since 1990, year when the shares of Grupo Carso, S.A.B. de C.V. were listed in the Mexican Stock Exchange.

*** Based on information from the board members.

COB: Chairman of the Board.

CEO: Chief Executive Officer.

Independent directors in accordance with the definition of the Mexican Securities Market Law.

Report of the Corporate Practices and Audit Committee

José Kuri Harfush

Chairman

Antonio Cosío Ariño

Rafael Moisés Kalach Mizrahi

To the Board of Directors:

In my capacity as Chairman of the Corporate Practices and Audit Committee of Grupo Carso, S.A.B. de C.V. (the "Committee"), I am pleased to submit the following annual report of activities for the 2017 fiscal period.

FUNCTIONS REGARDING CORPORATE PRACTICES, EVALUATION AND COMPENSATION

The Chief Executive Officer of Grupo Carso, S.A.B. de C.V. (the "Corporation") and the relevant executives of the corporations controlled thereby, satisfactorily complied with the goals entrusted to them and their responsibilities.

The transactions with related parties submitted for consideration by the Committee were approved, among which are the following significant transactions, each representing over 1% of the consolidated assets of the Corporation, successively carried out: Teléfonos de Mexico, S.A.B. de C.V., for fiber optic links and site adaptation for telephony, copper and fiber optic telephone cable sales, telephone installation services and sale of items for telephony, cafeteria services, commissions on sale of scrap materials, fleet car salvaging and substitution; Delphi Packard Electric Systems, for the sale of harnesses and cables, and automotive engineering services; Concesionaria Autopista Guadalajara-Tepic, S.A. de C.V., for the construction of a highway pass-through, road rehabilitation and fiber optic links; Claro, S.A., for manufacture and installation of radio bases, fiber optic installation and network design, including copper and fiber optic telephone cable; and, Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V., for the construction of the Emisor Oriente Tunnel project.

All of the transactions with related parties were carried out at market conditions, were reviewed by Galaz, Yamazaki, Ruiz Urquiza, S.C. and a summary thereof has been included in a note to the audited financial statements of Grupo Carso, S.A.B. de C.V. and subsidiaries as at December 31, 2017.

The Chief Executive Officer of Grupo Carso, S.A.B. de C.V. does not receive any compensation for the performance of his activities as such. The Corporation has no employees and, as regards the overall compensation of the relevant executives of the corporations controlled by the said Corporation, we made certain that they would comply with the policies approved for such purposes by the Board of Directors.

The Board of Directors of Grupo Carso, S.A.B. de C.V. did not grant any dispensation so that any Board Member, relevant executive or individual empowered to act might benefit from any business opportunities for himself or in favor of third parties, pertaining to the Corporation or to the corporations controlled thereby or having significant influence therein. In turn, the Committee did not grant any dispensation for any transactions referred to in paragraph c), section III of article 28 of the Stock Exchange Law.

AUDIT FUNCTIONS

The internal control system and internal audit of Grupo Carso, S.A.B. de C.V. and of the corporations controlled thereby, is satisfactory and complies with the guidelines approved by the Board of Directors, as evidenced by the information provided to the Committee by the management of the Corporation and the independent audit report.

We had no knowledge of any relevant non-performance as regards the guidelines and policies for the operation and accounting records of the Corporation or the corporations controlled thereby, so that no preventative or corrective measure was implemented in connection therewith.

The performance of Galaz, Yamazaki, Ruiz Urquiza, S.C. and Camacho, Camacho y Asociados, S.C., which accounting firms prepared and carried out the audit to the financial statements of Grupo Carso, S.A.B. de C.V. and its subsidiaries as at December 31, 2017, as well as the majority of its

subsidiary corporations, and the independent auditor in charge of said audit, have been satisfactory and the goals set at the time they were retained, were duly achieved.

Furthermore, and in accordance with the information provided by said firms to the management of the Corporation, their fees for the independent audit represented a percentage of less than 10% of their total earnings.

As a result of the review of the financial statements of Grupo Carso, S.A.B. de C.V. and subsidiaries as at December 31, 2017, there were no adjustments to the audited figures nor any exceptions to be disclosed in said statements.

In accordance with the information provided by the management of the Corporation and the meetings held with the independent and internal auditors, without the presence of officers of the Corporation and to the best of our knowledge and belief, there were no relevant remarks made by the Stockholders, Board Members, relevant executives, employees and, in general, by any third party, as regards the accounting, internal controls and issues relating to the internal or independent audit, nor any denunciations made by any such individuals on any irregular acts performed by the management of the Corporation and by the corporations controlled thereby.

During the period reported, we have assured ourselves that it is provided in due compliance with the resolutions adopted by the Stockholders' Meeting and by the Board of Directors of the Corporation. Further, and in accordance with the information the management of the corporation gave us, we have verified that said management has the controls in place that allow it to determine compliance with the applicable provisions on stock exchange matters and which compliance is reviewed by the legal division at least once a year, without

there being any remarks in that respect nor any adverse change in the legal position thereof.

As regards the financial information prepared and submitted by the Corporation to the Mexican Stock Exchange [Bolsa Mexicana de Valores, S.A.B. de C.V.] and the National Banking and Securities Commission [Comisión Nacional Bancaria y de Valores], we have made certain that said information is prepared under the same principles, criteria and accounting practices as those under which the annual information is to be prepared.

FINANCE AND PLANNING FUNCTIONS

During the 2017 fiscal period, the Corporation and some of the corporations controlled hereby made major investments. In this respect, we made certain that financing thereof was carried out congruently with the medium and long-term strategic plan of the Corporation. Furthermore, we periodically evaluate the strategic position of the corporation to be in accordance with said plan. In addition, we reviewed and assessed the budget for the 2017 fiscal period, together with the financial forecasts that were taken into account in the preparation thereof. These include the major investments and financial transactions of the Corporation, which we consider viable and congruent with the investment and financing policies and the strategic vision thereof.

For the preparation of this report, the on Corporate Practices and Audit Committee based itself on information which was provided to it by the Chief Executive Officer of the Corporation, the pertinent management members of the corporations controlled hereby and the independent auditor.

José Kuri Harfush
Chairman

Consolidated Financial Statements



Plaza Carso

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Independent auditors' report



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To the Board of Directors and Stockholders of Grupo Carso, S. A. B. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Carso, S.A.B. de C.V. and Subsidiaries (the Entity or Grupo Carso), which comprise the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, the consolidated statements of profit and other comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the consolidated financial statements, which include a summary of the significant accounting policies used.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Carso, S.A.B. de C.V. and Subsidiaries as of December 31, 2017, 2016 and 2015, as well as their consolidated financial performance and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Basis for opinion

We have 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 the consolidated financial statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code of Ethics) and the one issued by the Mexican Institute of Public Accountants (IMCP Code of Ethics), and we have complied with the other ethical responsibilities in accordance with the IESBA Code of Ethics and with the IMCP Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

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

Composition of Grupo Carso

As indicated in Note 1 to the consolidated financial statements, Grupo Carso is a diversified conglomerate comprised of four sectors, which have been defined as strategic. In the accompanying consolidated financial statements, the four sectors which are consolidated are: Commercial, Industrial, Infrastructure and construction and Energy.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year 2017. These matters were selected from those communicated to the Management and Audit Committee of the Entity, but are not intended to present all the matters discussed with them. Our audit procedures related to these matters were designed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit issues which should be communicated in our report.

a. Commercial Sector:

Revenue recognition

Presentation and completeness of the revenues reported in the financial statements

(see Note 24 to the consolidated financial statements)

We assumed a risk of material misstatement related to revenue recognition and evaluated the types of revenues, revenue transactions or representations giving rise to such risks.

We ascertained the completeness of the revenues based on tests related to the daily point-of-sale closing process and the parameters used as a control by the system, as well as aspects related to the cutoff in the appropriate accounting period and their realization in cash or through accounts receivable. We analyzed the accurate presentation of the revenues in the financial statements. The results of our audit procedures were reasonable.

Allowances for doubtful accounts

(see Note 8 to the consolidated financial statements)

The Entity carries out sales of goods and services based on credit, resulting in accounts receivable and the corresponding allowance for doubtful accounts, which are determined once the loans have been made and the receivables show arrears regarding their recovery. The factors considered by the Entity in the allowance for doubtful accounts are mainly collection delays based on the credit conditions established, unsecured accounts and other relevant economic conditions.

We ascertained and confirmed that the allowance for doubtful accounts is calculated and recorded in accordance with the accounting policies and operations of the Entity, and we conducted maturity analysis tests and also reviewed the appropriate classification of the overdue receivables which support the parameters applied to determine the allowance for the current year. The results of our audit procedures were reasonable.

Property and equipment

(see Note 14 to the consolidated financial statements)

During the year and as a result of its normal operations, the Entity has opened, closed, remodeled, expanded and transformed some of its stores in their different formats; consequently, we have identified as a risk the appropriate control, recording and disclosures related to those operations in the financial statements, given the materiality of the amounts invested.

The procedures applied to validate the appropriate recording consisted of: 1) review of the amounts budgeted against the amounts invested and the review of internal controls for each project; 2) selective physical inspection of the newly opened or remodeled stores; 3) review of the appropriate and timely capitalization of each project to begin its depreciation; and 4) review of the correct handling and recording of the assets write offs during the closure or remodeling of the stores. The results of our audit procedures were reasonable.

b. Industrial Sector:

Revenue recognition

Presentation and occurrence of the revenues reported in the financial statements

(see Note 24 to the consolidated financial statements)

We assumed a risk of material misstatement related to revenue recognition and assessed which types of revenues, revenue transactions or representations give rise to such risks.

Our audit procedures included test of details and analytical tests, in order to validate the recognition of revenues inherent to the transfer of risks and benefits of ownership. We also analyzed the proper presentation of revenues in the financial statements. The results of our audit procedures were reasonable.

Inventories and cost of sales

(see Note 9 and 25 to the consolidated financial statements)

We identified as a risk the physical existence of raw materials and finished product inventories, as well as the net realizable value of the finished product inventory, and the correct determination of the cost of sales of the Entity for the following reasons; a) recording of nonexistent inventories, b) high demand for its basic raw material (copper), c) incorrect classification of the production process, based in the different elements comprising cost of sales, such as raw material, labor force, and manufacturing expenses (fixed and variable), d) recording of cost of sales for finished products not shipped, e) recognition of the cost of sales derived from nonexistent sales, and f) errors in the determination of cost of sales.

Our procedures included tests of details focusing on the physical inspection of raw materials and finished product inventories; we also tested the net realizable value of the finished products and based on analytical tests, we validated that the cost of sales matched the revenues recorded. The results of our audit procedures were reasonable.

c. Infrastructure and construction sector:

Recognition of construction revenues

(see Note 24 to the consolidated financial statements)

We identified that there is a risk of revenue recognition associated with the recorded costs incorporated in the Stage of Completion, and the associated account receivable for the Non Billed Stage of Completion (OENF, by its acronym in Spanish), for the following reasons: a) they represent work not authorized by the customers or, there is not appropriate documentation for revenue recognition or its possible collection, b) they includes costs valued at prices different from those agreed, or c) they have profit margins assigned when only their cost is recoverable.

Our review included detail tests focusing on the costs incurred, and we checked that the related documentation included that supported the occurrence and validity of the revenue. Also, we reviewed the lists of agreed prices and confirmed that the costs incurred were approved by the customer, as the case may be. Additionally, given the nature of the risk, we included procedures designed to review the revenue recognition trend of certain projects to address additional considerations. Finally, we carried out procedures focusing on the OENF receivable balances, with regard to the evidence of their collectability. The results of our audit procedures were reasonable.

d. Energy Sector:

Impairment of long-lived assets in the subsidiary Tabasco Oil Company (TOC)

(see Note 4u. to the consolidated financial statements)

Given the significance of the balance of Exploration expenses and equipment, it is important to ensure that the deterioration of these concepts is reviewed in an adequate manner to identify potential deterioration, it is worth mentioning that TOC restarted activities in July 2017.

The determination of whether the book value of exploration and equipment expenses is recoverable requires management to make significant estimates regarding future cash flows, discount rates and their growth, based on management's point of view of the future prospects of the business.

As the Group's auditors, given that TOC is audited by other independent auditors, we met with the management of the Entity and analyzed the working papers and conclusions of the other auditors, and reviewed the assumptions used by management in the impairment model, including specifically the cash flow projections, discount rates and long-term revenue growth.

Our fair value appraisal specialists assisted us with an independent assessment of the discounts rates used and the methodology used in the preparation of the impairment test model. We also tested the integrity and accuracy of the impairment model.

The results of our audit tests were reasonable, including that the assumptions used, such as the discount rate, which originated the recording of impairment on exploration expenses in the year.

Joint Ventures in gas pipelines

Analysis of differences between USGAAP and IFRS's and income recognition

(see Note 4g. to the consolidated financial statements)

We assume a risk of material error related to the recognition of the method of participation in joint ventures in gas pipelines and we evaluate what types of income, income transactions or assertions give rise to such risks.

Our audit procedures included, among others, a review of the Entity's policies to evaluate the differences between the information prepared by joint ventures using USGAAP and the IFRSs used by the Group. Likewise, the conclusions reached by the joint ventures on the recognition of their income were reviewed. The results of our audit procedures were reasonable.

Information different from the consolidated financial statements and the auditors' report

Management is responsible for the other information. The other information will include the information that will be incorporated into the Annual Report that the Entity is required to prepare in accordance with Article 33, section I, subsection b) of Title Fourth, Chapter First of the General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico, and the Instructions which accompany those provisions (the Provisions). The Annual Report is expected to be available for consultation after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the other information and we will not express any form of assurance thereon.

In relation to our audit of the consolidated financial statements, our responsibility is to read the Annual Report, and when doing so, to consider if the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or appears to contain a material misstatement. When we read the Annual Report we will issue the legend on the reading of the Annual Report required by Article 33, section I, subsection b) numeral 1.2. of the Provisions.

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

Management is responsible for the preparation and fair presentation of the 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess 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 the 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to 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 Entity 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 relevant transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain 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 have communicated 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 2017 consolidated financial statements 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

A handwritten signature in black ink, appearing to be 'C.P.C. Manuel Nieblas Rodríguez', written over a faint, light-colored circular stamp or watermark.

C.P.C. Manuel Nieblas Rodríguez
March 23, 2018

Consolidated statements of financial position

As of December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

	Note	2017	2016	2015
Assets				
Current assets:				
Cash and cash equivalents	6	\$ 4,331,365	\$ 4,857,917	\$ 8,070,330
Investments in securities held for trading	7	777,387	1,498,719	2,692,010
Accounts and notes receivable, net	8	25,955,943	25,504,011	20,584,503
Due from related parties	23	4,090,590	3,682,581	3,436,079
Inventories, net	9	16,509,661	15,766,892	13,818,933
Prepaid expenses		698,926	723,039	698,115
Derivative financial instruments	13	24,101	10,898	-
Total current assets		52,387,973	52,044,057	49,299,970
Non-current assets:				
Long-term accounts receivable		-	10,143	27,479
Real estate inventories		911,977	873,262	790,920
Property, machinery and equipment, net	14	33,402,553	30,175,511	23,778,913
Investment property	15	2,812,198	2,668,495	2,449,834
Investment in associates and joint ventures	16	24,892,481	19,819,417	13,941,135
Employee retirement benefits	21	634,276	517,681	616,473
Derivative financial instruments	13	301,195	359,532	227,233
Intangible assets, net	17	762,212	663,438	560,880
Deferred income tax asset	27	2,384,854	2,048,472	2,143,195
Other assets - net	18	358,211	376,341	348,878
Total non-current assets		66,459,957	57,512,292	44,884,940
Total assets		\$ 118,847,930	\$ 109,556,349	\$ 94,184,910
Liabilities				
Current liabilities:				
Notes payable to financial institutions and other	19	\$ 2,662,952	\$ 6,721,179	\$ 2,411,615
Current portion of long-term debt	19	15,478	5,000,000	21
Trade accounts payable		9,911,843	9,346,930	8,399,593
Due to related parties	23	1,890,909	2,368,778	1,885,390
Other accounts payable and accrued liabilities		6,863,128	6,353,423	5,603,083
Provisions	20	3,488,389	3,269,303	2,346,175
Direct employee benefits		988,203	1,003,831	881,083
Derivative financial instruments	13	305	69,281	87,544
Advances from customers		238,131	125,581	274,120
Total current liabilities		26,059,338	34,258,306	21,888,624
Non-current liabilities:				
Long-term debt	19	7,548,311	-	5,000,000
Deferred income taxes	27	2,152,685	1,827,890	1,390,901
Other long-term liabilities		1,555,929	1,486,303	1,328,063
Employee retirement benefits	21	397,486	391,543	431,368
Derivative financial instruments	13	202,524	12,143	351,586
Total non-current liabilities		11,856,935	3,717,879	8,501,918
Total liabilities		37,916,273	37,976,185	30,390,542
Stockholders' equity				
Capital stock	22	2,534,882	2,530,929	2,533,048
Net stock issuance premium		2,392,896	879,092	879,092
Retained earnings		66,076,949	58,640,821	51,756,235
Other comprehensive income items		1,665,632	1,421,137	(56,014)
Controlling interest		72,670,359	63,471,979	55,112,361
Non-controlling interest		8,261,298	8,108,185	8,682,007
Total consolidated stockholders' equity	22	80,931,657	71,580,164	63,794,368
Total liabilities and stockholders' equity		\$ 118,847,930	\$ 109,556,349	\$ 94,184,910

See accompanying notes to consolidated financial statements.

Consolidated statements of profit and other comprehensive income

As of December 31, 2017, 2016 and 2015

[In thousands of Mexican pesos, except for basic earnings per common share data]

	Note	2017	2016	2015
Net sales	24	\$ 93,592,613	\$ 95,187,635	\$ 88,223,816
Cost of sales	25	64,611,516	66,717,610	62,661,502
Gross profit		28,981,097	28,470,025	25,562,314
Sales and development expenses	25	12,592,117	11,838,925	11,088,808
Administrative expenses	25	4,766,921	3,931,465	3,659,401
Statutory employee profit sharing		321,594	388,308	350,417
Other (income) expenses, net	26	(394,994)	(273,282)	263,805
Interest expense		575,880	518,538	389,795
Interest income		(323,564)	(377,811)	(473,088)
Exchange gain		(1,576,442)	(3,973,438)	(1,886,461)
Exchange loss		1,991,701	3,079,668	1,849,986
Effects of valuation of derivative financial instruments		1,836	38,180	1,046,921
Profit in disposal and acquisition of shares of associates		(1,246,031)	(1,141,267)	(129,376)
Equity in income of associated companies and joint ventures	16	(2,507,468)	(1,868,484)	(1,275,577)
Income before income taxes		14,779,547	16,309,223	10,677,683
Income taxes	27	3,331,065	5,030,852	3,173,352
Consolidated net income for the year		\$ 11,448,482	\$ 11,278,371	\$ 7,504,331
Other comprehensive income, net of income tax				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translating foreign operations		\$ (85,061)	\$ 392,522	\$ (252,695)
Valuation of derivative financial instruments		(124,501)	11,487	(1,753)
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Actuarial gain (loss)		75,096	48,657	(519,043)
Share of other comprehensive income of associates and joint ventures		367,855	1,068,102	(2,268)
Total other comprehensive income		233,389	1,520,768	(775,759)
Consolidated comprehensive income of the year		\$ 11,681,871	\$ 12,799,139	\$ 6,728,572
Consolidated net income attributable to:				
Controlling interest		\$ 10,033,633	\$ 9,524,896	\$ 6,196,155
Non-controlling interest		1,414,849	1,753,475	1,308,176
		\$ 11,448,482	\$ 11,278,371	\$ 7,504,331
Basic earnings per common share attributable to controlling interest:				
Continuing operations		\$ 4,424	\$ 4,198	\$ 2,716
Weighted average number of shares ('000)		2,267,779	2,268,787	2,281,190
Consolidated comprehensive income attributable to:				
Controlling interest		\$ 10,278,128	\$ 11,002,047	\$ 5,479,757
Non-controlling interest		1,403,743	1,797,092	1,248,815
		\$ 11,681,871	\$ 12,799,139	\$ 6,728,572

See accompanying notes to consolidated financial statements.

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2017, 2016 and 2015

[In thousands of Mexican pesos]

	Capital stock	Net stock issuance premium	Retained earnings	Translation effects of foreign operations
Consolidated 2015 beginning balances	\$ 2,536,774	\$ 879,092	\$ 48,808,374	\$ 846,019
Repurchase of capital stock	(3,726)	–	(1,061,992)	–
Cash dividends declared	–	–	(1,915,702)	–
Dividends paid to non-controlling interest	–	–	–	–
Decrease in non-controlling interest due to stock issuance of subsidiary	–	–	(284,049)	–
Increase in non-controlling interest due to stock issuance of subsidiary	–	–	13,449	–
Balances before comprehensive income	2,533,048	879,092	45,560,080	846,019
Consolidated comprehensive income of the year	–	–	6,196,155	(247,316)
Consolidated balances as of December 31, 2015	2,533,048	879,092	51,756,235	598,703
Repurchase of capital stock	(2,119)	–	(680,020)	–
Cash dividends declared	–	–	(1,995,912)	–
Dividends paid to non-controlling interest	–	–	–	–
Decrease in non-controlling interest due to stock issuance of subsidiary	–	–	(98,334)	–
Acquisition of non-controlling interest in subsidiaries	–	–	133,956	–
Increase in non-controlling interest due to stock issuance of subsidiary	–	–	–	–
Balances before comprehensive income	2,530,929	879,092	49,115,925	598,703
Consolidated comprehensive income of the year	–	–	9,524,896	359,113
Consolidated balances as of December 31, 2016	2,530,929	879,092	58,640,821	957,816
Repurchase of capital stock	(1,262)	–	(407,484)	–
Cash dividends declared	5,215	1,513,804	(2,038,984)	–
Dividends paid to non-controlling interest	–	–	–	–
Decrease in non-controlling interest due to stock issuance of subsidiary	–	–	(121,273)	–
Acquisition of non-controlling interest in subsidiaries	–	–	(29,764)	–
Balances before comprehensive income	2,534,882	2,392,896	56,043,316	957,816
Consolidated comprehensive income of the year	–	–	10,033,633	(80,428)
Consolidated balances as of December 31, 2017	\$ 2,534,882	\$ 2,392,896	\$ 66,076,949	\$ 877,388

See accompanying notes to consolidated financial statements.

	Valuation of derivative financial instruments	Actuarial gain (losses)	Share of other comprehensive income of associates	Total controlling interest	Non-controlling interest	Total stockholders' equity
\$	(78,098)	\$ (141,602)	\$ 34,065	\$ 52,884,624	\$ 8,300,737	\$ 61,185,361
	-	-	-	(1,065,718)	-	(1,065,718)
	-	-	-	(1,915,702)	-	(1,915,702)
	-	-	-	-	(747,360)	(747,360)
	-	-	-	(284,049)	(366,503)	(650,552)
	-	-	-	13,449	246,318	259,767
	(78,098)	(141,602)	34,065	49,632,604	7,433,192	57,065,796
	(1,746)	(465,068)	(2,268)	5,479,757	1,248,815	6,728,572
	(79,844)	(606,670)	31,797	55,112,361	8,682,007	63,794,368
	-	-	-	(682,139)	-	(682,139)
	-	-	-	(1,995,912)	-	(1,995,912)
	-	-	-	-	(1,251,003)	(1,251,003)
	-	-	-	(98,334)	(137,557)	(235,891)
	-	-	-	133,956	430,925	564,881
	-	-	-	-	(1,413,279)	(1,413,279)
	(79,844)	(606,670)	31,797	52,469,932	6,311,093	58,781,025
	11,439	57,584	1,049,015	11,002,047	1,797,092	12,799,139
	(68,405)	(549,086)	1,080,812	63,471,979	8,108,185	71,580,164
	-	-	-	(408,746)	-	(408,746)
	-	-	-	(519,965)	-	(519,965)
	-	-	-	-	(1,010,716)	(1,010,716)
	-	-	-	(121,273)	(302,790)	(424,063)
	-	-	-	(29,764)	62,876	33,112
	(68,405)	(549,086)	1,080,812	62,392,231	6,857,555	69,249,786
	(115,497)	74,211	366,209	10,278,128	1,403,743	11,681,871
\$	(183,902)	\$ (474,875)	\$ 1,447,021	\$ 72,670,359	\$ 8,261,298	\$ 80,931,657

Consolidated statements of cash flows

	2017	2016	2015
Cash flows from operating activities:			
Consolidated net income for the year	\$ 11,448,482	\$ 11,278,371	\$ 7,504,331
Adjustments not requiring (providing) cash:			
Income tax recognized in earnings	3,331,065	5,030,852	3,173,352
Depreciation and amortization	2,261,993	2,093,893	1,843,475
Loss (gain) on sale of property, machinery and equipment and others assets	3,164	(12,200)	(73,420)
Derecognition of property, machinery and equipment and intangible assets	-	-	19,180
Impairment of property, plant and equipment	30,228	(236)	108,252
Impairment of exploration expenses	-	44,327	534,076
Gain on investment property revaluation	(115,955)	(135,845)	(244,550)
Gain on brand revaluation	-	(8,672)	-
Equity in income of associated companies and join ventures	(2,507,468)	(1,868,484)	(1,275,577)
Derivative financial instruments	(9,414)	(37,909)	(59,374)
Interest income	(3,933,023)	(3,560,383)	(3,404,144)
Interest expense	575,880	518,538	389,795
Gain on disposal of shares of subsidiary and associated	(1,246,031)	(1,141,267)	(129,376)
Other items	367,855	280,041	117,190
	10,206,776	12,481,026	8,503,210
Items related to operating activities:			
(Increase) decrease in:			
Accounts receivable	(463,061)	(3,427,025)	(2,036,223)
Interest income	3,588,215	3,140,534	2,920,455
Other accounts receivable	(110,538)	(1,028,507)	(200,828)
Due from related parties	(408,009)	(246,502)	(763,537)
Inventories	(742,769)	(1,946,213)	(134,868)
Prepaid expenses	24,113	(24,924)	244,316
Long-term accounts receivable	10,143	17,336	20,583
Real estate inventories	(38,715)	(82,342)	86,398
Other assets	(235,324)	(278,992)	(310,777)
Increase (decrease) in:			
Trade accounts payable	564,913	941,653	(136,224)
Due to related parties	(477,869)	483,388	673,705
Other liabilities	282,526	506,937	1,280,026
Provisions	219,086	923,128	(167,588)
Direct employee benefits	(15,628)	122,748	81,400
Advances from customers	112,550	(148,539)	(699,148)
Other long-term liabilities	69,626	146,657	489,406
Employee retirement benefits	(35,556)	107,624	168,779
Income taxes paid	(2,976,019)	(4,636,975)	(3,218,086)
Derivative financial instruments	75,837	(473,394)	(248,306)
Net cash flows provided by operating activities	9,650,297	6,577,618	6,552,693
Cash flows from investing activities:			
Purchase of investments in securities held for trading	\$ (3,403,884)	\$ (3,630,842)	\$ (2,820,740)
Sale of investments in securities held for trading	4,125,216	4,824,133	6,441,961
Purchase of property, machinery and equipment	(5,831,354)	(7,949,201)	(3,926,325)
Proceeds from sale of property, machinery and equipment	203,340	41,711	180,037
Other assets	(100,131)	(13,413)	(53,162)
Interest received	326,085	379,700	471,501
Dividends received	465,125	840,808	-
Derivative financial instruments	(28,137)	3,462	23,100
Reimbursement for the sale of shares of Philip Morris Mexico, S.A. de C.V.	-	-	(1,726,525)
Sale of shares of subsidiaries	624,641	-	249,984
Acquisition of shares in subsidiaries and associates	(2,145,335)	(3,929,650)	(285,073)
Net cash flows used in investing activities	(5,764,434)	(9,433,292)	(1,445,242)
Cash flows from financing activities:			
Borrowings	29,503,548	11,671,967	2,495,665
Payment of borrowings and long-term debt	(30,997,986)	(7,362,424)	(2,804,355)
Interest paid	(574,944)	(518,901)	(388,912)
Dividends paid	(1,530,681)	(3,246,915)	(2,663,062)
Capital stock repurchase	(408,746)	(682,139)	(1,065,718)
Capital stock repurchase from subsidiary	(424,063)	(235,891)	(650,552)
Derivative financial instruments	3,752	18,425	37,560
Decrease (acquisition) of non-controlling interest	33,112	(4,364)	291,451
Net cash flows used in financing activities	(4,396,008)	(360,242)	(4,747,923)
Effects of exchange rate changes on cash and cash equivalents	(16,407)	3,503	(66,637)
Net (decrease) increase in cash and cash equivalents	(526,552)	(3,212,413)	292,891
Cash and cash equivalents at beginning of the year	4,857,917	8,070,330	7,777,439
Cash and cash equivalents at end of the year	\$ 4,331,365	\$ 4,857,917	\$ 8,070,330

See accompanying notes to consolidated financial statements.

Notes to the consolidated financial statements

For the years ended December 31, 2017, 2016 and 2015

[In thousands of Mexican pesos (\$) and thousands of U.S. dollars (US\$)]

1. Activities

Grupo Carso, S.A.B. de C.V. (Grupo Carso) and Subsidiaries (the Entity) is a holding entity with a duration of 99 years that maintains investments in the shares of a group of companies that operate in the Industrial, Retail, Infrastructure and construction and Energy sectors. Grupo Carso is domiciled in Lago Zürich 245, sixth floor, Colonia Ampliación Granada, Mexico City, Zip Code 11529.

2. Significant events

- a. On January 26, 2017, the entity named Constructora Terminal Valle de México, S.A. de C.V. was constituted, whose corporate purpose is the fulfillment of the public work contract at unitary prices to carry out the "Construction of the terminal building of the New International Airport of Mexico City". The initial contribution of Carso Infraestructura y Construcción, S.A. of C.V. (CICSA, subsidiary of Grupo Carso) was \$1.4, which represented 14.29% of its shares. The foregoing as a result of the awarding and subsequent signing of the contract that the Airport Grupo Aeroportuario de la Ciudad de México, S.A. de C.V. in favor of the consortium formed by its subsidiary Operadora Cicsa, S.A. de C.V. and the companies ICA Constructora de Infraestructura, S.A. de C.V., Constructora y Edificadora GIA + A, S.A. de C.V., Promotora y Desarrolladora Mexicana, S.A. de C.V., Promotora y Desarrolladora Mexicana de Infraestructura, S.A. de C.V., La Peninsular Compañía Constructora, S.A. de C.V., Operadora y Administración Técnica, S.A. de C.V., Acciona Construcción, S.A. (formerly Acciona Infraestructuras, S.A.), Acciona Infraestructuras de México, S.A. de C.V., FCC Construcción, S.A., and FCC Industrial e Infraestructuras Energéticas, S.A.U.
- b. On July 12, 2017, as a result of its participation in the tender CNH-R02-L03/2016 of blocks in terrestrial areas convened by the National Hydrocarbons Commission (CNH), it was awarded to the subsidiary Carso Oil and Gas, S.A. de C.V., the blocks identified as Contract Area 12 and 13, located in the southeast of Mexico, for the exploration and exploitation of hydrocarbons. Area 12 was obtained with an additional royalty value of 45%, an additional investment factor of 1.5 and a jump-off payment of US\$6,182. The minimum investment commitment according to the call is US\$12,911. Area 13 was obtained with an additional royalty value of 40%, an additional investment factor of 1.5 and a jump-off payment of US\$13,170. The minimum contractual commitment of investment according to the call is US\$7,385. The commencement of the works was subject to the signing of the corresponding licensing and authorization contracts.
- c. On November 9, 2017, GMéxico Transportes, S.A.B. de C.V. (FM Rail Holding, S.A. de C.V. until April 29, 2016, an associated entity of Grupo Carso), made a global public offering of nominative, single series, common shares. As a result of this offer, the Entity and Sinca Inbursa, S.A. de C.V. offered through a public offering, 88,336,734 shares, of which, as of December 31, 2017, 19,829,888 shares of the Entity were sold for \$624,641, which generated a profit on disposal of shares of associates for \$391,892. Likewise, the public offer generated a profit on the investment in shares of such associate of \$854,139. Both effects were recorded in the consolidated statements of income and other comprehensive income in the caption "Profit in disposal and acquisition of shares of associates" for a total amount of \$1,246,031.
- d. In October and November 2016 the subsidiary Condumex, S.A. de C.V. (formerly Tenedora de Empresas y de Materiales de Construcción, S.A. de C.V.) acquired 77,811,474 and 6,033,838 shares of its associate Elementia, S.A.B. de C.V., for the amount of \$1,556,229 and \$120,677, respectively, resulting in an increase in the ownership percentage from 35.62% to 36.17%.
- e. Consorcio Cargi - Propen, S.A. de C.V. was founded on September 9, 2016; its main activities are the engineering, design, planning, construction and execution of Runway 3 of Mexico City's new airport.
- f. On July 15, 2016 Grupo Sanborns, S.A.B. de C.V., acquired from Sears Mexico Holdings Corp. (Sears USA) a share package of 14% in Sears Operadora México, S.A. de C.V. (Sears Mexico) and 14% in Inmuebles SROM, S.A. de C.V. (SROM), for the amount of US\$106 million, equivalent to \$1,945,602. In the transaction, a gain on the purchase of SROM shares was generated for \$1,141,267, recorded in results, and a gain of \$172,433 originated by the purchase of shares of Sears Mexico, recorded in stockholders' equity because control was already held over such entity. As a result of this transaction, the equity of Grupo Sanborns in Sears Mexico was increased to 98.94% and in Inmuebles SROM to 14%.

Grupo Sanborns is strengthening its profitability and cash flows. The parties recognize and agree that the issues of corporate governance and other provisions of the share purchase-sale contract will remain in generating effects in full force for the 1% of common stock which the selling stockholder still holds in each of the aforementioned entities. The commercial agreements with Sears USA are not affected by this transaction.

- g. On February 5, 2016, Grupo Sanborns entered into a strategic partnership with América Móvil, S.A.B. de C.V. (AMX) and Promotora Inbursa, S.A. de C.V. (Inbursa), both related parties, which consisted of a capital investment in Claroshop.com, S.A. de C.V. (ClaroShop), owner of the e-commerce platform www.claroshop.com.

As a result of this partnership, in order to strengthen and promote its online sales activities, Grupo Sanborns has an equity percentage of 56.54%, in ClaroShop, while AMX holds 25.75%, Inbursa 15.65% and other investors own the remaining 2.06%. The equity of ClaroShop was \$970,000 as of that date. The total contribution made by Grupo Sanborns was \$560,000. The result of such entity was included in the accompanying consolidated financial statements as of the acquisition date.

- h. The Entity's stockholders decided to reactivate the operations of the subsidiary Tabasco Oil Company, LLC (TOC) in July 2017. The TOC operations, a direct subsidiary of Carso Energy, S.A. de C.V. (Carso Energy), were suspended from February 2015 and until July 2017, due to the fall of the international oil prices. Also, at the yearend of 2016 and 2015 the Entity recorded an impairment in the capitalized exploration expenses and fixed assets of the subsidiary for \$44,327 and \$534,076, respectively. As of December 31, 2017, 2016 and 2015 Carso Energy shows accumulated losses of \$177,954, \$495,490 and \$795,833, respectively. The management of Carso Energy believes that these situations will not affect its continuity as a going concern. During 2017, international oil prices have recovered and the Entity estimates that this situation will continue during 2018.

Furthermore, during 2017 and 2015 the Entity, through Carso Energy, made common stock contributions to its subsidiary TOC for US\$5,750, equivalent to \$106,601, and US\$5,500, equivalent to \$82,675, respectively, maintaining its participation to 93.54% of the shares with voting rights of TOC at the close of the 2017 and 2015 financial years, respectively.

Also in 2015, a Stockholders' General Meeting of the subsidiary Carso Energy approved contributions for future capital increases in the non-controlling interest for the amount of \$291,451 represented by 273,273,259 shares.

- i. In September 2015, Inmuebles Arela, S.A. de C.V. (Inmuebles Arela) completed the sale of the shock absorbers business to the company Gabriel de México, S.A. de C.V., whose majority stockholder is Grupo Chaidneme (a Colombian group), subsequently obtaining 30% of the equity through its indirect subsidiary Promotora de Partes Eléctricas Automotrices, S.A. de C.V. by subscribing 20,085,905 shares at \$20,086. Inmuebles Arela retained the real state property where the operation is performed, for which reason as of that date it became a lessor.
- j. On September 17, 2015 Carso Gasoductos, S.A. de C.V. was incorporated through the subsidiary Carso Electric, S.A. de C.V. (Carso Electric). The former is a special purpose entity engaged in the construction and operation of the Samalayuca-Sásabe gas pipeline in the states of Chihuahua and Sonora, Mexico. As of December 31, 2017, this gas pipeline is still under construction and is expected to be completed by the end of 2018.
- k. In August 2015, through the subsidiary Grupo Condumex, S.A. de C.V. the shares of Amatech, S.A. de C.V. were sold; the transaction amount was \$249,984, with a profit on the sale of shares of \$129,376.
- l. On July 10, 2015, the associated company Elementia, S.A.B. completed a public offering in which Grupo Condumex, S.A. de C.V., through its subsidiary Tenedora de Empresas de Materiales de Construcción, S.A. de C.V. acquired 16,650,000 shares for \$266,050. This offering resulted in a reduction and dilution of the equity in the associated company, from 46% to 35.62%.
- m. On May 12, 2015, through the subsidiary Carso Electric, Carso Energy Corp. was incorporated. Its principal activity is as the holding company of two special purpose entities established in the United States of America (US), engaged in the construction and operation of the pipelines de Waha-Presidio and Waha-San Elizario, in the state of Texas, US. During 2017, both pipelines started operations and in their analysis of revenue recognition they concluded that both were classified as financial leases in accordance with the provisions of IFRS. The Entity recognizes the effects of these investments in joint ventures through the recognition of the equity method.

3. Application of new and revised International Financial Reporting Standards

a. Application of new and revised International Financing Reporting Standards (IFRS or IAS) and interpretations that are mandatorily effective for the current year

In the current year, the Entity has applied a number of amendments to IFRS and new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

Amendments to IAS 7 Disclosure Initiative

The Entity has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Entity's liabilities arising from financing activities consist of borrowings (Note 19). Consistent with the transition provisions of the amendments, the Entity has not disclosed comparative information for the prior period, the application of these amendments has had no impact on the Entity's consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The Entity has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Entity's consolidated financial statements as the Entity already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014-2016 Cycle

The Entity has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Entity (see Note 31).

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Entity's consolidated financial statements as none of the Entity's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

4. Significant accounting policies

- a. Explanation for translation into English** - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. Certain accounting practices applied by the Entity that conform with International Financial Reporting Standards (IFRS) may not conform with accounting principles generally accepted in the country of use.
- b. Statement of compliance** - The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.
- c. Basis of measurement** - The accompanying consolidated financial statements have been prepared on a historical cost basis, except for certain long-term non-monetary assets and financial instruments which were recognized at fair value upon transition to IFRS. Historical cost is generally measured as the fair value of the consideration received for the assets. The consolidated financial statements are prepared in pesos, the legal currency of the United Mexican States and are presented in thousands, except as noted otherwise.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity 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. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

- d. Basis of consolidation** - The consolidated financial statements incorporate the financial statements of the Grupo Carso and its subsidiaries controlled by it. Control is achieved when the Grupo Carso:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

Grupo Carso 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 Grupo Carso 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. Grupo Carso considers all relevant facts and circumstances in assessing whether or not the Grupo Carso voting rights in an investee are sufficient to give it power, including:

- The size of the Grupo Carso holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Grupo Carso, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Grupo Carso 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.

Consolidation of a subsidiary begins when Grupo Carso, obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Net income and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Grupo Carso accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

The ownership percentages over the capital stock of its subsidiaries as of December 31 2017, 2016 and 2015 are shown below:

Subsidiary	Country of incorporation and operations	Activity	Ownership %		
			December 31, 2017	December 31, 2016	December 31, 2015
Carso Infraestructura y Construcción, S.A. de C.V. and subsidiaries (CICSA)	Mexico, Central America and South America	Operation of several engineering areas including those related to infrastructure works, such as: highway construction and maintenance, water system works, water treatment plants and dams; duct installations for the telecommunications and gas sectors, including fiber-optic networks and gas pipelines, among others; oil well drilling and services related to this industry; the design and construction of oil platforms and oil industry equipment; the construction of industrial, commercial and residential real property.	99.93	99.93	99.93
Grupo ConduMex, S.A. de C.V. and subsidiaries (ConduMex)	Mexico, US, Central America, South America and Spain	Manufacture and sale of cable products used in the construction, automotive, energy and telecommunications industries; manufacture and sale of copper and aluminum products and sale of automotive parts; manufacture and sale of transformers and lighting solutions.	99.58	99.58	99.58
Grupo Sanborns, S.A.B. de C.V. and subsidiaries (Sanborns)	Mexico, El Salvador and Panama	Operation of department stores, gift shops, record stores, restaurants, cafeterias and management of shopping malls through the following commercial brands, principally: Sanborns, Sears, Saks Fifth Avenue, Mix-up and iShop.	85.49	84.71	84.35
Carso Energy, S.A. de C.V. and subsidiaries	Mexico, US and Colombia	Holding of shares of companies in the sector of exploration and production of oil, gas and other hydrocarbons, and electricity.	93.60	93.54	100.00

i. Changes in the Entity ownership interests in existing subsidiaries

Changes in the Entity ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of Grupo Carso.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

e. Cash and cash equivalents- Consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash or with a maturity of three months upon its acquisition and are subject to insignificant value change risks. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in results of the period. Cash equivalents are represented by money market funds and short-term bank investments in Mexican pesos and U.S. dollars.

f. Business combinations - Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Entity, liabilities incurred by the Entity to the former owners of the acquire and the equity interests issued by the Entity in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Benefits for Employees*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Entity entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 *Payments based on shares* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquired entity, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquire is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

- g. Goodwill** - The goodwill arising from a business combination are recognized at historical cost as an asset at the date that control is acquired (the acquisition date), less impairment losses recognized, if any. Goodwill is the excess of the consideration transferred the amount of any non-controlling interest in the acquired over the fair value of the acquirer's interest in the equity of the acquired and / or on the net at the date of acquisition identifiable assets acquired and liabilities assumed.

When the fair value of the identifiable net assets acquired exceeds the sum of the consideration transferred, the amount of such excess is recognized in earnings as a gain on purchase.

Goodwill is not amortized and is subject to annual impairment testing. For purposes of impairment testing, goodwill is allocated to each cash-generating unit for which the Entity expects to obtain benefits. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of unit, proportionately, based on the carrying amount of each asset in the unit. The impairment loss recognized for goodwill purposes cannot be reversed in a subsequent period.

When a relevant cash-generating unit is disposed-off, the amount attributable to goodwill is included in determining the gain or loss on the disposal.

- h. Investments in associates and joint ventures** - An associate is an entity over which the Entity has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Entity's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Entity's share of losses of an associate or a joint venture exceeds the Entity's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Entity's net investment in the associate or joint venture), the Entity discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Entity's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is

included within the carrying amount of the investment. Any excess of the Entity's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Entity's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Entity discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Entity retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Entity measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

The Entity continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Entity reduces its ownership interest in an associate or a joint venture but the Entity continues to use the equity method, the Entity reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

i. Revenue recognition - Revenue is measured at the fair value of the consideration received or receivable considering the amount of sales returns, discounts and other similar discounts or rebates. Revenues are recognized based on the criteria below:

- Sale of goods - The sale of goods is recognized when the inherent risks and rewards are transferred to the customer, provided the respective income can be reliably measured, it is likely that the Entity will receive the economic benefits associated with the transaction, the costs that have been or will be incurred to perform the transaction can be reliably measured, the Entity is not continuously involved in the ownership of the goods and does not retain effective control over them. Generally, revenues recognition coincides with the date on which the goods are delivered and ownership is legally transferred to the customer.
- Finance income on credit sales - Finance income on credit sales recognized when it is accrued and is generated by credit card transactions (Sanborns, Sears, Saks Fifth Avenue, Claro Shop and Mixup).
- Services - Provided are recognized when the service is rendered.
- Rentals -
- Shopping malls - Is recognized on a straight-line basis as lease services are provided and maintenance fees are collected; these amounts are recognized throughout the period of the lease contract from which they are derived.

Oil Platform - Oil rig lease are recognized on straight-line basis in the month are accrued and leasing services rendered.

Construction contracts - When can be estimated reliably the results of a construction contract revenue is recognized using the percentage-of-completion method based on costs incurred, taking into account the expected costs and revenues at the end of the project, as the activity takes place. Changes in the performance of work, and estimated profit, including those that may arise for prizes conclusion derived from projects in advance, contractual penalties and final agreements in contracts, are recognized as income in the periods in which revisions are made or approved by customers.

Under different contracts, recognized revenues do not necessarily reflect the amounts billable to customers. Management periodically evaluates the fairness of its accounts receivable. In those cases in which the recovery of these amounts entails certain difficulties, additional allowances for doubtful accounts are created and applied to the results of the year in which they are determined. The estimate prepared for this reserve is based on management's judgment and also considers prevailing circumstances when it is determined.

Contract costs include labor, raw materials, subcontractor, project startup and indirect costs. The Entity periodically evaluates the fairness of the estimates used to determine the work completion percentage. If, as a result of this evaluation, the Entity considers that the estimated costs to be incurred until project conclusion exceed expected revenues, a provision is recognized for the estimated losses of the period in question. In the case of works projects financed by the Entity in which the contract value includes work execution and financing revenues, the net financial expense (income) needed for project development forms part of the respective contract costs, which are recognized in results based on project work completion. In this type of contract, the total project amount can be collected from the customer until the termination date by submitting periodic project work completion reports for the customer's approval, which enable the Entity to obtain project financing when required.

- **Changes to construction contracts**- Are recognized when the amount can be reliably quantified and there is reasonable evidence of approval by the customer. Revenues are recognized when claims can be measured reliably and when, derived from progress in the negotiations, there is reasonable evidence that the client will accept your payment.
- **Revenues from real property developments** - Are recognized on the date when the public deed is granted for the respective housing, when the rights, rewards and obligations derived from the real property are transferred to the buyer. If any uncertainty exists as regards future collections, revenues are recorded as they are generated. In those cases for which there are indications of recovery difficulties, additional allowances for doubtful accounts are created, thereby affecting the results of the year in which they are determined.
- **Dividends and interests**- Dividend income from other investments is recognized once the right of shareholders to receive this payment has been established (when it is probable that the economic benefits will flow to the Entity and that the income can be reliably valued). Interest income derived from financial assets is recognized when accrued, when it is likely that the Entity will receive the respective economic benefits and when these amounts can be reliably valued. Interest income is primarily generated by the operation of credit cards in department stores.

j. Loyalty programs for customers - Awards are accounted for as a separate component of the initial sale transaction, measured at their fair value and recognized as deferred income in the statement of financial position, within other accounts payable and accrued liabilities. Deferred revenue is recognized in income once the award is redeemed or expires.

k. 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.

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 Entity's general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

l. Foreign currencies - In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 11c. below for hedging accounting policies)
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. Any exchange difference that has been previously attributed to the non-controlling interests is written off and no reclassified to the profits.

In the partial disposal of a subsidiary (i.e., when there is no loss of control) which includes a foreign transaction, the Entity again attributes the proportional holding of the accumulated amount of the exchange differences recognized in the other comprehensive profit and loss, to the non-controlling interests in that foreign transaction. In any other partial disposal of a foreign transaction (i.e., of associates or entities controlled jointly which does not involve a loss of significant influence or joint control), the Entity reclassifies to results only the proportional equity of the accumulated amount of the exchange differences.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

The functional and recording currency of Grupo Carso and all of its subsidiaries is the Mexican peso, except for foreign subsidiaries whose functional and recording currency are as shown below:

Company	Currency in which transactions are recorded	Functional currency
Cablana, S.A.	Euro	Euro
Cablana do Brasil, Limitada	Brazilian Real	Brazilian Real
Carso Construcción de Costa Rica, S.A.	Colon	US Dollar
Cicsa Colombia, S.A.	Colombian Peso	Colombian Peso
Carso Construcción de Dominicana, S. de R.L. (antes Cicsa Dominicana, S.A.)	Dominican Peso	Dominican Peso
Cicsa Ingeniería y Construcción Chile Ltda, S. de R.L.	Chilean Peso	Chilean Peso
Tabasco Oil Company, LLC, Sucursal en Colombia	Colombian Peso	US Dollar
Cicsa Jamaica Limited	Jamaican dollar	Jamaican dollar
Cicsa Perú, S.A.C.	New Sol	New Sol
ConduTel Austral Comercial e Industrial, Limitada	Chilean Peso	Chilean Peso
Cometel de Centroamérica, S.A.	Quetzal	Quetzal
Cometel de Honduras, S.A.	Lempira	Lempira
Cometel de Nicaragua, S.A.	Cordoba	Cordoba
Cometel de Colombia, S.A.S.	Colombian Peso	Colombian Peso
Cupro do Brasil, Limitada	Brazilian Real	Brazilian Real
Grupo Sanborns Internacional, S.A. (Panamá)	US Dollar	US Dollar
Nacel de Centroamérica, S.A.	Quetzal	Quetzal
Nacel de Honduras, S.A.	Lempira	Lempira
Nacel de Nicaragua, S.A.	Córdoba	Córdoba
Nacel de El Salvador, S.A.	US Dollar	US Dollar
Procisa Ecuador, S.A.	US Dollar	US Dollar
Procisa do Brasil Projetos, Constructores e Instalaciones, Ltd.	Brazilian Real	Brazilian Real
Procosertel, S.A.	Argentinian peso	Argentinian peso
Procosertel Uruguay, S.A.	Uruguayan peso	Uruguayan peso
Corporación de Tiendas Internacionales, S.A. de C.V. (El Salvador)	US Dollar	US Dollar
Carso Construcción de Puerto Rico, L.L.C.	US Dollar	US Dollar
Procisa, S.A.S.	Colombian Peso	Colombian Peso
Carso Energy Corp.	US Dollar	US Dollar
Carso Gasoducto Norte, S.A. de C.V.	Mexican Peso	US Dollar

The entities listed above are considered foreign operations under IFRS.

m. 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.

n. Direct employee benefits, retirement benefits and statutory employee profit sharing (PTU) - The cost for direct benefits and defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The seniority premium liability for all personnel, non-union personnel pensions and retirement payments treated as pensions are considered in defined benefit plans. The cost of these benefits is determined by using the projected unit credit method and the actuarial valuations prepared at the end of each reporting period. Actuarial gains and losses are immediately recognized in other comprehensive income, net of deferred tax, based on the net asset or liability recognized in the consolidated statement of financial position, so as to reflect the over- or underfunded status of employee benefit plan obligations. Similarly, past service costs are recognized in results when the plan is modified or when restructuring costs are incurred.

Retirement benefit obligations recognized in the consolidated statement of financial position represent the current value of the defined benefit obligation adjusted according to actuarial gains and losses and the past service costs, less the fair value of plan assets. When plan assets exceed the liabilities of the defined benefit plan, they are valued according to the lower of: i) the defined benefit plan surplus, and ii) the present value of any economic benefits derived from the plan and available as future plan contribution reimbursements or reductions.

Statutory employee profit sharing

PTU is recorded in the results of the year in which it is incurred.

As result of the 2015 Income Tax Law (LISR), as of December 31, 2017, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 10 of the that Law.

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

i. Current tax

Calculated current tax corresponds to the income tax (ISR) and is recorded in the profit of the year as it is caused.

From 2014 Grupo Carso has the authorization of the Secretary of Finance and Public Credit in Mexico to prepare its income tax on a fiscal integration basis (see Note 27).

ii. Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The book value of a deferred tax asset should be subjected to review at the end of the reporting period and should be reduced if it is considered likely that there will not be sufficient taxable profits to facilitate the recovery of all or part of the asset.

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 Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Administration expects to recover the total fair value through sale.

iii. Current and deferred tax

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

iv. Tax on assets

The tax on assets (IMPAC) expected to be recovered is recorded as a tax receivable.

p. Inventories and cost of sale - Are stated at the lower of cost of acquisition and / or construction or net realizable value (estimated selling price less all costs to sell), as follows:

- **Industrial inventories, construction and commercial** - Are valued using the first- in first-out and / or average cost methods depending on the activity of each entity; including the cost of materials, direct costs and an appropriate portion of fixed and variable overhead costs that are incurred in the production of inventory by the Entity. Impairments are reflected as reductions in the carrying amount of inventories.
- **Real estate inventories** - Inventory of properties substantially completed are valued at the lower of cost or net realizable value. The lands to be developed are tested for impairment if there are indications that its value will not be recoverable. The real estate inventory includes all direct costs of land, construction and other development and incurred during the development stage, as well as financing costs. The cost of real estate developments, including the ground, materials, subcontracts, and those indirect costs related to the property developments, such as indirect labor, purchases, repairs and depreciation. General and administrative costs are expensed as incurred.

In the event that the estimated total property development costs exceed the estimated total revenue, the expected loss is recognized through the income statement. Cost of sales of real estate inventories is determined and prorated based on total costs of the related projects.

The Entity classifies land as long-term inventories when sale is estimated to be completed after one year.

q. Offsetting of financial assets and financial liabilities - The Entity offsets a financial asset and a recognized financial liability and presents the amount offset in the consolidated statement of financial position only when it meets the following conditions: a) there is a legal right and obligation to collect or pay an offset amount, and b) the amount resulting from offsetting the financial assets of the financial liability reflects the expected cash flows of the Entity when it liquidates two or more financial instruments. In all other cases, the Entity presents the financial assets and financial liabilities recognized separately in the consolidated statement of financial position and its assets and liabilities according to their characteristics.

- r. Property, plant and equipment** - As of January 1, 2011, the transition date to IFRS, property, plant and equipment were valued at deemed cost (depreciated cost adjusted for an inflation index), or fair value determined through appraisals for certain items of property, machinery and equipment. Subsequent acquisitions are recorded at acquisition cost. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets which are reviewed yearly; the effect of any change in the accounting estimate is recognized on a prospective basis. Depreciation of machinery and equipment in certain subsidiaries is calculated based on units produced during the period in relation to the total estimated production of the assets over their service lives.

	Depreciation weighted average rate	% residual values
Buildings and leasehold improvements	1.4 to 10	5 and 10
Machinery and equipment	4.1 to 5	-
Vehicles	25	5, 10 and 25
Furniture and equipment	5 to 12.8	-
Computers	16.7 to 41.2	-

Borrowing costs incurred during the period of construction and installation of qualifying property, machinery and equipment are capitalized.

The gain or loss on the sale or retirement of an item of property, plant and equipment is calculated as the difference between the resources received from sale and the carrying value of the asset, and is recognized in results.

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 Entity's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, if your life is less, within the relevant lease.

- s. Investment property** - Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. The properties held as investments mainly include two shopping malls owned by certain subsidiaries of the Entity.

Investment property acquired and improvements are recorded at cost, including transaction costs related to the acquisition of assets.

Initial direct costs incurred in negotiating lease leases are added to the carrying amount of investment properties.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

- t. Intangible assets** - Intangible assets are recognized in the accompanying consolidated statements of financial position only if they can be identified, provide future economic benefits and control exists over such assets. Intangible assets with an indefinite useful life are not amortized and the carrying value of these assets is subject to annual impairment testing, and intangible assets with a defined useful life are amortized systematically based on the best estimate of their useful life, determined in accordance with the expected future economic benefits. The useful life, residual value and amortization method are subject to annual impairment assessment; any change is recorded on a prospective basis.

The disbursements caused by research activities are recognized as an expense in the period in which they are incurred.

Intangible assets recognized by the Entity mainly relate to costs incurred during the evaluation phase, which are capitalized as other assets during the exploration and evaluation of the Project, and are amortized on the straight-line basis over the useful life of the concession or of the Project, whichever is lower.

Plans and projects for environmental control are presented within other assets. The expenses that are made for this concept are applied to the provision for environmental remediation and the subsequent increase to such provision is debited to the net income of the year, only if it corresponds to present obligations or to other future obligations, in the year that they are determined.

- u. Intangible assets acquired in a business combination** - Intangible assets acquired in a business combination are recognized at their fair value at the acquisition date (which is regarded as their cost). Intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

In assessing value in use, the estimated cash flows future cash are discounted present value using a discount rate before tax that reflects current market valuations, the time value of money and the risks specific to the asset for which have not been adjusted future cash flows.

- v. Impairment of tangible and intangible assets other than goodwill** - At the end of each reporting period, the Entity 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 Entity 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

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

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

- **Provision to remedy environmental damage** - The Entity has adopted environmental protection policies within the framework of applicable laws and regulations. However, due to their activities, the industrial subsidiaries, sometimes perform activities that adversely affect the environment. Consequently, the Entity implements remediation plans (which are generally approved by the competent authorities) that involve estimating the expenses incurred for this purpose.

The estimated costs to be incurred could be modified due to changes in the physical condition of the affected work zone, the activity performed, laws and regulations, variations affecting the prices of materials and services (especially for work to be performed in the near future), as well as the modification of criteria used to determine work to be performed in the affected area, etc.

The fair value of a liability for asset retirement obligations is recognized in the period incurred. The liability is measured at fair value and is adjusted to its present value in subsequent periods, as expense is recorded. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life.

- **Restructurings** - A restructuring provision is recognized when the Entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Entity.

- **Purchase and sale of own shares** - Purchases of shares are recognized directly as a reduction of the share capital at their nominal value, and the difference against the acquisition cost is recorded against the stock repurchase reserve, which is included in the retained earnings. The share sales are recorded directly as an increase in common stock at theoretical par value, and it is considered in the computation of the weighted average number of shares. The gain or loss on the sale is recorded as a share repurchase premium, and the difference compared to the selling price is recorded against the reserve for share repurchases, which is included in retained earnings.

x. Financial instruments - Financial assets and financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

i. Financial assets -

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

– Financial assets at FVTPL

Financial assets are classified as of FVTPL when the financial asset is either held for trading or it is designated as of FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as of FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other income (expenses) - Net' line item. Fair value is determined in the manner described in Note 12.

– Held-to-maturity investments

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

– Financial assets classified as held for sale

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Entity that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Entity also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the Entity's management consider that fair value can be reliably measured). Fair value is determined in the manner described in Note 12. The gains and losses generated by fair value changes are recognized in other comprehensive income and accrued in the investment revaluation reserve, while excluding impairment losses, interest calculated through the effective interest method and exchange losses and gains, which are recognized in results. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Entity's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

– Loans and receivables

Loans, accounts receivable from customers and other accounts receivable with fixed or determinable payments which are not traded on an active market are classified as loans and accounts receivable. Loans and accounts receivable are valued at their applied cost by using the effective interest method less any impairment. An allowance for bad debts is recognized in results when the Entity has objective evidence that accounts receivable are impaired. Interest income is recognized by applying the effective interest rate, while excluding short-term accounts receivable when interest recognition is insignificant.

– Effective interest rate method

Is a method for calculating the applied cost of a financial instrument and assigning income or financial cost throughout the relevant period. The effective interest rate is the rate used to discount estimated future cash flows (including all fees and basis points paid or received and which form an integral part of the effective interest rate, transaction costs and other premiums or discounts during the expected life of the financial instrument (or, when appropriate, during a shorter period) based on the initially recognized net book value of the financial asset or liability.

Interest is recognized based on the effective interest rate for debt instruments other than financial assets classified as FVTPL.

– Impairment of financial assets

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

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

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio that exceed 90 days ago payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

– Derecognition of financial assets

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

ii. Financial liabilities and equity instruments -

- Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

- Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issuance costs.

Repurchase of the Entity's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Entity's own equity instruments.

- Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

- Other financial liabilities

Other financial liabilities including loans are initially valued at their fair value, net of transaction costs. They are subsequently valued at their applied cost by using the effective interest rate method, while interest expenses are recognized on an effective return basis.

- Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

y. Derivative financial instruments - The Entity enters into a variety of derivative financial instruments trading and hedging in order to manage its exposure to risk of: a) interest rate, b) rate debt and y c) metal prices. Further details of derivative financial instruments are disclosed in Note 13.

When derivatives are entered into to hedge risks, and such derivatives meet all hedging requirements, their designation is documented at the beginning of the hedging transaction, describing the transaction's objective, characteristics, accounting treatment and how the effectiveness of the instrument will be measured.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Entity designates certain derivatives either as fair value hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecasted transactions or foreign currency risk hedges of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a long-term asset or liability if the maturity date of the instrument is 12 months or more, and it is not expected to be realized or canceled within those 12 months. Other derivatives are presented as short-term assets and liabilities.

i. Hedge accounting

The Entity designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity 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 Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

ii. Cash flow hedges

At the start of each hedge, the Entity documents the hedging relationship and objective, together with its risk management strategy. This documentation includes the manner in which the Entity will measure the effectiveness of the hedge with regards to offsetting changes to the fair value of the hedged item or the cash flow attributable to the hedged risk.

The Entity recognizes all assets and liabilities resulting from transactions involving derivative financial instruments at fair value in the consolidated statement of changes in financial position, regardless of its reason for holding these instruments. Fair value is determined based on the prices reported on recognized markets; however, when they are not quoted on a market, the Entity utilizes valuation techniques accepted by the financial sector. The decision to enter into an economic or accounting hedge is based on an analysis of market conditions and expectations concerning domestic and international economic scenarios.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the “operating expenses”. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

iii. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

iv. Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and is included in the caption “Effects of valuation of derivative financial instruments”.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

v. Embedded derivatives

The Entity reviews its executed contracts to identify any embedded derivatives which must be separated from the host contract for valuation and accounting purposes. When an embedded derivative is identified in other financial instruments or other contracts (host contracts) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL with changes through income.

An embedded derivative is presented as a long-term asset or liability when the respective hybrid instrument will mature in 12 months or more and when is not expected to be realized or canceled during that 12-month period. Other embedded derivatives are presented as short-term assets or liabilities.

During the reporting period, the Entity did not enter into any fair value hedges for its net investment in foreign transactions or embedded derivatives.

z. Statement of cash flows - The indirect method is used for presenting cash flows from operating activities, such that the net income is adjusted for changes in operating items not resulting in cash receipts or disbursements, and for items corresponding to cash flows from investing and financing activities. Interest received is presented as an investing activity and interest paid is presented as a financing activity.

aa. Earnings per share - (i) The basic earnings per common share is calculated by dividing the net consolidated profit attributable to the controlling interest by the weighted average of common outstanding shares during the year, and (ii) The basic profit per common share for discontinued operations is calculated by dividing the result for discontinued operations by the weighted average of common outstanding shares during the year. At December 31, 2017, 2016 and 2015, the Entity has no potential ordinary shares with dilutive effects.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity’s accounting policies, which are described in Note 4, the Entity’s management is required to make judgments, estimates and assumptions about the carrying amounts of consolidated assets and liabilities. 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.

Critical accounting judgments and key sources of uncertainty

a. Inventory and accounts receivable allowances - The Entity use estimates to determine inventory and accounts receivable reserves. When calculating inventory reserves, the Entity considers production and sales volumes, as well as the demand for certain products. When determining the allowance for doubtful accounts, the Entity primarily considers the financial risk represented by each customer, unguaranteed accounts and significant collection delays based on established credit conditions (See Notes 8 and 9 for further detail).

b. **Property, plant and equipment** - the Entity reviews the estimated useful lives of property, plant and equipment at the end of each reporting period, to determine the depreciation of these assets. Asset useful lives are defined according to the technical studies prepared by specialized internal personnel and with the participation of external specialists. During the years 2017, 2016 and 2015, based on detailed analysis of the Entity management modify the useful life of certain components of property, plant and equipment components. The level of uncertainty related to useful life estimates is also linked to market changes and asset utilization based on production volumes and technological development.

c. **Investment property** - The Entity prepares an annual valuation of investment property with the assistance of independent appraisers. The valuation techniques are based on different methods including; cost, market and income approaches; the Entity has utilized the physical inspection. The valuation methodology includes observable assumptions for properties which, while dissimilar, nonetheless involve the same geographic zones and commercial use. The Entity considers the highest and best use of its assets.

The valuation techniques used by the Entity were not modified in 2017, 2016 and 2015. Entity management considers that the valuation methodologies and assumptions utilized are appropriate for determining the fair value of the Entity's investment properties.

d. **Impairment of long-lived assets** - The carrying value of noncurrent assets is reviewed to detect indications of impairment; i.e., if certain situations or changing circumstances indicate that carrying values may not be recoverable. If indications of impairment are detected, the Entity performs a review to determine whether the carrying value exceeds its recovery value and is impaired. When applying asset impairment tests, the Entity must estimate the value in use assigned to property, plant and equipment and cash generating units, in the case of certain assets. Value in use calculations require that the Entity determine the future cash flows produced by cash generating units, together with an appropriate discount rate for calculating present value. The Entity utilizes cash flow projections by estimating market conditions, prices, production and sales volumes.

e. **Valuation of financial instruments** - The Entity uses valuation techniques for its financial instruments which include information that is not always based on an observable market to estimate the fair value of certain financial instruments. Notes 12 y 13 contains detailed information on the key assumptions used to determine the fair value of the Entity's financial instruments, as well as an in-depth sensitivity analysis of these assumptions. Entity management considers that the valuation techniques and assumptions it has utilized are suitable for determining the fair value of its financial instruments.

f. **Contingencies** - As the Entity is involved in certain legal proceedings, it evaluates the probability of a payment obligation arising, accordingly, it considers the legal situation in effect at the estimate date and the opinion of its legal advisers; these evaluations are periodically reconsidered.

g. **Employee benefits at retirement** - The Entity uses assumptions to determine the best annual estimate of these benefits. Like the above assumptions, these benefits are jointly and annually determined in conjunction with independent actuaries. These assumptions include demographic hypotheses, discount rates, expected remuneration increases and future employee tenure, among other items. While the Entity considers that these assumptions are appropriate, any modification in this regard could affect the value of employee benefit assets (liabilities) and the statement of income and other comprehensive income of the period in which any such modification takes place.

h. **Revenue recognition for construction contracts** - When the results of a construction contract can be estimated reliably, revenue is recognized using the percentage-of-completion method based on costs incurred, taking into account the expected costs and revenues at the end of the project, as the activity takes place. Changes in the performance of work, and estimated yields, including those that may arise for incentives for early conclusion of the projects, contractual penalties and final agreements in contracts, are recognized as income in the periods in which revisions are made or approved by customers.

In accordance with the terms of various contracts, revenue is recognized and not necessarily related to the actual amounts billable to customers. Management periodically evaluates the reasonableness of its receivables. In cases where there is evidence collection difficulty, additional allowances for doubtful accounts affecting income in the year they are determined are recognized. The estimate of the reserve is based on the best judgment of the Entity under the circumstances prevailing at the time of its determination.

6. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2017	2016	2015
Cash	\$ 2,934,767	\$ 1,748,167	\$ 1,245,390
Cash equivalents			
Demand deposits	30,876	213,911	2,979,246
Banking paper	265,694	698,979	2,806,476
Government paper	833,299	432,614	198,246
Trading paper	-	-	7,271
Certificates of deposit	11,833	62,009	-
Demand deposits in US\$	253,073	1,689,270	824,249
Other	1,823	12,967	9,452
	\$ 4,331,365	\$ 4,857,917	\$ 8,070,330

7. Investments in securities held to maturity

	2017	2016	2015
Banking paper	\$ 70,013	\$ 122,362	\$ 1,070,973
Demand deposits in US\$	541,870	1,276,041	801,958
Government paper	165,504	100,316	819,079
	\$ 777,387	\$ 1,498,719	\$ 2,692,010

8. Accounts receivables

	2017	2016	2015
Clients	\$ 18,896,885	\$ 18,654,582	\$ 15,449,107
Allowance for doubtful accounts	(610,340)	(654,859)	(511,664)
	18,286,545	17,999,723	14,937,443
Work completed pending certification	3,530,358	3,332,875	2,844,871
Sundry debtors	523,244	342,002	338,340
Recoverable value added tax	1,799,191	2,222,584	1,395,562
Recoverable ISR	692,471	832,857	523,831
Recoverable IMPAC	61,402	71,679	76,721
Other recoverable taxes	213,580	241,899	193,749
Other	849,152	460,392	273,986
	\$ 25,955,943	\$ 25,504,011	\$ 20,584,503

a. Clients

The Entity offers sales promotions through which it grants credit to its customers for different periods which, on average, are 217, 206 and 203 days at December 31, 2017, 2016 and 2015, respectively. In the case of sales promotions with collection periods exceeding one year, the respective accounts receivable are classified as short-term because they form part of the Entity's regular transaction cycle, which is a common industry practice. Maturities exceeding one year are \$1,425,061, \$1,291,061 and \$1,281,389 at December 31, 2017, 2016 and 2015, respectively.

The average credit period of revenues derived from the cable, electronics, auto and corporate sectors is 30 and 60 days; interest is not charged.

Given the nature and diversity of project development periods, there is no average credit period for the operation of the infrastructure and construction sector; interest is not charged. The Entity does not maintain any collateral or other credit enhancements as regards these balances; similarly, it does not have the legal right to offset them against amounts owed to the counterparty.

b. Past due but not impaired

Accounts receivable from customers include amounts that are overdue at the end of the reporting period and for which the Entity has not recognized an allowance for bad debts as there has been no significant change in the customer's credit rating and the amounts in question are still deemed to be recoverable. A summary of customer accounts receivable which are overdue, but are not considered impaired is detailed below:

	2017	2016	2015
1 to 30 days	\$ 2,606,232	\$ 2,204,578	\$ 2,507,172
31 to 60 days	984,986	768,937	986,344
61 to 90 days	482,554	446,916	761,986
Past due more than 90 days	1,943,243	2,125,683	910,715
Total	\$ 6,017,015	\$ 5,546,114	\$ 5,166,217

The Entity carries out certain procedures to follow up on customers' compliance with payments for which collateral was not provided and which only have guarantors. According to the Entity's policies, if customer payments are delayed, the respective credit line is suspended for future purchases.

Similarly, in the event of more significant delays, the Entity implements out-of-court and legal measures to recover the outstanding balance. The Entity has recognized an allowance for doubtful accounts equal to 100% of all highly probable uncollectible accounts.

c. The allowance for doubtful accounts is as follows:

	2017	2016	2015
Receivables for sales of property and retail services	\$ (509,553)	\$ (375,792)	\$ (359,507)
Receivables for sales of construction services	(2,347)	(109,453)	(83,197)
Customers by selling property and industrial services	(98,440)	(169,614)	(68,960)
	\$ (610,340)	\$ (654,859)	\$ (511,664)

d. Reconciliation of the allowance for doubtful accounts is presented below:

	2017	2016	2015
Beginning balance	\$ (654,859)	\$ (511,664)	\$ (496,407)
Period accrual	(745,561)	(651,851)	(468,844)
Write offs and cancelations	790,080	508,656	453,587
Ending balance	\$ (610,340)	\$ (654,859)	\$ (511,664)

e. Work completed pending certification

	2017	2016	2015
Costs incurred on uncompleted contracts	\$ 14,351,722	\$ 16,289,200	\$ 14,402,889
Estimated earnings	2,130,722	2,223,689	2,090,000
Revenue recognized	16,482,444	18,512,889	16,492,889
Less: Certifications to date	(10,672,382)	(13,430,600)	(12,451,546)
Less: Advances received	(2,279,704)	(1,749,414)	(1,196,472)
Work completed pending certification	\$ 3,530,358	\$ 3,332,875	\$ 2,844,871

9. Inventories

	2017	2016	2015
Raw materials and auxiliary materials	\$ 4,069,041	\$ 3,717,249	\$ 2,676,504
Production-in-process	456,726	359,989	309,080
Finished goods	652,466	732,046	1,010,766
Merchandise in stores	10,909,691	10,486,098	9,229,930
Land and housing construction in progress	207,865	285,992	343,049
Allowance for obsolete and slow moving inventories	(860,632)	(847,308)	(729,572)
	15,435,157	14,734,066	12,839,757
Merchandise in-transit	603,761	571,490	486,870
Replacement parts and other inventories	470,743	461,336	492,306
	\$ 16,509,661	\$ 15,766,892	\$ 13,818,933

At December 31, 2017, 2016 and 2015, inventories written off directly to results in administrative expenses and/or other expenses amount to \$5,420, \$16,227 and \$28,295, respectively.

In the case of the retail sector, the Entity uses two estimates to determine potential inventory impairment losses; one of these is utilized for obsolete and slow-moving inventories, while the other is used for goods shrinkage.

The estimate for obsolescence and slow-moving inventories is determined based on prior-year experience by store and department, the displacement of goods on the market, their utilization at different locations, fashions and new product models. The Entity analyzes the possibility of increasing this reserve when goods have insufficient displacement and until such time as the entire cost is classified as an impairment loss.

The goods shrinkage estimate is determined based on the Entity's experience and the results of cyclical physical inventory counts. The Entity adjusts these inventories according to the variable shrinkage percentages of different stores.

A reconciliation of the allowance for obsolete, slow moving and missing inventories is presented below:

	2017	2016	2015
Beginning balance	\$ (847,308)	\$ (729,572)	\$ (583,878)
Period accrual	(201,819)	(321,799)	(301,845)
Write offs and cancelations	188,495	204,063	156,151
Ending balance	\$ (860,632)	\$ (847,308)	\$ (729,572)

10. Backlog

In the infrastructure and construction sector, a reconciliation of backlog at December 31, 2017, 2016 and 2015 is as follows:

	Total
Balance at the beginning of 2015	\$ 18,319,114
New contracts and changes	15,505,900
Less: Income	(16,323,505)
Balance at December 31, 2015	17,501,509
New contracts and changes	13,820,562
Less: Income	(18,233,783)
Balance at December 31, 2016	13,088,288
New contracts and changes	13,316,434
Less: Income	(16,205,777)
Balance at December 31, 2017	\$ 10,198,945

11. Financial risk management

The Entity is exposed to market, operating and financial risks as a result of its use of financial instruments, these include interest rate, credit, liquidity and exchange rate risks, which are managed in a centralized manner by the corporate treasury. The Entity seeks to minimize its exposure to these risks by contracting hedges based on derivative financial instruments. The use of financial derivatives is governed by the Entity policies approved by the board of directors, which provide written principles of recruiting them. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The different financial instrument categories and amounts at December 31, 2017, 2016 and 2015, are detailed below:

	2017	2016	2015
Financial assets			
Cash and cash equivalents	\$ 4,331,365	\$ 4,857,917	\$ 8,070,330
At amortized cost:			
• Held-to-maturity financial assets	777,387	1,498,719	2,692,010
• Accounts receivable in the short and long term	23,189,298	22,145,131	18,421,820
• Due from related parties	4,090,590	3,682,581	3,436,079
Measured at fair value:			
• Derivative financial instruments	325,296	370,430	227,233
Financial liabilities			
At amortized cost:			
• Loans with financial institutions and long-term debt	\$ 10,226,741	\$ 11,721,179	\$ 7,411,636
• Payables to suppliers	9,911,843	9,346,930	8,399,593
• Due to related parties	674,392	858,081	483,721
• Other payables, accrued liabilities	2,766,388	2,571,978	2,205,254
Measured at fair value:			
• Derivative financial instruments	202,829	81,424	439,130

The Board of Directors establishes and monitors the policies and procedures used to measure risks, which are described below:

a. Capital risk management - The Entity manages its capital to ensure that it will continue as a going concern, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The capital structure of the Entity is composed by its net debt (mainly the bank loans, in and debt securities detailed in Note 19) and stockholders' equity (issued capital, capital reserves, retained earnings and non-controlling equity detailed in Note 22). The Entity is not subject to any kind of capital requirement.

Management reviewed monthly its capital structure and borrowing costs and their relation to EBITDA (defined in this case as earnings before taxes, interest, exchange rate fluctuations, valuation of derivative financial instruments, depreciation and amortization, see Note 30) in connection with the preparation of financial projections as part of the business plan submitted to the Board of Directors and shareholders. The Entity's policy is to maintain a net debt ratio of no more than three times EBITDA, determined as the ratio of net debt to EBITDA of the last 12 months.

The net debt ratio of the Entity is presented below:

	2017	2016	2015
Loans with financial institutions and other	\$ 10,226,741	\$ 11,721,179	\$ 7,411,636
Cash and cash equivalents	(4,331,365)	(4,857,917)	(8,070,330)
Investments in securities held to maturity	(777,387)	(1,498,719)	(2,692,010)
Cash surplus with financial institutions and / or related parties	\$ 5,117,989	\$ 5,364,543	\$ (3,350,704)
EBITDA	13,871,725	14,578,076	12,570,512
Net debt ratio	0.37 times	0.37 times	(0.27) times
EBITDA	\$ 13,871,725	\$ 14,578,076	\$ 12,570,512
Interest on debt	575,880	518,538	389,795
Interest coverage ratio	24.09 times	28.11 times	32.25 times

b. Interest rate risk management - The Entity is exposed to interest rate risks from customer loans and financial debt contracted at variable rates. The Entity has short-term loans primarily for working capital and in some cases has long-term loans that are intended for certain projects whose completion will meet their obligations, and in some cases, depending on the proportion of short-term debt and long term, are contracted interest rate hedges (swap contracts). Hedging activities are regularly evaluated to ensure that they are properly aligned with interest rates and the respective risks and to facilitate the application of more profitable hedge strategies. Hedge contracts are detailed in Note 13.

The Entity's exposure to interest rate risks is primarily based on the Mexican Interbank Equilibrium Offered rate (TIIE) applicable to financial liabilities and its customer portfolio. Accordingly, it periodically prepares a sensitivity analysis by considering the cost of the net exposure from its customer portfolio and financial liabilities derived that earn and bear interest at variable interest rates; it also prepares an analysis based on the amount of outstanding credit at the end of the period.

If benchmark interest rates had increased and/or decreased by 100 basis points in each reporting period and all other variables had remained constant, the pretax profit of 2017, 2016 and 2015 would have increased or decreased by approximately \$103,230, \$81,713 and \$77,483, respectively.

c. Exchange risk management -

- i. The functional currency of the entity is primarily the Mexican peso. Accordingly, it is exposed to currency risk Mexican peso against U.S. dollar that arises in connection with retail operations and financing. In some cases, these same operations give a natural hedge, while in other cases, currency forwards are entered into in order to hedge such operations. Because the Entity has investments in foreign subsidiaries, it is exposed to the risk of foreign currency translation. The foreign operations maintain monetary assets and liabilities denominated in various currencies, mainly the U.S. dollar, euro and Brazilian real, resulting in exposure to foreign exchange risk, which is naturally hedged by the same business operations. The carrying values of monetary assets and liabilities denominated in foreign currency and which primarily generate exposure for the Entity at the end of the reporting period, are as follows (figures in thousands):

	Liabilities			Assets		
	2017	2016	2015	2017	2016	2015
U.S. Dollar (US)	518,967	478,390	345,758	278,397	616,094	546,956
Euro (EU)	7,585	11,977	8,181	14,706	24,693	19,894
Brazilian real (RA)	57,245	52,362	63,054	197,444	142,079	120,267
Colombian peso	16,427,021	15,548,521	16,900,304	27,826,936	23,296,132	26,376,130
Peruvian Sol	34,175	42,231	51,964	69,196	66,953	72,678

The following table indicates the Entity's sensitivity to a 10% increase or decrease of the Mexican peso versus the US dollar and other foreign currency. This percentage is the sensitivity rate used to internally report the exchange rate risk to key management personnel and also represents management's evaluation of the possible fair value change to exchange rates. The sensitivity analysis only includes monetary items denominated in foreign currency and adjusts their conversion at the end of the period by applying a 10% fluctuation; it also includes external loans. A negative or positive figure, respectively (as detailed in the following table), indicates a (decrease) or increase in net income derived from a decrease in the value of the Mexican peso of 10% with regard to the US dollar (figures in thousands):

	Stockholders' equity ⁽¹⁾			Liabilities			Assets		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
US	-	-	-	(51,897)	(47,839)	(34,576)	27,840	61,609	54,696
EU	(925)	1,837	(1,466)	(759)	(1,198)	(818)	1,471	2,469	1,989
RA	-	-	-	(5,725)	(5,236)	(6,305)	19,744	14,208	12,027
Colombian peso	-	-	-	(1,642,702)	(1,554,852)	(1,690,030)	2,782,694	2,329,613	2,637,613
Peruvian New Sol	-	-	-	(3,418)	(4,223)	(5,196)	6,920	6,695	7,268

⁽¹⁾ Represents the results of changes to the fair value of derivative instruments designated as cash flow hedges.

ii. Forwards contracts denominated in foreign currency

The Entity designated certain forwards contracts denominated in foreign currency as cash flow hedges intended for the acquisition of raw materials.

The following table indicates the forwards contracts denominated in foreign currency in effect at the end of the reporting period:

Cash flow hedges	Average exchange			Notional			Fair value		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Euro purchase									
More than 12 months	\$ 21.3278	\$ 20.6308	17.5896	\$ 10,000	\$ 22,408	\$ 16,835	\$ 13,211	\$ (26,239)	\$ (20,938)

- d. Credit risk management** - The credit risk refers to the situation in which the borrower defaults on its contractual obligations, thereby generating a financial loss for the Entity and which is essentially derived from customer accounts receivable and liquid funds. The credit risk affecting cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks with high credit ratings issued by credit rating agencies. The Entity's maximum credit risk exposure is represented by the balance in the consolidated statements of financial position. The other exposure to credit risk is represented by the balance of each financial asset principally in trade receivables. The Entity sells its products and /or services to customers, who have demonstrated financial solvency, and periodically assesses the financial condition of its customers and maintains billing insurance contracts for domestic and export sales. Therefore, the Entity does not believe there is a significant risk of loss due to a concentration of credit in its customer base in the retail sector, as they are diluted by 1,927,824 customers, which do not represent a concentration of risk. In regards to industrial and infrastructure and construction, although the credit concentration risk is higher accounts receivable are covered by collections insurance in some cases. The Entity also believes that potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its estimate of incurred losses related to impairment of accounts receivable (see Note 8).

- e. Liquidity risk management** - Corporate Treasury has the ultimate responsibility for liquidity management, and has established appropriate policies to control this through monitoring of working capital, managing short, medium and long-term funding requirements, maintaining cash reserves and available credit lines, continuously monitoring cash flows (projected and actual), and reconciling the maturity profiles of financial assets and liabilities.

The following table details the remaining contractual maturities of the Entity's non-derivative financial liabilities, based on contractual repayment periods. The contractual maturities are based on the dates on which the Entity shall make each payment.

The amounts contained in the debt to credit institutions include interest rate instruments and fixed as detailed in Note 19. If changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period under review, is presented at fair value. The Entity expects to meet its obligations with cash flows from operations and resources received from the maturity of financial assets.

As of December 31, 2017	Weighted average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years	Total
Loans with financial institutions and others	MX 7.29 % US 3.31%	\$ 2,678,430	\$ -	\$ -	\$ -	\$ 7,548,311	\$ 10,226,741
Payables to suppliers		9,712,285	136,477	63,081	-	-	9,911,843
Due to related parties		674,392	-	-	-	-	674,392
Other accounts payable and accrued liabilities		2,186,763	85,603	494,022	-	-	2,766,388
Derivative financial instruments		305	-	-	-	202,524	202,829
Total		\$ 15,252,175	\$ 222,080	\$ 557,103	\$ -	\$ 7,750,835	\$ 23,782,193

As of December 31, 2016	Weighted average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years	Total
Loans with financial institutions and others	MX 5.88% US 0.91%	\$ 6,761,819	\$ -	\$ 4,959,360	\$ -	\$ -	\$ 11,721,179
Payables to suppliers		9,141,675	133,171	72,084	-	-	9,346,930
Due to related parties		858,081	-	-	-	-	858,081
Other accounts payable and accrued liabilities		2,020,320	57,636	494,022	-	-	2,571,978
Derivative financial instruments		58,759	3,544	6,978	12,143	-	81,424
Total		\$18,840,654	\$ 194,351	\$ 5,532,444	\$ 12,143	\$ -	\$ 24,579,592

As of December 31, 2015	Weighted average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years	Total
Loans with financial institutions and others	MX 4.30% US 0.71% RA 5.50%	\$ 2,411,636	\$ -	\$ -	\$ 5,000,000	\$ -	\$ 7,411,636
Payables to suppliers		8,305,386	74,973	19,234	-	-	8,399,593
Due to related parties		483,698	23	-	-	-	483,721
Other accounts payable and accrued liabilities		1,892,641	37,471	275,142	-	-	2,205,254
Derivative financial instruments		76,514	9,607	1,423	351,586	-	439,130
Total		\$ 13,169,875	\$ 122,074	\$ 295,799	\$ 5,351,586	\$ -	\$ 18,939,334

f. Market risk - The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates and commodities. The Entity enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- Forward foreign exchange contracts to hedge the exchange rate risk arising on the export of products and loans in other currencies.
- Swaps interest rate swaps to mitigate the risk of rising financing cost.
- Forward foreign exchange contracts to hedge the exchange rate risk arising on translation of investment in a foreign operation with functional currency different from the Mexican peso.
- Commodities contracts to hedge risks of fluctuations in the prices of certain metals.

Exposure to market risk is measured using sensitivity analysis. There have been no changes in exposure to market risks or the manner in which those risks are being managed and measured.

If commodity prices had an increase and / or decrease of 10% in each reporting period and all other variables held constant, profit before tax for the years 2017, 2016 and 2015 for the next period would have (decreased) increased by approximately \$244,692, \$183,624 and \$150,435, respectively.

12. Fair value of financial instruments

This note provides information about how the Entity determines fair values of various financial assets and financial liabilities.

a. Fair value of the Entity's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Entity's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

Financial assets/financial liabilities	Fair value as of			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31/12/17	31/12/16	31/12/15				
1) Foreign currency forward contracts (see Note 13) ⁽ⁱ⁾	Assets-\$21,148	Liabilities-\$43,826	Liabilities-\$75,085	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Interest rate swaps, copper and aluminum shopping cart (see Note 13) ⁽ⁱ⁾	Assets-\$101,319	Liabilities-\$332,832	Liabilities-\$136,812	Level 2	Discounted cash flows.	N/A	N/A

⁽ⁱ⁾ Represents financial instruments that are measured at fair value after initial recognition, grouped into levels ranging from 1 to 3 based on the degree to which the fair value is observed, and these Level 2 indicators derived from other than quoted prices, but including indicators that are observable for the asset or liability either directly or indirectly quoted prices that is to say derived from these prices. During the years ended December 31, 2017, 2016 and 2015 there were no transfers between levels, both years corresponded to Level 2.

b. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair value of financial instruments presented below has been determined by the Entity using available market information or other valuation techniques that require judgment in developing and interpreting the estimates of fair values also makes assumptions that are based on market conditions existing at each of the dates of the statement of financial position. Consequently, the estimated amounts presented are not necessarily indicative of the amounts the Entity could realize in a current market exchange. The use of different assumptions and / or estimation methods may have a material effect on the estimated fair value amounts.

The amounts of cash and cash equivalents of the Entity, as well as accounts receivable and payable to third parties and related parties, and the current portion of loans from financial institutions and long-term debt approximate their fair value because they short-term maturities. The long-term debt of the Entity are recorded at amortized cost and debt is interest at fixed and variable rates that are related to market indicators.

To obtain and disclose the fair value of long-term debt using quoted market prices or quotations for similar instruments operators. To determine the fair value of financial instruments using other techniques such as estimated cash flows, considering the dates flow curves intertemporal market and discounting these flows with rates that reflect the risk of the counterparty and the risk of the Entity for the reference period.

The fair value of interest rate swaps is calculated as the present value of estimated net cash flows in the future. The fair value of currency futures is determined using quoted forward exchange rates at the date of statement of financial position.

The carrying amounts of financial instruments by category and their estimated fair values are as follows:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets:						
Cash and equivalent cash	\$ 4,331,365	\$ 4,331,365	\$ 4,857,917	\$ 4,857,917	\$ 8,070,330	\$ 8,070,330
Instruments available-for-sale:						
Fixed-term securities	777,387	777,387	1,498,719	1,498,719	2,692,010	2,692,010
Loans and receivables:						
Accounts receivable in the short and long term	23,189,298	22,989,646	22,145,131	22,147,478	18,421,820	18,593,931
Due to related parties	4,090,589	4,090,589	3,682,581	3,682,581	3,436,079	3,436,079
Accounts and notes payable:						
Notes payable to financial institutions including current portion of long-term debt and others	(10,226,741)	(10,226,741)	(6,721,179)	(6,721,179)	(2,411,636)	(2,411,636)
Debt securities	-	-	(5,000,000)	(5,895,000)	(5,000,000)	(4,994,700)
Trade accounts payable	(9,911,843)	(9,911,843)	(9,346,930)	(9,346,930)	(8,399,593)	(8,399,593)
Due to related parties	(674,392)	(674,392)	(858,081)	(858,081)	(483,721)	(483,721)
Other accounts payable and accrued liabilities	(2,766,388)	(2,766,388)	(2,571,978)	(2,571,978)	(2,205,254)	(2,205,254)
Total	\$ 8,809,275	\$ 8,609,623	\$ 7,686,180	\$ 6,793,527	\$ 14,120,035	\$ 14,297,446

The fair values shown at December 31, 2017, 2016 and 2015, except for the receivables to commercial customers and debt securities approximate their carrying value because the values observed in the market are very similar to those recorded in these periods.

13. Financial derivative instruments

The purpose of contracting financial derivative instruments is: (i) to partially cover the financial risks of exposure to exchange rates, interest rates, and prices of certain metals; or (ii) to realize financial returns due to the behavior of the underlying. The decision to contract an economic financial hedge is based on market conditions, the expectation of such instrument at a given date, and the domestic and international economic context of the economic indicators that influence the Entity's operations.

The transactions performed with foreign exchange and/or interest rate forwards and swaps; as well as embedded derivatives, are summarized below:

Instrument	Designated as	Notional		Maturity	Valuation as of December 31, 2017			
		Amount ('000)	Unit		Asset (liability)	Net income of the year	Income of prior year	Gain (loss) on settlement
Dollar forwards	Purchase	20,000	US	March 2018	\$ 7,937	\$ (7,937)	\$ -	\$ -
Dollar forwards	Purchase	373,000	US	During 2017	-	-	-	518,328
Dollar forwards	Sale	270,000	US	During 2017	-	-	-	(509,422)
LIBOR swaps to fixed rate	Purchase	50,000	US	February 2030 and February 2035	6,038	7,968	(14,006)	11,937
TIE swaps to fixed rate	Purchase	3,650,000	MX	April 2022 and April 2027	289,791	28,582	(318,373)	22,967
TIE swaps to fixed rate	Purchase	4,950,000	MX	During 2017	-	-	-	(27,074)
Fixed rate swaps to TIE	Sale	1,000,000	MX	May 2018	5,367	21,787	(27,154)	(53,572)
Fixed rate swaps to TIE	Sale	700,000	MX	During 2017	-	-	-	1,888
Total at December 31, 2017					\$ 309,133	\$ 50,400	\$ (359,533)	\$ (34,948)
Total at December 31, 2016					\$ 306,946	\$ (430,736)	\$ 123,790	\$ 402,233
Total at December 31, 2015					\$ (177,937)	\$ (241,273)	\$ 419,210	\$ 1,288,194

Open and closed transactions with hedge forwards to purchase foreign currency are summarized below:

Instrument	Notional		Maturity	Valuation as of December 31, 2017		Gain (loss) on settlement
	Amount ('000)	Unit		Asset (liability)	Comprehensive income	
Euro forwards purchase	10,000	Thousand Euros	January to December 2018	\$ 13,211	\$ (9,248)	\$ -
Euro forwards purchase	12,408	Thousand Euros	During 2017	-	-	3,752
Total at December 31, 2017				\$ 13,211	\$ (9,248)	\$ 3,752
Total at December 31, 2016				\$ (26,239)	\$ 18,367	\$ 18,425
Total at December 31, 2015				\$ (20,938)	\$ 14,657	\$ 37,560

Transactions carried out with interest rate swaps are summarized below:

Instrument	Notional		Maturity	Valuation as of December 31, 2017	
	Monto ('000)	Unit		Asset (liability)	Comprehensive income
LIBOR swaps to fixed rate	397,835	US	January 2035	\$ (202,524)	\$ 202,524
Total at December 31, 2017				\$ (202,524)	\$ 202,524
Total at December 31, 2016				\$ -	\$ -

The transactions opened and settled with hedge swaps to purchase metals:

Instrument	Notional		Maturity	Valuation as of December 31, 2017		(Gain) loss on settlement
	Amount ('000)	Unit		Asset (liability)	Comprehensive income	
Copper Swaps purchase	490	Tons	January to June 2018	\$ 2,560	\$ (1,984)	\$ -
Copper Swaps purchase	3,462	Tons	During 2017	-	-	(25,421)
Aluminum Swaps purchase	750	Tons	January to June 2018	87	(61)	-
Aluminum Swaps purchase	2,425	Tons	During 2017	-	-	(2,716)
Total at December 31, 2017				\$ 2,647	\$ (2,045)	\$ (28,137)
Total at December 31, 2016				\$ 8,299	\$ (6,323)	\$ 3,462
Total at December 31, 2015				\$ (13,022)	\$ 10,696	\$ 23,100

14. Property, plant and equipment

The reconciliation between the carrying amount at the beginning and end of the year 2017, 2016 and 2015 is as follows:

	Balances as of December 31, 2016	Additions	Retirements / disposals	Transfers	Translation effect	Balances as of December 31, 2017
Investment:						
Land	\$ 3,757,238	\$ 92,466	\$ (78,863)	\$ (8,487)	\$ (165)	\$ 3,762,189
Buildings and leasehold improvements	14,860,410	326,166	(82,807)	3,821	3,914	15,111,504
Machinery and equipment	19,831,886	243,056	(249,507)	351,733	(62,677)	20,114,491
Furniture and equipment	5,812,630	311,938	(58,854)	1,322	(7,637)	6,059,399
Computers	1,873,211	133,353	(16,949)	23,498	5,155	2,018,268
Vehicles	987,854	55,773	(75,338)	34,768	978	1,004,035
Construction in progress	6,769,344	4,668,602	(77,060)	(469,841)	(269,030)	10,622,015
Total investment	53,892,573	5,831,354	(639,378)	(63,186)	(329,462)	58,691,901

Accumulated depreciation:

Buildings and leasehold improvements	(6,757,489)	(477,036)	60,750	(316)	(9,818)	(7,183,909)
Machinery and equipment	(11,409,556)	(759,783)	228,488	(4,160)	44,407	(11,900,604)
Furniture and equipment	(3,211,631)	(524,678)	56,511	3,128	10,542	(3,666,128)
Computers	(1,488,223)	(135,932)	16,039	(1,284)	2,522	(1,606,878)
Vehicles	(606,361)	(122,432)	51,109	(886)	20,293	(658,277)
Total accumulated depreciation	(23,473,260)	(2,019,861)	412,897	(3,518)	67,946	(25,015,796)

Impairment:

Land	(26,814)	-	-	-	-	(26,814)
Buildings and leasehold improvements	(80,104)	(21,562)	-	-	-	(101,666)
Machinery and equipment	(128,920)	(2,794)	-	-	478	(131,236)
Furniture and equipment	(907)	(5,872)	-	-	-	(6,779)
Computers	(541)	-	-	-	-	(541)
Vehicles	(6,516)	-	-	-	-	(6,516)
Accumulated impairment losses	(243,802)	(30,228)	-	-	478	(273,552)
Net investment	\$ 30,175,511	\$ 3,781,265	\$ (226,481)	\$ (66,704)	\$ (261,038)	\$ 33,402,553

	Balances as of December 31, 2015	Additions	Retirements / disposals	Transfers	Translation effect	Balances as of December 31, 2016
Investment:						
Land	\$ 3,343,242	\$ 270,184	\$ (292)	\$ 141,933	\$ 2,171	\$ 3,757,238
Buildings and leasehold improvements	14,366,328	973,716	34,458	(577,378)	63,286	14,860,410
Machinery and equipment	18,769,050	306,944	(195,825)	672,601	279,116	19,831,886
Furniture and equipment	4,953,903	870,359	(19,037)	(4,153)	11,558	5,812,630
Computers	1,676,565	175,384	(28,156)	15,141	34,277	1,873,211
Vehicles	1,127,280	38,695	(55,427)	(137,334)	14,640	987,854
Construction in progress	1,677,116	5,314,232	(3,676)	(455,947)	237,619	6,769,344
Total investment	45,913,484	7,949,514	(267,955)	(345,137)	642,667	53,892,573

Accumulated depreciation:

Buildings and leasehold improvements	(6,648,619)	(427,343)	(26,926)	373,459	(28,060)	(6,757,489)
Machinery and equipment	(10,498,622)	(727,318)	188,053	(249,169)	(122,500)	(11,409,556)
Furniture and equipment	(2,720,730)	(505,086)	12,393	7,588	(5,796)	(3,211,631)
Computers	(1,385,218)	(113,391)	26,760	4,525	(20,899)	(1,488,223)
Vehicles	(641,834)	(124,244)	38,163	112,176	9,378	(606,361)
Total accumulated depreciation	(21,895,023)	(1,897,382)	238,443	248,579	(167,877)	(23,473,260)

Impairment:

Land	(26,814)	-	-	-	-	(26,814)
Buildings and leasehold improvements	(85,306)	-	-	5,202	-	(80,104)
Machinery and equipment	(118,948)	-	236	2,113	(12,321)	(128,920)
Furniture and equipment	(965)	-	-	58	-	(907)
Computers	(576)	-	-	35	-	(541)
Vehicles	(6,939)	-	-	423	-	(6,516)
Accumulated impairment losses	(239,548)	-	236	7,831	(12,321)	(243,802)
Net investment	\$ 23,778,913	\$ 6,052,132	\$ (29,276)	\$ (88,727)	\$ 462,469	\$ 30,175,511

	Balances as of December 31, 2015	Additions	Retirements/ disposals	Transfers	Translation effect	Balances as of December 31, 2015
Investment:						
Land	\$ 3,335,833	\$ 8,342	\$ (13,417)	\$ 46,348	\$ (33,864)	\$ 3,343,242
Buildings and leasehold improvements	12,910,524	1,323,106	(70,353)	237,774	(34,723)	14,366,328
Machinery and equipment	18,693,222	352,866	(476,077)	770,983	(571,944)	18,769,050
Furniture and equipment	3,995,818	1,001,505	(66,449)	21,811	1,218	4,953,903
Computers	1,703,469	63,831	(106,989)	1,971	14,283	1,676,565
Vehicles	1,038,609	66,704	(55,811)	97,792	(20,014)	1,127,280
Construction in progress	1,316,052	1,109,971	(23,634)	(708,136)	(17,137)	1,677,116
Total investment	42,993,527	3,926,325	(812,730)	468,543	(662,181)	45,913,484
Accumulated depreciation:						
Buildings and leasehold improvements	(6,240,176)	(459,494)	43,899	15,925	(8,773)	(6,648,619)
Machinery and equipment	(10,075,531)	(722,819)	426,287	(533,035)	406,476	(10,498,622)
Furniture and equipment	(2,428,956)	(350,835)	53,643	2,631	2,787	(2,720,730)
Computers	(1,374,946)	(112,306)	106,971	2,718	(7,655)	(1,385,218)
Vehicles	(580,023)	(113,470)	36,374	4,775	10,510	(641,834)
Total accumulated depreciation	(20,699,632)	(1,758,924)	667,174	(506,986)	403,345	(21,895,023)
Impairment:						
Land	-	(26,814)	-	-	-	(26,814)
Buildings and leasehold improvements	-	-	-	(90,180)	4,874	(85,306)
Machinery and equipment	(135,786)	(81,438)	-	99,079	(803)	(118,948)
Furniture and equipment	-	-	-	(992)	27	(965)
Computers	-	-	-	(609)	33	(576)
Vehicles	-	-	-	(7,336)	397	(6,939)
Accumulated impairment losses	(135,786)	(108,252)	-	(38)	4,528	(239,548)
Net investment	\$ 22,158,109	\$ 2,059,149	\$ (145,556)	\$ (38,481)	\$ (254,308)	\$ 23,778,913

Total transfers during 2017 were made to investment properties for \$27,748 and other assets for \$2,615.

15. Investment properties

	2017	2016	2015
Investment properties	\$ 2,812,198	\$ 2,668,495	\$ 2,449,834

The changes in investment properties are as follows:

	2017	2016	2015
Balance at beginning of period	\$ 2,668,495	\$ 2,449,834	\$ 2,166,803
Additions	-	-	-
Transferred from property, plant and equipment	27,748	82,816	38,481
Gain/(loss) on property revaluation	115,955	135,845	244,550
Balance at end of period	\$ 2,812,198	\$ 2,668,495	\$ 2,449,834

Additions and transfers are primarily composed of land located in Baja California land and industrial buildings in the Estado de Mexico, Queretaro and Guanajuato.

All investment properties of Grupo Carso are held under freehold.

Grupo Carso uses valuations performed by independent experts with qualifications and relevant experience in the locations and categories of investment properties it holds.

The valuation techniques considered under the following different approaches:

In the cost approach the appraiser estimates the value of the asset compared to the cost of producing a new individual asset or a replacement property, which suggests the market as appropriate. The cost compared to the value of existing assets and is adjusted for differences in age, condition and value for the comparable asset. In its simplest form, the cost approach is represented by the net replacement value less all depreciation rates. Depreciation for valuation purposes is defined as the difference in value between real property and a new hypothetical property, taken as a basis of comparison.

In the market approach (comparable sales) the appraiser looks at recent sales with similar properties (comparable) to indicate the value of the asset. If there are no active subjects identical to comparable sales prices of comparable adjusted to match them to the characteristics of the subject asset.

The value of the asset can be estimated by expected future profits to its owner. The income approach is not widely used in the valuation of machinery and equipment, given the difficulty in determining the income that can be directly related to a specific asset, while in the real estate valuation is applicable to assets of commercial nature.

Key metrics for all investment properties are shown below:

No. Type of property	Recommended ranges for capitalization rates	
	Low	Maxim
1 Land	4%	8%
2 Warehouses	10%	14%
3 Shops	7.0%	8.9%

The Entity, through its subsidiaries, has two shopping malls, Loreto and Plaza Inbursa located in Mexico City, which generate rental income that is recognized as leasing services as earned and amounted to \$218,734, \$213,463 and \$221,714 for the years ended December 31, 2017, 2016 and 2015, respectively. At December 31, 2017, 2016 and 2015 the occupancy rate of shopping centers is of 95%, 96% and 93%, respectively.

Direct operating expenses including maintenance costs incurred in relation to the investment property are recognized in income and constitute approximately 34% 33% and 32%, of rental income for years ended December 31, 2017, 2016 and 2015, respectively.

There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Entity investment properties and information about the fair value hierarchy as of December 31, 2017, 2016 and 2015 are as follows:

	2017		2016		2015	
	Level 3	Fair value	Level 3	Fair value	Level 3	Fair value
Shops located in Mexico City	\$ 2,323,901	\$ 2,323,901	\$ 2,207,946	\$ 2,207,946	\$ 2,086,228	\$2,086,228
Land located in Baja California	488,297	488,297	460,549	460,549	363,606	363,606
Total	\$ 2,812,198	\$ 2,812,198	\$ 2,668,495	\$ 2,668,495	\$ 2,449,834	\$2,449,834

For investment properties categorized into Level 3 of the fair value hierarchy, the following information is relevant:

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Shops located in Mexico City	Income approach	Capitalization rate, taking into account the capitalization of rental income potential, nature of the property, and prevailing market condition of 7.0% - 8.9%, 7.1% - 8.8% and 6.61% - 8.86% in 2017, 2016 and 2015, respectively. Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of \$330, \$312 and \$328 Mexican pesos per square meter (sqm) per month in 2017, 2016 and 2015, respectively.	A slight increase in the capitalization rate used would result in a significant decrease in fair value, and vice versa. A significant increase in the market rent used would result in a significant increase in fair value, and vice versa.
Land	Market approach	There have been no appraisals in the last 3 years because market conditions have not changed and are not expected to change in the following periods.	

16. Investment in shares of associated entities and joint ventures

a. The principal associated entities and their activities are as follows:

Associated	Ownership percentage			Location	Activity
	2017	2016	2015		
Elementia, S. A. de C. V. (Elementia)	36.17	36.17	35.62	México	Manufacture and sale of high technology products for the cement, concrete, polyethylene, styrene, copper and aluminum production industries.
GMéxico Transportes, S.A. de C.V. (FM Rail Holding, S.A. de C.V. until April 29, 2016).	15.14	16.75	16.75	México	Railway transportation.
Infraestructura y Transportes México, S.A. de C.V. (ITM)	16.75	16.75	16.75	México	Holding of shares.
Inmuebles SROM, S.A. de C.V.	14.00	14.00	–	México	Real estate leasing.
Grupo Telvista, S.A. de C.V.	10.00	10.00	10.00	México	Specializes in providing customer care solutions and provides English and Spanish contact center outsourcing.
Infraestructura y Saneamiento Atotonilco, S.A. de C.V. (joint venture)	42.50	42.50	42.50	México	Construction of wastewater treatment plant.
Constructora MT de Oaxaca, S.A. de C.V. (joint venture)	40.00	40.00	40.00	México	Highway construction.
Cuprum, S.A.P.I. de C.V. (Cuprum)	10.00	10.00	10.00	México	Manufacture of aluminum products.
Trans-Pecos Pipeline, LLC (joint venture)	51.00	51.00	51.00	United States	Design, development, construction and operation of a new natural gas transportation pipeline.
Comanche Trail Pipeline, LLC (joint venture)	51.00	51.00	51.00	United States	Design, development, construction and operation of a new natural gas transportation pipeline.

b. The recognition of the equity method on the main associated entities and income derived from other investments was as follows:

	2017				
	Stockholders' equity	Net income	Ownership percentage	Investment in shares	Equity in income
Elementia ⁽¹⁾	\$ 22,110,350	\$ 975,711	36.17	\$ 8,552,565	\$ 350,413
GMéxico Transportes, S.A. de C.V. (FM Rail Holding, S.A. de C.V. until April 29, 2017) ⁽²⁾	50,312,564	5,966,937	15.14	7,617,659	980,036
ITM ⁽²⁾	9,879,729	1,779,063	16.75	1,654,855	297,993
Inmuebles SROM, S.A. de C.V.	14,896,516	1,116,431	10.00	2,085,512	173,293
Grupo Telvista, S.A. de C.V.	2,375,079	141,247	42.50	237,508	14,125
Infraestructura y Saneamiento Atotonilco, S.A. de C.V.	265,127	(80,044)	40.00	4,762	(34,019)
Constructora MT de Oaxaca, S.A. de C.V.	409,940	851,312	40.00	163,976	341
Cuprum ⁽³⁾	4,269,761	305,812	10.00	472,068	30,581
Trans-Pecos Pipeline, LLC	3,828,800	586,200	51.00	1,952,675	298,959
Comanche Trail Pipeline, LLC	2,998,500	617,700	51.00	1,529,257	315,003
Other Associates ⁽⁴⁾				619,604	79,206
Total investment in associated entities				24,890,441	2,505,931
Other investments				2,040	1,537
Total investment in associated entities and joint ventures				\$ 24,892,481	\$ 2,507,468

	2016				
	Stockholders' equity	Net income	Ownership percentage	Investment in shares	Equity in income
Elementia ⁽¹⁾	\$ 21,083,266	\$ 692,592	36.17	\$ 8,181,023	\$ 210,356
GMéxico Transportes, S.A. de C.V. (FM Rail Holding, S.A. de C.V. until April 29, 2016) ⁽²⁾	35,317,090	6,677,073	16.75	5,915,613	1,118,410
ITM ⁽²⁾	8,100,666	1,161,165	16.75	1,356,862	194,496
Inmuebles SROM, S.A. de C.V.	13,658,709	642,794	14.00	1,912,219	89,992
Grupo Telvista, S.A. de C.V.	3,311,867	309,628	10.00	331,187	30,963
Infraestructura y Saneamiento Atotonilco, S.A. de C.V.	91,249	(339,263)	42.50	38,781	(144,186)
Constructora MT de Oaxaca, S.A. de C.V.	409,088	(196,991)	40.00	163,635	(80,736)
Cuprum ⁽³⁾	4,235,135	(1,350,000)	10.00	468,606	68,891
Trans-Pecos Pipeline, LLC	410,943	(1,680)	51.00	209,581	(858)
Comanche Trail Pipeline, LLC	1,168,537	(1,643)	51.00	595,954	(837)
Other Associates ⁽⁴⁾				643,391	380,067
Total investment in associated entities				19,816,852	1,866,558
Other investments				2,565	1,926
Total investment in associated entities and joint ventures				\$ 19,819,417	\$ 1,868,484

	2015				
	Stockholders' equity	Net income	Ownership percentage	Investment in shares	Equity in income
Elementia ⁽¹⁾	\$ 15,301,635	\$ (3,955)	35.62	\$ 5,999,843	\$ 7,854
FM Rail Holding, S.A. de C.V. ⁽²⁾	27,717,868	4,750,725	16.75	5,089,092	795,748
ITM ⁽²⁾	6,939,501	2,625,877	16.75	1,162,366	439,835
Grupo Telvista, S.A. de C.V.	2,726,772	227,463	10.00	272,677	22,746
Infraestructura y Saneamiento Atotonilco, S.A. de C.V.	538,509	(59,126)	42.50	228,866	(25,128)
Constructora MT de Oaxaca, S.A. de C.V.	610,929	197,243	40.00	244,371	79,242
Cuprum ⁽³⁾	2,297,631	(97,022)	10.00	274,842	(9,702)
Trans-Pecos Pipeline, LLC	(128,461)	(127,015)	51.00	(65,515)	(64,778)
Comanche Trail Pipeline, LLC	(100,100)	(98,979)	51.00	(51,054)	(50,479)
Other Associates				783,081	81,358
Total investment in associated entities				13,938,569	1,276,696
Other investments				2,566	(1,119)
Total investment in associated entities and joint ventures				\$ 13,941,135	\$ 1,275,577

⁽¹⁾ The investment in shares includes goodwill of \$554,284.

⁽²⁾ The investment in shares includes a fair value complement of \$403,464. The Stockholders' Extraordinary Meeting of the associated company Infraestructura y Transportes México, S.A. de C.V. (original company) was held on December 11, 2014, which approved that the company should be broken up, without being eliminated, creating a new spin-off named "FM Rail Holding, S.A. de C.V.", to which the (net) operation assets were transferred, and the original company was left as the holder of the cash and realizable securities.

⁽³⁾ As the investment in the shares of Cuprum includes goodwill of \$45,092.

⁽⁴⁾ The increase in other associates was due to the sale of Laboratorio Medico Polanco, S.A. de C.V. to Medica Sur, S.A.B. de C.V. for the amount of \$1,700 million pesos.

c. Although the Entity holds less than 20% of the shares of ITM and FM Rail, the Entity has significant influence because a related party Sinca Inbursa has counselors.

Regarding Grupo Telvista, the Entity has significant influence because a related party America Movil has the rest of the shareholding equivalent to 90%.

Regarding Cuprum, the Entity has significant influence for having a representative on the Board of Directors, considering its 10% participation.

17. Intangible assets

	Amortization period	Balances as of January 1, 2017	Additions	Retirements / disposals / transfers	Translation effect	Balances as of December 31, 2017
Cost:						
Trademark	Indefinite	\$ 19,746	\$ 32	\$ (3,147)	\$ -	\$ 16,631
Exploration and evaluation (concession)	Indefinite	1,082,940	100,131	(9,346)	(45,058)	1,128,667
Computer programs	5.83	10,304	9,431	-	-	19,735
Licenses and franchises	Indefinite	38,142	-	-	-	38,142
Industrial property rights	10	397,869	-	-	-	397,869
Intangible assets in progress	15	41,878	43,411	-	-	85,289
Other intangible assets	Indefinite	2,592	20,132	-	-	22,724
Total cost		1,593,471	173,137	(12,493)	(45,058)	1,709,057
Accumulated amortization:						
Trademark		(6,281)	(1,660)	3,147	-	(4,794)
Exploration and evaluation (concession)		(18,049)	(3,890)	-	591	(21,348)
Computer programs		-	(3,471)	-	-	(3,471)
Licenses and franchises		-	(1,024)	-	-	(1,024)
Industrial property rights		(198,594)	(41,931)	-	-	(240,525)
Intangible assets in progress		-	(362)	-	-	(362)
Total amortization		(222,924)	(52,338)	3,147	591	(271,524)
Impairment Adjustments						
Exploration and evaluation (concession)		(707,109)	-	-	31,788	(675,321)
Net cost		\$ 663,438	\$ 120,799	\$ (9,346)	\$ (12,679)	\$ 762,212

	Amortization period	Balances as of January 1, 2016	Additions	Retirements / disposals / transfers	Translation effect	Balances as of December 31, 2016
Cost:						
Trademark	Indefinite	\$ 5,911	\$ 13,835	\$ -	\$ -	\$ 19,746
Exploration and evaluation (concession)	Indefinite	891,404	13,413	(584)	178,707	1,082,940
Computer programs	5.83	-	10,304	-	-	10,304
Licenses and franchises	Indefinite	-	38,142	-	-	38,142
Industrial property rights	10	397,869	-	-	-	397,869
Intangible assets in progress	15	-	41,878	-	-	41,878
Other intangible assets	Indefinite	-	2,592	-	-	2,592
Total cost		1,295,184	120,164	(584)	178,707	1,593,471

Accumulated amortization:

Trademark	(4,737)	(1,544)	-	-	(6,281)
Exploration and evaluation (concession)	(16,189)	-	-	(1,860)	(18,049)
Industrial property rights	(161,492)	(37,102)	-	-	(198,594)
Total amortization	(182,418)	(38,646)	-	(1,860)	(222,924)

Impairment Adjustments

Exploration and evaluation (concession)	(551,886)	-	(44,327)	(110,896)	(707,109)
Net cost	\$ 560,880	\$ 81,518	\$ (44,911)	\$ 65,951	\$ 663,438

	Amortization period	Balances as of January 1, 2015	Additions	Retirements / disposals / transfers	Translation effect	Balances as of December 31, 2015
Cost:						
Trademark	Indefinite	\$ 5,911	\$ -	\$ -	\$ -	\$ 5,911
Exploration and evaluation (concession)	Indefinite	756,385	13,118	(5,513)	127,414	891,404
Industrial property rights	10	397,869	-	-	-	397,869
Total cost		1,160,165	13,118	(5,513)	127,414	1,295,184

Accumulated amortization:

Trademark	(4,460)	(277)	-	-	(4,737)
Exploration and evaluation (concession)	(13,645)	(1,220)	-	(1,324)	(16,189)
Industrial property rights	(128,392)	(33,100)	-	-	(161,492)
Total amortization	(146,497)	(34,597)	-	(1,324)	(182,418)

Impairment Adjustments

Exploration and evaluation (concession)	-	-	(534,076)	(17,810)	(551,886)
Net cost	\$ 1,013,668	\$ (21,479)	\$ (539,589)	\$ 108,280	\$ 560,880

18. Others assets

Other assets were as follows:

	Amortization period	2017	2016	2015
Insurance and surety	(a)	\$ 507,670	\$ 438,407	\$ 354,621
Collaborative commissioning agreement		159,604	159,604	159,604
Guarantee deposits		48,731	53,031	47,325
Installation costs		165,406	112,744	85,495
Prepaid expenses		12,113	12,113	12,113
Others		167,802	113,763	45,176
		1,061,326	889,662	704,334
Accumulated amortization		(703,115)	(513,321)	(355,456)
		\$ 358,211	\$ 376,341	\$ 348,878

(a) CICSAs insurance and surety have a useful life according to the contracted projects which on average have a maturity between 2 and 3 years.

	Insurance and surety	Collaborative commissioning agreement	Guarantee deposits	Installation costs	Prepaid expenses	Others	Total
Investment:							
Balance at the beginning of 2015	\$ 267,972	-	\$ 55,425	\$ 38,427	\$ 12,113	\$ 64,252	\$ 438,189
Acquisitions	86,649	159,604	17,024	47,068	-	432	310,777
Translation effect	-	-	-	-	-	-	-
Applications / Recoveries	-	-	(25,124)	-	-	(19,508)	(44,632)
Balance as of December 31, 2015	354,621	159,604	47,325	85,495	12,113	45,176	704,334
Acquisitions	83,786	-	8,208	27,249	-	70,173	189,416
Translation effect	-	-	-	-	-	-	-
Applications / Recoveries	-	-	(2,502)	-	-	(1,587)	(4,088)
Balance as of December 31, 2016	438,407	159,604	53,031	112,744	12,113	113,762	889,662
Acquisitions	69,263	-	4,287	52,662	-	46,878	173,090
Translation effect	-	-	-	-	-	-	-
Applications / Recoveries	-	-	(8,587)	-	-	7,161	(1,426)
Balance as of December 31, 2017	\$ 507,670	\$ 159,604	\$ 48,731	\$ 165,406	\$ 12,113	\$ 167,802	\$1,061,326
Accumulated amortization:							
Balance at the beginning of 2015	\$ (260,227)	\$ -	\$ -	\$ (15,709)	\$ (5,700)	\$ (26,419)	\$(308,055)
Retirements / disposals	-	-	-	(3,713)	-	6,266	2,553
Amortization	(45,126)	-	-	-	(2,851)	(1,977)	(49,954)
Balance as of December 31, 2015	(305,353)	-	-	(19,422)	(8,551)	(22,130)	(355,456)
Retirements / disposals	-	-	-	-	-	-	-
Amortization	(86,342)	-	-	(53,588)	(2,850)	(15,085)	(157,865)
Balance as of December 31, 2016	(391,695)	-	-	(73,010)	(11,401)	(37,215)	(513,321)
Retirements / disposals	-	-	-	-	-	-	-
Amortization	(87,976)	-	-	(80,017)	(713)	(21,088)	(189,794)
Balance as of December 31, 2017	\$ (479,671)	\$ -	\$ -	\$ (153,027)	\$ (12,114)	\$ (58,303)	\$ (703,115)

The amortization recorded in income was \$189,794, \$157,865 and \$49,954 in 2017, 2016 and 2015, respectively, of which \$169,587, \$148,146 and \$47,103 is recognized as part of cost of sales, respectively.

19. Current debt and long-term debt

Debt is as follows:

	2017	2016	2015
Current debt:			
Unsecured loans for \$1,500 at a fixed rate of 7.59% and maturity on 18-Jan-2018; for \$1,000 million pesos at a fixed rate of 7.41% and maturity on January 18, 2018; for \$30 million at a fixed rate of 8.89% and maturity on Mar 15, 2018 and for \$108 million at a variable rate of TIIE + 0.85% and maturity on March 31, 2018 (1-year credit agreement)	\$ 2,638,521	\$ -	\$ -
Commercial loans in US\$39,000, with maturities in January 2017 at an interest rate of 1.11%	-	805,896	-
Unsecured loans for \$450,000 at a fixed rate of 6.37% maturing in January 2017, as well as \$25,000 at a fixed rate of 6.10%, and \$405,000 at a fixed rate of 6.84%, with the latter maturing in February 2017.	-	880,000	-
Syndicated loan for US\$240,000 maturing in July 2017, at a variable rate equal to Libor+1	-	4,959,360	-
Commercial loans in US\$90,000, with maturities in January 2017 with interest rate of 0.69%	-	-	1,548,585
Commercial loans in US\$25,000, with maturities in January 2017 with interest rate of 0.8%	-	-	430,163
Commercial loans in Mexican pesos with maturities in February 2017 with average interest rate of 3.67%	-	-	300,000
Commercial loans in Mexican pesos with maturities in February 2017 with average interest rate of 4.35%	-	-	12,000
Commercial loans in US\$17, with maturities in February 2017 with interest rate of 3.67%	-	-	143
Other loans	24,431	75,923	120,724
	2,662,952	6,721,179	2,411,615
Add current portion of long-term debt	15,478	5,000,000	21
Current portion	\$ 2,678,430	\$ 11,721,179	\$ 2,411,636
Long-term debt:			
Syndicated Loan 1st disposal on March 10, 2017 for US\$325,000, and 2nd arrangement June 15, 2017 for US\$58,260 with variable rate Libor + 2.5 and due in January 2035	\$ 7,563,789	\$ -	\$ -
Debt securities issued in Mexican pesos with monthly maturities from March 2012 with interest rate of TIIE + 0.53 and final maturity in 2017	-	5,000,000	5,000,000
Direct loan in different currencies, mainly Brazilian reals, with quarterly and semiannual maturities at variable rates, and final maturity in 2017	-	-	21
	7,563,789	5,000,000	5,000,021
Less - current portion	(15,478)	(5,000,000)	(21)
Long-term debt	\$ 7,548,311	\$ -	\$ 5,000,000

Long-term debt accrues interest at variable rates. Interest rates for loans in Mexican pesos during 2017 stood at a weighted average of 7.56%. The Libor rate as of December 31, 2017 was 7.63%.

20. Provisions

The provisions presented below represent charges incurred during 2017, 2016 and 2015, or contracted services attributable to the period, which are expected to be settled within a period not exceeding one year. The final amounts to be paid and the timing of any outflow of economic resources involve uncertainty and therefore may vary.

	2017					
	Opening balance	Provision Additions	Closing applied	Reversals	Derecognition	balance
Contractor costs	\$ 2,518,722	\$ 10,814,799	\$ (10,436,700)	\$ -	\$ (363,289)	\$ 2,533,532
Construction costs and other extraordinary items	296,624	768,268	(536,458)	-	(28,148)	500,286
Environmental costs and plant closure	162,960	-	(41,473)	-	-	121,487
Employment relationships	60,964	75,956	(50,623)	-	-	86,297
Others	230,033	272,291	(255,537)	-	-	246,787
	\$ 3,269,303	\$ 11,931,314	\$ (11,320,791)	\$ -	\$ (391,437)	\$ 3,488,389

	2016					
	Opening balance	Provision Additions	Closing applied	Reversals	Derecognition	balance
Contractor costs	\$ 1,846,373	\$ 12,000,925	\$ (11,299,032)	\$ -	\$ (29,544)	\$ 2,518,722
Construction costs and other extraordinary items	132,412	1,080,802	(916,590)	-	-	296,624
Environmental costs and plant closure	183,674	-	(20,714)	-	-	162,960
Employment relationships	56,500	66,397	(61,933)	-	-	60,964
Others	127,216	467,960	(365,143)	-	-	230,033
	\$ 2,346,175	\$ 13,616,084	\$ (12,663,412)	\$ -	\$ (29,544)	\$ 3,269,303

	2015					
	Opening balance	Provision Additions	Closing applied	Reversals	Derecognition	balance
Contractor costs	\$ 1,960,361	\$ 7,005,098	\$ (5,732,620)	\$ -	\$ (1,386,466)	\$ 1,846,373
Construction costs and other extraordinary items	220,667	418,844	(476,444)	-	(30,655)	132,412
Environmental costs and plant closure	129,440	61,046	(6,812)	-	-	183,674
Employment relationships	58,201	68,216	(69,917)	-	-	56,500
Fair value adjustment as part of the gain on the sale of PMM stock	1,669,305	57,220	(1,726,525)	-	-	-
Others	202,314	196,159	(271,257)	-	-	127,216
	\$ 4,240,288	\$ 7,806,583	\$ (8,283,575)	\$ -	\$ (1,417,121)	\$ 2,346,175

21. Retirement employee benefits

The Entity has plans for retirement, death or total disability payments for non-union employees in most of its subsidiaries. The defined benefit plans are administered by a legally separate fund of the Entity. The board of the pension fund is comprised of an equal number of representatives of both employer and (former) employees. The board of the pension fund is required according to the law and the articles of association to act in the interests of the Fund and all interested parties, active and inactive employees, retirees and employer. The board of the pension fund is responsible for investment policy in relation to the assets of the fund.

The Entity manages a plan that also covers seniority premiums for all staff working in Mexico, consisting of a single payment of 12 days per year worked based on final salary, not to exceed twice the minimum wage established by law.

Under these plans, employees are entitled to additional retirement benefits (if any) to the retirement age of 65. Other postretirement benefits are awarded.

The plans typically expose the Entity to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to government bonds yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2017 by independent appraisals members of the Asociación Mexicana de Actuarios Consultores, A.C. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

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

	2017	2016	2015
Discount rate	7.71%	7.49%	7.09%
Expected rate of salary increase	4.79%	4.61%	4.56%
Expected return on plan assets	7.71%	7.49%	7.11%
Retirement age for current pensioners (years)			
Males and females	65	65	65

Amounts recognized in the consolidated statements of financial position in respect of these defined benefit plans are as follows.

	2017	2016	2015
Present value of defined benefit obligation	\$ (4,090,648)	\$ (3,565,979)	\$ (3,482,979)
Plan assets at fair value	4,327,438	3,692,117	3,668,084
Present value of unfunded defined benefit obligation	\$ 236,790	\$ 126,138	\$ 185,105

	2017	2016	2015
Balances included in the consolidated statements of financial position are as follows:			
Defined retirement employee benefits liabilities	\$ (397,486)	\$ (391,543)	\$ (431,368)
Defined retirement employee benefits assets	634,276	517,681	616,473
	\$ 236,790	\$ 126,138	\$ 185,105

Contributions to plan assets	\$ 181,274	\$ 204,509	\$ 162,292
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The expense for the year amounts \$183,257, \$150,619 and \$130,507 in 2017, 2016 and 2015, respectively, and have been included in profit or loss as cost of sales and administration and sales expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

Net period cost comprises the following:

	2017	2016	2015
Service costs	\$ 174,495	\$ 165,946	\$ 143,975
Interest cost	269,611	240,565	200,887
Interest income	(280,456)	(254,229)	(264,835)
Past service cost	2,786	2,342	28,166
Effect of reduction or early liquidation (other than a restructuring or discontinued operation)	16,821	(4,005)	22,314
Net period cost (income)	\$ 183,257	\$ 150,619	\$ 130,507

Components of defined benefit costs recognized in other comprehensive income

	2017	2016	2015
Actuarial (losses) gains - net	\$ 107,280	\$ 69,610	\$ (741,490)

Given that there is no legal right to offset employee retirement benefits between different Entity subsidiaries, these amounts are not offset and are presented as long-term assets or liabilities in the accompanying consolidated statements of financial position.

Changes in the present value of the defined benefit obligation:

	2017	2016	2015
Changes in the present value of the defined benefit obligation at January 1	\$ (3,565,979)	\$ (3,482,979)	\$ (2,929,408)
Service costs	(174,495)	(165,946)	(143,975)
Past service (income) cost	(2,786)	(2,342)	(28,166)
Interest cost	(269,611)	(240,565)	(200,887)
Actuarial (losses) gains - net	(216,426)	120,112	(281,186)
Benefits paid	151,479	200,641	75,306
Effect of reduction or early liquidation (other than a restructuring or discontinued operation)	(12,830)	5,100	22,314
Other	-	-	3,023
Present value of the defined benefit obligation	\$ (4,090,648)	\$ (3,565,979)	\$ (3,482,979)

Changes in the present value of plan assets in the current period:

	2017	2016	2015
Opening fair value of plan assets	\$ 3,692,017	\$ 3,668,084	\$ 3,802,335
Expected yield on plan assets	280,456	254,229	264,835
Reclassifications	6,884	3,496	1,405
Actuarial gain (losses) - net	367,358	(201,560)	(460,598)
Contributions to plan	181,274	204,509	162,292
Benefits paid	(151,479)	(200,641)	(75,306)
Assets distributed on settlements	(49,072)	(36,100)	(23,562)
Others	-	-	(3,317)
Closing fair value of plan assets	\$ 4,327,438	\$ 3,692,017	\$ 3,668,084

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analysis 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 is 50 basis points higher (lower), the defined benefit obligation would decrease by \$394,969 (increase of \$420,919).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by \$288,815 (decrease by \$234,118).

If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by \$99,757 (decrease by \$97,768).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Main strategic choices that are formulated in the actuarial and technical policy document of the Fund are: Asset mix based on 50% equity instruments and 50% debt instruments.

The average duration of the benefit obligation as of December 31, 2017, 2016 and 2015 is 11.71, 11.56 and 12.50 years, respectively.

The Entity expects to make a contribution of \$236,939 to the defined benefit plans during 2018.

The main categories of plan assets, and the expected return rate in each category at the end of the reporting period, are:

	2017	2016	2015	Fair value of plan assets		
				2017	2016	2015
Equity instruments	%	%	%	\$ 2,151,792	\$ 1,937,020	\$ 1,835,053
Debt instruments	50	52	50	\$ 2,166,075	\$ 1,754,997	\$ 1,833,031
Weighted average expected return	-	-	-	\$ 101,883	\$ 102,082	\$ 115,183

The overall expected rate of return is a weighted average of the expected returns on various categories of plan assets. The evaluation of management on expected returns is based on historical performance trends and analysts' predictions on the market for assets over the life of the related obligation.

Employee benefits granted to key management personnel and / or directors of the Entity were as follows:

	2017	2016	2015
Short-term benefits	\$ 129,657	\$ 134,300	\$ 133,417
Defined benefit plans	2,476	2,415	4,745
Other long-term benefits	297,735	287,755	344,457

22. Stockholders' equity

a. The historical amount of issued and paid-in common stock of Grupo Carso as of December 31, 2017, 2016 and 2015 is as follows:

	Number of shares			Amount		
	2017	2016	2015	2017	2016	2015
Series A1	2,745,000,000	2,745,000,000	2,745,000,000	\$ 644,313	\$ 644,313	\$ 644,313
Treasury shares repurchased	(463,264,391)	(480,100,000)	(471,070,442)	(108,737)	(112,690)	(110,571)
Historical capital stock	2,281,735,609	2,264,900,000	2,273,929,558	\$ 535,576	\$ 531,623	\$ 533,742

Common stock consists of ordinary, nominative shares with no par value.

Pursuant to a General Ordinary Stockholders' Meeting on April 27, 2017, the payment of a dividend was approved for the amount of \$0.90 (ninety cents) per share, payable in two exhibitions of \$0.45 (forty five cents) per share each, on June 30 and November 30, 2017 against vouchers No. 36 and 37, respectively, of the securities that are in effect at the time of payment. Total payment was \$519,965.

Pursuant to a General Ordinary Stockholders' Meeting on April 27, 2016, the payment of a dividend was approved for the amount of \$0.88 (eighty eight cents) per share, payable in two exhibitions of \$0.44 (forty four cents) per share each, on May 31 and October 14, 2016 against vouchers No. 34 and 35, respectively, of the securities that are in effect at the time of payment. Total payment was \$1,995,912.

Pursuant to a General Ordinary Stockholders' Meeting on April 27, 2015, the payment of a dividend was approved for the amount of \$0.84 (eighty four cents) per share, payable in two exhibitions of \$0.42 (forty two cents) per share each, on May 14 and October 15, 2015 against vouchers No. 32 and 33, respectively, of the securities that are in effect at the time of payment. Total payment was \$1,915,702.

- b. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of common stock. The legal reserve may not be distributed during the existence of the Entity unless the Entity is dissolved. As of December 31, 2017, 2016 and 2015, the legal reserve, of the entity was \$381,635.
- c. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.
- d. An additional 10% ISR on dividends paid to individuals and foreign residents was approved. The income tax is paid via withholding and a final payment by the shareholder. For foreigners may apply treaties to avoid double taxation. This tax is applicable as the distribution of profits generated from 2014.
- e. As discussed in Note 2, the Entity acquired a minority interest in Sears Operadora Mexico, which generated a profit of \$1,141,267. Furthermore, the Entity acquired 51% of Claroshop; both effects are shown in the consolidated statement of changes in stockholders' equity.

23. Transactions and balances with related parties

Balances receivable and payable with related parties are as follows:

	2017	2016	2015
Receivable-			
Delphi Packard Electric Systems, Inc.	\$ 681,622	\$ 607,541	\$ 633,833
Teléfonos de México, S.A.B. de C.V.	665,740	958,172	433,757
Telecomunicaciones de Puerto Rico, Inc.	386,137	-	-
Minera Tayahua, S.A. de C.V.	320,482	47,816	51,591
Concesionaria autopista Guadalajara-Tepic, S.A. de C.V.	218,399	118,234	216,699
Infraestructura y Saneamiento de Atotonilco, S.A. de C.V.	213,525	107,987	67,545
Claro, S. A.	172,988	163,373	200,442
América Móvil Perú, S.A.C.	133,891	129,725	207,688
Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V.	127,093	55,899	3,209
Puerto Rico Telephone Company, Inc.	122,948	56,359	51,733
Radiomóvil Dipsa, S.A. de C.V.	82,759	132,692	128,531
Operadora de Sites Mexicanos, S. A. de C.V.	78,067	194,568	98,092
Telmex Colombia, S.A.	71,401	117,044	42,737
Delco Electronic Systems	66,208	65,239	-
Minera Real de Ángeles, S.A. de C.V.	63,668	61,455	59,663
Compañía Dominicana de Teléfonos, S. A.	59,989	38,217	42,712
Empresa Nicaragüense de Telecomunicaciones, S.A.	55,082	14,525	35,227
Constructora de Inmuebles PLCO, S.A. de C.V.	54,991	19,474	11,233
Telesites Costa Rica, S.A.	46,517	-	-
Telecomunicaciones de Guatemala, S. A.	44,863	25,857	10,149
Compañía de Teléfonos y Bienes Raíces, S.A. de C.V.	31,847	19,857	80,178
Servicios de Comunicaciones de Honduras, S.A. de C.V.	27,786	3,814	-
Consorcio Cargi - Propen, S.A. de C.V.	27,198	2,000	-
Teléfonos del Noroeste, S.A. de C.V.	26,658	51,355	27,274
Consorcio Red Uno, S.A. de C.V.	25,574	24,755	39,800
Uninet, S. A. de C.V.	22,311	22,773	73,735
Claro CR Telecomunicaciones. S.A.	22,286	81,878	6,563
Consorcio Ecuatoriano de Telecomunicaciones, S. A.	21,217	22,193	101,158
Conductores Monterrey, S.A. de C.V.	19,329	13,481	-
Fundación Carlos Slim, A. C.	19,090	17,888	17,996
Constructora MT Oaxaca. S.A. de C.V.	16,207	16,075	7,165
Fideicomiso / 1815 Desarrollo Tlalnepantla	14,392	5,398	6,988
Inmobiliaria Aluder, S.A. de C.V.	13,867	6,878	-
Compañía de Telecomunicaciones de el Salvador, S.A. de C.V.	13,057	13,585	13,836
Renta de Equipo, S.A. de C.V.	11,509	17,350	1,975
Concesionaria ETRAM Cuatro Caminos, S.A. de C.V.	7,937	26,800	59,787
CRS Morelos, S.A. de C.V.	6,359	18,985	188,975
Concesionaria de Autopistas y Libramientos del Pacífico Norte, S.A. de C.V.	6,336	95,897	28,322
Alquiladora de Casas, S.A. de C.V.	410	70,673	1,443
Autopista Arco Norte, S.A. de C.V.	5,956	46,958	53,174
Acolman, S. A. de C.V.	1,277	31,201	6,442
Hubard y Bourlon,, S.A. de C.V.	1,993	24,586	2,623
Claro Comunicaciones, S. A.	-	19,872	4,394
Ecuador Telecom, L.L.C.	-	13,690	38,414
Procesadora de Pagos Móviles, S.A. de C.V.	-	12,319	-
Multiservicios de Exploración Geológica Frisco, S.A. de C.V.	-	10,585	1,328
Comanche Trail Pipeline	-	-	203,570
Minera San Francisco del Oro, S.A. de C.V.	3,671	4,413	28,039
Gabriel de México, S. A. de C.V.	-	3,047	20,591
Banco Inbursa, S.A.	1,394	929	19,264
Selmec Equipos Industriales, S.A. de C.V.	5,475	4,731	15,652
Inmobiliaria para el Desarrollo de Proyectos, S.A. de C.V.	628	-	10,280
Inmobiliaria Aluminio, S.A. de C.V.	2,019	-	554
Net Brasil servicios de Televisao por Assinaturation, S.A.	-	-	107
Fundación Teléfonos de México, A.C.	-	3,476	1,516
Servicios de Comunicaciones de Honduras, S.A. de C.V.	-	3,814	6,622
Hipocampo, S.A. de C.V.	-	1,097	3,009
Other less than \$10,000	68,437	56,051	70,464
	\$ 4,090,590	\$ 3,682,581	\$ 3,436,079

	2017	2016	2015
Payable-			
Promotora del Desarrollo de América Latina, S.A. de C.V.	\$ 586,700	\$ 586,700	\$ 591,421
Radiomóvil Dipsa, S.A. de C.V.	266,896	313,222	72,203
Delphi Packard Electric Systems, Inc.	140,295	183,527	110,594
Constructora de Inmuebles PLCO, S.A. de C.V.	120,695	-	-
Teléfonos de México, S.A.B. de C.V.	104,642	324,831	124,134
Constructora Terminal Valle de México, S.A. de C.V.	92,033	-	-
Sears Brands Management	79,936	97,416	76,449
Fideicomiso / 1815 Desarrollo Tlalnepantla	70,549	360	8,000
Centro Histórico de la Ciudad de México, S.A. de C.V.	65,050	65,407	65,321
Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V.	64,265	9,948	20,856
Inmose, S. A. de C.V.	31,368	31,233	18,977
Empresa Nicaragüense de Telecomunicaciones, S.A. de C.V.	25,458	123	116
Compañía de Teléfonos y Bienes Raíces, S.A. de C.V.	21,213	48	72
Inversora Bursátil, S.A. de C.V.	18,969	38,989	1,991
Operadora de Sites Mexicanos, S.A. de C.V.	14,915	65,720	111,842
Inmuebles SROM, S.A. de C.V.	14,301	-	-
América Móvil Perú, S.A.C.	12,772	53,474	35,102
Anuncios en Directorios, S.A. de C.V.	11,701	14,595	-
Conglomerado de Medios Internacionales, S.A. de C.V.	11,301	-	-
Concesionaria Autopista Guadalajara-Tepic, S.A. de C.V.	7,824	93,164	4,086
Inmuebles y Servicios Mexicanos, S.A. de C.V.	38	63,267	-
Infraestructura y Saneamiento Atotonilco, S.A. de C.V.	-	53,500	50,797
Concesionaria de Autopistas y Libramientos del Pacífico Norte, S.A. de C.V.	30	42,693	30
Concesionaria Distribuidor Vial San Jerónimo-Muyuguarda, S.A.	4,499	41,931	128,632
Puerto Rico Telephone Company, Inc.	-	36,861	37,253
Claro CR Telecomunicaciones, S.A.	-	30,250	576
Makobil, S.de R.L. de C.V.	-	21,262	-
Net Brasil Servicios de Televisao por Assinaturation, S.A.	-	16,181	-
CRS Morelos, S.A. de C.V.	-	15,651	-
Seguros Inbursa, S.A.	1,098	12,207	7,774
Minera Real de Ángeles, S.A. de C.V.	1,121	10,241	-
Acolman, S.A, de C.V.	-	4,260	149,120
Concesionaria Etram Cuatro Caminos S.A. de C.V.	-	984	89,200
Amatech. S.A, de C.V.	-	-	48,683
Claro, S. A.	-	-	27,729
Trituradora y Procesadora de Materiales Santa Anita, S. A. de C.V.	-	1,763	14,682
Autopista Arco Norte. S.A, de C.V.	-	2,687	12,350
Inmobiliaria Aluminio, S.A. de C.V.	-	-	2,019
Comunicación Celular, S.A. de C.V.	-	-	6,504
Otros menores a \$10,000	123,240	136,283	68,877
	\$ 1,890,909	\$ 2,368,778	\$ 1,885,390

- a. Borrowings from financial institutions includes balances with Banco Inbursa, S.A. of \$30,000 and \$25,000 as of December 31, 2017 and 2016, respectively; which accrue interest at a variable rate based on general market conditions (6.10% and 3.67%, respectively; as of December 31, 2017 and 2016). As of December 31, 2015 there were no balances with this related party.
- b. Due to related parties includes advances from customers of \$1,216,517, \$1,510,697 and \$1,401,669 as of December 31, 2017, 2016 and 2015, respectively.
- c. The amounts pending are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current period or prior periods regarding bad or doubtful debts relating to amounts owed by related parties.
- d. Transactions with related parties, carried out in the ordinary course of business, were as follows:

	2017	2016	2015
Sales	\$ 18,415,026	\$ 20,994,775	\$ 21,804,777
Interest income	59,364	46,769	58,518
Purchases	(734,164)	(1,119,977)	(2,808,354)
Prepaid insurance	(265,571)	(240,037)	(262,114)
Lease expenses	(610,109)	(651,074)	(427,108)
Services rendered	(321,489)	48,442	175,248
Other expenses, net	(301,896)	(537,874)	(637,381)
Purchases of fixed assets	(13,568)	(97,170)	(69,549)

e. Transactions with associated companies and joint ventures, carried out in the ordinary course of business, were as follows:

	2017	2016	2015
Sales	\$ 1,132,340	\$ 1,052,399	\$ 864,601
Services acquired	(17,672)	11,931	59,974
Purchases	(28,931)	(79,282)	(29,533)
Expense from the lease of real property	(2,482)	(3,629)	(2,927)
Insurance	–	(28,467)	(101)
Other income, net	(29,050)	(43,465)	(90,047)
Purchases of fixed assets	(6,168)	(8,285)	(6,584)

24. Income

	2017	2016	2015
Sales			
Services	\$ 70,870,876	\$ 69,537,706	\$ 65,253,126
Sale of goods	14,438,912	18,103,694	16,273,844
Interests	3,609,459	3,182,572	2,931,056
Rentals	3,375,680	3,145,362	2,652,824
Construction	1,135,012	1,034,017	995,612
Others	162,674	184,284	117,354
Total	\$ 93,592,613	\$ 95,187,635	\$ 88,223,816

25. Cost and expenses by nature

Concept	2017			
	Cost of sales	Distribution and selling	Administrative	Total
Wages and salaries	\$ 3,821,571	\$ 4,004,636	\$ 1,761,107	\$ 9,587,314
Employee benefits	397,865	1,860,299	340,255	2,598,419
Raw materials	18,420,089	–	–	18,420,089
Manufacturing expenses	3,358,123	–	–	3,358,123
Finished products	36,754,716	–	–	36,754,716
Depreciation	798,726	1,087,409	133,726	2,019,861
Amortization	212,268	19,004	10,860	242,132
Advertising	–	463,652	–	463,652
Insurance	52,959	81,112	50,274	184,345
Freight	–	333,817	4,925	338,742
Allowance for doubtful accounts	3,731	5,023	758,389	767,143
Royalties	–	254,525	3,123	257,648
Fees	1,203	36,470	341,672	379,345
Maintenance	371,577	656,874	106,968	1,135,419
Plant costs	–	11,193	497,681	508,874
Security services	16,792	76,972	33,079	126,843
Lease	307,115	1,235,650	140,686	1,683,451
Telephone	–	76,466	54,534	131,000
Electricity	6,023	609,139	7,551	622,713
Credit card fees	–	386,192	7,592	393,784
Other	88,758	1,393,684	514,499	1,996,941
Total	\$ 64,611,516	\$ 12,592,117	\$ 4,766,921	\$ 81,970,554

2016				
Concept	Cost of sales	Distribution and selling	Administrative	Total
Wages and salaries	\$ 3,554,169	\$ 3,638,429	\$ 1,700,358	\$ 8,892,956
Employee benefits	364,412	1,755,962	320,191	2,440,565
Raw materials	19,353,768	-	-	19,353,768
Manufacturing expenses	3,597,563	-	-	3,597,563
Finished products	37,572,424	-	-	37,572,424
Depreciation	805,395	998,133	93,854	1,897,382
Amortization	185,248	8,413	2,850	196,511
Advertising	-	441,578	-	441,578
Insurance	32,066	77,718	70,875	180,659
Freight	-	333,126	-	333,126
Allowance for doubtful accounts	5,355	26,891	460,722	492,968
Royalties	-	247,033	3,410	250,443
Fees	1,182	35,605	330,779	367,566
Maintenance	566,145	467,839	102,696	1,136,680
Plant costs	-	11,755	296,623	308,378
Security services	16,084	72,819	36,015	124,918
Lease	585,935	1,209,480	126,171	1,921,586
Telephone	-	72,739	50,512	123,251
Electricity	4,283	508,193	5,412	517,888
Credit card fees	-	286,256	6,761	293,017
Other	73,581	1,646,956	324,236	2,044,773
Total	\$ 66,717,610	\$ 11,838,925	\$ 3,931,465	\$ 82,488,000

2015				
Concept	Cost of sales	Distribution and selling	Administrative	Total
Wages and salaries	\$ 3,622,302	\$ 3,577,137	\$ 1,579,785	\$ 8,779,224
Employee benefits	324,571	1,612,197	313,339	2,250,107
Raw materials	18,760,809	-	-	18,760,809
Manufacturing expenses	3,122,624	-	-	3,122,624
Finished products	34,915,150	-	-	34,915,150
Depreciation	841,893	898,936	18,095	1,758,924
Amortization	81,425	276	2,850	84,551
Advertising	-	400,383	-	400,383
Insurance	32,050	80,245	77,899	190,194
Freight	-	289,168	-	289,168
Allowance for doubtful accounts	-	-	468,844	468,844
Royalties	-	233,625	3,278	236,903
Fees	979	26,895	216,390	244,264
Maintenance	299,726	429,039	77,748	806,513
Plant costs	-	13,949	252,155	266,104
Security services	15,460	64,101	39,928	119,489
Lease	576,913	1,160,864	115,716	1,853,493
Telephone	-	65,825	61,705	127,530
Electricity	4,388	516,811	6,500	527,699
Credit card fees	-	250,286	5,897	256,183
Other	63,212	1,469,071	419,272	1,951,555
Total	\$ 62,661,502	\$ 11,088,808	\$ 3,659,401	\$ 77,409,711

26. Other income - net

	2017	2016	2015
Sales of materials and waste	\$ (15,513)	\$ (10,725)	\$ (6,096)
Income on sale of fixed asset	3,164	(12,200)	(73,420)
Gain on investment property revaluation	(115,955)	(135,845)	(244,550)
Settlement of liabilities and provisions	-	(8,672)	-
Impairment of exploration expenses	(274,249)	(155,008)	(102,691)
Impairment of property, plant and equipment	-	44,327	534,076
Impairment	-	-	108,252
Other, net	7,559	4,841	48,234
	\$ (394,994)	\$ (273,282)	\$ 263,805

27. Income taxes

The Entity is subject to ISR.

ISR -The rate was 30% in 2017, 2016 and 2015 and as a result of the new 2015 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 2013 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 2017, 2016 and 2015 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 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.

As of 2008, the Asset Tax Law (LIMPAC) was eliminated, but under certain 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.

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

	2017	2016	2015
ISR:			
Current	\$ 3,331,827	\$ 4,434,296	\$ 3,241,327
Current from prior periods	(762)	596,556	(67,975)
	\$ 3,331,065	\$ 5,030,852	\$ 3,173,352

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

	2017	2016	2015
ISR deferred (asset) liability:			
Property, plant and equipment	\$ 2,116,849	\$ 2,481,619	\$ 2,376,674
Inventories	(379,372)	(241,089)	(218,291)
Advances from customers	(717,621)	(822,121)	(779,579)
Investment in associates	256,242	-	-
Natural gas and metals swaps and forwards	36,965	88,993	(63,684)
Revenues and costs by percentage-of-completion method	353,719	222,499	176,109
Allowances for assets and reserves for liabilities	(684,484)	(930,835)	(665,218)
Other, net	(162,653)	(14,345)	(327,754)
Deferred ISR on temporary differences	819,645	784,721	498,257
Effect of tax loss carry-forwards	(1,637,024)	(1,727,881)	(1,498,206)
Allowance for deferred tax	582,779	720,301	238,605
Deferred ISR payment (long-term CUFINRE)	2,431	2,277	9,050
	(232,169)	(220,582)	(752,294)
Total deferred tax asset	2,384,854	2,048,472	2,143,195
Total deferred tax liability	\$ 2,152,685	\$ 1,827,890	\$ 1,390,901

c. The movements of deferred tax liabilities during the year are as follows:

	2017	2016	2015
Opening balance	\$ (220,582)	\$ (752,294)	\$ (408,827)
Income tax applied to income	(762)	596,556	(67,975)
Recognized in other comprehensive income	(10,825)	(64,844)	(275,492)
Closing balance	\$ (232,169)	\$ (220,582)	\$ (752,294)

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

	2017	2016	2015
	%	%	%
Statutory rate	30	30	30
Add (deduct) the effect of permanent differences - Nondeductible expenses	1	4	4
Effects of inflation	(2)	-	-
Share in income of associated companies	(6)	(3)	(4)
Effective rate	23	31	30

e. Unused tax loss carryforwards for which a deferred income tax asset has been recognized, may be recovered provided certain requirements are fulfilled. Their maturities and restated amounts at December 31, 2017 are as follows:

Year of expiration	Tax loss carryforwards
2018	\$ 109
2019	37,438
2020 and thereafter	5,125,635
	5,163,182
Foreign subsidiaries tax loss carryforwards without expiration term	536,359
Total	\$ 5,699,541

f. Tax consolidation:

The income tax liability at December 31, 2017 from the effects of benefits and tax deconsolidation shall be paid in the following years:

Year	
2018	\$ 64,493
2019	114,366
2020	102,764
2021 and thereafter	173,401
	\$ 455,024

g. Tax integration regime

ISR liability derived from the tax integration regime will be paid within the period of four years; at December 31, 2017, 2016 and 2015, this liability was \$1,148,775, \$1,048,051 and \$739,397, respectively.

28. Commitments

I. Retail sector:

a. As of December 31, 2017, contracts have been executed with suppliers for the remodeling and construction of some stores. The amount of the commitments contracted in this regard is approximately \$1,071,028.

b. Furthermore, as of December 31, 2017, the retail sector and its subsidiaries have entered into lease agreements in 340 of its stores (Sears, Saks, Sanborn Hermanos, Sanborn's - Café, Mix-Up, Discolandia, I Shop, Comercializadora Dax, Corpti and Sanborns Panama). The leases are for non-cancelable periods and range between one and twenty years. The rental expense during 2017, 2016 and 2015 was \$1,323,852, \$1,367,071 and \$1,300,320, respectively; also, the Entity and its subsidiaries, acting as lessees, have contracts whose terms range from one to fifteen years and the amount of rental income in 2017, 2016 and 2015 was \$224,472, \$221,363 and \$219,583, respectively.

- The amount of rentals payable according to its due date amount to:

Maturity	December 31, 2017
1 year	\$ 618,678
1 to 5 years	2,797,160
More than 5 years	2,953,960
	\$ 6,369,798

- The amount of rentals receivable according to their due date amount to:

Maturity	December 31, 2017
1 year	\$ 47,340
1 to 5 years	118,851
More than 5 years	233,166
	\$ 399,357

- c. In December, 2010, Sears Operadora México, S.A. de C.V. (formerly Sears Roebuck de México, S.A. de C.V.) and Sears Roebuck and Co., signed an agreement whereby they have decided to extend under the same terms the Brand Use License Contract and the Merchandise Sale and Advisory Contracts governing the commercial relationship between them, which establishes the payment of 1% of the revenues from merchandise sales, and allows the use of the Sears name both in its corporate name and in its stores, and the exploitation of the brands owned by Sears Roebuck and Co. The agreement will be in effect up to September 30, 2019, but allows for a seven-year extension under the same conditions, unless one of the parties decides not to do so, in which case it must notify the other party two years in advance.
- d. Based on an agreement signed on September 12, 2006, the Entity executed a contract for the payment of consulting and brand use license for an initial term of 15 years with a 10 year renewal option, establishing the minimum annual payment of US\$500, and allowing the use of the name Saks Fifth Avenue both in its corporate name and in its stores.

II. Infrastructure and construction and Industrial sectors:

Through its subsidiaries Operadora Cicsa, S.A. de C.V. (Operadora) and Servicios Integrales GSM, S. de R.L. de C.V. (GSM), the Entity is competing in tenders for Pemex Exploración y Producción (PEP) and Pemex Petroquímica (PPQ) public work contracts. Derived from this, the reported figures include the effect of the following contracts and formalized agreements, which provide the current advances to completion:

- a. In September 2017, Bronco Drilling Mx signed a contract with Diavaz Offshore S.A.P.I. de C.V., one of the first operators of oil fields awarded in rounds of the National Hydrocarbons Commission, for the rent of two ground drilling equipment, one for the repair of an oil well and another for the drilling of a new well both in the southern region, the value of the contract is \$18,995, to be executed in 90 days, started operations at the beginning of November of 2017.
- b. In August 2017, Constructora Terminal Valle de México, S.A. de C.V., awarded a contract in favor of Operadora CICSA for the development of workshop engineering, fabrication and assembly of the structures of 11 foundation foundations for the project called Construction of the Terminal Building of the New International Airport of Mexico City for an amount of \$89,478, as of December 31, 2017, the project progress approximates 36%.
- c. In September 2017, Constructora Terminal Valle de México, S.A. de C.V., awarded a contract in favor of Operadora CICSA for the assembly of the 21 superstructures of funnels for the project called Construction of the Terminal Building of the New International Airport of Mexico City for an amount of \$412,634, as of December 31, 2017, the project progress approximates 4%.
- d. In December 2014 and January and February 2015, purchase orders were received for the manufacture of a batch of air coolers and column fabrication for a total of US\$22,412. As of December 31, 2017, two of them (those of January 2014 and January 2015) were suspended by the client and there was an advance of 94%, the third presents an advance of 90% and is expected to be completed in March of 2018.
- e. In May 2014, PEP awarded an oil well directional drilling contract to GSM for the amount of US\$88,746, for work to be performed over 882 days. Work began in June 2014; at December 31, 2017, a 39% work completion level. By agreement between Pemex and Conagua, water wells have been drilled with this contract in Mexico City, to date 5 water wells have been drilled, the contract execution term was extended to June 30, 2018.
- f. In September 2016, Operadora announced the award of a contract for the construction of one of the runways of Mexico City's new airport through the CARGI - PROPEN consortium with a 25% share for the design, planning, construction, execution, operation, maintenance, supervision and building of the pre-loading system; the construction will be 5 km long for a contract amount of \$7,359,204 with a termination date in September 2018. As of December 31, 2017, it presents an advance of 44%.
- g. In December 2015, Operadora signed a contract to carry out expansion work on the highway stretches, consisting of the construction of civil engineering and outfitting of section "C" of the Toluca - Atlacomulco highway, including Libramiento Mavoro and Atlacomulco. The contract amount is \$2,396,143, at December 31, 2017, the execution of the work is suspended by settlers' blockades.
- h. In December 2015, Operadora signed a contract to carry out construction work for an elevated viaduct, identified as Via Periférica Elevada Parte Superior Anillo Periférico. Tramo Av. San Jerónimo - Distribuidor Vial Muyuguarda, in Mexico City. The contract amount is \$564,803 and 97% of the work has been completed as of December 31, 2017.
- i. In October 2014, Operadora executed a contract to build an Elevated Viaduct, a section at the start of the Mexico City México - Cuernavaca highway, which will reach the Tlalpan tollbooth (interconnection with the "El Caminero" elevated ring road section) in Mexico City. The contract amount is \$659,772 and at December 31, 2017, and 95% work completion level was reported.
- j. In February 2012, through Operadora, the Entity signed a concession contract for the construction, operation, exploitation, conservation and maintenance of the 111 kilometer, type A-4 Southern Guadalajara highway that extends from the Zapotlanejo junction of the Zapotlanejo - Guadalajara highway to the Arenal junction of the Guadalajara - Tepic highway. Under this concession contract, the Entity will provide construction services. The value of the contract is \$5,977,118 and fixed price contract is \$34,500, during 2016, an additional contract was signed for \$1,886,763 and at December 31, 2017, there have been advances of approximately 97%.
- k. In May 2010, the SCT, a Federal Government agency, signed a concession title with the subsidiary Autovía Mitla Tehuantepec, S.A. de C.V., to construct, exploit, operate, conserve, maintain, modernize and expand the Mitla-Entronque Tehuantepec II federal highway, which is 169 km in length. For the construction of this highway, the special purpose entity Constructora MT de Oaxaca, S.A. de C.V. (MT) was created in December 2010, of which 40% is owned by Operadora. MT signed a contract in September 2011 with the concessionaire for the construction of this highway with value of \$9,318,200. At December 31, 2017, there have been progress of approximately 68%, the work is stopped due to social problems.

- l. Operadora announced in December 2009 that it entered into a lump-sum contract with the decentralized State agency Sistema de Autopistas, Aeropuertos, Servicios Conexos y Auxiliares del Estado de México (SAASCAEM) to modernize the Autopista Tenango-Ixtapan de la Sal, from Km 1+100 to Km 32+630, in Mexico State. The work consists of an expansion from 2 to 4 lanes, including grading, drainage work, structures, asphalt surface, construction and adaptation of junctions for a total length of 31.6 km. The contract amount is approximately \$492,162. As of December 31, 2017, approximately 88% of the work has been completed, but is currently suspended due to a legal safeguard filed by local inhabitants for one stretch of the project.
- m. In October 2009 Operadora announced that it had reached agreement with Impulsora Del Desarrollo y el Empleo en América Latina, S.A.B. de C.V. (IDEAL, a related party) to perform the construction and modernization work on the "Proyecto Pacífico Norte", which consists of: (i) The Southern Bypass of Culiacan and the Mazatlan Bypass and its connecting branches, and (ii) The Mazatlan-Culiacan High Specification Highway and the related modernization work. The work to be performed is worth a total of \$3,975,714, divided into three parts; the Culiacan Bypass for \$1,590,844, in which the work was completed during 2012, the Mazatlán Bypass for \$1,884,870, As of December 31, 2017, the works were completed and the works of modernization for \$500,000 are in the process of being settled; They have started work.
- n. In November 2008, through a Consortium with other entities, CICSA signed the contract for the construction of the Eastern Emitter Tunnel, which will recover drainage capacity in the Metropolitan Zone of Mexico City and ensure the normal operation of deep drainage maintenance programs, thus eliminating the risk of flooding during the rainy season. The National Water Commission, the Federal District Government and the Government of the State of Mexico, through Trust number 1928, given the need for such construction projects and considering the technical capacity and experience of the Consortium, made a direct award in accordance with the related Law of Public Works and Services, to assign such project to Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V. (COMISSA), whose shareholders are: CICSA with 40% of the equity, Ingenieros Civiles Asociados, S.A. de C.V. (ICA), Construcciones y Trituraciones, S.A. de C.V. (COTRISA), Constructora Estrella, S.A. de C.V. (CESA) and Lombardo Construcciones, S.A. de C.V. (LOMBARDO). The project began engineering and construction work under a mixed public works scheme on the basis of unit prices, lump sum and fixed term, which must be concluded in September 2012. However, with the authorizations made after the construction work ended, the deadline was extended. The contract stipulates the construction of a tunnel 7 meters (m) in diameter, approximately 62 kilometers (km) long and with a capacity of 150 m³ per second. The original amount of this contract was \$9,595,581, and to date it has been authorized to increase it by up to \$ 20,167,949. As of December 31, 2017, an advance of approximately 90% is expected and the project is expected to be completed in August 2018.
- o. In November 2017, a contract was signed for the modernization of Triara Monterrey, for an amount of \$452,000. Works will begin in the first quarter of 2018 and are expected to be completed in the fourth quarter of 2019.
- p. In July 2017, a contract was signed for the construction of a housing and commerce building on Andrómaco Street in Mexico City, for an amount of \$383,000, it is expected to conclude the works in the first quarter of 2019 by December 31, 2017, the project progress is 6%.
- q. In July 2017, a contract was signed for the construction of a commerce and housing building on Moliere Street in Mexico City, for an amount of \$249,000, it is expected to conclude the works in the third quarter of 2019, at December 31, 2017, the project progress is 17%.
- r. In June 2017, contracts were signed for \$184,000 for the construction of a hotel in the state of Guanajuato, it is estimated to conclude the works in May 2018, as of December 31, 2017, the project progress is 32%.
- s. As mentioned in Note 2, on January 26, 2017, Constructora Terminal Valle de México, S.A. de C.V., whose corporate purpose is the fulfillment of the Public Works contract for unitary wrecks to carry out the work related to "Construction of the terminal building of the New International Airport of Mexico City", as of December 31, 2017, have been carried out preliminary technical work.
- t. In September 2016, work began on the courts building in Mexico City; the approximate contract amount is \$500,000 and is expected to conclude in the third quarter of 2018, as of December 31, 2017, the project progress is 41%.
- u. In December 2015 construction work began on commercial, residential and office space in Mexico City, where the Ford Nasa agency was located, for the amount of \$384,000; the work is expected to conclude in the third quarter of 2018. As of December 31, 2017, there is an increase of approximately 73%.
- v. In January 2014, Operadora started work on a shopping mall in Tlalnepantla. The total contract amount was approximately \$920,000, likewise, a second phase began in that quarter. The amount will be of the order of \$ 505,000, which will include hospital and housing. It is estimated that it will be completed in the first quarter of 2019. As of December 31, 2017 the project progress is approximately 25%.
- w. Operadora has signed a series of contracts to implement the project called New Veracruz, consisting of a comprehensive urban development over an area of 487 hectares and will include a shopping mall, hospital, hotel, school and homes. The Mall opened in December 2013, the hotel ended in 2014 and the hospital concluded in 2015. The water park began in the second quarter of 2015 and it is estimated that the work will be fully completed in the second quarter of 2016. Parallel construction of the homes is taking place.
- x. On January 25, 2016, Cafig Constructores, S.A. de C.V. was established, as an associated company of Operadora with an equity percentage of 45% , whose corporate purpose is the construction of the Gasoducto Samalayuca - Sásabe gas pipeline ("Gasoducto") between the States of Chihuahua and Sonora to transport natural gas.
- The gas pipeline will be 36 inches in diameter, and will have a total length of 614.127 kilometers and a natural gas transportation capacity of up to a maximum of 472,000,000 ft.³ a day (472 MMPCD). As of December 31, 2017, the percentage of completion is 41% and the scheduled date for project conclusion is November 2018.
- y. As of December 31, 2017 and 2016, the Entity has entered into contracts and work orders with related parties in Mexico and Latin America for total amounts of \$6,049,993 and \$6,073,790 and US\$175.7 and US\$192.9 million, respectively. The contracts include professional services for the construction and modernization of copper wiring networks (pairs) and outside plant fiber optics, and also the construction of pipelines and installation of fiber optics, public works and connections. Most of the projects contracted are expected to conclude during 2018.

The following contracts and / or projects are in the process of settlement:

Year of contracting	Projects	Subsidiary Contracted	Monto Contrato	Sector
2017	Drilling Geothermal Wells	GSM	\$ 29,863	Fabricación y servicios
2016	Drilling Geothermal Wells	GSM	\$ 300,000	Fabricación y servicios
2016	Construction Building	Operadora	\$ 196,785	Construcción Civil
2015	Hydraulic Pumping	GSM	US\$ 13,399	Fabricación y servicios
2015	Arco Norte highway rehabilitation	Operadora	\$ 49,169	Infraestructura
2015	Rehabilitation offices	Operadora	\$ 39,285	Construcción Civil
2015	Construction Building	Operadora	\$ 131,000	Construcción Civil
2015	Expansion of Terminal II of the Mexico City Airport	Operadora	\$ 143,000	Construcción Civil
2015	Construction Building street Palmas	Operadora	\$ 370,000	Construcción Civil
2014	Comprehensive works of control fluids	GSM	US\$ 62,128	Fabricación y servicios
2014	Road construction Libramiento Tepic	Operadora	\$ 1,620,491	Infraestructura
2014	Construction Modal Transfer Station Ciudad Cuatro Caminos	Operadora	\$ 673,000	Construcción Civil
2014	Expansion of Atlacomulco Piedras Negras and Piedras Negras road sections - Mexico Queretaro Highway Entrollment)	Operadora	\$ 1,495,000	Infraestructura
2013	Brisamar road to the connection with Cayaco - Puerto Marqués	Acatunel	\$ 1,938,043	Infraestructura
2010	Atotonilco Wastewater Treatment Plant	El Realito	\$ 2,004,000	Infraestructura

z. Maturities of contractual commitments denominated in Mexican pesos at December 31, 2017 are:

Year	Amount
2018	\$ 323,417
2019	322,651
2020	319,763
2021	281,251
2022 and thereafter	367,987
	<u>\$ 1,615,069</u>

Rents paid were \$355,049, \$615,394 and \$294,595 for the years ended December 31, 2017, 2016 and 2015, respectively.

29. Contingencies

I. Retail sector:

As of the date of these consolidated financial statements, the Entity has judicial procedures in process with the competent authorities for diverse reasons, mainly for foreign trade duties, for the recovery of accounts receivable and of labor matters.

The estimated amount of these judgments to December 31, 2017 is \$559,859, for which the Entity has recognized a provision of \$125,708 which is included in other liabilities in the consolidated statements of financial position. During 2017, the Entity made payments related to these matters of approximately \$40,553. While the results of these legal proceedings cannot be predicted with certainty, management does not believe that any such matters will result in a material adverse effect on the Entity's financial position or operating results.

II. Infrastructure and construction and Industrial sectors:

- The Entity is involved in legal proceedings related to mercantile, tax and labor matters. These matters have arisen in the normal course of business and they are normal for the industry in which the Entity participates. However, the matters are deemed to have a smaller than probable, but greater than remote probability of resulting in a loss to the Entity. Nevertheless, the Entity believes that these matters will not have a material adverse effect on its consolidated financial position or operating results.
- Certain subsidiaries are currently engaged in legal proceedings with the competent authorities for different reasons, primarily taxes and to recover long-term accounts receivable. The Entity's officers and attorneys consider that most of these issues will receive favorable verdicts. However, unfavorable verdicts will not substantially affect the Entity's financial position or results of operations.
- At December 31, 2017 and 2016, the Entity has written guarantees, mainly on behalf of their clients, for \$16,533,931 and US\$1,339, \$16,469,938 and US\$17,212, and for \$13,701,384 and US\$21,175, respectively, which were the amounts of liability in force in those periods.
- Performance warranties. In the normal course of operations, the Entity is required to guarantee its obligations, mainly derived from construction contracts by means of letters of credit or bonds, regarding the compliance with contracts or the quality of the developed works.

30. Segment information

Information by operating segment is presented based on the management focus and general information is also presented by product, geographical area and homogenous groups of customers.

a. Analytical information by operating segment:

Statements of financial position	2017					
	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
Current assets:						
Cash and cash equivalents	\$ 1,924,601	\$ 1,043,489	\$ 2,456,591	\$ 479,764	\$ (1,573,080)	\$ 4,331,365
Accounts and notes receivable, net	14,196,435	5,109,782	7,351,593	467,111	(1,168,978)	25,955,943
Total current assets	27,164,494	13,657,666	13,332,876	950,307	(2,717,370)	52,387,973
Property, plant and equipment	14,517,847	3,593,880	5,593,047	9,449,385	248,394	33,402,553
Other assets - Net	124,148	189,153	44,330	-	580	358,211
Total assets	47,887,914	28,021,851	21,247,911	14,436,155	7,254,099	118,847,930

Liabilities:

Notes payable to financial institutions and current portion of long-term debt	\$ -	\$ 1,554,481	\$ 2,000	\$ 869,974	\$ 251,975	\$ 2,678,430
Trade accounts payable	7,389,843	1,669,338	812,353	69,336	(29,027)	9,911,843
Total current liabilities	13,056,716	4,729,339	6,437,422	2,008,099	(172,238)	26,059,338
Long-term debt	-	-	-	7,548,311	-	7,548,311
Total liabilities	15,368,164	4,996,935	7,728,887	9,803,367	18,920	37,916,273

Statements of financial position	2016					
	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
Current assets:						
Cash and cash equivalents	\$ 1,714,356	\$ 740,696	\$ 1,628,111	\$ 1,473,203	\$ (698,449)	\$ 4,857,917
Accounts and notes receivable, net	13,058,329	5,023,483	6,628,465	845,139	(51,405)	25,504,011
Total current assets	25,431,652	12,977,676	12,118,414	2,254,301	(737,986)	52,044,057
Property, plant and equipment	14,400,591	3,574,967	6,578,877	5,268,238	352,838	30,175,511
Other assets - Net	92,272	208,463	74,286	-	1,320	376,341
Total assets	45,185,043	26,941,933	20,407,351	9,411,259	7,610,763	109,556,349

Liabilities:

Notes payable to financial institutions and current portion of long-term debt	\$ -	\$ 2,848,086	\$ 651,022	\$ 4,959,360	\$ 3,262,711	\$ 11,721,179
Trade accounts payable	7,036,810	1,498,895	832,447	26,863	(48,085)	9,346,930
Total current liabilities	12,470,180	6,000,627	7,403,742	5,016,486	3,367,271	34,258,306
Total liabilities	14,233,518	6,314,135	8,512,425	5,066,027	3,850,080	37,976,185

Statements of financial position	2015					
	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
Current assets:						
Cash and cash equivalents	\$ 3,904,546	\$ 481,379	\$ 1,016,941	\$ 2,037,975	\$ 629,489	\$ 8,070,330
Accounts and notes receivable, net	11,418,186	4,438,025	4,528,601	136,563	63,128	20,584,503
Total current assets	25,659,024	11,220,116	9,347,639	2,382,169	691,022	49,299,970
Property, plant and equipment	12,608,487	3,524,622	6,559,087	1,067,999	18,718	23,778,913
Other assets - Net	34,551	232,771	77,978	-	3,578	348,878
Total assets	41,364,031	22,521,926	18,355,837	3,753,092	8,190,024	94,184,910

Liabilities:

Current liabilities:						
Notes payable to financial institutions and current portion of long-term debt	\$ -	\$ 2,060,737	\$ 350,899	\$ -	\$ -	\$ 2,411,636
Trade accounts payable	6,041,107	1,412,735	967,440	1,749	(23,438)	8,399,593
Total current liabilities	10,738,711	5,172,245	6,267,313	38,610	(328,255)	21,888,624
Long-term debt	-	-	-	-	5,000,000	5,000,000
Total liabilities	11,968,900	5,478,954	6,985,897	38,904	5,917,887	30,390,542

2017

Statements of Comprehensive Income	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
Net sales	\$ 49,768,427	\$ 28,782,821	\$ 17,273,500	\$ 62,443	\$ (2,294,578)	\$ 93,592,613
Cost of sales	30,044,866	22,697,090	13,983,447	32,233	(2,146,120)	64,611,516
Distribution and selling	12,003,696	605,666	26,921	–	(44,166)	12,592,117
Administrative	2,748,918	941,525	1,077,051	61,383	(61,956)	4,766,921
Other (income) expenses - Net	(316,463)	(55,917)	10,610	(7,178)	(26,046)	(394,994)
Interest (income) expense - net	(51,501)	118,348	(49,186)	(4,706)	239,361	252,316
Exchange gain (loss) - Net	(6,049)	304,909	(39,828)	159,700	(3,473)	415,259
Effects of valuation of financial instruments - Net	–	–	–	–	1,836	1,836
Equity in income of associated companies	(173,293)	(474,155)	805	(613,962)	(1,246,863)	(2,507,468)
Income from income taxes	5,389,253	4,491,648	2,225,362	434,973	2,238,311	14,779,547
Income taxes	1,227,272	1,198,143	524,659	86,123	294,868	3,331,065
Consolidated net income	4,161,981	3,293,505	1,700,703	348,850	1,943,443	11,448,482
EBITDA ⁽¹⁾	6,332,165	4,849,287	2,696,770	(15,800)	9,303	13,871,725
Depreciation and amortization	1,258,361	409,658	559,617	8,195	26,162	2,261,993

2016

Statements of Comprehensive Income	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
Net sales	\$ 47,593,847	\$ 29,048,773	\$ 19,143,008	\$ –	\$ (597,993)	\$ 95,187,635
Cost of sales	28,671,387	22,638,969	15,825,716	6,494	(424,956)	66,717,610
Distribution and selling	11,237,934	578,019	35,626	–	(12,654)	11,838,925
Administrative	2,330,814	897,505	854,375	119,535	(270,764)	3,931,465
Other (income) expenses - Net	(1,395,591)	100,233	(29,377)	42,662	(3,100)	(1,285,173)
Interest (income) expense - net	(119,453)	(2,475)	16,460	(19,596)	265,791	140,727
Exchange gain (loss) - Net	61,044	(514,848)	74,630	(452,138)	(62,458)	(893,770)
Effects of valuation of financial instruments - Net	–	–	66,682	–	(28,502)	38,180
Equity in income of associated companies	(89,992)	(345,964)	226,375	1,695	(1,660,598)	(1,868,484)
Income from income taxes	6,768,654	5,639,241	1,985,710	387,790	1,527,828	16,309,223
Income taxes	2,034,667	1,617,531	748,531	93,975	536,148	5,030,852
Consolidated net income	4,733,987	4,021,710	1,237,179	293,815	991,680	11,278,371
EBITDA ⁽¹⁾	6,465,469	5,127,274	2,948,794	(80,351)	116,890	14,578,076
Depreciation and amortization	1,116,873	365,683	578,937	1,898	30,502	2,093,893

2015

Statements of Comprehensive Income	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
Net sales	\$ 44,413,058	\$ 26,951,014	\$ 17,259,620	\$ 2,588	\$ (402,464)	\$ 88,223,816
Cost of sales	26,937,437	21,936,197	14,150,174	27,029	(389,335)	62,661,502
Distribution and selling	10,582,934	520,661	42,578	–	(57,365)	11,088,808
Administrative	2,101,334	764,579	861,702	10,739	(78,953)	3,659,401
Other (income) expenses - Net	(237,381)	(63,972)	3,144	594,619	(32,605)	263,805
Interest (income) expense - net	(187,615)	(48,415)	29,053	(27,156)	150,840	(83,293)
Exchange gain (loss) - Net	40,226	(23,567)	(33,778)	3,819	(23,175)	(36,475)
Effects of valuation of financial instruments - Net	–	(172)	220,265	–	826,828	1,046,921
Equity in income of associated companies	–	(79,560)	(53,340)	115,257	(1,257,934)	(1,275,577)
Income from income taxes	5,055,163	3,916,304	1,983,727	(721,719)	444,208	10,677,683
Income taxes	1,596,746	1,164,243	746,265	12,187	(346,089)	3,173,352
Consolidated net income	3,458,417	2,752,061	1,237,462	(733,906)	790,297	7,504,331
EBITDA ⁽¹⁾	5,707,369	4,052,744	2,714,185	(33,120)	129,334	12,570,512
Depreciation and amortization	950,405	332,614	568,258	3,631	(11,433)	1,843,475

⁽¹⁾ Reconciliation of EBITDA

	December 31, 2017	December 31, 2016	December 31, 2015
Income before income taxes	\$ 14,779,547	\$ 16,309,223	\$ 10,677,683
Depreciation and amortization	2,261,993	2,093,893	1,843,475
Interest income	(323,564)	(377,811)	(473,088)
Interest expense	575,880	518,538	389,795
Exchange gain (loss)	415,259	(893,770)	(36,475)
Gain/(loss) on property revaluation	(115,955)	(135,845)	(244,550)
Revaluation of trademarks	–	(8,672)	–
Impairment of property, plant and equipment and of exploration expenses	30,228	44,091	642,328
Effects of valuation of financial instruments	1,836	38,180	1,046,921
Equity in income of associated entities and joint ventures	(2,507,468)	(1,868,484)	(1,275,577)
Income from the purchase of SROM shares	(1,246,031)	(1,141,267)	–
EBITDA	\$ 13,871,725	\$ 14,578,076	\$ 12,570,512

EBITDA for Grupo Carso at December 31, 2017 decreased by 5%.

Cash flows from operating activities:

	2017	2016	2015
- Retail	\$ 539,272	\$ 3,411,862	\$ 3,473,779
- Industrial	2,472,243	3,399,261	2,593,314
- Infrastructure and construction	1,373,981	1,308,893	1,531,175
- Carso Energy	1,530,460	(61,405)	(289,977)
- Others and eliminations	3,704,577	(1,480,993)	(755,598)
Total consolidated	\$ 9,620,533	\$ 6,577,618	\$ 6,552,693

Cash flows from investing activities:

	2017	2016	2015
- Retail	\$ 2,415,727	\$ (2,649,251)	\$ (1,954,333)
- Industrial	508,165	(1,599,630)	2,114,311
- Infrastructure and construction	(850,172)	(77,264)	(301,006)
- Carso Energy	(5,950,646)	(4,496,581)	(1,029,014)
- Others and eliminations	(1,887,508)	(610,566)	(275,200)
Total consolidated	\$ (5,764,434)	\$ (9,433,292)	\$ (1,445,242)

Cash flows from financing activities:

	2017	2016	2015
- Retail	\$ (2,730,806)	\$ (3,962,032)	\$ (2,821,248)
- Industrial	(2,467,661)	(1,952,684)	(4,603,474)
- Infrastructure and construction	(460,807)	(779,297)	(1,878,442)
- Carso Energy	3,450,389	4,885,265	3,326,751
- Others and eliminations	(2,157,359)	1,448,506	1,228,490
Total consolidated	\$ (4,366,244)	\$ (360,242)	\$ (4,747,923)

b. General segment information by geographical area:

The Entity operates in different geographical areas and has distribution channels in Mexico, the United States and other countries through industrial plants, commercial offices or representatives.

The distribution of such sales is as follows.

	2017	%	2016	%	2015	%
North America	\$ 11,007,952	11.76	\$ 10,244,484	10.77	\$ 7,923,795	8.98
Central and South America and the Caribbean	7,623,891	8.15	6,981,115	7.33	5,875,996	6.66
Europe	379,356	0.41	259,174	0.27	214,299	0.24
Rest of the world	252,235	0.27	207,388	0.22	177,036	0.20
Total exports and foreign	19,263,434	20.58	17,692,161	18.59	14,191,126	16.08
Mexico	74,329,179	79.42	77,495,474	81.41	74,032,690	83.92
Net sales	\$ 93,592,613	100.00	\$ 95,187,635	100.00	\$ 88,223,816	100.00

The Entity has a wide variety of customers according to the category of products and services it offers; however, no particular customer represents more than 10% of net sales. The Entity offers its products and services in the following industries: energy, automotive, telecommunications, construction, electronics and general public mainly.

31. New and revised IFRS in issue but not yet effective

The Entity has not applied the following new and revised IFRS that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications) ¹
IFRS 16	Leases ²
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle ¹ y 2
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

³ Effective for annual periods beginning on or after a date to be determined.

IFRS 9, *Financial Instruments*

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

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 Financial Instruments are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Entity's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Entity have assessed the impact of IFRS 9 to the Entity's consolidated financial statements as follows:

The main financial assets of the Entity are: cash and cash equivalents, investments in securities held to maturity, accounts receivable in the short and long term and accounts receivable from related parties, which are generated by the operation itself. At the reporting date, the Entity does not have financial assets generated by debt investments, therefore, the Administration estimates that it will not have an impact in relation to the classification and measurement of financial assets, which will continue to be recognized at amortized cost.

As of December 31, 2017, the Entity does not have financial liabilities designated at fair value through results, therefore, no effects were identified with respect to the classification and measurement of financial liabilities.

For impairment of financial assets, the Entity chose to apply the simplified approach for accounts receivable, which consists in recognizing reserves for the life of the instrument, without evaluating increases in risk for its classification in stages, considering the following:

- Accounts receivable from clients are of a commercial nature and are generally recovered in accordance with credit policies whose term does not exceed 30 days, except for the Commercial Sector, where by the type of business the terms have to be higher and the which uses a reserve methodology that is based on the days of delay that the account receivable presents.
- There are segments in the portfolio that are risk-oriented, and insurance is available to guarantee collection even in cases of bankruptcy.
- Percentages of the reserve will be established based on the historical experience of the portfolio, with methodologies that allow past behavior to be used to predict future behavior.
- Evaluate the level of exposure to risk represented by unused lines of credit.
- Relevant prospective information is identified that allows to advance changes to the estimates made with respect to those constructed with historical information.
- The business model of the entity is to maintain to collect, so the classification of accounts receivable are valued at amortized cost.

Considering this information, the Bank's management anticipates that when applying the simplified approach and based on the information described above, it does not estimate that it will have a material impact on the consolidated financial statements in relation to the subject of impairment of financial assets to what is currently has recognized.

In addition to the above, greater flexibility has been introduced for the types of instruments to qualify for hedge accounting, specifically by expanding the types of instruments that qualify and the types of non-financial risk components that are eligible for hedge accounting. Additionally, the effectiveness tests will be reviewed and replaced with the concept of 'economic relationship'. Henceforth, a retrospective evaluation of effectiveness will not be required, and more detail and justification is also required in the coverage documentation, including reasons that could create ineffectiveness in the relationship. Management does not anticipate that the application of the hedge accounting requirements of IFRS 9 will have a significant impact on the Entity's consolidated financial statements, except to include more detail and justification in the documentation of the hedge.

The Entity's Management intends to use the prospective method for the transition and adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

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

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

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Entity recognizes revenue from the following major sources:

- Sale of leisure goods and electronic equipment, including the related loyalty program 'Maxi-Points Scheme' as disclosed in note 27, servicing fees included in the price of products sold, as well as warranties granted under local legislation as disclosed in note 30;
- Installation of computer software for specialized business applications; and
- Construction of residential properties.

The Entity recognizes income from the following main sources:

- Commercial section. Sale of items through department stores, gift shops, discos, restaurants, cafeterias and administration of shopping centers.
- Industrial Sector. Manufacturing and marketing of products, mainly cable for the construction, automotive, energy and telecommunications markets; manufacture of auto parts, mainly for the terminal industry; manufacture and sale of products derived from copper and aluminum; and manufacture and sale of transformers and lighting solutions.
- Infrastructure and Construction Sector. Construction and maintenance of roads, tunnels, water conduction works, water treatment plants and dams; Duct installations for the telecommunications and gas sectors, such as fiber optic networks and gas pipelines, among others; Drilling of oil wells and related services to this industry; Design and construction of oil rigs and equipment for the oil industry; as well as Construction of industrial, commercial and housing real estate.
- Energy Sector. Exploration and production of oil, gas and other hydrocarbons, as well as electricity, geothermal and natural gas transportation.

In addition to providing a greater number of disclosures about the Entity's revenue transactions, and based on existing customer and business relationship contracts, the Entity's management anticipates that the application of this standard will not have significant effects on the amounts reported in the consolidated financial statements.

The Entity's Management intends to use the prospective method for the transition and adoption of IFRS 15.

IFRS 16, Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 was issued in January 2017 and will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. "Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payment as well as the impact of lease modifications, among the others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

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

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

The Entity is currently evaluating the two options allowed by IFRS 16 in the application of the accumulated retrospective method. Although the Entity is not yet in a position to evaluate the total impact of the application of this new standard, the Entity's management expects that the impact of registering the lease liabilities and the right-of-use assets will increase its assets and liabilities. consolidated, mainly in relation to lease commitments for the use of real estate in the Commercial Sector. IFRS 16 will also affect the presentation of the consolidated statement of income, since the Entity will recognize a depreciation for the rights of use of long-term leases and a financial interest expense derived from the corresponding financial liabilities, instead of affecting the costs or expenses for these leases as currently recognized under current regulations. The Entity's management has already begun the analysis and evaluation of the impact of the new regulations on the consolidated financial statements, including the changes that must be made in the Group's accounting policies as a lessee, as well as the design of effective controls on financial reports, in the different segments of the Entity, related to the new measurement and the disclosures required for lessees by IFRS 16.

Annual Improvements to IFRSs 2014 - 2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Entity. The package also includes amendments to IFRS 12 which is mandatorily effective for the Entity in the current year - see note 2.a for details of application.

The amendments to IAS 28 are two, the first one clarifies that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Amendments to IFRS 1 and IAS 28 (clarifying the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL) are effective for annual periods beginning on or after 1 January 2018. The directors of the Entity do not anticipate that the application of the amendments in the future will have any impact on the Entity consolidated financial statements as the Entity is neither a first-time adopter of IFRS nor a venture capital organization. Furthermore, the Entity does not have any associate or joint venture that is an investment entity.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

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

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The directors of the Entity do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements. This is because the Entity already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

32. Events after the reporting period

On March 16, 2018, the Entity successfully placed a stock certificate for \$3,000,000 at 3 years, maturing in March 2021, paying interest every 28 days at a 28-day variable TIIE rate plus a margin of 0.23 percentage points; this placement was rated "AAA mex" for debt in local currency by Fitch Rating and "HR AAA" by HR Ratings de México.

33. Authorization to issue the financial statements

On March 23, 2018, the issuance of the accompanying consolidated financial statements was authorized by L.C. Arturo Spínola García; consequently, they do not reflect events occurred after that date, and are subject to the approval of the Entity's Ordinary Shareholders' Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law. The consolidated financial statements for the years ended December 31, 2016 and 2015, were approved at the Ordinary Shareholders' Meetings held on April 27, 2017 and April 27, 2016, respectively.

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Information about shares

The shares Series A-1 of Grupo Carso, S.A.B de C.V. are listed in the Mexican Stock Exchange under the ticker symbol "GCARSO".

ADR'S Level 1 Information

Symbol: GPOVY
2:1
Cusip: 400485207

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