

GRUPO

**cars** 

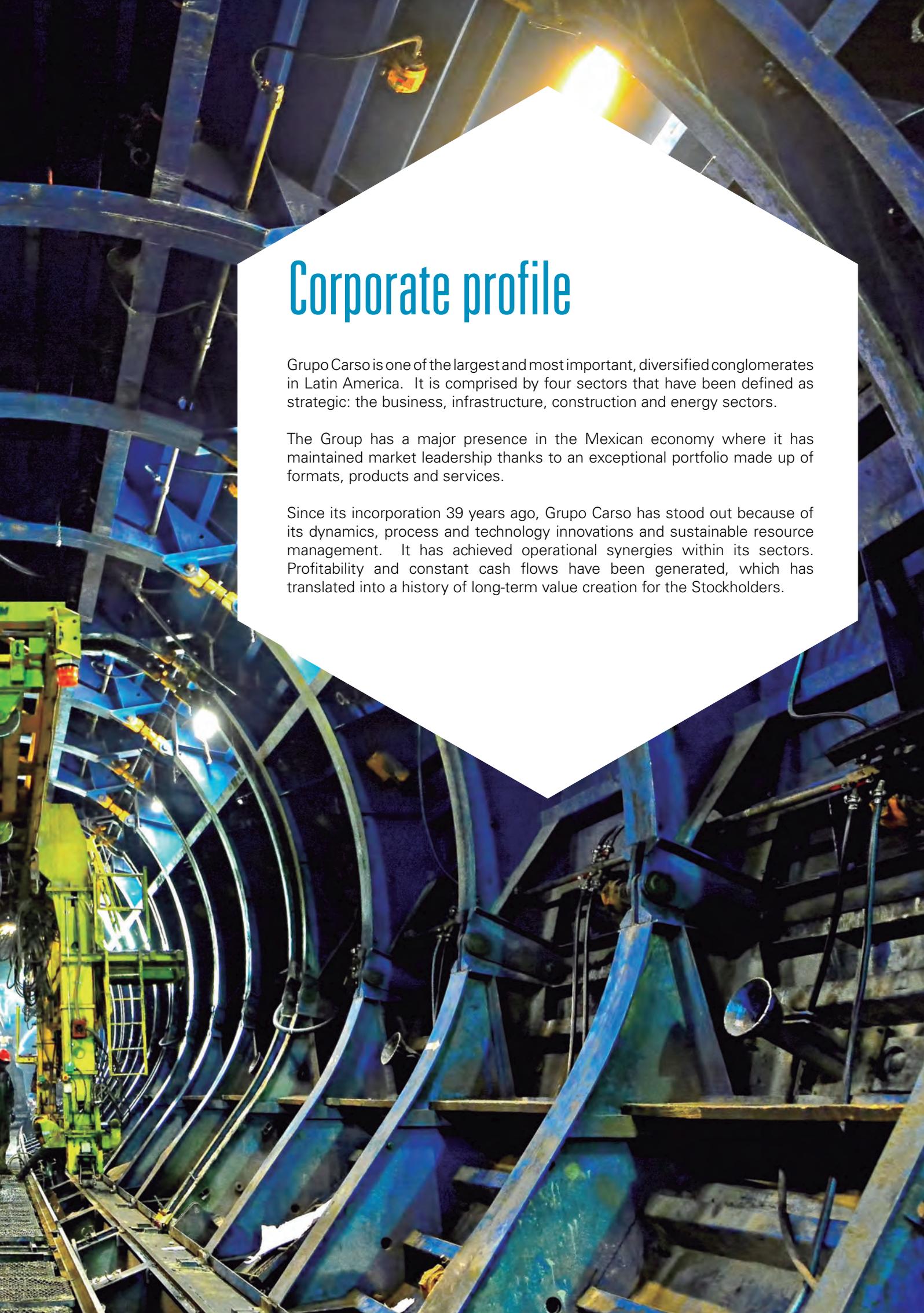


**2018**  
ANNUAL REPORT



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# 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 39 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.

# 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 441 units and one million 235 thousand square meters of commercial area, it serves a large percentage of consumers of medium, medium-high and high-income segments.

Contribution to Sales

53.6%

Contribution to Operating Income

45.4%

### Formats

- Department stores and boutiques
- Restaurant-Store
- Electronics and technology stores

### Main Brands:

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



## 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.

Contribution to Sales

32.0%

Contribution to Operating Income

38.0%

### 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,
- Power Transformers,
- Alternative energy

### Main Brands:

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



## Infrastructure and Construction:

### Carso Infraestructura y Construcción

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

Contribution to Sales

16.0%

Contribution to Operating Income

15.6%

### 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



## Energy

### Carso Energy

Participates in specific activities related to the energy industry. Currently, it supplies natural gas transportation services; exploration and production of hydrocarbons and exploration of geothermal energy.

Contribution to Sales

0.1%

Contribution to Operating Income

-4.8%

### It is dedicated to:

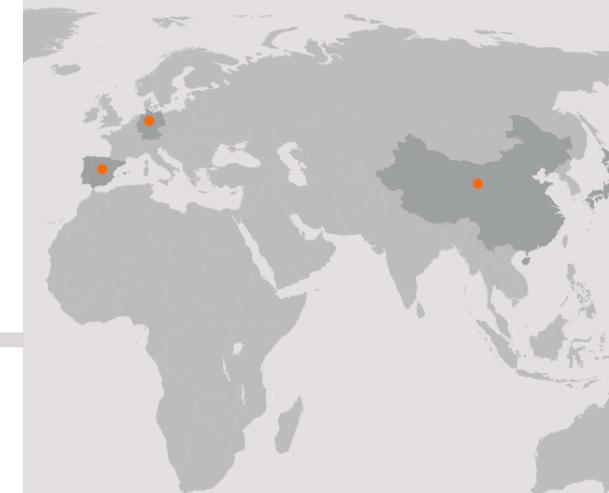
- Gas transportation services
- Exploration and production of hydrocarbons in Colombia and Mexico
- Exploitation of geothermal energy

### Main Brands:

- Carso Energy
- Carso Oil & Gas
- Carso Electric

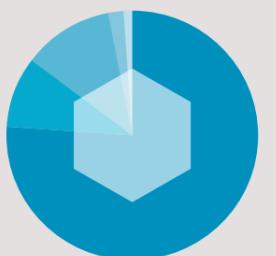


- Grupo Sanborns
- Grupo Condumex
- Carso Infraestructura y Construcción
- Carso Energy



## SALES BREAKDOWN BY GEOGRAPHIC DIVISION

- México 78.0%
- Central, South America and the Caribbean 9.5%
- North America 11.8%
- Europe 0.5%
- Rest of the World 0.2%
- 100.0%



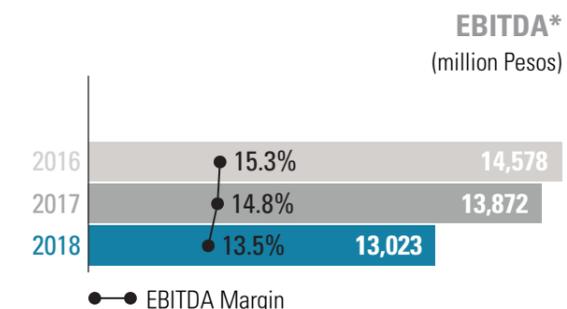
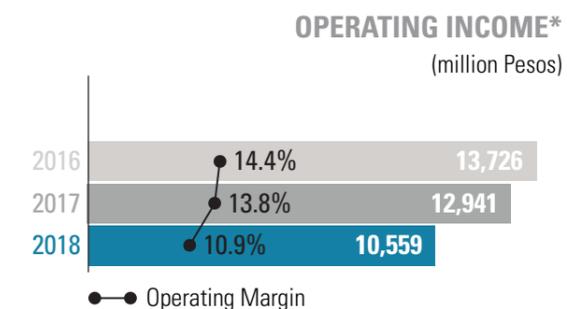
# Key Financial Information

(Amounts in thousands pesos, except earnings per share)	2016	2017	2018	Var% 2018-2017
Sales	95,187,635	93,592,613	<b>96,639,833</b>	3.3%
Gross Profit	28,470,025	28,981,097	<b>28,618,545</b>	-1.3%
Operating Income	13,725,876	12,941,490	<b>10,559,251</b>	-18.4%
EBITDA	14,578,076	13,871,725	<b>13,022,922</b>	-6.1%
Controlling Participation in Net Income	9,524,896	10,033,633	<b>9,008,302</b>	-10.2%
Earnings per share (EPS)*	4.20	4.42	<b>3.95</b>	-10.8%
<b>Margins</b>				
Gross	29.9%	31.0%	<b>29.6%</b>	-1.4 pp
Operating	14.4%	13.8%	<b>10.9%</b>	-2.9 pp
EBITDA	15.3%	14.8%	<b>13.5%</b>	-1.3 pp
Net	10.0%	10.7%	<b>9.3%</b>	-1.4 pp
<b>Revenues</b>				
Retail	47,593,847	49,768,427	<b>51,755,422</b>	4.0%
Industrial	29,048,773	28,782,821	<b>30,929,859</b>	7.5%
Infrastructure and Construction	19,143,008	17,273,500	<b>15,504,207</b>	-10.2%
Energy	0	62,443	<b>72,354</b>	15.9%
<b>EBITDA**</b>				
Retail	6,465,469	6,332,165	<b>5,971,009</b>	-5.7%
Industrial	5,127,274	4,849,287	<b>4,268,492</b>	-12.0%
Infrastructure and Construction	2,948,794	2,696,770	<b>2,189,702</b>	-18.8%
Energy	-80,351	-15,800	<b>-37,396</b>	136.7%
<b>EBITDA Margins</b>				
Retail	13.6%	12.7%	<b>11.5%</b>	-1.2 pp
Industrial	17.7%	16.8%	<b>13.8%</b>	-3.0 pp
Infrastructure and Construction	15.4%	15.6%	<b>14.1%</b>	-1.5 pp
Energy	NA	-25.3%	<b>-51.7%</b>	-26.4 pp
Total Assets	109,556,349	118,847,930	<b>137,889,196</b>	16.0%
Total Liabilities	37,976,185	37,916,273	<b>44,711,563</b>	17.9%
Stockholders' Equity	71,580,164	80,931,657	<b>93,177,633</b>	15.1%
Compounded Average Outstanding Shares ('000)	2,268,787	2,267,779	<b>2,281,595</b>	0.6%

\* 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.



Sanborns at the Averanda Shopping Center



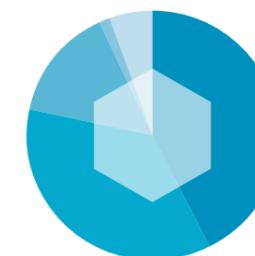
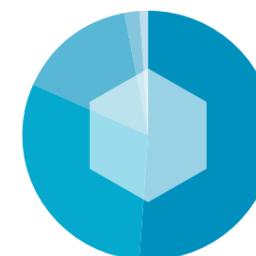
\*Note: For the calculation of the EBITA 2016, the amounts of deterioration of machinery and equipment and exploration expenses, surplus by appraisals of shopping centers and revaluation of commercial brands were not included. For the calculation of the EBITDA 2017, the profit on disposal and acquisition of shares of associates was not included, for the EBITDA 2018, in addition to these items, the participation in the results of joint ventures was not included. See reconciliation of EBITDA in Note 30 of the Financial Statements.

## 2018 SALES BREAKDOWN BY SUBSIDIARY (million pesos)

Commercial and Consumption	51,755	53.6%
Industrial and Manufacturing	30,930	32.0%
Infrastructure and Construction	15,504	16.0%
Energy	72	0.1%
Other	-1,622	-1.7%
<b>Total</b>	<b>96,640</b>	<b>100.0%</b>

## 2018 OPERATING INCOME BREAKDOWN BY SUBSIDIARY (million Pesos)

Commercial and Consumption	4,796	45.4%
Industrial and Manufacturing	4,015	38.0%
Infraestructura and Construction	1,650	15.6%
Energy	-507	-4.8%
Other	606	5.7%
<b>Total</b>	<b>10,559</b>	<b>100.0%</b>



# Letter to Shareholders



## Economic Outlook for 2018

During 2018, the global environment took a turn for the better, aided by the growth of the United States economy and despite the increase in interest rates, added to the tense relationship between that country and China. Both factors are the result of the bilateral imposition of tariffs, which affect the trade between those two countries and which have given rise to renegotiation strategies in their commercial relationship.

Benefitting from the reform of the internal revenue laws, which reduced corporate taxes from 35.0% to 21.0%, impelling the generation of corporate profits, the United States economy grew by 2.9% during 2018, a rate that produced an increase of 7.0% in nonresidential investment in that country. Meanwhile, domestic demand continued to show a positive trend during the year, with the consumption of durable goods increasing by 5.7%. Based on these factors, the United States Federal Reserve continued with its monetary policies, and the interest rate, which was more than 1.50% at the end of 2017, was adjusted to 2.50% by the end of 2018. Nevertheless, since the beginning of 2019, the Fed has shown signs of caution concerning economic growth, and at the beginning of the latter year it has predicted that the economy will grow at a slower pace in 2019, with a moderate and stable expansion.

As for the Mexican economy, Gross Domestic Product grew by 2.0% during the year, which was mostly attributable to the services sector of the economy. In this respect, the commercial activity as well as the mass media and the financial sector itself saw an expansion greater than other sectors of the economy. The economic growth of the country was partially affected by the performance of the manufacturing sector in 2018, due mainly to the lower production of oil, which was around 1.7 million barrels of oil per day.

As for the fluctuation in the value of the Mexican peso against the United States dollar, this variation was due to the volatility that characterized the year, causing a maximum exchange rate of \$20.60 pesos per dollar during that period. Thus, the exchange rate went from \$19.66 in 2017 to \$19.65 pesos per dollar at the end of 2018.

The negotiations over the United States-Mexico-Canada Agreement (known as USMCA) were concluded during the

year, thereby reducing the uncertainty that had been present since the last presidential election in the United States in respect to the modernization of the commercial relationships between these three countries. It is expected that this new agreement will be approved by the legislative bodies of each of the participating nations, to thereby strengthen Mexico's position in the North American market as an exporting nation, an attractive destination for investment and a capital for industrial development in the country.

In respect to the annual evolution of other indicators of the Mexican economy, the rate of inflation decreased in Mexico in 2018, ending at 4.83%, which compares favorably with the rate of 6.77% of the previous year. This favorable result was principally due to a smaller increase in the price of gasoline during the year. As for the country's trade balance, there was a deficit of \$13.704 billion USD, increasing by \$2.736 billion USD in respect to 2017. Specifically, the deficit in the petroleum trade balance grew by \$4.881 billion USD during the year, to the amount of \$23.190 billion USD. Nevertheless, the surplus in the non-petroleum trade balance grew by 26.7% to end up at \$9.485 billion USD at the end of the year, to thereby reflect an increase of 9.1% in Mexico's manufacturing exports.

Recently, various austerity, transparency and public finances policies and measures have been established by the new Mexican Government to combat corruption, insecurity and poverty in the country. The said problems represent the principal obstacles that hinder the generation of jobs and internal economic growth.

The Mexican Government has proposed as an objective a growth of the Mexican economy of 4.0% annually, which implies that greater investments must be carried out. In this respect, the Ministry of the Treasury and Public Credit has considered raising public investment from 2.6% of the Gross Domestic Product in 2018 to at least 5.0% of the said economic indicator, and it calculates that the participation of the private sector must be greater than 20% in order to drive the development of Mexico.

## Grupo Carso

During 2018, Mexico was exposed to an increased level of volatility and uncertainty regarding the country's economy. However, the solidity of the divisions comprised by Grupo Carso, and our financial and operational discipline, enabled us to maintain the Group's market share during the year.

Grupo Carso's consolidated sales grew by 3.3% in the year to be determined at \$96.640 billion pesos in 2018. In turn, operating profits and EBITDA stood at \$10.559 billion pesos and \$13.023 billion pesos, respectively, representing a decrease of 18.4% and 6.1% in the year. In this respect, the decrease in profitability level resulted mainly from registering extraordinary revenues in 2017 derived from the sales of shares in associated companies, as well as the recognition of a higher level of reserves for overdue accounts. Finally, the net controlling profit of Grupo Carso was \$9.008 billion pesos, while the net profit per share stood at \$3.95 pesos in 2018.

Grupo Sanborns sales grew 4.0% in 2018, a positive fluctuation reflecting the favorable performance of the Sears, Sanborns and iShop/MixUp stores. After the completion of the expansion plan, two new combined-format Sears-Sanborns stores began operations. This concept reflects the strategy of having a Sanborns restaurant inside a Sears department store, combining the offer of products and services of each chain. As a result of the profitability approach followed, some Sanborns stores were closed in the year. Further, Grupo Sanborns is performing tasks to assess the profitability per square meter of all of the Sears and Sanborns stores. The purpose of these tasks is to optimize the layout and the commercial spaces of the stores. In addition, several credit control measures were strengthened as a result of the decrease in the payment capacity of our cardholders, which was affected by increased interest rates in Mexico. Finally, Grupo Sanborns is continuing its investments in Sears distribution centers, to develop distribution and logistics in the physical stores under this business format. Likewise, the e-commerce initiatives in all our formats and

the ClaroShop.com marketplace are an integral part of our capital expenditures.

The sales of Grupo ConduMex grew 7.5% in the year, where the telecommunication, harnesses and construction segments showed a major contribution to sales in 2018. In turn, the automotive segment recorded a sales level similar to the one in the previous year, despite the change observed regarding automotive platforms and the beginning of production of new harnesses models. As in the past, our assembly plants in Jaral del Progreso, Ocampo and San Felipe, in the Mexican state of Guanajuato, procured from one of our clients, the "GM Supplier Quality Excellence Award" for having satisfied the highest quality and performance levels. In turn, we received from our client Daimler Autobuses, the "Daimler Masters of Quality 2018 Award". Despite fluctuations in the price of copper and the recognition of increased costs regarding security in the Grupo ConduMex distribution chain, the business unit expanded its contribution to consolidated operating profits, which went from 34.3% in 2017 to 37.9% in 2018. Further, a trend on Grupo ConduMex sales growth is being observed, to be materialized in 2019.

Carso Infraestructura y Construcción ("CICSA") sales decreased by 10.2%, which is mainly the result of the completion of major projects according to the time schedules thereof, together with the interruption of construction works for Runway 3 and a terminal building of the New Mexico City International Airport, a project known as NAICM or referred to Mexico City Texcoco Airport. In this development, CICSA participated in consortium with other entities, as well as supplier. Together with FCC, a CICSA's partner, the division

In 2018 Grupo Carso maintained its market share due to the solidity of our divisions and our financial and operational discipline.



has diversified its infrastructure and construction activities towards international markets. Thus, in 2018 we began the expansion project to six lanes of Section 1 (Chorrera Santa Cruz) of the Beach Corridor in Panama, securing the adjudication for acting on Section 2 of said corridor. Furthermore, we have started the project for improving the Los Chinamos – El Ayote road, located in Nicaragua.

The Carso Energy division increased its sales by 15.9% during 2018. This is the result both of oil production and marketing through our company Tabasco Oil Company in Colombia, and the lease of two gas ducts located in the state of Texas in the U.S., to the Federal Electricity Commission of Mexico, for gas transportation. This is a joint business with an entity where we hold a 51.0% interest, although we do not consolidate the results for this operation. Additionally, due to lack of release of rights of way, the construction of the Samalayuca – Sásabe gas duct, located between the Mexican states of Chihuahua and Sonora, advanced at a lesser rate than expected. As in the case of other divisions, Carso Energy continued seeking business opportunities in the year, such as those regarding alternative energies. We have begun the exploration phase in two geothermal fields in 2018, to focus later on, on the generation phase. Furthermore, we have started exploration works in the two blocks that were adjudicated to us under the Round 2.3 oil bids of the National Hydrocarbon Commission in Mexico.

Grupo Carso participates in several associated companies, such as, Elementia, GMéxico Transportes, Trans-pecos Pipeline LLC, Comanche Pipeline LLC and Inmuebles SROM, which results we do not consolidate. Taking into account sales and EBITDA for said joint ventures, Grupo Carso would record \$19.491 billion pesos and \$5.641 billion pesos, respectively, in the year 2018 for both financial indicators.

Grupo Carso's financial position remains solid. Total assets increased by 16.0% to amount to \$137,889 billion pesos, while consolidated net worth increased by 15.1%, amounting to \$93.178 billion pesos at the close of the year. In turn, Grupo Carso recorded \$13.187 billion as cost-bearing debt at the close of 2018.

Due to its corporate structure and financial strength, Grupo Carso is in a position of taking advantage of future business opportunities. The net cash flow generated by operating activities was \$9.292 billion pesos, while the net debt to 12-month EBITDA ratio was 0.33 times. The amount of resources used for capital expenditures amounted to

\$4.341 billion pesos in 2018. Grupo Carso paid an ordinary dividend in cash at a rate of 0.92 pesos per share between the months of June and November 2018. In turn, GCARSO Series A-1 shares increased their value by 8.4% going from \$64.90 pesos to \$70.40 pesos. As from March 19th, 2019, our shares are again included in the Price and Quote Index (S&P/BMV IPC) in the Mexican Stock Exchange.

In terms of sustainability, the Carlos Slim Foundation is developing 96 programs and projects in thirteen different areas, including education, jobs, health, sports, culture and the environment, reaching more than 45 million beneficiaries in Mexico and other Latin American countries.

Of particular relevance for the Foundation, beginning in September of 2017, is the "Mexico Unido" initiative, to address the damage caused by the earthquakes. During the emergency phase, the companies in the Group and their volunteers responded immediately to the basic needs of the thousands of people who were affected, by providing food, field tents, blankets, sleeping mats, water purifiers and telephone services.

During the phase involving the reconstruction and building of new homes and markets, we issued a call in which the Foundation would contribute five pesos to match every peso received. We received a response from 217 thousand donors who placed their trust in us and donated \$412.4 million pesos, to which was added \$2.0618 billion pesos contributed by the Foundation. This money has been used for the rebuilding of homes, for health and educational infrastructure and for the reconstruction of the nation's cultural patrimony. As we have established from the beginning, the actions taken and the application of these resources have been published, month by month, in the Foundation's web page.

On behalf of the Company's Board of Directors, I thank our shareholders, clients and suppliers for their trust in us. To all our employees, in addition to thanking them, I invite them to continue showing their level of motivation and commitment to continue enabling Grupo Carso to reach its goals, to continue improving its performance as it does each year and to continue contributing to the development of our country.

Sincerely yours,

**Carlos Slim Domit**  
Chairman of the Board of Directors

## Management's Discussion and Analysis

During 2018, Grupo Carso's consolidated sales increased 3.3% adding up to \$96.640 billion pesos, i.e., \$3.047 billion pesos more than in the previous year. This increase results mainly from the performance of the Business and Industrial divisions, which grew by 4.0% and 7.5%, respectively. On the other hand, sales by the Infrastructure and Construction division decreased 10.2% due to the completion of significant projects during the period.

In the year, Grupo Carso recognized profits for \$53 million pesos in the Other Expenses and Income account, a figure which unfavorably compares with the result of \$1.641 billion pesos observed in 2017, of which, \$1.246 billion pesos were for profits obtained from the dilution and sale of shares of associated companies (Grupo México Transportes, S.A. de C.V.). Further, the Company recorded \$373 million pesos for the impairment of investments made on the exploration of oil fields in Colombia.

Operating profit was \$10.559 billion pesos in 2018, a figure which is compared to \$12.942 billion pesos observed in the previous year; this account being affected by the extraordinary entries previously mentioned. The profitability of the Business, Industrial and Construction and Infrastructure divisions decreased 7.0%, 9.6% and 22.8%, respectively, in the year. The foregoing is the result of lower margins in Grupo Sanborns due both to expenses incurred on the closure of some stores, and the increase in unrecoverable credit and reserve account. Further, the ConduMex automotive division recorded lower margins produced by offsets in the platforms on the start-up of new harness models, while at CICSA, various infrastructure projects were completed, or the level of activity in them was reduced.

Accrued EBITDA decreased by 6.1% getting to \$13.023 billion pesos in 2018, which indicator does not take into

consideration the aforesaid extraordinary entries, nor other entries implying the use of cash. In turn, the EBITDA margin was 13.5% for the year, 130 basis points lower than the EBITDA margin observed in 2017.

In the year, the Comprehensive Financing Result was positive at \$215 million pesos, a figure which is compared to Comprehensive Financing Cost of \$669 million pesos recognized in 2017.

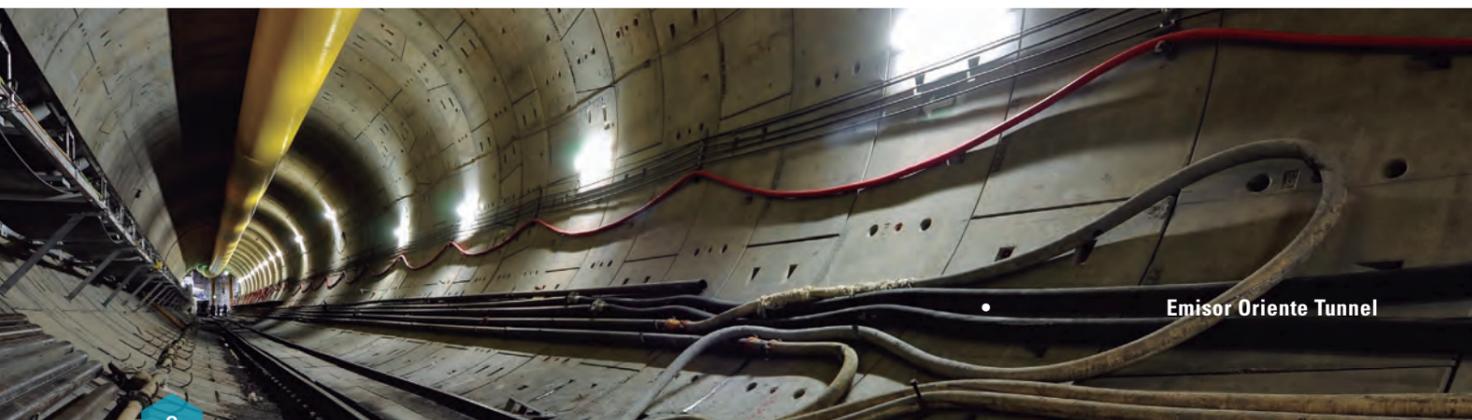
For the period, the net controlling profit was \$9.008 billion pesos, 10.2% less than the figure observed in 2017.

As of December 31, 2018, total debt was \$13.187 billion pesos, i.e., 28.9% more than the indebtedness level recognized at the close of the previous year, where such increase results mainly from financing obtained for the construction of the Samalayuca – Sásabe gas duct. In turn, Grupo Carso net debt at the close of 2018 stood at \$4.269 billion pesos, which is compared to a net debt for \$5.118 billion pesos recorded as of December 31, 2017. In particular, the amount for cash and cash equivalents increased by 74.6% in the year with respect to 2017.

The Group is maintaining a healthy financial position, where the net debt to 12-month EBITDA ratio is 0.33 times, which ratio is compared to 0.37 times observed in 2017. In turn, interest coverage ratio measured as the index between the 12-month EBITDA and interest paid was 23.0 times.

On February 17, 2017 the Company was authorized to issue short- and long-term notes, through a specific program for such purposes, up to an amount of \$10 billion pesos. As a result, Grupo Carso issued debt for \$3 billion pesos last March 16, 2018, maturing in three years from the issuance date.

As of today, Grupo Carso has a corporate structure and financial strength that will allow us to take advantage of future business opportunities.





Saks Fifth Avenue Santa Fe

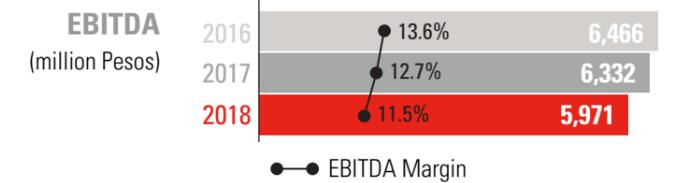
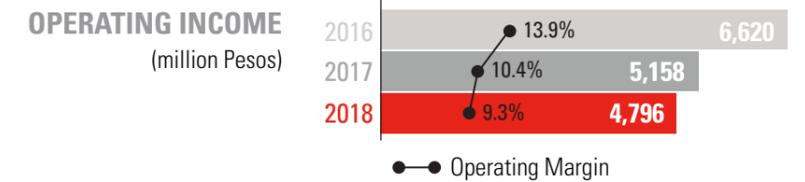
# Commercial and consumer

## DIVISION

### Grupo Sanborns

Sales at the Commercial and Consumer division totaled \$51.755 billion pesos in 2018, which represented an increase of \$1.987 billion pesos or 4.0% growth, in comparison with the figure observed in the previous year. In this respect, the sales for the Sears, Sanborns and Promotora Musical store formats, as well as the Other Formats segment, grew 1.6%, 0.1%, 16.5% and 5.7%, respectively, in 2018 in comparison to the sales recorded in the previous year.

Furthermore, income for credit was \$3.609 billion pesos, which represented an increase of 5.1% in comparison with the figure recognized in 2017.



# Commercial and consumer

## DIVISION

Operating profit was \$4,796 billion pesos in 2018, a 7.0% decrease than the operating profit for \$5.158 billion pesos recorded in 2017. This effect is mainly the result of recognizing a higher cost of sales, due to the increased participation in the mix of items grouped under the "big ticket" concept, as well as for recording in 2018 increased operating and administration expenses linked to the closure of stores that did not satisfy the profitability criteria. Further, the adjustment in operating profit is the result of opening new combined-format Sears – Sanborns stores, together with a higher level of reserves for non-performing loans and increased electricity rates.

In turn, EBITDA decreased 5.7% going from \$6.332 billion pesos in 2017 to \$5.971 billion pesos in 2018. In particular, the EBITDA margin was 11.5% in the year.

The net controlling profit for Grupo Sanborns decreased 10.7% in 2018 to get to \$3.535 billion pesos, a figure which is compared to \$3.958 billion pesos recorded in the previous year.

Among others, the aggressive expansion plan was completed, for which reason Grupo Sanborns' capital expenditures amounted to \$1.418 billion pesos in the year. Towards the end of last December, Grupo Sanborns maintained 441 stores in operation, which comprised a joint commercial floor space equivalent to 1,235,822 square meters for all store formats.



**441**  
units of all formats  
operating as of the  
date of this  
report.

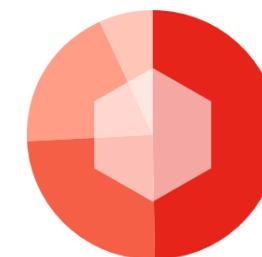


Sanborns  
Averanda Shopping Center



Sanborns  
Averanda Shopping Center

Plaza Satélite iShop



### SALES BY FORMAT

● Sears	49.9%
● Sanborns	24.4%
● iShop/MixUp	18.9%
● Other	6.8%

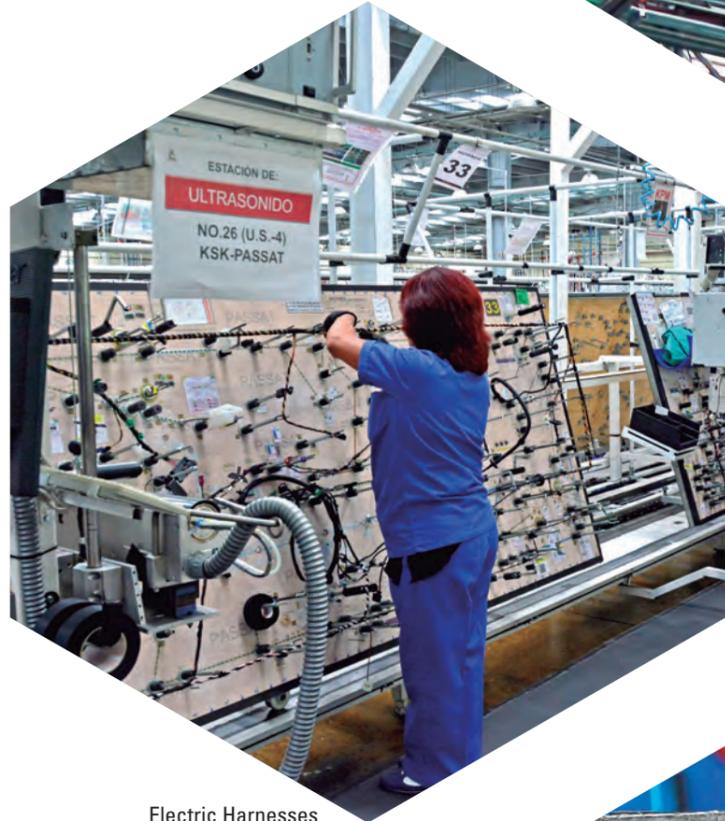
In Grupo Sanborns sales grew 4.0% where Sears, Sanborns and iShop/ MixUp had a positive performance.

# Industrial and manufacturing

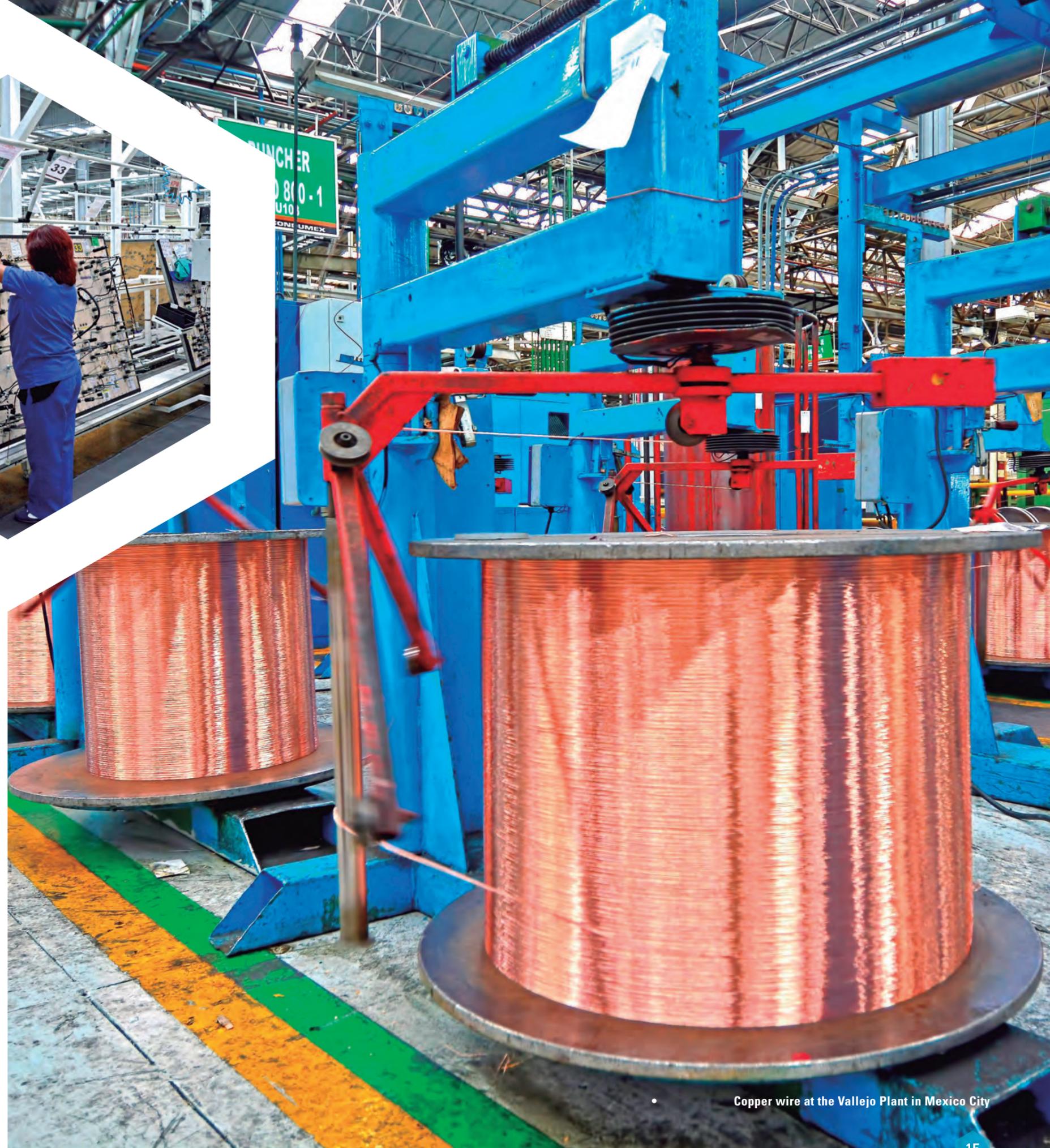
## DIVISION

### Grupo Condumex

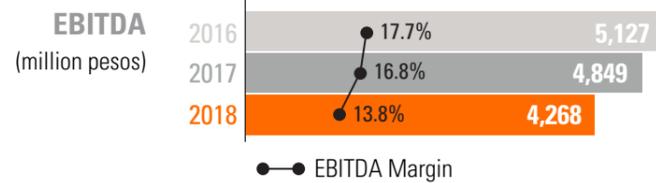
During 2018 Grupo Condumex recorded sales for \$30.930 billion pesos, a figure which is compared to sales for \$28.783 billion pesos recorded in the previous year, representing a favorable annual fluctuation of 7.5%.



Electric Harnesses



Copper wire at the Vallejo Plant in Mexico City



# Industrial and manufacturing

## DIVISION

In turn, operating profits and EBITDA were \$4.015 billion pesos and \$4.268 billion pesos, respectively, i.e. 9.6% and 12.0% less than the figures reported in 2017. These decreases are mainly the result of fluctuations in the price of copper, as well as the recognition of increased costs in connection with logistic and distribution activities within Grupo Condumex.

The net controlling profit was \$2.753 billion pesos, a figure which is compared to \$2.788 billion pesos obtained in 2017.

Grupo Condumex capital expenditures during the year, which were at \$308 million pesos, were destined mainly to maintaining the division's industrial infrastructure in satisfactory conditions, as well as the incorporation of new business.

Grupo Condumex increased its contribution to consolidated operating income from 34.3% to 37.9% and maintains a sales growth trend for 2019.



CV6 machinery at the Vallejo Plant in Mexico City



Electric Harness Mockup KSK



CASAT Super conductor cable

**\$309**  
million pesos in capital expenditures



El Caminero road

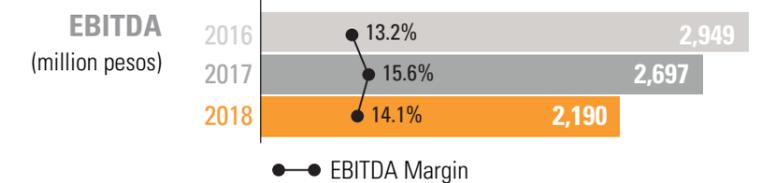
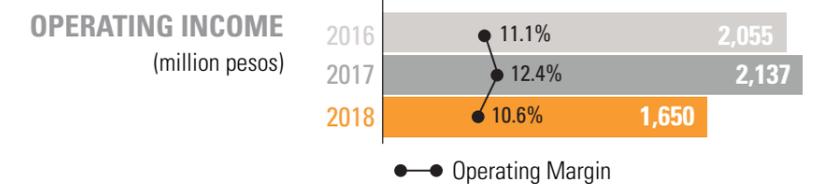
# Infrastructure and construction

## DIVISION

### Carso Infraestructura y Construcción

In 2018, sales by Carso Infraestructura y Construcción decreased 10.2%, getting to \$15,504 billion pesos. This effect results mainly from the completion of some projects (or some stages of said projects), as well as the reduction in the number of public work bids. To compensate the foregoing, the division began its participation in new projects outside Mexico, such as those that relate to road sections in Panama and Nicaragua.

As a result of the foregoing, the division recorded a 22.8% decrease in its operating profits during the year, while the EBITDA adjusted at 18.8% in the period, in comparison with the previous period.



# Infrastructure and construction

## DIVISION

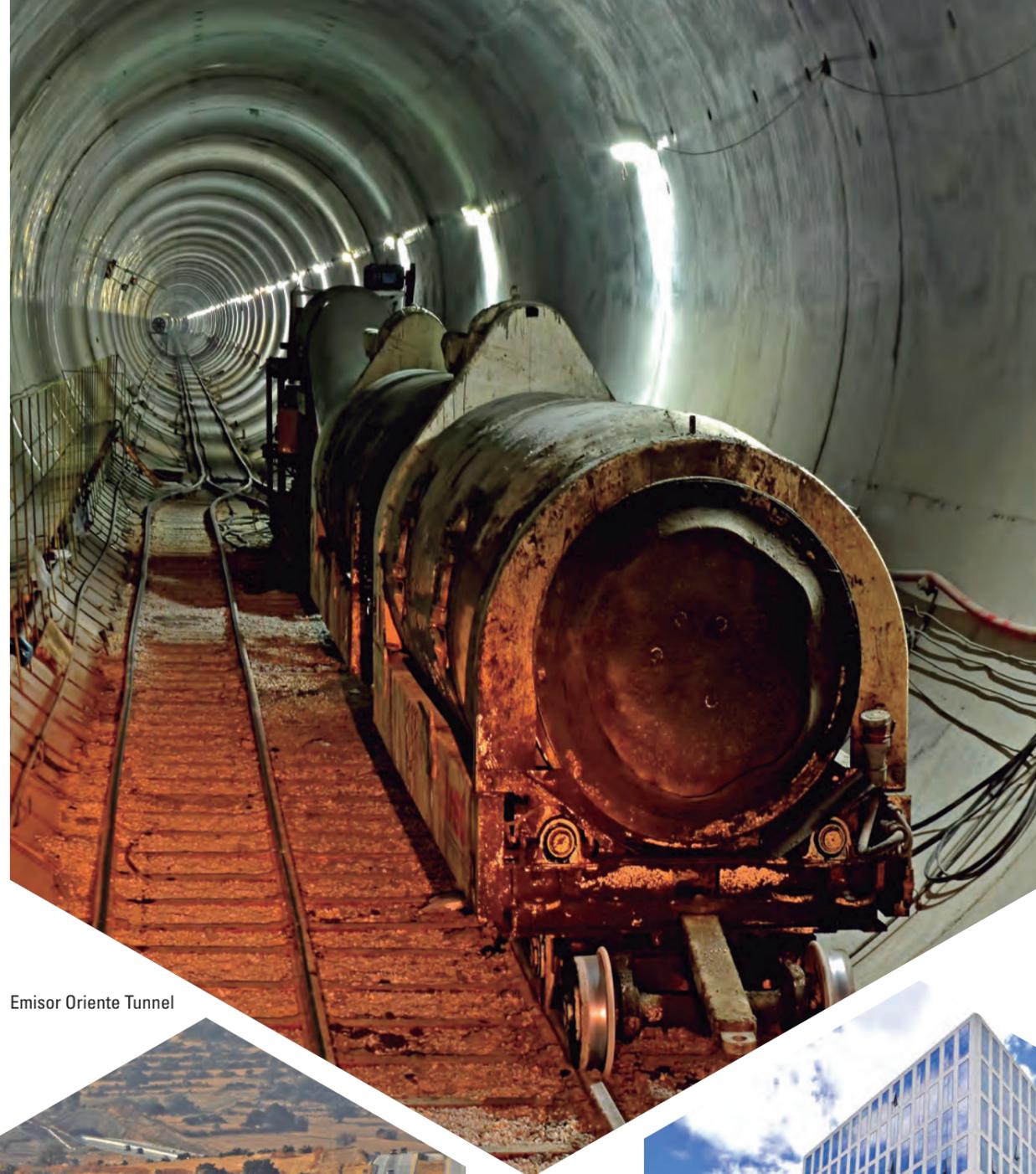
The net controlling profit was \$1.216 billion pesos in the year, in comparison with \$1.636 billion pesos recognized in 2017, due to a lower participation by the division in infrastructure projects, for which reason the profits went down by 25.7% in 2018.

In addition to several real estate projects, as well as installation services performed for Telecomunicaciones de México, the division participated in other projects during 2018. Among them, the Eastern Discharge Tunnel, the Las Varas-Vallarta road and the construction of the Samalayuca – Sásabe gas duct in Mexico. Likewise, works on road sections in Panama and Nicaragua formed a part of the projects where the division was involved in the year. On the other hand, Carso Infraestructura y Construcción participated in construction works for Runway 3 and a terminal building for the New Mexico City International Airport, known as NAICM or Mexico City Texcoco Airport, although the results of these works were not consolidated.

At the close of 2018, the Carso Infraestructura y Construcción backlog was valued at \$21.304 billion pesos, which compares with a value of \$12.431 billion pesos corresponding to the previous year. This increase is explained mainly by projects assigned to the division outside Mexico in 2018. As regards the backlog value of projects carried out in consortium with other companies, it was determined at \$2.547 billion pesos, with which the total value of the projects portfolio of the division would amount to \$23.851 billion pesos at the close of the year.

Finally, capital expenditures carried out by Carso Infraestructura y Construcción during 2018 were valued at \$135 million pesos.

**\$135**  
million pesos  
in capital  
expenditures



Emisor Oriente Tunnel



Drilling of a geothermal well

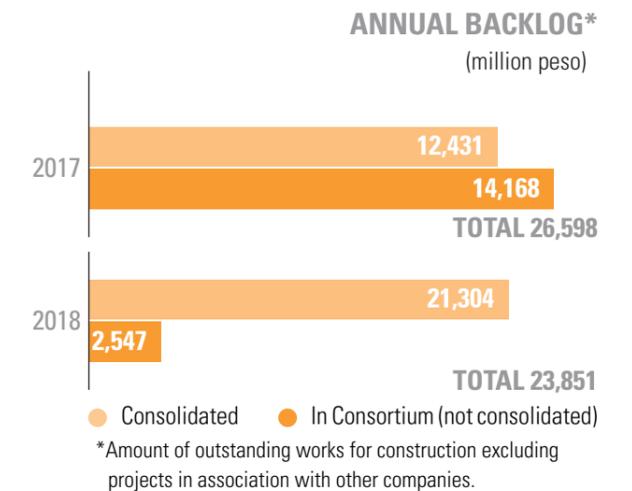


North Arc 2 Beltway



Law School building, Mexico City

Carso Infraestructura y Construcción has diversified its construction activities to other countries in conjunction with its FCC partner.



# Energy

## DIVISION

### Carso Energy

Carso Energy recorded sales for \$72 million pesos in 2018, a figure which includes revenues of our company, Tabasco Oil Company ("TOC"), from the production and sale of oil in Colombia.

In turn, the Energy division recognized an operating loss of \$507 million pesos in 2018, which is higher than the operating loss of \$24 million pesos recorded in the previous year. Further, Carso Energy saw an increased negative EBITDA in the year when going from a loss of \$16 million pesos in 2017 to a loss of \$37 million pesos in 2018. These effects are mainly the combined result of the impairment of investments in exploration of oil fields operated in Colombia, as well as the recognition of pre-operating expenses in geothermal projects and in Contractual Areas 12 and 13 in Mexico, in connection with hydrocarbon exploitation.



Compression Station  
Waha-Presidio



Samalayuca-Sásabe gas duct

SALES (Million pesos)	2016	2017	2018
		62	72

Note: As of 2017, Carso Energy does not reflect the income generated by the "Independencia I" oil Jack-Up, but revenues from the production and sale of oil through Tabasco Oil Company. In 2018 \$373 million pesos were recorded as Other Expenses in exploration investments in the fields of Colombia.

OPERATING INCOME (Million pesos)	2016	2017	2018
	-80	-24	-507

EBITDA (Million pesos)	2016	2017	2018
	-80	-16	-37

# Energy

## DIVISION

Net controlling profit of Carso Energy grew 371.6% to be determined at \$1.638 billion pesos in the year, a figure which is compared to a net controlling profit of \$347 billion pesos recorded in 2017. This positive fluctuation is mostly the result of the recognition of deferred taxes from our gas duct operation in Texas.

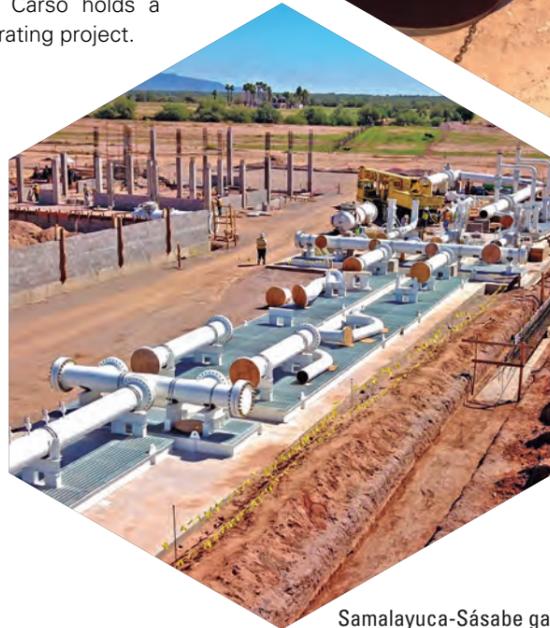
The Waha - Presidio and Waha - San Elizario gas ducts, located in the State of Texas in the U.S. and jointly operated with another company under a joint venture format, reported revenues and profits during 2018. However, despite the fact that the division maintains a 51.0% interest in this operation, its results are not consolidated by Carso Energy, although they are reflected in the results in associated companies account.

The division is constructing the Samalayuca - Sásabe gas duct, located between the states of Chihuahua and Sonora in Mexico. Because the rights of way have not been released, the construction works have been performed at a lesser rate than planned. In this project, Carso Electric holds a 100.0% economic interest.

The exploration work in two geothermal energy fields performed by the division in the Mexican states of Baja California and Guanajuato started in 2018. Carso holds a 70.0% economic interest in this energy generating project.



Waha-Presidio gas duct



Samalayuca-Sásabe gas station

**\$2,478**

billion pesos  
in capital  
expenditures

Carso Energy increased 15.9% its sales coming from the production and sale of oil through Tabasco Oil Company in Colombia, as well as from the rents from gas transportation in Texas, U.S.A.

Finally, capital expenditures carried out by Carso Energy during 2018 amounted to \$2.478 billion pesos.

### ASSOCIATED COMPANIES

The major associated companies with which Grupo Carso has an interest are the following (participation percentage and main activity are shown): Elementia (36.5%), a company that manufactures diverse construction materials, such as cement, copper piping and sheets, among others; GMéxico Transportes (15.14%), a company that engages in cargo and intermodal railway transportation in Mexico; Trans-pecos Pipeline, LLC (51.0%), owner and operator of the Waha - Presidio gas duct in Texas in the United States of America; Comanche Pipeline, LLC (51.0%), owner and operator of the Waha - San Elizario gas duct in Texas in the U.S.; and Inmuebles SROM (14.0%), a realtor company owner of shopping centers in Mexico. Sales and EBITDA for this companies attributable to Grupo Carso are \$19.491 billion pesos and \$5.641 billion pesos, respectively, in 2018.

Sincerely yours,

**Antonio Gómez García**  
Chief Executive Officer

### LOCATION OF GAS PIPELINES



Alternative Energies

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,
- Gas transportation contract
- 25-year rents in USD
- Estimated Start of Operations: 2019

# Sustainability Activities

## Social Performance

The Carlos Slim Foundation is developing 96 programs and projects in thirteen different areas, which favorably impact over 45 million beneficiaries in Mexico and other Latin American countries. Among them, education, employment, health, sports, culture and the environment, where the initiative known as "México Unido" has proven relevant for the Foundation, by providing care to the population affected by the earthquakes occurring in the month of September 2017 in Mexico.

During the emergency stage, the Grupo Carso companies and volunteers, responded immediately to the basic needs of thousands of people affected, by providing food staples, camping tents, blankets and cushioned mats, water purifying equipment, and telecommunication services.

During the phase involving the reconstruction and building of new homes and markets, we issued a call in which the Foundation would contribute five pesos to match every peso received. We received a response from 217 thousand donors who placed their trust in us and donated \$412.4 million pesos, to which was added \$2.0618 billion pesos contributed by the

Foundation. This money has been used for the rebuilding of homes, for health and educational infrastructure and for the reconstruction of the nation's cultural patrimony. As we have established from the beginning, the actions taken and the application of these resources have been published, month by month, in the Foundation's web page. Go to [www.fundacioncarlosslim.org](http://www.fundacioncarlosslim.org)

In addition to the activities of the Foundation, the Grupo Carso companies invested in education, health, infrastructure and community development, which were channeled through the following initiatives:

- Corporate Volunteers at the various Condumex workplaces.
- Participation in annual campaigns for the prevention and control and medical conditions, in cooperation with the Carlos Slim Institute of Health.
- The Carso History of Mexico Study Center (CEHM).



Social Well-being Program at Vallejo Plant

- The Carso Training Centers for the general public.
- The Carso Research and Development Center (CIDEC).
- Academic liaising for technological innovation projects by Condumex and Carso Infraestructura y Construcción.
- Historic real estate restoration program at Grupo Sanborns.
- Program for the employment of disabled persons in Sanborns and Sears, through the Mexican Confederation of Organizations for the Aid of Persons with Disabilities (CONFE), the Multiple Attention Center (CAM), the Young Men's Christian Association (YMCA), and the National System for the Integral Development of Families (DIF).
- Free courses in the "Train Yourself for a Job" digital platform of the Carlos Slim Foundation, accessible for all persons in general, as well as access to the Jobs Market, which includes recruitment processes for the companies of the Sanborns Group.

## Environmental Performance

The sustainability policy, the GRI 4 index, and the environmental indices in general for energy, water, biodiversity, emissions, effluents and residues, premiums, certifications, acknowledgments and volunteer programs can be consulted in the Carso Sustainability Report. Go to [www.carso.com.mx/ES/responsabilidad-social/Paginas/carsosustentabilidad.aspx](http://www.carso.com.mx/ES/responsabilidad-social/Paginas/carsosustentabilidad.aspx)

## Grupo Sanborns

During 2018 Grupo Sanborns complied with the environmental standards to which it is subject, mainly in regard to the control

and recording of residual waters, the discharge of emissions into the atmosphere, and in the handling and final disposal of solid residues and dangerous materials, utilizing the companies authorized by the corresponding environmental and sanitation authorities for that purpose.

## Grupo Condumex and Carso Infraestructura y Construcción

At the close of 2018, seventy-four facilities of the Condumex division and sectors pertaining to Carso Infraestructura y Construcción had been certified. Of these, thirty-two satisfy ISO 9001 and IATF 16949 "Quality Management Systems" standards; twenty-six satisfy the ISO 14001 "Environmental Management System" standard; and four satisfy the OSHAS 18001 "Health and Occupational Safety Management System" standard. Further, three observe the ISO 50001 "Energy Management System" standard; and two, the ISO 27001 "Information Security Management Systems" standard, among many more.

Currently, seven Condumex plants and one CICSA section are undergoing an auditing process to assess their degree of observance and adherence to standards which have been updated.

For further information and details, consult the "Environmental Performance" section in the 2018 Annual Report of Grupo Carso. Go to [www.carso.com.mx/ES/inversionistas/informacion-financiera/Paginas/reportesanuales.aspx](http://www.carso.com.mx/ES/inversionistas/informacion-financiera/Paginas/reportesanuales.aspx)



Delivery of recognitions BK Digital, March 2019

74

Condumex Plants and CICSA sectors certified in ISO standards and other.

# Sustainability Activities

## Labor, Health and Safety Performance

Grupo Carso employs over 73,000 individuals, both permanent and temporary, in Mexico, as well as in Latin America and some countries in Europe. During 2018, the number of employees expanded by 3.8% in comparison with the previous year.

The Group's employees are paid salaries that conform to applicable regulations. Further, the labor market, performance and level of responsibility for the positions and degree of responsibility in the work area to which the employees belong, contribute to the competitiveness of compensation for work performed.

Grupo Carso offers several programs for its employees in the three business divisions. The labor benefits are channeled through the following vehicles:

- Digital and other scholarships for employee children and direct family members.
- Home Office program, flexible time schedules for mothers and fathers, financial support for funeral expenses and paid leaves of absence.



Course "Prevention and combat of fires" Civil protection brigade

- Self-management Programs on Safety and Health in the Workplace at Grupo Condumex, Developing Professionals Program (PRODES) at Carso Infraestructura y Construcción and at Condumex.
- Campaigns for the prevention of illnesses, with the collaboration of the Mexican Social Security Institute (IMSS) and the Ministry of Health (SSA)
- Civil Protection Programs including volunteer brigade training.
- Personal development programs through the Association for Improvement for Mexico (ASUME), the Human Quality Management and Corporate Social Liability System (CRESE) and the Social Welfare program.
- Courses through the "Train Yourself for a Job" digital platform of the Carlos Slim Foundation for the basic training of the operational and middle management personnel.
- Programs for training in sales and management skills.
- Courses, talks and workshops given at the Carso Training Center.

During the year, 83,964 persons took 60,382 courses, talks and workshops, which relate to technical, operational and educational training, as well as professional development and health and safety.

Grupo Carso provides these programs in the cities of Mexico, Guadalajara and Monterrey, at the Carso Training Center and the Sears Training Center, having 98 training rooms available for giving these programs and courses at the operational units. In particular, Grupo Sanborns has 48 training rooms in its corporate offices. Other training centers are located at the Viaduct Plant in Mexico City and in foreign locations, which comprise those located at the Panama and El Salvador local operations.

Within Grupo Sanborns, the training program was aimed towards strengthening four general topics: Communication, Customer Service, Teamwork and Service Quality. Said program takes into consideration both participation by the managerial and the operational personnel. In addition, Grupo Sanborns has established an outstanding program on Civil Protection matters, with the participation of 4,861 employees in 2018, which represents an increase of 15.1% in the trained labor population as compared with the previous year.

As regards the CICSA and Condumex divisions, 4,577 courses were given to 100,396 permanent and temporary workers. The foregoing represented 253,766 training man-hours of technical education, including topics regarding skills, safety and environmental impact.

In the year, 873 Carso Digital Scholarships were given to the children of employees, and 528 Telmex Scholarships, both

to employees and their children. Unlike prior years, during 2018, CICSA did not hire employees under the Developing Professionals Program. Finally, 584 employees had flexible working hours, while 82 benefitted from the Home Office program.

The ASUME program reached 303 groups, from which 3,384 Grupo Carso employees graduated. As regards CRESE, six new Sears stores were certified, while 67 Sears units under said format were re-certified, particularly credit, technical service and logistics centers. The foregoing represents a 5.0% increase with respect to the previous year, when considering 104 units in 2018. As regards Grupo Sanborns, where twenty new stores started operations in 2018, four workplaces were certified during the period.

The Social Welfare program comprised three fundamental aspects: Education, Health and Culture and Recreation. In the

year, 41,672 persons benefitted from the program, including Grupo Carso employees and their families, which represented the addition of 7,173 persons to the population benefitted in 2017.

Through on-line courses, during 2018 the "Train for the Job" platform of the Carlos Slim Foundation continued offering basic training to the staff in operational and mid-management areas at Sears and Sanborns stores, as well as at Condumex and CICSA. Throughout the year, 844 new Grupo Carso employees were trained for several crafts. Further, 3,454 new Sears employees were trained via said platform.

For further information, consult the section regarding sustainability activities by Grupo Carso. Go to [www.carso.com.mx/ES/responsabilidad-social/Paginas/gestion\\_rse\\_carso.aspx](http://www.carso.com.mx/ES/responsabilidad-social/Paginas/gestion_rse_carso.aspx)

The Social Welfare Program benefits Grupo Carso employees and their families.



Grupo Carso "Friendship Race" 2019

Board Members	Position*	Years as Board Member**	Type of Member***
Carlos Slim Helú	COB – Carso Infraestructura y Construcción COB – Minera Frisco Honorary Life COB – Grupo Carso – Teléfonos de México – América Móvil	Eighteen	Patrimonial Related
Carlos Slim Domit	COB – Grupo Carso COB – Grupo Sanborns COB – América Móvil COB – Teléfonos de México	Twenty-Eight	Patrimonial Related
Antonio Cosío Ariño	CEO – Cía. Industrial de Tepeji del Río	Twenty-Eight	Independent
Arturo Elías Ayub	Director of Strategic Alliances, Communication and Institutional Relations – Teléfonos de México CEO – Fundación Telmex	Twenty-One	Related
Claudio X. González Laporte	COB – Kimberly Clark de México	Twenty-Six	Independent
José Humberto Gutiérrez Olvera Zubizarreta	Business Consultant	Twenty-Eight	Independent
Daniel Hajj Aboumrad	CEO – América Móvil	Twenty-Four	Related
David Ibarra Muñoz	CEO – Despacho David Ibarra Muñoz	Seventeen	Independent
Rafael Moisés Kalach Mizrahi	CEO and COB – Grupo Kaltex	Twenty-Five	Independent
José Kuri Harfush	COB – Janel	Twenty-Nine	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-Three	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-Eight	Patrimonial Related

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

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

COB: Chairman of the Board

CEO: Chief Executive Officer

# Report of the Corporate Practices and Audit Committee of Grupo Carso, S.A.B. de C.V.

South Urban Freeway Mexico City

## José Kuri Harfush

Chairman  
Antonio Cosío Ariño  
Rafael Moisés Kalach Mizrahi

### To the Board of Directors:

In my capacity as Chairman of the Audit and Corporate Practices Committee of Grupo Carso, S.A.B. de C.V. (the "Committee"), I am pleased to submit to you the following Annual Report of activities for the 2018 fiscal period.

### Corporate Practices and Evaluation and Compensation Functions

The Chief Executive Officer of Grupo Carso, S.A.B. de C.V. (the "Company") and the corresponding directors of the juridical persons controlled by the Company satisfactorily completed the objectives with which they were entrusted and fulfilled their responsibilities.

Transactions with related parties were assumed, which were submitted to the consideration of the Committee. Among them, we find the following significant transactions, each of which represents more than one per cent of the consolidated assets of the Company, successively performed: Teléfonos de México, S.A.B. de C.V., for long-distance fiber optic links and site adaptation for telephony, copper and fiber optic telephone cable sales, telephone installation services and sale of items for telephony, as well as commissary services, commissions on the sales of waste, automobile fleet salvaging and substitution; Delphi Packard Electric Systems, for harness and cable sales, as well as automotive engineering services; and Claro, S.A., for manufacture and installation of radio bases, fiber optic installation and network design, including copper and fiber optic telephone cable sales.

All the related party transactions were carried out at market value and reviewed by the accounting firm of Galaz, Yamazaki, Ruiz Urquiza, S.C. (the "Firm"), an entity which carried out the audit of the consolidated financial statements of Grupo Carso, S.A.B. de C.V. and subsidiaries as of December 31, 2018, as well as of the majority of its subsidiary companies, a summary of the results of which is included in a note to the audited financial statements of Grupo Carso, S.A.B. de C.V. and subsidiaries as of December 31, 2018.

The Company's Chief Executive Officer does not receive any compensation whatsoever for performing his activities. The Company has no employees and, as regards the overall compensation of the relevant executives of the juridical persons by the Company, we assure the observance and adherence to the applicable policies approved by the Board of Directors.

The Company's Board of Directors has not granted any dispensation so that any councilor, director or person with a mandate can take advantage of his position in order to carry out, to his own benefit or to the benefit of any third party, any business transaction corresponding to the Company or to the juridical persons it controls or over whom it has a significant influence. Nor has the Committee granted any dispensation for the transactions referred to in subparagraph c), Fraction III, Article 28 of the Stock Market Law.

### Audit Function

We submitted for consideration by the Company's Board of Directors the ratification of Galaz, Yamazaki, Ruiz Urquiza, S.C. for performing independent auditing work on the financial statements of Grupo Carso, S.A.B. de C.V. and Subsidiaries as of December 31, 2018, and those concerning the majority of its subsidiary companies (the "Audit"), and the approval of the amount of its compensation for the provision of said services. For such purposes, we took into account that the amount suggested by the Firm for carrying out the Audit was reasonable, considering both the scope of such audit, and the nature and complexity of the structure and transactions of the Company.

We assessed the performance by the Firm and by the External Auditor, of the personal, professional and independence requirements contained in article 6 of the "Provisions of a General Nature Applicable to the Entities and Issuers Supervised by the National Banking and Stock Market Commission retaining external auditing services for basic financial statements" (the "External Auditor Circular Letter"). We feel that both the Firm and the Independent External Auditor satisfactorily comply with such requirements.

To warrant the independence of the Firm and of the Independent External Auditor, as well as of the staff participating in the Audit, we did not deem necessary to implement any measure in that respect.

We procured from the Firm a statement on the compliance with the quality control standard for the provision of auditing services as provided, in connection with article 10 of the External Auditor Circular Letter.

We provided accurate follow up of the auditing activities carried out by the Firm and reported to the Company's Board of Directors in that respect. Further, we monitored the activities of the Independent External Auditor, who reported to us on his activities and the development itself of the Audit.

As a result of the review of the report and of the financial statements of Grupo Carso, S.A.B. de C.V. and Subsidiaries as of December 31, 2018, no relevant adjustments were made to the audited figures, as well as the reported exceptions to

be disclosed by such financial statements. The results of the review of the report from the Independent External Auditor, foreseen by section I of article 15 of the Issuer Sole Circular Letter, were satisfactory.

The performance by the Firm and by the Independent External Auditor was as expected, since the goals established at the time they were retained, were accomplished. Further, the quality of the report on the financial statements of Grupo Carso, S.A.B. de C.V. and Subsidiaries as of December 31, 2018 was satisfactory.

As a result of the review made by the Committee on the Remarks Communication on the substantive procedures, as well as the assessment of internal controls and the relevant issues that the Independent External Auditor provided the Company, we made several remarks on the Issuer and some of its subsidiaries. In this respect, the Company's Management informed us about an Action Plan is being prepared, which will include preventative and corrective measures, to satisfy the performance of the remarks made, as well as the term granted for their compliance, in accordance with the contents of the applicable legal provisions.

As a result of the auditing activities, no preventative or corrective measures were suggested.

As far as we know, according to the information given to us by the Company's Management and from what we learned in the meetings we attended with the external and internal auditors, without the presence of Company's officials, there were no relevant observations made by shareholders or councilors, and there were no relevant directives or objections by any third party in general in regard to the accounting, internal controls or other matters related to the internal or external accounting, nor have there been any denunciations realized by the said persons in regard to irregular acts in the administration of the Company.

The internal control and internal auditing systems of Grupo Carso, S.A.B. de C.V. and of the juridical persons controlled thereby is satisfactory. They comply with the guidelines approved by the Board of Directors, as is evident both from the information provided to the Committee by the Company's Management, and the external audit report.

We have no knowledge of any violation in regard to the Company's operational guidelines and policies or in regard to its accounting practices or in regard to the juridical persons controlled by the Company. Consequently, no preventive or corrective measures were implemented in that respect. During the period, we assured the due compliance of the resolutions adopted by the Stockholders' Meeting and the Board of Directors of the Company. Further, in accordance with the information provided by the Company's Management, we

verified that controls are implemented making it possible to determine that the Company does comply with the provisions that are applicable on stock market matters, taking into consideration the fact that such performance is produced annually through a review of the legal area of the Company. For this reason, no remark or signal whatsoever was submitted about the presence of any adverse change in the legal position of the Company.

As regards the financial information prepared by the Company and submitted to the Mexican Stock Exchange, and to the National Banking and Securities Commission, we assured that such information is prepared annually in accordance with the applicable principles, criteria and accounting practices.

### Finance and Planning Functions

During the 2018 fiscal period, the Company and some of the juridical persons controlled thereby carried out significant investments. In this respect, we assured that the financing of such investments was carried out congruently with the mid- and long-term strategic plan adopted by the Company. On the other hand, we perform a periodical review of the Company's strategic position, with the purpose of verifying that it reflects its strategic plan. Further, we reviewed and assessed the budget corresponding to the 2018 fiscal period, and the financial forecasts that were taken into consideration for the preparation thereof, including the major investments and financing transactions of the Company. As a result of the foregoing, we have considered the feasibility and congruence of the Company's budget and of said forecasts in view of our investment and financing policies, as well as under its strategic vision.

For the elaboration of this report, the Audit and Corporate Practices Committee based its procedures on the information that was provided to the Committee by the Chief Executive Officer of the Company and by the corresponding managers of the juridical persons controlled by the Company, as well as on the information provided by the external auditor.

Mexico City, April 1, 2019

José Kuri Harfush  
Chairman

# Consolidated Financial Statements

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- 45 Notes to the Consolidated Financial Statements

## Independent Auditors' Report

# Deloitte.

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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 its subsidiaries (the "Entity" or "Grupo Carso"), which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, the consolidated statements of income and other comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Carso as of December 31, 2018, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board.

#### Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of 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) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 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 accompanying consolidated financial statements, Grupo Carso is a diversified conglomerate comprised of four sectors, which have been defined as strategic. The four sectors which are consolidated are as follows: Commercial, Industrial, Infrastructure and Construction and Energy.

#### Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed 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 assertions give 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 granted and certain customers fail to pay. 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 verified and tested that the allowance for doubtful accounts is calculated and recorded in accordance with the accounting policies and operations of the Entity, conducted aging analysis testing 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, the Entity has opened, closed, remodeled, expanded and transformed some of its stores in its different formats as part of the regular course of its operations; 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 accounting treatment of the disposal of assets during the closing 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 assertions 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 include 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 21. to the consolidated financial statements)**

Given the significance of the balance of exploration expenses and equipment, it is important to ensure that the impairment of these concepts is reviewed in an adequate manner to identify potential impairment. It is worth mentioning that TOC restarted its 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, that originated the record of impairment of exploration expenses in the year. As mentioned in Note 2i to the consolidated financial statements, the Entity has presented effects of impairment as of December 31, 2018, which have required adjustments to the values of its long-lived assets for an amount of \$372,850 thousand pesos.

#### 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) item 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, 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, 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 2018 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



C.P.C. Abel García Santaella

March 29, 2019

## Consolidated Statements of Financial Position

As of December 31, 2018, 2017 and 2016  
(In thousands of Mexican pesos)

	Note	2018	2017	2016
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	6	\$ 7,767,473	\$ 4,331,365	\$ 4,857,917
Investments in securities	7	1,150,223	777,387	1,498,719
Accounts receivable, net	8	25,037,727	25,955,943	25,504,011
Due from related parties	23	4,707,977	4,090,590	3,682,581
Inventories, net	9	17,764,614	16,509,661	15,766,892
Prepaid expenses		711,584	698,926	723,039
Derivative financial instruments	13	2,546	24,101	10,898
<b>Total current assets</b>		<b>57,142,144</b>	<b>52,387,973</b>	<b>52,044,057</b>
Non-current assets:				
Long-term accounts receivable		-	-	10,143
Real estate inventories		937,489	911,977	873,262
Property, machinery and equipment, net	14	35,620,311	33,402,553	30,175,511
Investment property	15	3,068,498	2,812,198	2,668,495
Investment in associates and joint ventures	16	34,760,628	24,892,481	19,819,417
Employee retirement benefits	21	562,981	634,276	517,681
Derivative financial instruments	13	478,895	301,195	359,532
Intangible assets, net	17	1,219,978	762,212	663,438
Deferred income tax asset	27	3,634,306	2,384,854	2,048,472
Other assets - net	18	463,966	358,211	376,341
<b>Total non-current assets</b>		<b>80,747,052</b>	<b>66,459,957</b>	<b>57,512,292</b>
<b>Total assets</b>		<b>\$ 137,889,196</b>	<b>\$ 118,847,930</b>	<b>\$ 109,556,349</b>
<b>Liabilities</b>				
Current liabilities:				
Loans payable to financial institutions and other	19	\$ 434,031	\$ 2,662,952	\$ 6,721,179
Current portion of long-term debt	19	82,871	15,478	5,000,000
Trade accounts payable		11,278,375	9,911,843	9,346,930
Due to related parties	23	1,391,370	1,890,909	2,368,778
Other accounts payable and accrued liabilities		6,564,310	6,863,128	6,353,423
Provisions	20	3,260,535	3,488,389	3,269,303
Direct employee benefits		960,648	988,203	1,003,831
Derivative financial instruments	13	8,870	305	69,281
Advances from customers		1,157,085	238,131	125,581
<b>Total current liabilities</b>		<b>25,138,095</b>	<b>26,059,338</b>	<b>34,258,306</b>
Non-current liabilities:				
Long-term debt	19	12,669,891	7,548,311	-
Deferred income taxes	27	4,962,615	2,152,685	1,827,890
Other long-term liabilities		1,772,204	1,555,929	1,486,303
Employee retirement benefits	21	168,758	397,486	391,543
Derivative financial instruments	13	-	202,524	12,143
<b>Total non-current liabilities</b>		<b>19,573,468</b>	<b>11,856,935</b>	<b>3,717,879</b>
<b>Total liabilities</b>		<b>44,711,563</b>	<b>37,916,273</b>	<b>37,976,185</b>
<b>Stockholders' equity</b>				
Capital stock	22	2,534,812	2,534,882	2,530,929
Net stock issuance premium		2,392,896	2,392,896	879,092
Retained earnings		72,823,599	66,076,949	58,640,821
Accumulated other comprehensive income		6,921,608	1,665,632	1,421,137
Controlling interest		84,672,915	72,670,359	63,471,979
Non-controlling interest		8,504,718	8,261,298	8,108,185
<b>Total consolidated stockholders' equity</b>	<b>22</b>	<b>93,177,633</b>	<b>80,931,657</b>	<b>71,580,164</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$137,889,196</b>	<b>\$ 118,847,930</b>	<b>\$ 109,556,349</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income and Other Comprehensive Income

As of December 31, 2018, 2017 and 2016  
(In thousands of Mexican pesos, except for basic earnings per common share data)

	Note	2018	2017	2016
Net sales	24	\$ 96,639,833	\$ 93,592,613	\$ 95,187,635
Cost of sales	25	68,021,288	64,611,516	66,717,610
<b>Gross income</b>		<b>28,618,545</b>	<b>28,981,097</b>	<b>28,470,025</b>
Sales and development expenses	25	13,040,952	12,592,117	11,838,925
Administrative expenses	25	4,698,683	4,766,921	3,931,465
Statutory employee profit sharing		266,293	321,594	388,308
Other (income) expenses, net	26	53,366	(394,994)	(273,282)
Interest expense		567,124	575,880	518,538
Interest income		(584,266)	(323,564)	(377,811)
Exchange gain		(1,714,058)	(1,576,442)	(3,973,438)
Exchange loss		1,805,888	1,991,701	3,079,668
Effects of valuation of derivative financial instruments		(289,436)	1,836	38,180
Gain on disposal of shares of associates		-	(1,246,031)	(1,141,267)
Equity in income of associated companies and joint ventures	16	(787,689)	(2,507,468)	(1,868,484)
<b>Income before income taxes</b>		<b>11,561,688</b>	<b>14,779,547</b>	<b>16,309,223</b>
Income taxes	27	1,377,603	3,331,065	5,030,852
<b>Consolidated net income for the year</b>		<b>\$ 10,184,085</b>	<b>\$ 11,448,482</b>	<b>\$ 11,278,371</b>
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		\$ (248,174)	\$ (85,061)	\$ 392,522
Valuation of derivative financial instruments		166,857	(124,501)	11,487
Gain in valuation of financial instruments of capital		5,677,751	-	-
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Actuarial gain		142,955	75,096	48,657
Share in the ownership in other comprehensive results		(56,804)	-	-
Share of other comprehensive income of associates and joint ventures		(403,767)	367,855	1,068,102
<b>Total other comprehensive income</b>		<b>5,278,818</b>	<b>233,389</b>	<b>1,520,768</b>
<b>Consolidated comprehensive income of the year</b>		<b>\$ 15,462,903</b>	<b>\$ 11,681,871</b>	<b>\$ 12,799,139</b>
Consolidated net income attributable to:				
Controlling interest		\$ 9,008,302	\$ 10,033,633	\$ 9,524,896
Non-controlling interest		1,175,783	1,414,849	1,753,475
		<b>\$ 10,184,085</b>	<b>\$ 11,448,482</b>	<b>\$ 11,278,371</b>
Basic earnings per common share attributable to controlling interest:				
Continuing operations		\$ 3,948	\$ 4,424	\$ 4,198
<b>Weighted average number of shares ('000)</b>		<b>2,281,595</b>	<b>2,267,779</b>	<b>2,268,787</b>
Consolidated comprehensive income attributable to:				
Controlling interest		\$ 14,264,278	\$ 10,278,128	\$ 11,002,047
Non-controlling interest		1,198,625	1,403,743	1,797,092
		<b>\$ 15,462,903</b>	<b>\$ 11,681,871</b>	<b>\$ 12,799,139</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018, 2017 and 2016  
(In thousands of Mexican pesos)

	Capital stock	Net stock issuance premium	Retained earnings	Translation effects of foreign operations	Valuation of derivative financial instruments	Other comprehensive income				Total controlling interest	Non-controlling interest	Total stockholders' equity
						Actuarial gain (losses)	Gain in valuation of financial instruments capital	Share in the ownership in other comprehensive results	Share of other comprehensive income of associates			
Consolidated 2016 beginning balances	\$ 2,533,048	\$ 879,092	\$ 51,756,235	\$ 598,703	\$ 79,844)	\$ 606,670)	\$ -	\$ -	\$ 31,797	\$ 55,112,361	\$ 8,682,007	\$ 63,794,368
Repurchase of own shares	(2,119)	-	(680,020)	-	-	-	-	-	-	(682,139)	-	(682,139)
Cash dividends declared	-	-	(1,995,912)	-	-	-	-	-	-	(1,995,912)	-	(1,995,912)
Dividends declared to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,251,003)	(1,251,003)
Decrease in repurchase of shares of subsidiary	-	-	(98,334)	-	-	-	-	-	-	(98,334)	(137,557)	(235,891)
Acquisition of non-controlling interest in subsidiaries	-	-	133,956	-	-	-	-	-	-	133,956	430,925	564,881
Acquisition of non-controlling interest of subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,413,279)	(1,413,279)
Balances before comprehensive income	2,530,929	879,092	49,115,925	598,703	(79,844)	(606,670)	-	-	31,797	52,469,932	6,311,093	58,781,025
Consolidated comprehensive income of the year	-	-	9,524,896	359,113	11,439	57,584	-	-	1,049,015	11,002,047	1,797,092	12,799,139
Consolidated balances as of December 31, 2016	2,530,929	879,092	58,640,821	957,816	(68,405)	(549,086)	-	-	1,080,812	63,471,979	8,108,185	71,580,164
Repurchase of own shares	(1,262)	-	(407,484)	-	-	-	-	-	-	(408,746)	-	(408,746)
Cash dividends declared	5,215	1,513,804	(2,038,984)	-	-	-	-	-	-	(519,965)	-	(519,965)
Dividends declared to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,010,716)	(1,010,716)
Decrease in repurchase of shares of subsidiary	-	-	(121,273)	-	-	-	-	-	-	(121,273)	(302,790)	(424,063)
Acquisition of non-controlling interest of subsidiaries	-	-	(29,764)	-	-	-	-	-	-	(29,764)	62,876	33,112
Balances before comprehensive income	2,534,882	2,392,896	56,043,316	957,816	(68,405)	(549,086)	-	-	1,080,812	62,392,231	6,857,555	69,249,786
Consolidated comprehensive income of the year	-	-	10,033,633	(80,428)	(115,497)	74,211	-	-	366,209	10,278,128	1,403,743	11,681,871
Consolidated balances as of December 31, 2017	2,534,882	2,392,896	66,076,949	877,388	(183,902)	(474,875)	-	-	1,447,021	72,670,359	8,261,298	80,931,657
Repurchase of own shares	(70)	-	(19,710)	-	-	-	-	-	-	(19,780)	-	(19,780)
Cash dividends declared	-	-	(2,099,025)	-	-	-	-	-	-	(2,099,025)	-	(2,099,025)
Dividends declared to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(691,879)	(691,879)
Decrease of non-controlling interest of subsidiaries	-	-	(75,742)	-	-	-	-	-	-	(75,742)	(225,225)	(300,967)
Acquisition of non-controlling interest of subsidiaries	-	-	(67,175)	-	-	-	-	-	-	(67,175)	(38,101)	(105,276)
Balances before comprehensive income	2,534,812	2,392,896	63,815,297	877,388	(183,902)	(474,875)	-	-	1,447,021	70,408,637	7,306,093	77,714,730
Consolidated comprehensive income of the year	-	-	9,008,302	(242,966)	155,550	131,517	5,677,437	(48,699)	(416,863)	14,264,278	1,198,625	15,462,903
<b>Consolidated balances as of December 31, 2018</b>	<b>\$ 2,534,812</b>	<b>\$ 2,392,896</b>	<b>\$ 72,823,599</b>	<b>\$ 634,422</b>	<b>\$ (28,352)</b>	<b>\$ (343,358)</b>	<b>\$ 5,677,437</b>	<b>\$ (48,699)</b>	<b>\$ 1,030,158</b>	<b>\$ 84,672,915</b>	<b>\$ 8,504,718</b>	<b>\$ 93,177,633</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2017 and 2016  
(In thousands of Mexican pesos)

	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Consolidated net income for the year	\$ 10,184,085	\$ 11,448,482	\$ 11,278,371
Adjustments not requiring (providing) cash:			
Income tax recognized in earnings	1,377,603	3,331,065	5,030,852
Depreciation and amortization	2,217,695	2,261,993	2,093,893
(Gain) loss on sale of property, machinery and equipment and others assets	(13,908)	3,164	(12,200)
Derecognition of property, machinery and equipment and intangible assets	2,761	-	-
Impairment of property, plant and equipment	10,375	30,228	(236)
Impairment of exploration expenses	372,850	-	44,327
Impairment of concession	84,659	-	-
Gain on investment property revaluation	(221,908)	(115,955)	(135,845)
Gain on brand revaluation	-	-	(8,672)
Equity in income of associated companies and joint ventures	(787,689)	(2,507,468)	(1,868,484)
Derivative financial instruments	(9,414)	(9,414)	(37,909)
Interest income	(4,378,247)	(3,933,023)	(3,560,383)
Interest expense	567,124	575,880	518,538
Gain on disposal of shares of associated	-	(1,246,031)	(1,141,267)
Dividends received from associates	(558,772)	-	-
Other items	(132,756)	367,855	280,041
	8,714,458	10,206,776	12,481,026
<b>Items related to operating activities:</b>			
Increase) decrease in:			
Accounts receivable	951,434	(463,061)	(3,427,025)
Interest income	3,775,271	3,588,215	3,140,534
Other accounts receivable	155,359	(110,538)	(1,028,507)
Due from related parties	(617,387)	(408,009)	(246,502)
Inventories	(1,254,953)	(742,769)	(1,946,213)
Prepaid expenses	(12,658)	24,113	(24,924)
Long-term accounts receivable	-	10,143	17,336
Real estate inventories	(25,512)	(38,715)	(82,342)
Other assets	(374,902)	(235,324)	(278,992)
Increase (decrease) in:			
Trade accounts payable	1,366,532	564,913	941,653
Due to related parties	(499,539)	(477,869)	483,388
Other accounts payable and accrued liabilities	174,844	282,526	506,937
Provisions	(227,854)	219,086	923,128
Direct employee benefits	(27,555)	(15,628)	122,748
Advances from customers	918,954	112,550	(148,539)
Other long-term liabilities	216,275	69,626	146,657
Employee retirement benefits	(14,478)	(35,556)	107,624
Income taxes paid	(3,776,476)	(2,976,019)	(4,636,975)
Derivative financial instruments	(149,448)	75,837	(473,394)
Net cash flows provided by operating activities	9,292,365	9,650,297	6,577,618
<b>Cash flows from investing activities:</b>			
Purchase of investments in securities	\$ (2,279,153)	\$ (3,403,884)	\$ (3,630,842)
Sale of investments in securities	1,906,317	4,125,216	4,824,133
Purchase of property, machinery and equipment	(4,340,943)	(5,831,354)	(7,949,201)
Proceeds from sale of property, machinery and equipment	77,515	203,340	41,711
Other assets	(872,187)	(100,131)	(13,413)
Interest received	582,590	326,085	379,700
Dividends received	1,189,887	465,125	840,808
Derivative financial instruments	(28,137)	(28,137)	3,462
Acquisitions of investment properties	(62,890)	-	-
Sale of shares of subsidiaries	-	624,641	-
Acquisition of shares in subsidiaries and associates	(1,300,552)	(2,145,335)	(3,929,650)
Net cash flows used in investing activities	(5,127,553)	(5,764,434)	(9,433,292)
<b>Cash flows from financing activities:</b>			
Borrowings	7,754,302	29,503,548	11,671,967
Payment of borrowings and long-term debt	(4,794,250)	(30,997,986)	(7,362,424)
Interest paid	(591,891)	(574,944)	(518,901)
Dividends paid	(2,790,904)	(1,530,681)	(3,246,915)
Repurchase of own shares	(19,780)	(408,746)	(682,139)
Repurchase of shares from subsidiary	(300,967)	(424,063)	(235,891)
Derivative financial instruments	3,752	3,752	18,425
Decrease (acquisition) of non-controlling interest	(105,276)	33,112	(4,364)
Net cash flows used in financing activities	(845,014)	(4,396,008)	(360,242)
Effects of exchange rate changes on cash and cash equivalents	116,310	(16,407)	3,503
Net increase (decrease) in cash and cash equivalents	3,436,108	(526,552)	(3,212,413)
Cash and cash equivalents at beginning of the year	4,331,365	4,857,917	8,070,330
<b>Cash and cash equivalents at end of the year</b>	<b>\$ 7,767,473</b>	<b>\$ 4,331,365</b>	<b>\$ 4,857,917</b>

See accompanying notes to consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016  
(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

- In June 2018, the review process of the evaluation committee was completed, the Ministry of Public Works of the Republic of Panama awarded, as the best technical and economic proposal, the consortium formed by its subsidiary Operadora Cicsa, S.A. de C.V. and by FCC Construcción, S.A. a contract for the "Extension to six lanes - corridor of the beaches (Section 2: Santa Cruz - San Carlos)", in the province of Panamá Oeste, for an amount of B \$349,994,705 balboas, equivalent to \$7,120,817. As of December 31, 2018, work has not begun on the project because the notification of the order to proceed established in the contract has not yet been received. The ownership of Operadora Cicsa, S.A. de C.V. in the consortium it is 49%. The agreement has been classified as a joint operation, in accordance with the provisions of IFRS 11, *Joint Arrangements*.
- 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. de C.V. (CIC-SA, 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. On January 11, 2019, CTVM notified Operadora of the temporary partial suspension of the 60-day contract prior to proceeding with the early cancellation of the contract.
- On July 12, 2017, as a result of its participation in the tender CNH-R02-L03/2017 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.
- On November 9, 2017, GMéxico Transportes, S.A.B. de C.V. (FM Rail Holding, S.A. de C.V. until April 29, 2017, 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, 2018, 19,829,888 shares of the Entity were sold for \$624,641, which generated a gain on disposal of shares of associates for \$391,892. Likewise, the public offer generated a gain 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 under the caption "Gain on disposal of shares of associates" for a total amount of \$1,246,031.
- In October and November 2016 the subsidiary Condumex, S.A. de C.V. (formerly Tenedora de Empresas 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%.
- Consortio 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. On January 11, 2019, CTVM notified Operadora of the temporary partial suspension of the 60-day contract prior to proceeding with the early cancellation of the contract.
- 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.

- h. 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 results of such entity were included in the accompanying consolidated financial statements as of the acquisition date.

- i. 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 year end of 2018 and 2016 the Entity recorded an impairment in the capitalized exploration expenses of the subsidiary for \$372,850 and \$44,327, respectively.

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

### 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, 2018.

#### New and amended IFRS Standards that are effective for the current year

##### Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Entity has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. However, the Entity has elected to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Entity adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

#### (a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Entity has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Entity has applied the requirements of IFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognized as at 1 January 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments 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 amount outstanding, are measured subsequently at amortized cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Entity has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

Reviewed and assessed the Entity's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Entity's financial assets as regards their classification and measurement:

- the Entity's investments in redeemable notes were classified as available-for-sale financial assets under IAS 39 Financial Instruments: Recognition and Measurement. The notes have been reclassified as financial assets at amortized cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding;
- the Entity's investment in corporate bonds that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. The change in the fair value on these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognized or reclassified;
- the Entity's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in the investment revaluation reserve;
- there is no change in the measurement of the Entity's investments in equity instruments that are held for trading; those instruments were and continue to be measured at FVTPL;
- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the other reclassifications of financial assets have had any impact on the Entity's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

## (b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Entity to recognize a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortized cost or at FVTOCI,
- (2) Lease receivables,
- (3) Trade receivables and contract assets, and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Entity has elected to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of IFRS 9 (i.e. 1 January 2018).

The impact of the regulation as of January 1, 2018 has meant a lower provision according to the expected loss model that the Entity decided not to record.

## (c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be 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, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the Entity's financial liabilities.

Please refer to (e) below and (f) below for further details regarding the change in classification upon the application of IFRS 9.

## (d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, 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 replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Entity's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Entity has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Entity's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Entity has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not

affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorized as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Entity's practice prior to the adoption of IFRS 9.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Entity has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

When the option contracts are used to hedge the forecast transactions, the Entity designates only the intrinsic value of the options as the hedging instrument. Under IAS 39 the changes in the fair value of time value of option (i.e. non-designated component) were recognized immediately in profit or loss. Under IFRS 9, the changes in the time value of the options that relate to the hedged item ('aligned time value') are recognized in other comprehensive income and accumulated in the cost of hedging reserve within equity. The amounts accumulated in equity are either reclassified to profit or loss when the hedged item affects profit or loss or removed directly from equity and included in the carrying amount of non-financial item. IFRS 9 requires that the accounting for non-designated time value of option should be applied retrospectively. This only applies to hedging relationships that existed at 1 January 2017 or were designated thereafter.

Apart from this, the application of the IFRS 9 hedge accounting requirements has had no other impact on the results and financial position of the Entity for the current and/or prior years.

## (e) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Entity had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Entity has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Entity has elected to designate as at FVTPL at the date of initial application of IFRS 9.

## (f) Impact of initial application of IFRS 9 on financial performance

The application of IFRS 9 has had no impact on the consolidated cash flows of the Entity.

### Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Entity has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Entity has adopted the terminology used in IFRS 15 to describe such balances.

The Entity's accounting policies for its revenue streams are disclosed in detail in Note 4i below. Apart from providing more extensive disclosures for the Entity's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Entity.

### Impact of application of Other amendments to IFRS Standards and Interpretations

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

#### 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 (for example, 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.

#### 4. Significant accounting policies

a. **Statement of compliance** - The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

b. **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.

c. **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 2018, 2017 and 2016 are shown below:

Subsidiary	Country of incorporation and operations	Activity	Ownership %		
			December 31, 2018	December 31, 2017	December 31, 2016
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 Condomex, S.A. de C.V. and subsidiaries (Condomex)	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.	86.06	85.49	84.71
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.	93.80	93.60	93.54

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.

d. **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.

e. **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.

- f. **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 36 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 IFRS 9. 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.

g. **Interests in joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the 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.

When a group entity undertakes its activities under joint operations, the Entity as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Entity accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Entity is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Entity's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Entity does not recognize its share of the gains and losses until it resells those assets to a third party.

- h. **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.

i. **Revenue recognition** - Revenue is recognized when the control of goods and services has been transmitted, at a point in time or through time. 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. Revenue is recognized when the control of the goods has been transmitted, at a point in time.

- 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. The recognition of income is generally in time.

- **Leases** -

**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 is 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. Revenue is generally recognized over time.

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. Revenues is generally recognized at a point in time.

- **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 is 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.	Cordoba	Cordoba
Nacel de El Salvador, S.A.	US Dollar	US Dollar
Procisa Ecuador, S.A.	US Dollar	US Dollar
Procisa do Brasil Projetos, Construcoes e Instalacoes, 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 2014 Income Tax Law (LISR), as of December 31, 2018, 2017 and 2016, 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 -*

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.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

##### *Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

#### *(i) Amortized cost and effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income" line item.

#### *(ii) Debt instruments classified as at FVTOCI*

The corporate bonds held by the Entity are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

#### *(iii) Equity instruments designated as at FVTOCI*

On initial recognition, the Entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is 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 evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

The Entity has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS.

#### **(iv) Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Entity has not designated any debt instruments as at FVTPL.
- Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

#### **Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

#### **Impairment of financial assets**

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### **(i) Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts,

governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor or that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.
- (4) The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### **(ii) Definition of default**

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### **(iii) Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (ii) above);
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

#### *(iv) Write-off policy*

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

#### *(v) Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Entity expects to receive from the holder, the debtor or any other party.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

#### *Derecognition of financial assets*

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

#### *Financial liabilities and equity*

##### *Classification as debt or equity*

Debt and equity instruments 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 after deducting all of its liabilities. Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company'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 Company's own equity instruments.

#### *Compound instruments*

The component parts of convertible loan notes issued by the Entity are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognized in equity will be transferred. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible loan notes using the effective interest method.

#### *ii. Financial liabilities -*

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of an Entity 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 grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item (note 60) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, 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 recognized 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. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at FVTPL are recognized in profit or loss.

Fair value is determined in the manner described in the paragraphs of previous.

#### **Financial liabilities measured subsequently at amortized cost**

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

#### **Financial guarantee contract liabilities**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

#### **Foreign exchange gains and losses**

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (note 60) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

#### **Derecognition of financial liabilities**

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

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

- 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. 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, 2018, 2017 and 2016, 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.

#### a. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 5.b below), that the management of the Entity has made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

##### - Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Management of the Entity has reviewed the Entity's investment property portfolios and concluded that the Entity's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Entity's deferred taxation on investment properties, the Management of the Entity has determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Entity has not recognized any deferred taxes on changes in fair value of investment properties as the Entity is not subject to any income taxes on the fair value changes of the investment properties on disposal.

#### b. Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Inventory estimates** - The Entity uses estimates to determine inventory reserves. The factors that the Entity considers in inventory reserves are the volumes of production and sales and movements in the demand of some products.

**Calculation of loss allowance** - When measuring ECL the Entity uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

**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 2018, 2017 and 2016, 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.

**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 2018, 2017 and 2016. The Entity management considers that the valuation methodologies and assumptions utilized are appropriate for determining the fair value of the Entity's investment properties.

**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.

**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.

**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.

**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.

**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.

**Discount rate used to determine the carrying amount of the Entity's defined benefit obligation** - The determination of the Entity's defined benefit obligation depends on certain assumptions, which include selection of the discount rate. The discount rate is set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant assumptions are required to be made when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. These assumptions are considered to be a

key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Entity's financial statements within the next year.

## 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:

	2018	2017	2016
Cash	\$ 5,004,407	\$ 2,934,767	\$ 1,748,167
Cash equivalents:			
Demand deposits	505,983	30,876	213,911
Banking paper	558,557	265,694	698,979
Government paper	130,796	833,299	432,614
Certificates of deposit	19,460	11,833	62,009
Demand deposits in USD	1,546,330	253,073	1,689,270
Other	1,940	1,823	12,967
	\$ 7,767,473	\$ 4,331,365	\$ 4,857,917

## 7. Investments in securities

	2018	2017	2016
Banking paper	\$ 85,265	\$ 70,013	\$ 122,362
Demand deposits in USD	895,871	541,870	1,276,041
Government paper	169,087	165,504	100,316
	\$ 1,150,223	\$ 777,387	\$ 1,498,719

Investments in securities were classified as fair value through results.

## 8. Accounts receivables

	2018	2017	2016
Clients	\$ 18,935,358	\$ 18,896,885	\$ 18,654,582
Allowance for doubtful accounts	(994,094)	(610,340)	(654,859)
	17,941,264	18,286,545	17,999,723
Work completed pending certification	2,942,915	3,530,358	3,332,875
Sundry debtors	346,963	523,244	342,002
Recoverable value added tax	2,310,703	1,799,191	2,222,584
Recoverable ISR	860,611	692,471	832,857
Recoverable IMPAC	43,092	61,402	71,679
Other recoverable taxes	220,084	213,580	241,899
Other	372,095	849,152	460,392
	\$ 25,037,727	\$ 25,955,943	\$ 25,504,011

### a. Clients

The Entity offers sales promotions through which it grants credit to its customers for different periods which, on average, are 217 days at December 31, 2018 and 2017 and 206 days at December 31, 2016. In the case of sales promotions with collection periods exceeding one year, the respective accounts receivable is 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 \$1,298,978, \$1,425,061 and \$1,291,061 at December 31, 2018, 2017 and 2016, 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:

	2018	2017	2016
1 to 30 days	\$ 2,604,202	\$ 2,606,232	\$ 2,204,578
31 to 60 days	930,920	984,986	768,937
61 to 90 days	538,768	482,554	446,916
Past due more than 90 days	2,643,232	1,943,243	2,125,683
<b>Total</b>	<b>\$ 6,717,122</b>	<b>\$ 6,017,015</b>	<b>\$ 5,546,114</b>

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.

Accounts receivable from customers include the amounts that are due at the end of the reporting period, but for which the Entity has not recognized any estimates for uncollectible accounts because there has been no significant change in credit quality and Amounts (which include accrued interest after the accounts are 60 days old) are still considered recoverable. As of January 1 and December 31, 2018, the effects were not material at group level and the Entity decided not to recognize them except for the commercial sector, whose effect at the beginning is for \$111,095 and at December 31, 2018, the net effect of the year of applications and cancellations for \$77,521.

### c. The allowance for doubtful accounts is as follows:

	2018	2017	2016
Receivables for sales of property and retail services	\$ (698,169)	\$ (509,553)	\$ (375,792)
Receivables for sales of construction services	(197,914)	(2,347)	(109,453)
Customers by selling property and industrial services	(98,011)	(98,440)	(169,614)
	\$ (994,094)	\$ (610,340)	\$ (654,859)

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

	2018	2017	2016
Beginning balance	\$ (610,340)	\$ (654,859)	\$ (511,664)
Period accrual	(1,092,284)	(745,561)	(651,851)
Write offs and cancelations	708,530	790,080	508,656
<b>Ending balance</b>	<b>\$ (994,094)</b>	<b>\$ (610,340)</b>	<b>\$ (654,859)</b>

### e. Work completed pending certification

	2018	2017	2016
Costs incurred on uncompleted contracts	\$ 13,490,768	\$ 14,351,722	\$ 16,289,200
Estimated earnings	2,011,016	2,130,722	2,223,689
Revenue recognized	15,501,784	16,482,444	18,512,889
Less: Certifications to date	(11,916,908)	(10,672,382)	(13,430,600)
Less: Advances received	(641,961)	(2,279,704)	(1,749,414)
<b>Work completed pending certification</b>	<b>\$ 2,942,915</b>	<b>\$ 3,530,358</b>	<b>\$ 3,332,875</b>

## 9. Inventories

	2018	2017	2016
Raw materials and auxiliary materials	\$ 3,239,909	\$ 4,069,041	\$ 3,717,249
Production-in-process	698,038	456,726	359,989
Finished goods	964,211	652,466	732,046
Merchandise in stores	12,476,123	10,909,691	10,486,098
Land and housing construction in progress	155,028	207,865	285,992
Allowance for obsolete and slow moving inventories	(858,754)	(860,632)	(847,308)
	16,674,555	15,435,157	14,734,066
Merchandise in-transit	586,852	603,761	571,490
Replacement parts and other inventories	503,207	470,743	461,336
	\$ 17,764,614	\$ 16,509,661	\$ 15,766,892

At December 31, 2018, 2017 and 2016, inventories written off directly to results in administrative expenses and/or other expenses amount to \$3,892, \$5,420 and \$16,227, 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:

	2018	2017	2016
Beginning balance	\$ (860,632)	\$ (847,308)	\$ (729,572)
Period accrual	(82,447)	(201,819)	(321,799)
Write offs and cancelations	84,325	188,495	204,063
<b>Ending balance</b>	<b>\$ (858,754)</b>	<b>\$ (860,632)</b>	<b>\$ (847,308)</b>

## 10. Backlog

In the infrastructure and construction sector, a reconciliation of backlog at December 31, 2018, 2017 and 2016 is as follows:

	Total
<b>Balance at the beginning of 2016</b>	<b>\$ 17,501,509</b>
New contracts and changes	13,820,562
Less: Income	(18,233,783)
<b>Balance at December 31, 2016</b>	<b>13,088,288</b>
New contracts and changes	13,316,434
Less: Income	(16,205,777)
<b>Balance at December 31, 2017</b>	<b>10,198,945</b>
New contracts and changes	26,471,402
Less: Income	(15,366,034)
<b>Balance at December 31, 2018</b>	<b>\$ 21,304,313</b>

## 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, 2018, 2017 and 2016, are detailed below:

	2018	2017	2016
<b>Financial assets</b>			
Cash and cash equivalents	\$ 7,767,473	\$ 4,331,365	\$ 4,857,917
At amortized cost:			
• Investments in securities	1,150,223	777,387	1,498,719
• Accounts receivable in the short and long term	21,603,186	23,189,298	22,145,131
• Due from related parties	4,707,977	4,090,590	3,682,581
Measured at fair value:			
• Derivative financial instruments	481,441	325,296	370,430
<b>Financial liabilities</b>			
At amortized cost:			
• Loans with financial institutions and long-term debt	\$ 13,186,793	\$ 10,226,741	\$ 11,721,179
• Trade accounts payables	11,278,375	9,911,843	9,346,930
• Due to related parties	943,838	674,392	858,081
• Other payables	2,635,716	2,766,388	2,571,978
Measured at fair value:			
• Derivative financial instruments	8,870	202,829	81,424

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:

	2018	2017	2016
Loans payable to financial institutions and other	\$ 13,186,793	\$ 10,226,741	\$ 11,721,179
Cash and cash equivalents	(7,767,473)	(4,331,365)	(4,857,917)
Investments in securities held to maturity	(1,150,223)	(777,387)	(1,498,719)
Cash surplus with financial institutions and / or related parties	\$ 4,269,097	\$ 5,117,989	\$ 5,364,543
EBITDA (see Note 30)	13,022,922	13,871,725	14,578,076
<b>Net debt ratio</b>	<b>0.33 times</b>	<b>0.37 times</b>	<b>0.37 times</b>
EBITDA	\$ 13,022,922	\$ 13,871,725	\$ 14,578,076
Interest on debt	567,124	575,880	518,538
<b>Interest coverage ratio</b>	<b>22.96 times</b>	<b>24.09 times</b>	<b>28.11 times</b>

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 2018, 2017 and 2016 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		
	2018	2017	2016	2018	2017	2016
	US\$	US\$	US\$	US\$	US\$	US\$
U.S. Dollar (US)	637,719	518,967	478,390	384,359	278,397	616,094
Euro (EU)	4,763	7,585	11,977	13,582	14,706	24,693
Brazilian real (RA)	70,815	57,245	52,362	232,031	197,444	142,079
Colombian peso	82,163,447	16,427,021	15,548,521	64,396,916	27,826,936	23,296,132
Peruvian Sol	49,533	34,175	42,231	75,612	69,196	66,953

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		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
US	-	-	-	10,988	(51,897)	(47,839)	34,885	27,840	61,609
EU	29	(925)	1,837	476	(759)	(1,198)	1,358	1,471	2,469
RA	-	-	-	7,082	(5,725)	(5,236)	23,303	19,744	14,208
Colombian peso	-	-	-	8,216,345	(1,642,702)	(1,554,852)	6,439,692	2,782,694	2,329,613
Peruvian New Sol	-	-	-	4,953	(3,418)	(4,223)	7,561	6,920	6,695

(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		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
<b>Euro purchase</b>									
More than 12 months	\$ 22.7568	\$ 21.3278	\$ 20.6308	\$ 1,500	\$ 10,000	\$ 22,408	\$ (412)	\$ 13,211	\$ (26,239)

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, 2018	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 8.233%	\$ 448,268	\$ -	\$ 68,634	\$ -	\$ 12,669,891	\$ 13,186,793
Trade accounts payables	US 3.553%	11,121,444	90,949	65,982	-	-	11,278,375
Due to related parties		436,957	-	-	-	-	436,957
Other accounts payable and accrued liabilities		1,469,093	-	494,022	-	-	1,963,115
Derivative financial instruments		8,117	507	246	-	-	8,870
<b>Total</b>		<b>\$ 13,483,879</b>	<b>\$ 91,456</b>	<b>\$ 628,884</b>	<b>\$ -</b>	<b>\$ 12,669,891</b>	<b>\$ 26,874,110</b>

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%	\$ 2,678,430	\$ -	\$ -	\$ -	\$ 7,548,311	\$ 10,226,741
Trade accounts payables	US 3.31%	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
<b>Total</b>		<b>\$ 15,252,175</b>	<b>\$ 222,080</b>	<b>\$ 557,103</b>	<b>\$ -</b>	<b>\$ 7,750,835</b>	<b>\$ 23,782,193</b>

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%	\$ 6,761,819	\$ -	\$ 4,959,360	\$ -	\$ -	\$ 11,721,179
Trade accounts payables	US 0.91%	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
<b>Total</b>		<b>\$ 18,840,654</b>	<b>\$ 194,351</b>	<b>\$ 5,532,444</b>	<b>\$ 12,143</b>	<b>\$ -</b>	<b>\$ 24,579,592</b>

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 2018, 2017 and 2016 for the next period would have (decreased) increased by approximately \$155,927, \$244,692 and \$183,624, 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
	31/12/18	31/12/17	31/12/16				
1) Foreign currency forward contracts (see Note 13) (i)	Liabilities- \$412	Assets- \$21,148	Liabilities- \$43,826	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 - \$472,982	Assets - \$101,319	Liabilities- \$332,832	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, 2018, 2017 and 2016 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 is 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, 2018		December 31, 2017		December 31, 2016	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
<b>Financial assets:</b>						
Cash and equivalent cash	\$ 7,767,473	\$ 7,767,473	\$ 4,331,365	\$ 4,331,365	\$ 4,857,917	\$ 4,857,917
<b>Instruments available-for-sale:</b>						
Fixed-term securities	1,150,223	1,150,223	777,387	777,387	1,498,719	1,498,719
<b>Loans and receivables:</b>						
Accounts receivable in the short and long term	21,603,186	21,064,607	23,189,298	22,989,646	22,145,131	22,147,478
Due to related parties	4,707,977	4,707,977	4,090,589	4,090,589	3,682,581	3,682,581
<b>Accounts and loans payable:</b>						
Loans payable to financial institutions including current portion of long-term debt and others	(10,186,793)	(10,537,085)	(10,226,741)	(10,226,741)	(6,721,179)	(6,721,179)
Debt securities	(3,000,000)	(3,125,474)	-	-	(5,000,000)	(5,895,000)
Trade accounts payable	(11,278,375)	(11,278,375)	(9,911,843)	(9,911,843)	(9,346,930)	(9,346,930)
Due to related parties	(943,838)	(943,838)	(674,392)	(674,392)	(858,081)	(858,081)
Other accounts payable and accrued liabilities	(2,635,716)	(2,635,716)	(2,766,388)	(2,766,388)	(2,571,978)	(2,571,978)
<b>Total</b>	<b>\$ 7,184,137</b>	<b>\$ 6,169,792</b>	<b>\$ 8,809,275</b>	<b>\$ 8,609,623</b>	<b>\$ 7,686,180</b>	<b>\$ 6,793,527</b>

The fair values shown at December 31, 2018, 2017 and 2016, 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 period

## 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		Valuation as of December 31, 2018				
		Amount ('000)	Unit	Maturity	Asset (liability)	Net income of the year	Income of prior year	(Gain) loss on settlement
Dollar forwards	Purchase	285,000	US	During 2018	\$ -	\$ -	\$ -	\$ (9,951)
Dollar forwards	Purchase	505,000	US	During 2018	-	-	-	9,893
LIBOR swaps to fixed rate	Purchase	50,000	US	February 2030 and February 2035	\$ 44,351	\$ (38,313)	\$ (6,038)	\$ 2,488
TIIE swaps to fixed rate	Purchase	3,650,000	MX	April 2022 and April 2027	382,035	(92,244)	(289,791)	(64,149)
Fixed rate swaps to TIIE	Sale	1,000,000	MX	During 2018	-	-	-	323
<b>Total at December 31, 2018</b>					<b>\$ 426,386</b>	<b>\$ (130,557)</b>	<b>\$ (295,829)</b>	<b>\$ (61,396)</b>
<b>Total at December 31, 2017</b>					<b>\$ 309,133</b>	<b>\$ 50,400</b>	<b>\$ (359,533)</b>	<b>\$ (34,948)</b>
<b>Total at December 31, 2016</b>					<b>\$ 306,946</b>	<b>\$ (430,736)</b>	<b>\$ 123,790</b>	<b>\$ 402,233</b>

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

Instrument	Notional		Maturity	Valuation as of December 31, 2018		
	Amount ('000)	Unit		Asset (liability)	Comprehensive income	(Gain) loss on settlement
Euro forwards purchase	1,500	Thousand Euros	January to December 2019	\$ (412)	\$ 288	\$ (9,659)
<b>Total at December 31, 2017</b>				\$ (412)	\$ 288	\$ (9,659)
<b>Total at December 31, 2017</b>				\$ 13,211	\$ (9,248)	\$ 3,752
<b>Total at December 31, 2016</b>				\$ (26,239)	\$ 18,367	\$ 18,425

Transactions carried out with interest rate swaps are summarized below:

Instrument	Notional		Maturity	Valuation as of December 31, 2018		
	Monto ('000)	Unit		Asset (liability)	Comprehensive income	(Gain) loss on settlement
LIBOR swaps to fixed rate	396,870	US	January 2035	\$ 52,509	\$ (36,756)	\$ 39,635
<b>Total at December 31, 2018</b>				\$ 52,509	\$ (36,756)	\$ 39,635
<b>Total at December 31, 2017</b>				\$ (207,524)	\$ 141,767	\$ 202,524
<b>Total at December 31, 2016</b>				\$ -	\$ -	\$ -

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

Instrumento	Notional		Maturity	Valuation as of December 31, 2018		
	Amount ('000)	Unit		Asset (liability)	Comprehensive income	(Gain) loss on settlement Cost of sales
Copper Swaps purchase	873	Tons	January to December 2019	\$ (5,088)	\$ 3,652	\$ -
Copper Swaps purchase	415	Tons	January to June 2018	-	-	16,296
Aluminum Swaps purchase	274	Tons	January to March 2019	(825)	578	-
Aluminum Swaps purchase	750	Tons	January to June 2018	-	-	172
<b>Total at December 31, 2018</b>				\$ (5,913)	\$ 4,140	\$ 16,468
<b>Total at December 31, 2017</b>				\$ 2,647	\$ (2,045)	\$ (28,137)
<b>Total at December 31, 2016</b>				\$ 8,299	\$ (6,323)	\$ 3,462

## 14. Property, plant and equipment

The reconciliation between the carrying amount at the beginning and end of the year 2018, 2017 and 2016 is as follows:

	Balances as of December 31, 2017	Additions	Retirements / disposals	Transfers	Exchange differences on translation	Balances as of December 31, 2018
<b>Investment:</b>						
Land	\$ 3,762,189	\$ 3,268	\$ -	\$ (2,226)	\$ (2,548)	\$ 3,760,683
Buildings and leasehold improvements	15,111,504	1,193,596	(188,162)	37,614	(38,164)	16,116,388
Machinery and equipment	20,114,491	324,476	(197,651)	197,785	(90,598)	20,348,503
Furniture and equipment	6,059,399	623,968	(102,820)	(675)	(7,903)	6,571,969
Computers	2,018,268	103,242	(43,763)	35,598	(226)	2,113,119
Vehicles	1,004,035	49,069	(88,144)	65,405	(10,384)	1,019,981
Construction in progress	10,622,015	2,043,324	(1,863)	(342,353)	49,777	12,370,900
<b>Total investment</b>	<b>58,691,901</b>	<b>4,340,943</b>	<b>(622,403)</b>	<b>(8,852)</b>	<b>(100,046)</b>	<b>62,301,543</b>
<b>Accumulated depreciation:</b>						
Buildings and leasehold improvements	(7,183,909)	(491,461)	85,000	(13,272)	16,989	(7,586,653)
Machinery and equipment	(11,900,604)	(749,038)	184,785	54,946	82,005	(12,327,906)
Furniture and equipment	(3,666,128)	(508,827)	83,748	7,453	4,421	(4,079,333)
Computers	(1,606,878)	(150,885)	35,971	3,774	2,007	(1,716,011)
Vehicles	(658,277)	(104,104)	70,121	(19,461)	24,132	(687,589)
<b>Total accumulated depreciation</b>	<b>(25,015,796)</b>	<b>(2,004,315)</b>	<b>459,625</b>	<b>33,440</b>	<b>129,554</b>	<b>(26,397,492)</b>
<b>Impairment:</b>						
Land	(26,814)	-	-	-	-	(26,814)
Buildings and leasehold improvements	(101,666)	15,836	-	-	-	(85,830)
Machinery and equipment	(131,236)	(31,564)	-	-	187	(162,613)
Furniture and equipment	(6,779)	5,775	-	-	-	(1,004)
Computers	(541)	(422)	-	-	-	(963)
Vehicles	(6,516)	-	-	-	-	(6,516)
<b>Accumulated impairment losses</b>	<b>(273,552)</b>	<b>(10,375)</b>	<b>-</b>	<b>-</b>	<b>187</b>	<b>(283,740)</b>
<b>Net investment</b>	<b>\$ 33,402,553</b>	<b>\$ 2,326,253</b>	<b>\$ (162,778)</b>	<b>\$ 24,588</b>	<b>\$ 29,695</b>	<b>\$ 35,620,311</b>

	Balances as of December 31, 2016	Additions	Retirements / disposals	Transfers	Exchange differences on translation	Balances as of December 31, 2017
<b>Investment:</b>						
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
<b>Total investment</b>	<b>53,892,573</b>	<b>5,831,354</b>	<b>(639,378)</b>	<b>(63,186)</b>	<b>(329,462)</b>	<b>58,691,901</b>
<b>Accumulated depreciation:</b>						
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)
<b>Total accumulated depreciation</b>	<b>(23,473,260)</b>	<b>(2,019,861)</b>	<b>412,897</b>	<b>(3,518)</b>	<b>67,946</b>	<b>(25,015,796)</b>
<b>Impairment:</b>						
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)
<b>Accumulated impairment losses</b>	<b>(243,802)</b>	<b>(30,228)</b>	<b>-</b>	<b>-</b>	<b>478</b>	<b>(273,552)</b>
<b>Net investment</b>	<b>\$ 30,175,511</b>	<b>\$ 3,781,265</b>	<b>\$ (226,481)</b>	<b>\$ (66,704)</b>	<b>\$ (261,038)</b>	<b>\$ 33,402,553</b>

	Balances as of January 1, 2016	Additions	Retirements / disposals	Transfers	Exchange differences on translation	Balances as of December 31, 2016
<b>Investment:</b>						
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	677,116	5,314,232	(3,676)	(455,947)	237,619	6,769,344
<b>Total investment</b>	<b>45,913,484</b>	<b>7,949,514</b>	<b>(267,955)</b>	<b>(345,137)</b>	<b>642,667</b>	<b>53,892,573</b>
<b>Accumulated depreciation:</b>						
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)
<b>Total accumulated depreciation</b>	<b>(21,895,023)</b>	<b>(1,897,382)</b>	<b>238,443</b>	<b>248,579</b>	<b>(167,877)</b>	<b>(23,473,260)</b>
<b>Impairment:</b>						
Land	(26,814)	-	-	-	-	(26,814)
Buildings and leasehold improvements	(85,306)	-	-	5,202	-	(85,306)
Machinery and equipment	(118,948)	-	-	2,113	(12,321)	(118,948)
Furniture and equipment	(965)	-	236	58	-	(965)
Computers	(576)	-	-	35	-	(576)
Vehicles	(6,939)	-	-	423	-	(6,939)
Accumulated impairment losses	(239,548)	-	236	7,831	(12,321)	(239,548)
<b>Net investment</b>	<b>\$ 23,778,913</b>	<b>\$ 6,052,132</b>	<b>\$ (29,276)</b>	<b>\$ (88,727)</b>	<b>\$ 462,469</b>	<b>\$ 30,175,511</b>

Total transfers during 2018 and 2017 were made to investment properties for \$46,027 and \$27,748, respectively, and other assets for \$2,615 in 2017.

## 15. Investment properties

	2018	2017	2016
<b>Fair value of investment properties</b>	<b>\$ 3,068,498</b>	<b>\$ 2,812,198</b>	<b>\$ 2,668,495</b>
The changes in investment properties are as follows:			
	2018	2017	2016
Balance at beginning of year	\$ 2,812,198	\$ 2,668,495	\$ 2,449,834
Additions	62,890	-	-
Transferred from property, plant and equipment	(28,498)	27,748	82,816
Gain on property revaluation	221,908	115,955	135,845
<b>Balance at end of year</b>	<b>\$ 3,068,498</b>	<b>\$ 2,812,198</b>	<b>\$ 2,668,495</b>

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:

Recommended ranges for capitalization rates			
No.	Type of property	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 \$231,370, \$218,734 and \$213,463 for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, 2017 and 2016 the occupancy rate of shopping centers is of 92%, 95% and 96%, respectively.

Direct operating expenses including maintenance costs incurred in relation to the investment property are recognized in income and constitute approximately 37% 34% and 33%, of rental income for years ended December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016 are as follows:

	2018		2017		2016	
	Level 3	Fair value	Level 3	Fair value	Nivel 3	Fair value
Shops located in Mexico City	\$ 2,415,553	\$ 2,415,553	\$ 2,323,901	\$ 2,323,901	\$ 2,207,946	\$ 2,207,946
Land located in Baja California	566,543	566,543	488,297	488,297	460,549	460,549
Land and buildings	86,402	86,402	-	-	-	-
<b>Total</b>	<b>\$ 3,068,498</b>	<b>\$ 3,068,498</b>	<b>\$ 2,812,198</b>	<b>\$ 2,812,198</b>	<b>\$ 2,668,495</b>	<b>\$ 2,668,495</b>

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
		Capitalization rate, taking into account the capitalization of rental income potential, nature of the property, and prevailing market condition of 7.4% - 8.9%, 7.0% - 8.9% and 7.1% - 8.8% in 2018, 2017 and 2016, respectively.	A slight increase in the capitalization rate used would result in a significant decrease in fair value, and vice versa.
Shops located in Mexico City	Income approach	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 \$346, \$330 and \$312 Mexican pesos per square meter (sqm) per month in 2018, 2017 and 2016, respectively.	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 associates and joint ventures

a. The principal associated entities and their activities are the following:

Associated	Ownership percentage			Location	Activity
	2018	2017	2016		
Elementia, S. A. de C. V. (Elementia)	36.47	36.17	36.17	México	Manufacture and sale of high technology products for the cement, concrete, polyethylene, styrene, copper and aluminum production
GMéxico Transportes, S.A. de C.V. (FM Rail Holding, S.A. de C.V. until April 29, 2017).	15.14	15.14	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	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:

	2018				
	Stockholders' equity	Net income	Ownership percentage	Investment in shares	Equity in income
Elementia (1)	\$ 23,207,555	\$ (223,557)	36.43	\$ 9,017,067	\$ 82,914
ITM (2)	8,897,167	(982,561)	16.75	1,490,275	(164,580)
Inmuebles SROM, S.A. de C.V.	16,232,859	1,258,235	14.00	2,272,600	187,088
Grupo Telvista, S.A. de C.V.	2,357,049	(12,489)	10.00	235,705	(1,249)
Infraestructura y Saneamiento Atotonilco, S.A. de C.V.	140,682	(124,445)	42.50	(48,127)	(52,889)
Constructora MT de Oaxaca, S.A. de C.V.	409,349	(591)	40.00	163,740	(236)
Trans-Pecos Pipeline, LLC	6,071,716	771,950	51.00	3,096,575	372,814
Comanche Trail Pipeline, LLC	1,842,697	608,525	51.00	1,842,697	327,512
Other Associates				159,239	(28,685)
<b>Total investment in associated entities</b>				<b>18,229,771</b>	<b>722,689</b>
<b>Other investments</b>				<b>2,041</b>	<b>65,000</b>
<b>Total investment in associated entities</b>				<b>18,231,812</b>	<b>787,689</b>

Entities at fair value	Fair value
GMéxico Transportes, S.A.B. de C.V. (FM Rail Holding, S.A. de C.V. until April 29, 2018 (2))	15.14 15,912,581 -
Cuprum (3)	10.00 616,235 -
	16,528,816 -
<b>Total investment in associated entities and joint ventures</b>	<b>\$ 34,760,628 \$ 787,689</b>

	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, 2018 (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
<b>Total investment in associated entities</b>				<b>24,890,441</b>	<b>2,505,931</b>
<b>Other investments</b>				<b>2,040</b>	<b>1,537</b>
<b>Total investment in associated entities and joint ventures</b>				<b>\$ 24,892,481</b>	<b>\$ 2,507,468</b>

	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, 2017 (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
<b>Total investment in associated entities</b>				<b>19,816,852</b>	<b>1,866,558</b>
<b>Other investments</b>				<b>2,565</b>	<b>1,926</b>
<b>Total investment in associated entities and joint ventures</b>				<b>\$ 19,819,417</b>	<b>\$ 1,868,484</b>

(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. At the end of 2017, La Sinca Inbursa, S.A. de C.V. sold its shareholding and that caused the Entity to own 15.14% of GMéxico's shares only, the Entity no longer exerts a significant influence because its related party Sinca Inbursa, S.A. de C.V. He sold his share, although he still has a counselor.

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

## 17. Intangible assets

	Amortization period	Balances as of January 1, 2018	Additions	Retirements / disposals / transfers	Translation effect	Balances as of December 31, 2018
<b>Cost:</b>						
Trademark	Indefinite	\$ 16,631	\$ 143	\$ -	\$ (278)	\$ 16,496
Exploration and evaluation (concession)	Indefinite	1,128,667	872,187	-	(2,932)	1,997,922
Computer programs	5.83	19,735	16,815	-	-	36,550
Licenses and franchises	Indefinite	38,142	-	-	-	38,142
Industrial property rights	10	397,869	(84,658)	-	-	313,211
Intangible assets in progress	15	85,289	355	-	-	85,644
Other intangible assets	Indefinite	22,724	83,561	-	-	106,285
<b>Total cost</b>		<b>1,709,057</b>	<b>888,403</b>	<b>-</b>	<b>(3,210)</b>	<b>2,594,250</b>
<b>Accumulated amortization:</b>						
Trademark		(4,794)	(1,401)	-	-	(6,195)
Exploration and evaluation (concession)		(21,348)	(9,840)	-	-	(31,188)
Computer programs		(3,471)	(5,204)	-	-	(8,675)
Licenses and franchises		(1,024)	(2,886)	-	-	(3,910)
Industrial property rights		(240,525)	(36,822)	-	-	(277,347)
Intangible assets in progress		(362)	(5,260)	-	-	(5,622)
<b>Total amortization</b>		<b>(271,524)</b>	<b>(61,413)</b>	<b>-</b>	<b>-</b>	<b>(332,937)</b>
<b>Impairment Adjustments</b>						
Exploration and evaluation (concession)		(675,321)	(372,850)	-	6,836	(1,041,335)
<b>Net cost</b>		<b>\$ 762,212</b>	<b>\$ 454,140</b>	<b>\$ -</b>	<b>\$ 3,626</b>	<b>\$ 1,219,978</b>

	Amortization period	Balances as of January 1, 2017	Additions	Retirements / disposals / transfers	Translation effect	Balances as of December 31, 2017
<b>Cost:</b>						
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
<b>Total cost</b>		<b>1,593,471</b>	<b>173,137</b>	<b>(12,493)</b>	<b>(45,058)</b>	<b>1,709,057</b>
<b>Accumulated amortization:</b>						
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)
<b>Total amortization</b>		<b>(222,924)</b>	<b>(52,338)</b>	<b>3,147</b>	<b>591</b>	<b>(271,524)</b>
<b>Impairment Adjustments</b>						
Exploration and evaluation (concession)		(707,109)	-	-	31,788	(675,321)
<b>Net cost</b>		<b>\$ 663,438</b>	<b>\$ 120,799</b>	<b>\$ (9,346)</b>	<b>\$ (12,679)</b>	<b>\$ 762,212</b>

	Amortization period	Balances as of January 1, 2016	Additions	Retirements / disposals / transfers	Translation effect	Balances as of December 31, 2016
<b>Cost:</b>						
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
<b>Total cost</b>		<b>1,295,184</b>	<b>120,164</b>	<b>(584)</b>	<b>178,707</b>	<b>1,593,471</b>
<b>Accumulated amortization:</b>						
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)
<b>Total amortization</b>		<b>(182,418)</b>	<b>(38,646)</b>	<b>-</b>	<b>(1,860)</b>	<b>(222,924)</b>
<b>Impairment Adjustments</b>						
Exploration and evaluation (concession)		(551,886)	-	(44,327)	(110,896)	(707,109)
<b>Net cost</b>		<b>\$ 560,880</b>	<b>\$ 81,518</b>	<b>\$ (44,911)</b>	<b>\$ 65,951</b>	<b>\$ 663,438</b>

## 18. Others assets

Other assets were as follows:

	Amortization period	2018	2017	2016
Insurance and surety	(a)	\$ 583,828	\$ 507,670	\$ 438,407
Collaborative commissioning agreement		159,604	159,604	159,604
Guarantee deposits		45,633	48,731	53,031
Installation costs		282,844	165,406	112,744
Prepaid expenses		21,114	12,113	12,113
Others		226,025	167,802	113,763
		1,319,048	1,061,326	889,662
<b>Accumulated amortization</b>		<b>(855,082)</b>	<b>(703,115)</b>	<b>(513,321)</b>
		<b>\$ 463,966</b>	<b>\$ 358,211</b>	<b>\$ 376,341</b>

(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
<b>Investment:</b>							
Balance at the beginning of 2016	\$ 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)	-	-	(1,586)	(4,088)
<b>Balance as of December 31, 2016</b>	<b>438,407</b>	<b>159,604</b>	<b>53,031</b>	<b>112,744</b>	<b>12,113</b>	<b>113,763</b>	<b>889,662</b>
Acquisitions	69,263	-	4,287	52,662	-	46,878	173,090
Translation effect	-	-	-	-	-	-	-
Applications / Recoveries	-	-	(8,587)	-	-	7,161	(1,426)
<b>Balance as of December 31, 2017</b>	<b>507,670</b>	<b>159,604</b>	<b>48,731</b>	<b>165,406</b>	<b>12,113</b>	<b>167,802</b>	<b>1,061,326</b>
Acquisitions	76,158	-	1,502	117,438	9,001	58,277	262,376
Translation effect	-	-	-	-	-	-	-
Applications / Recoveries	-	-	(4,600)	-	-	(54)	(4,654)
<b>Balance as of December 31, 2018</b>	<b>\$ 583,828</b>	<b>\$ 159,604</b>	<b>\$ 45,633</b>	<b>\$ 282,844</b>	<b>\$ 21,114</b>	<b>\$ 226,025</b>	<b>\$ 1,319,048</b>

	Insurance and surety	Collaborative commissioning agreement	Guarantee deposits	Installation costs	Prepaid expenses	Others	Total
<b>Accumulated amortization:</b>							
Balance at the beginning of 2016	\$ (305,353)	\$ -	\$ -	\$ (19,422)	\$ (8,551)	\$ (22,130)	\$ (355,456)
Retirements / disposals	-	-	-	-	-	-	-
Amortization	(86,342)	-	-	(53,588)	(2,850)	(15,085)	(157,865)
<b>Balance as of December 31, 2016</b>	<b>(391,695)</b>	<b>-</b>	<b>-</b>	<b>(73,010)</b>	<b>(11,401)</b>	<b>(37,215)</b>	<b>(513,321)</b>
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)
Retirements / disposals	-	-	-	-	-	-	-
Amortization	(89,037)	-	-	(38,548)	(2,432)	(21,950)	(151,967)
Balance as of December 31, 2018	\$ (568,708)	\$ -	\$ -	\$ (191,575)	\$ (14,546)	\$ (80,253)	\$ (855,082)

The amortization recorded in income was \$151,967, \$189,794 and \$157,865 in 2018, 2017 and 2016, respectively, of which \$136,009, \$169,587 and \$148,146 is recognized as part of cost of sales, respectively.

## 19. Current debt and long-term debt

Debt is as follows:

	2018	2017	2016
<b>Current debt:</b>			
Commercial loans in Mexican pesos, agreed in January and October 2018 at a variable rate of TIIE + 0.85% and maturity on December 2018 and January 2019.	\$ 261,678	\$ -	\$ -
Commercial loans in Mexican pesos, agreed in October and September 2018 at a variable rate of TIIE + 1.50% and maturity on April 2019.	20,000	-	-
Commercial loans in Colombian pesos, agreed in second semester 2018 at a interest rate of 6.27% and maturity on February 2019.	126,067	-	-
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
<b>Other loans</b>	<b>26,286</b>	<b>24,431</b>	<b>75,923</b>
	<b>434,031</b>	<b>2,662,952</b>	<b>6,721,179</b>
<b>Add current portion of long-term debt</b>	<b>82,871</b>	<b>15,478</b>	<b>5,000,000</b>
<b>Current portion</b>	<b>\$ 516,902</b>	<b>\$ 2,678,430</b>	<b>\$ 11,721,179</b>
<b>Long-term debt:</b>			
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.	\$ 9,752,762	\$ 7,563,789	\$ -
Debt securities issued in Mexican pesos with monthly maturities from March 2018 with interest rate of TIIE + 0.23 and final maturity in March 2021.	3,000,000	-	-
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
	<b>12,752,762</b>	<b>7,563,789</b>	<b>5,000,000</b>
<b>Less - current portion</b>	<b>(82,872)</b>	<b>(15,478)</b>	<b>(5,000,000)</b>
<b>Less - current portion</b>	<b>\$ 12,669,891</b>	<b>\$ 7,548,311</b>	<b>\$ -</b>

Long-term debt accrues interest at variable rates. Interest rates for loans in Mexican pesos during 2018 stood at a weighted average of 8.70%. The Libor rate as of December 31, 2018 was 1.05% and the TIIE rate was 8.4091% as of December 31, 2018.

## 20. Provisions

The provisions presented below represent charges incurred during 2018, 2017 and 2016, 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.

	2018					
	Opening balance	Additions	Provision applied	Reversals	Derecognition	Closing balance
Contractor costs	\$ 2,533,532	\$ 9,808,913	\$ (10,068,543)	\$ -	\$ -	\$ 2,273,902
Construction costs and other extraordinary items	500,286	1,052,016	(1,228,920)	-	(113)	323,269
Environmental costs and plant closure	121,487	50,684	(8,947)	-	-	163,224
Employment relationships	86,297	137,690	(110,450)	-	-	113,537
Others	246,787	375,140	(166,302)	-	(69,022)	386,603
	<b>\$ 3,488,389</b>	<b>\$ 11,424,443</b>	<b>\$ (11,583,162)</b>	<b>\$ -</b>	<b>\$ (69,135)</b>	<b>\$ 3,260,535</b>

	2017					
	Opening balance	Additions	Provision applied	Reversals	Derecognition	Closing 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
	<b>\$ 3,269,303</b>	<b>\$ 11,931,314</b>	<b>\$ (11,320,791)</b>	<b>\$ -</b>	<b>\$ (391,437)</b>	<b>\$ 3,488,389</b>

	2016					
	Opening balance	Additions	Provision applied	Reversals	Derecognition	Closing 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
	<b>\$ 2,346,175</b>	<b>\$ 13,616,084</b>	<b>\$ (12,663,412)</b>	<b>\$ -</b>	<b>\$ (29,544)</b>	<b>\$ 3,269,303</b>

## 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, 2018 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:

	2018	2017	2016
Discount rate	8.54%	7.71%	7.49%
Expected rate of salary increase	5.40%	4.79%	4.61%
Expected return on plan assets	8.54%	7.71%	7.49%
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.

	2018	2017	2016
Present value of defined benefit obligation	\$ (3,908,938)	\$ (4,090,648)	\$ (3,565,979)
Fair value of plan assets	4,306,851	4,327,438	3,692,117
<b>Present value of unfunded defined benefit obligation</b>	<b>\$ 397,913</b>	<b>\$ 236,790</b>	<b>\$ 126,138</b>
Balances included in the consolidated statements of financial position are as follows:			
Defined retirement employee benefits liabilities	\$ (168,758)	\$ (397,486)	\$ (391,543)
Defined retirement employee benefits assets	562,981	634,276	517,681
	\$ 394,223	\$ 236,790	\$ 126,138
<b>Contributions to plan assets</b>	<b>\$ 147,767</b>	<b>\$ 181,274</b>	<b>\$ 204,509</b>

The expense for the year amounts \$183,850, \$183,257 and \$150,619 in 2018, 2017 and 2016, 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:

	2018	2017	2016
Service costs	\$ 196,400	\$ 174,495	\$ 165,946
Interest cost	302,762	269,611	240,565
Interest income	(331,797)	(280,456)	(254,229)
Past service cost	18,876	2,786	2,342
Effect of reduction or early liquidation (other than a restructuring or discontinued operation)	(2,391)	16,821	(4,005)
<b>Net period cost (income)</b>	<b>\$ 183,850</b>	<b>\$ 183,257</b>	<b>\$ 150,619</b>

Components of defined benefit costs recognized in other comprehensive income

	2018	2017	2016
<b>Actuarial gains - net</b>	<b>\$ 189,477</b>	<b>\$ 107,280</b>	<b>\$ 69,610</b>

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:

	2018	2017	2016
Changes in the present value of the defined benefit obligation at January 1	\$ (4,090,863)	\$ (3,565,979)	\$ (3,482,979)
Service costs	(196,400)	(174,495)	(165,946)
Past service (income) cost	(22,380)	(2,786)	(2,342)
Interest cost	(302,762)	(269,611)	(240,565)
Actuarial (losses) gains - net	509,457	(216,426)	120,112
Benefits paid	204,693	151,479	200,641
Effect of reduction or early liquidation (other than a restructuring or discontinued operation)	(10,683)	(12,830)	5,100
Other	-	-	-
<b>Present value of the defined benefit obligation</b>	<b>\$ (3,908,938)</b>	<b>\$ (4,090,648)</b>	<b>\$ (3,565,979)</b>

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

	2018	2017	2016
Opening fair value of plan assets	\$ 4,327,439	\$ 3,692,017	\$ 3,668,084
Expected yield on plan assets	331,797	280,456	254,229
Reclassifications	(771)	6,884	3,496
Actuarial gain (losses) - net	(299,561)	367,358	(201,560)
Contributions to plan	147,767	181,274	204,509
Benefits paid	(143,410)	(151,479)	(200,641)
Assets distributed on settlements	(56,410)	(49,072)	(36,100)
Others	-	-	-
<b>Closing fair value of plan assets</b>	<b>\$ 4,306,851</b>	<b>\$ 4,327,438</b>	<b>\$ 3,692,017</b>

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analysis below has 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 \$201,868 (increase of \$221,688).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by \$254,172 (decrease by \$227,704).

If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by \$101,695 (decrease by \$92,961).

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, 2018, 2017 and 2016 is 10.81, 11.71 and 11.56 years, respectively.

The Entity expects to make a contribution of \$147,767 to the defined benefit plans during 2019.

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

	Fair value of plan assets					
	2018 %	2017 %	2016 %	2018	2017	2016
Equity instruments	50	50	52	\$ 2,069,611	\$ 2,151,792	\$ 1,937,020
Debt instruments	50	50	48	\$ 2,210,390	\$ 2,166,075	\$ 1,754,997
Weighted average expected return				\$ 340,935	\$ 101,883	\$ 102,082

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:

	2018	2017	2016
Short-term benefits	\$ 137,539	\$ 129,657	\$ 134,300
Defined benefit plans	1,690	2,476	2,415
Other long-term benefits	295,570	297,735	287,755

## 22. Stockholders' equity

a. The historical amount of issued and paid-in common stock of Grupo Carso as of December 31, 2018, 2017 and 2016 is as follows:

	Number of shares			Amount		
	2018	2017	2016	2018	2017	2016
Series A1	2,745,000,000	2,745,000,000	2,745,000,000	\$ 644,313	\$ 644,313	\$ 644,313
Treasury shares repurchased	(463,561,326)	(463,264,391)	(480,100,000)	(108,807)	(108,737)	(112,690)
Historical capital stock	2,281,438,674	2,281,735,609	2,264,900,000	\$ 535,506	\$ 535,576	\$ 531,623

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

Pursuant to a General Ordinary Stockholders' Meeting on April 26, 2018, the payment of a dividend was approved for the amount of \$0.92 (ninety-two cents) per share, payable in two exhibitions of \$0.46 (forty-six cents) per share each, on June 29 and December 21, 2018 against vouchers No. 38 and 39, respectively, of the securities that are in effect at the time of payment. Total payment was \$2,099,025.

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 from the net taxable income account CUFIN (by its acronym in Spanish) 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.

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, 2018, 2017 and 2016, the legal reserve, of the Entity was \$381,635.

- 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.
- 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.
- 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:

	2018	2017	2016
<b>Receivable-</b>			
Teléfonos de México, S.A.B. de C.V.	\$ 1,093,219	\$ 665,740	\$ 958,172
Delphi Packard Electric Systems, Inc.	759,742	681,622	607,541
Minera Tayahua, S.A. de C.V.	727,365	320,482	478,16
Claro, S.A.	371,997	172,988	163,373
América Móvil Perú, S.A.C.	259,821	133,891	129,725
Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V.	167,118	127,093	55,899
Telmex Colombia, S.A.	162,126	71,401	117,044
Infraestructura y Saneamiento de Atotonilco, S.A. de C.V.	105,124	213,525	107,987
Delco Electronic Systems	79,674	66,208	65,239
Operadora de Sites Mexicanos, S.A. de C.V.	78,581	78,067	194,568
Constructora Terminal del Valle de México, S.A. de C.V.	73,024	426	-
Compañía Dominicana de Teléfonos, S.A.	70,864	59,989	38,217
Radiomóvil Dipsa, S.A. de C.V.	69,829	82,759	132,692
Minera Real de Ángeles, S.A. de C.V.	64,526	63,668	61,455
Consorcio Ecuatoriano de Telecomunicaciones, S.A.	48,440	21,217	22,193
Teléfonos del Noroeste, S.A. de C.V.	46,711	26,658	51,355
Compañía de Teléfonos y Bienes Raíces, S.A. de C.V.	44,967	31,847	19,857
Puerto Rico Telephone Company, Inc.	43,732	122,948	56,359
Concesionaria autopista Guadalajara-Tepic, S.A. de C.V.	43,118	218,399	118,234
Fideicomiso / 1815 Desarrollo Tlalnepantla	33,321	14,392	5,398
Constructora de Inmuebles PLCO, S.A. de C.V.	33,303	54,991	19,474
Claro comunicaciones, S.A.	28,011	-	19,872
Telecomunicaciones de Guatemala, S.A.	27,795	44,863	25,857
Empresa Nicaragüense de Telecomunicaciones, S.A.	23,819	55,082	14,525
Fundación Carlos Slim, A.C.	21,454	19,090	17,888
CRS Morelos, S.A. de C.V.	19,727	6,359	18,985
Uninet, S.A. de C.V.	19,542	22,311	22,773
Viakable, S.A. de C.V.	18,378	-	-
Servicios de Comunicaciones de Honduras, S.A. de C.V.	17,637	27,786	3,814
Consorcio Red Uno, S.A. de C.V.	14,849	25,574	24,755
Compañía de Telecomunicaciones de el Salvador, S.A. de C.V.	14,136	13,057	13,585
Constructora MT Oaxaca, S.A. de C.V.	13,173	16,207	16,075
Consorcio Cargi - Propen, S.A. de C.V.	12,211	27,198	2,000
Telesites Costa Rica, S.A.	11,200	46,517	-
Telecomunicaciones de Puerto Rico, Inc.	-	386,137	-
Claro CR Telecomunicaciones, S.A.	3,818	22,286	81,878
Conductores Monterrey, S.A. de C.V.	-	19,329	13,481
Inmobiliaria Aluder, S.A. de C.V.	-	13,867	6,878
Renta de Equipo, S.A. de C.V.	3,302	11,509	17,350
Concesionaria ETRAM Cuatro Caminos, S.A. de C.V.	2	7,937	26,800
Concesionaria de Autopistas y Libramientos del Pacífico Norte, S.A. de C.V.	-	6,336	95,897
Alquiladora de Casas, S.A. de C.V.	1,414	410	70,673
Autopista Arco Norte, S.A. de C.V.	9,184	5,956	46,958
Acolman, S.A. de C.V.	17	1,277	31,201
Hubard y Bourlon, S.A. de C.V.	-	1,993	24,586
Ecuador Telecom, L.L.C.	680	-	13,690
Procesadora de Pagos Móviles, S.A. de C.V.	-	-	12,319
Multiservicios de Exploración Geológica Frisco, S.A. de C.V.	40	26	10,585
Other less than \$10,000	70,986	81,172	77,558
	\$ 4,707,977	\$ 4,090,590	\$ 3,682,581

**Payable-**

Radiomóvil Dipsa, S.A. de C.V.	\$ 483,584	\$ 266,896	\$ 313,222
Constructora de Inmuebles PLCO, S.A. de C.V.	117,731	120,695	-
Constructora Terminal Valle de México, S.A. de C.V.	94,292	92,033	-
Teléfonos de México, S.A.B. de C.V.	91,614	104,642	324,831
Sears Brands Management	83,476	79,936	97,416
Delphi Packard Electric Systems, Inc.	74,853	140,295	183,527
Centro Histórico de la Ciudad de México, S.A. de C.V.	65,013	65,050	65,407
AMX Contenido, S.A. de C.V.	61,125	-	-
América Móvil Perú, S.A.C.	51,423	12,772	53,474
Inmose, S.A. de C.V.	47,659	31,368	31,233
Inmuebles SROM, S.A. de C.V.	42,139	14,301	-
Aptiv Services US, LLC	16,602	-	-
Seguros Inbursa, S.A.	14,140	1,098	12,207
Promotora del Desarrollo de América Latina, S.A. de C.V.	1,234	586,700	586,700
Fideicomiso / 1815 Desarrollo Tlalnepantla	7,523	70,549	360
Constructora Mexicana de Infraestructura Subterránea, S.A. de C.V.	1,155	64,265	9,948
Empresa Nicaragüense de Telecomunicaciones, S.A. de C.V.	3,582	25,458	123
Compañía de Teléfonos y Bienes Raíces, S.A. de C.V.	4,600	21,213	48
Inversora Bursátil, S.A. de C.V.	1,913	18,969	38,989
Operadora de Sites Mexicanos, S.A. de C.V.	-	14,915	65,720
Anuncios en Directorios, S.A. de C.V.	1,061	11,701	14,595
Conglomerado de Medios Internacionales, S.A. de C.V.	-	11,301	-
Concesionaria Autopista Guadalajara-Tepic, S.A. de C.V.	1,713	7,824	93,164
Inmuebles y Servicios Mexicanos, S.A. de C.V.	302	38	63,267
Infraestructura y Saneamiento Atotonilco, S.A. de C.V.	185	-	53,500
Concesionaria de Autopistas y Libramientos del Pacífico Norte, S.A. de C.V.	-	30	42,693
Concesionaria Distribuidor Vial San Jerónimo-Muyuguarda, S.A.	4,584	4,499	41,931
Puerto Rico Telephone Company, Inc.	-	-	36,861
Claro CR Telecomunicaciones, S.A.	-	-	30,250
Makobil, S. de R.L. de C.V.	-	-	21,262
Net Brasil Servicios de Televisao por Assinatura, S.A.	-	-	16,181
CRS Morelos, S.A. de C.V.	-	-	15,651
Minera Real de Ángeles, S.A. de C.V.	1,951	1,121	10,241
Other less than \$10,000	117,916	123,240	145,977
	\$1,391,370	\$ 1,890,909	\$ 2,368,778

- a. Borrowings from financial institutions includes balances with Banco Inbursa, S.A. of \$20,000, \$30,000 and \$25,000 as of December 31, 2018, 2017 and 2016, respectively; which accrue interest at a variable rate based on general market conditions (11.91%, 8.89% and 6.10%, respectively; as of December 31, 2018, 2017 and 2016).
- b. Due to related parties includes advances from customers of \$447,532, \$1,216,517 and \$1,510,697 as of December 31, 2018, 2017 and 2016, respectively.
- c. The amounts pending is 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:

	2018	2017	2016
Sales	\$ 19,164,054	\$ 18,415,026	\$ 20,994,775
Interest income	26,377	59,364	46,769
Purchases	(1,286,578)	(734,164)	(1,119,977)
Prepaid insurance	(317,931)	(265,571)	(240,037)
Lease expenses	(653,508)	(610,109)	(651,074)
Services rendered	(218,044)	(321,489)	48,442
Other expenses, net	(349,018)	(301,896)	(537,874)
Purchases of fixed assets	6,476	(13,568)	(97,170)

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

	2018	2017	2016
Sales	\$ 1,259,713	\$ 1,132,340	\$ 1,052,399
Services acquired	(23,936)	(17,672)	11,931
Purchases	(42,626)	(28,931)	(79,282)
Expense from the lease of real property	(4,243)	(2,482)	(3,629)
Insurance	(8,989)	-	(28,467)
Other income, net	(23,393)	(29,050)	(43,465)
Purchases of fixed assets	-	(6,168)	(8,285)

**24. Net income**

	2018	2017	2016
Net sales:			
Sale of goods	\$ 74,105,884	\$ 70,870,876	\$ 69,537,706
Construction	13,069,007	14,438,912	18,103,694
Interests	3,793,981	3,609,459	3,182,572
Services	3,923,231	3,375,680	3,145,362
Rentals	1,024,271	1,135,012	1,034,017
Dividends	558,772	-	-
Others	164,687	162,674	184,284
<b>Total</b>	<b>\$ 96,639,833</b>	<b>\$ 93,592,613</b>	<b>\$ 95,187,635</b>

**25. Cost and expenses by nature**

	2018			
Concept	Cost of sales	Distribution and selling	Administrative	Total
Wages and salaries	\$ 4,266,173	\$ 4,151,297	\$ 1,832,479	\$ 10,249,949
Employee benefits	440,965	1,921,363	346,269	2,708,597
Raw materials	20,438,966	-	-	20,438,966
Manufacturing expenses	3,651,009	-	-	3,651,009
Finished products	37,629,757	-	-	37,629,757
Depreciation	755,950	1,173,705	74,660	2,004,315
Amortization	178,756	22,831	11,793	213,380
Advertising	3,363	489,484	-	492,847
Insurance	50,617	103,737	57,682	212,036
Freight	2,156	429,316	5,188	436,660
Allowance for doubtful accounts	3,472	6,205	926,540	936,217
Royalties	-	257,104	3,000	260,104
Fees	1,840	63,788	183,494	249,122
Maintenance	122,576	374,238	47,308	544,122
Plant costs	-	6,477	257,424	263,901
Security services	16,917	75,934	32,956	125,807
Lease	348,945	1,231,100	126,543	1,706,588
Telephone	211	53,003	45,210	98,424
Electricity	7,566	641,130	7,195	655,891
Credit card fees	-	416,691	8,136	424,827
Other	102,049	1,623,549	732,806	2,458,404
<b>Total</b>	<b>\$ 68,021,288</b>	<b>\$ 13,040,952</b>	<b>\$ 4,698,683</b>	<b>\$ 85,760,923</b>

## 2017

Concept	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
<b>Total</b>	<b>\$ 64,611,516</b>	<b>\$ 12,592,117</b>	<b>\$ 4,766,921</b>	<b>\$ 81,970,554</b>

## 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
<b>Total</b>	<b>\$ 66,717,610</b>	<b>\$ 11,838,925</b>	<b>\$ 3,931,465</b>	<b>\$ 82,488,000</b>

## 26. Other income - net

	2018	2017	2016
Sales of materials and waste	\$ (15,542)	\$ (15,513)	\$ (10,725)
(Gain) loss on sale of fixed asset	(13,908)	3,164	(12,200)
Gain on investment property revaluation	(221,908)	(115,955)	(135,845)
Brand revaluation	-	-	(8,672)
Settlement of liabilities and provisions	(334,250)	(274,249)	(155,008)
Impairment of exploration expenses	372,850	-	44,327
Impairment of concession	84,659	-	-
Impairment of property, plant and equipment	10,375	30,228	-
Other, net	171,090	(22,669)	4,841
	<b>\$ 53,366</b>	<b>\$ (394,994)</b>	<b>\$ (273,282)</b>

## 27. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2018 and 2017 was 30% and will continue to 30% and thereafter. The rate of current income is 30%. The Entity incurred ISR on a consolidated basis until 2013 with its Mexican subsidiaries. As a result of the 2014 Tax Law, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the long-term 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 2018, 2017 and 2016 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:

	2018	2017	2016
ISR:			
Current	\$ 3,096,876	\$ 3,331,827	\$ 4,434,296
Current from prior periods	(1,719,273)	(762)	596,556
	<b>\$ 1,377,603</b>	<b>\$ 3,331,065</b>	<b>\$ 5,030,852</b>

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

	2018	2017	2016
ISR deferred (asset) liability:			
Property, plant and equipment	\$ 2,416,594	\$ 2,116,849	\$ 2,481,619
Inventories	(470,759)	(379,372)	(241,089)
Advances from customers	(478,852)	(717,621)	(822,121)
Investment in associates	3,342,265	256,242	-
Natural gas and metals swaps and forwards	142,617	36,965	88,993
Revenues and costs by percentage-of-completion method	251,362	353,719	222,499
Allowances for assets and reserves for liabilities	(751,007)	(684,484)	(930,835)
Other, net	116,951	(162,653)	(14,345)
Deferred ISR on temporary differences	4,569,171	819,645	784,721
Effect of tax loss carry-forwards	(3,600,732)	(1,637,024)	(1,727,881)
Allowance for deferred tax	357,322	582,779	720,301
Deferred ISR payment (long-term CUFINRE)	2,548	2,431	2,277
	<b>1,328,309</b>	<b>(232,169)</b>	<b>(220,582)</b>
<b>Total deferred tax asset</b>	<b>3,634,306</b>	<b>2,384,854</b>	<b>2,048,472</b>
<b>Total deferred tax liability</b>	<b>\$ 4,962,615</b>	<b>\$ 2,152,685</b>	<b>\$ 1,827,890</b>

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

	2018	2017	2016
Opening balance	\$ (232,169)	\$ (220,582)	\$ (752,294)
Income tax applied to income	(1,719,273)	(762)	596,556
Recognized in other comprehensive income	3,279,751	(10,825)	(64,844)
Closing balance	<b>\$ 1,328,309</b>	<b>\$ (232,169)</b>	<b>\$ (220,582)</b>

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

	2018	2017	2016
	%	%	%
Statutory rate	30	30	30
Add (deduct) the effect of permanent differences - Nondeductible expenses	2	1	4
Effects of inflation	(1)	(2)	-
Gain on sale of shares	(1)	-	-
Effect of tax loss carry-forwards of subsidiaries	(18)	-	-
Share in income of associated companies	(2)	(6)	( 3 )
Others	2	-	-
<b>Effective rate</b>	<b>12</b>	<b>23</b>	<b>31</b>

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, 2018 are as follows:

Year of expiration	Tax loss carryforwards
2019	\$ 58,190
2020	231,143
2021 and thereafter	6,959,432
	7,248,765
Foreign subsidiaries tax loss carryforwards without expiration term	7,278,990
<b>Total</b>	<b>\$ 14,527,755</b>

f. Tax consolidation:

The income tax liability at December 31, 2018 from the effects of benefits and tax deconsolidation, is recorded in other accounts payable and accrued liabilities (the current portion) and the remainder in other long-term liabilities, shall be paid in the following years:

Year	
2019	\$ 119,981
2020	107,800
2021	86,608
2022 and thereafter	95,274
	\$ 409,663

g. Tax integration regime

ISR liability derived from the tax integration regime will be paid within the period of four years; at December 31, 2018, 2017 and 2016, this liability was \$1,466,975, \$1,148,775 and \$1,048,051, respectively.

## 28. Commitments

### I. Retail sector:

- As of December 31, 2018, 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 \$1,330,770.
- Furthermore, as of December 31, 2018, the retail sector and its subsidiaries have entered into lease agreements in 364 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 2018, 2017 and 2016 was \$1,321,259, \$1,323,852 and \$1,367,071, 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 2018, 2017 and 2016 was \$238,346, \$224,472 and \$221,363, respectively.

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

Maturity	December 31, 2018
1 year	\$ 738,152
1 to 5 years	3,278,136
More than 5 years	3,054,317
	\$ 7,070,605

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

Maturity	December 31, 2018
1 year	\$ 29,681
1 to 5 years	208,135
More than 5 years	222,503
	\$ 460,319

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:

- In August 2018, Bronco Drilling Mx, S.A. de C.V. (Bronco) 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 \$29,927, and its validity is from August 2018 to July 2019.
- In February 2018, Constructora Terminal Valle de México, S.A. de C.V. ("CTVM"), awarded a contract in favor of Operadora, in technical support in the development of workshop engineering, supply, manufacture, transport and assembly of metal structure (weighing 14,460.20 tons of steel) for the first stage of zone D of the Terminal building for the project called Construction of the Terminal Building of the New International Airport of Mexico City for an amount of \$630,701, as of December 31, 2018, there are advances of 18.32%. On January 11, 2019, CTVM notified Operadora of the temporary partial suspension of the 60-day contract prior to proceeding with the early cancellation of the contract.
- In January 2018, GSM signed a contract with Energías Alternas, Estudios y Proyectos, S.A. de C.V. for the completion of the Celaya PC-01 Geothermal well for an amount of \$37,088, the well completed in June 2018, during October 2018, work began on the drilling and integral completion of the Geothermal well, for an amount of US\$3,500 and there is an advance of 25% as of December 31, 2018.
- In September 2017, Bronco 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, the amount and terms were extended during 2017 to \$39,012 and 120 days, respectively, the works were completed in March 2018.
- In August 2018, 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, 2018, the project progress approximates 93%. On January 11, 2019, CTVM notified Operadora of the temporary partial suspension of the 60-day contract prior to proceeding with the early cancellation of the contract.

- f. 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, 2018, the project progress approximates 78%. On January 11, 2019, CTVM notified Operadora of the temporary partial suspension of the 60-day contract prior to proceeding with the early cancellation of the contract.
- g. 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, 2018, two of them (those of January 2014 and January 2015) were suspended by the client and there was an advance of 85% and 100%, respectively, the third presents an advance of 100% and it is expected to be concluded in December 2018.
- h. In November 2014, PEP issued a ruling in favor of GSM for the contract for the integral works of control fluids, solids separation and waste management to be used in oil wells in the South region for US\$62,128 thousand. Second half of February 2015, during 2017, PEP decided to suspend the contract, however, during the second semester of 2018, it was reactivated to continue with the works until September 2019.
- i. 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, 2018, 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 term of execution of the contract was extended to December 31, 2018, at the beginning On December 1, 2018, an amendment agreement number 7 was issued, extending the deadline for execution of the works until September 30, 2019.
- j. The Ministry of Public Works of the Republic of Panama awarded the "Consortio FCC- Corredor de playas I"; formed by FCC Construcción, S.A. and Operadora, the execution of the project "Expansion To Six (6) Lanes - Corredor de las Playas, Tramo I: La Chorrera - Santa Cruz "; Province of Panamá Oeste, in Panama, the contributions made by Operadora as of December 31, 2018, amount to US \$7,050, equivalent to 49% of the participation, the contract amount amounts to US\$519,216, in December 2018, they started work on the project.
- k. In December 2017, the Ministry of Transport and Infrastructure of the Republic of Nicaragua awarded the consortium formed by Operadora and FCC Construcción, S.A., a contract for the execution of works for the project "Improvement of the Camino Chinamos - El Ayote, Sections I and II, the amount of the contracts amounts to C\$487,495 and C\$504,488.6 thousand córdobas, respectively. The participation of Operadora in the consortium is 50%. As of December 31, 2018, there are approximate advances of 30% in both projects.
- l. 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, in January 2018, a modification agreement was signed extending the execution period ending in May 2019 and increasing the amount of the contract remaining at \$8,328,778.
- m. 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, 2018, the execution of the work is suspended by settlers' blockades.
- n. 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. As of December 31, 2018, there is an advance of 97% and the settlement process has begun.
- o. 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, 2018, and 95% work completion level was reported.
- p. 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 2017, an additional contract was signed for \$1,886,763 and at December 31, 2018, there have been advances of approximately 99%.
- q. 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, 2018, there have been progress of approximately 68%, the work is stopped due to social problems.
- r. 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, 2018, 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.
- s. 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 m<sup>3</sup> 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, 2018, an advance of approximately 97% is expected and the project is expected to be completed in August 2018, as of December 31, 2018, the administration is in negotiations with the National Water Commission to extend the execution deadline to May 25, 2019.
- t. In December 2018, HYB, started the works of Installations at Puerta Bosques, for an amount of \$202, it is estimated to conclude the works in the second quarter of 2020.
- u. In October 2017, HYB, began the works of facilities in the Hotel GT for FOUR SEASONS chain in Los Cabos, Baja California Sur, for an amount of \$237,000, it is estimated to conclude the works in the fourth quarter of 2018. As of December 31 of 2019 there is an advance of 69%.
- v. In June 2018, work began on the Hotel San Jerónimo in Mexico City, the approximate amount of the works is for \$120,000, and it is expected to complete them in the first quarter of 2019, as of December 31, 2018, there is an 80% advance.
- w. In May 2018, HYB started the works of facilities in Tlalnepantla Mall, for an amount of \$195,000, it is estimated that work will be completed in the fourth quarter of 2019, as of December 31, 2018 there is an advance of 34%.
- In May 2018, HYB began the works of facilities in Miyana Torre E for an amount of \$168,000, it is estimated that work will be completed in the fourth quarter of 2019. As of December 31, 2018 there is an advance of 20%.
- x. In February 2018, HYB commenced work on Alto Polanco Torre III facilities for an amount of \$157,000, during the third quarter of 2018 the contract amount was updated to \$130,000, it is estimated that work will be completed in the fourth quarter of 2019. December of 2018 there is an advance of 13%.
- y. 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. As of December 31, 2018 there is an advance of 66%.
- z. In July 2017, a contract was signed for the construction of a housing, commerce, Hospital and consulting rooms in Tlalnepantla State of Mexico, for an amount of \$505,000, it is expected to conclude the works in December 2018, to December 31, 2018, there is an advance of 96%.
- aa. 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, 2018, the project progress is 45%.
- bb. 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, during the in the first quarter of 2018, the contract amount was updated to \$ 228,000, and as of December 31, 2018, there was an advance of 67%.

cc. 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, 2018, the project progress is 32%.

dd. As mentioned in Note 2, on January 26, 2018, 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, 2018, the project progress is 2%.

ee. 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, the amount of the contract it was adjusted to leave it at \$825,000, it is estimated that work will be completed in the third quarter of 2019, as of December 31, 2018, there is an advance of 88%.

ff. 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, 2018 the project progress is approximately 96%.

gg. 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 2016. The water park began in the second quarter of 2016 and it is estimated that the work will be fully completed in the second quarter of 2017. Parallel construction of the homes is taking place, as of December 31, 2018, it is in administrative closure.

hh. 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.<sup>3</sup> a day (472 MMPCD). As of December 31, 2018, the percentage of completion is 78% and the scheduled date for project conclusion is July 2019.

ii. The following reported figures include works carried out directly by CICSA and by Operadora, which among its main projects has:

As of December 31, 2018 and 2017, the Entity has entered into contracts and work orders with related parties in Mexico and Latin America for total amounts of \$5,092,875 and \$6,049,993 and US\$205.4 and US\$175.7 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 2019.

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

Year of contracting	Projects	Subsidiary Contracted	Contract Amount	Sector
2017	Hotel in the state of Guanajuato	Operadora	\$ 184,000	Civil construction
2016	Construction Building	Operadora	\$ 478,000	Civil construction
2015	Hydraulic Pumping	GSM	US 13,399	Manufacturing and services
2015	Arco Norte highway rehabilitation	Operadora	\$ 49,169	Infraestructura
2014	Road construction Libramiento Tepic	Operadora	\$ 1,629,491	Infraestructura
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

jj. Maturities of contractual commitments denominated in Mexican pesos at December 31, 2018 are:

Year	Amount
2019	\$ 353,066
2020	345,406
2021	302,255
2022	192,936
2023 en adelante	370,909
	<b>\$ 1,564,572</b>

Rents paid were \$370,518, \$355,049 and \$615,394 for the years ended December 31, 2018, 2017 and 2016, 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, 2018 is \$546,730, for which the Entity has recognized a provision of \$129,265 which is included in other liabilities in the consolidated statements of financial position. During 2018, the Entity made payments related to these matters of approximately \$37,471. 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 maintains commercial, fiscal, and labor judgments. These processes are generated in the normal course of business and are common in the industries in which the businesses participate, and even when it is possible that some unfavorable failures occur for the Entity, the administration considers that such lawsuits would not have an adverse material impact in its consolidated financial situation.

a. 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.

b. At December 31, 2018, 2017 and 2016, the Entity has written guarantees, mainly on behalf of their clients, for \$7,219,048 and US\$97,871, \$16,533,931 and US\$1,339, and for \$16,469,938 and US\$17,212, respectively, which were the amounts of liability in force in those periods.

c. 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	2018					
	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
<b>Current assets:</b>						
Cash and cash equivalents	\$ 2,477,658	\$ 1,285,329	\$ 1,434,731	\$ 541,637	\$ 2,028,118	\$ 7,767,473
Accounts and loans receivable, net	14,170,770	4,941,294	6,364,680	668,406	(1,107,423)	25,037,727
Total current assets	29,176,449	13,927,671	11,888,667	1,213,870	935,487	57,142,144
Property, machinery and equipment, net	14,549,494	3,574,357	5,309,864	11,963,421	223,175	35,620,311
Other assets - net	157,905	266,195	31,383	-	8,483	463,966
Total assets	50,382,433	29,024,167	19,017,287	20,750,798	18,714,511	137,889,196
<b>Liabilities:</b>						
Loans payable to financial institutions and current portion of long-term debt	\$ -	\$ 1,049,364	\$ 726,220	\$ 3,191,165	\$ (4,449,847)	\$ 516,902
Trade accounts payable	8,815,383	1,604,564	798,650	87,671	(27,893)	11,278,375
Total current liabilities	14,609,714	4,324,337	6,479,125	4,370,998	(4,646,079)	25,138,095
Long-term debt	-	-	-	9,669,891	3,000,000	12,669,891
Total de liabilities	16,589,139	4,681,456	7,307,739	14,101,648	2,031,581	44,711,563

2017

Statements of financial position	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
<b>Current assets:</b>						
Cash and cash equivalents	\$ 1,924,601	\$ 1,043,489	\$ 2,456,591	\$ 479,764	\$ (1,573,080)	\$ 4,331,365
Accounts and loans 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, machinery 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
<b>Liabilities:</b>						
Loans 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 de liabilities	15,368,164	4,996,935	7,728,887	9,803,367	18,920	37,916,273

2016

Statements of financial position	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
<b>Current assets:</b>						
Cash and cash equivalents	\$ 1,714,356	\$ 740,696	\$ 1,628,111	\$ 1,473,203	\$ (698,449)	\$ 4,857,917
Accounts and loans 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, machinery 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
<b>Liabilities:</b>						
Loans 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 de liabilities	14,233,518	6,314,135	8,512,425	5,066,027	3,850,080	37,976,185

2018

Statements of Comprehensive Income	Retail	Industrial	Infrastructure and construction	Carso Energy	Holding, others and eliminations	Total consolidated
Net sales	\$ 51,755,422	\$ 30,929,859	\$ 15,504,207	\$ 72,354	\$ (1,622,009)	\$ 96,639,833
Cost of sales	31,630,528	25,286,113	12,915,138	84,282	(1,894,773)	68,021,288
Sales and development expenses	12,476,567	692,589	19,603	-	(147,807)	13,040,952
Administrative expenses	3,009,404	946,116	858,764	37,776	(153,377)	4,698,683
Other (income) expenses - net	(289,263)	(96,640)	14,132	457,605	(32,468)	53,366
Interest (income) expense - net	(112,432)	62,279	(20,405)	137,882	(84,466)	(17,142)
Exchange gain (loss) - net	11,280	(25,655)	(76,972)	(13,708)	196,885	91,830
Effects of valuation of financial instruments	-	-	-	-	(289,436)	(289,436)
Equity in income of associated companies and joint ventures	(187,088)	(193,787)	26,369	(700,517)	267,334	(787,689)
Income from income taxes	5,084,351	4,171,985	1,720,885	69,034	515,433	11,561,688
Income taxes	1,346,296	1,010,166	532,323	(1,545,032)	33,850	1,377,603
Consolidated net income	3,738,055	3,161,819	1,188,562	1,614,066	481,583	10,184,085
EBITDA (1)	5,971,009	4,268,492	2,189,702	(37,396)	631,115	13,022,922
Depreciation and amortization	1,289,725	383,926	507,252	12,404	24,388	2,217,695

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
Sales and development expenses	12,003,696	605,666	26,921	-	(44,166)	12,592,117
Administrative expenses	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	-	-	-	-	1,836	1,836
Equity in income of associated companies and joint ventures	(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
Sales and development expenses	11,237,934	578,019	35,626	-	(12,654)	11,838,925
Administrative expenses	2,330,814	897,505	884,400	33,093	(214,357)	3,931,465
Other (income) expenses - net	(254,324)	(43,519)	(29,377)	42,662	11,276	(273,282)
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	-	-	66,682	-	(28,502)	38,180
Equity in income of associated companies and joint ventures	(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

(1) Reconciliation of EBITDA

	2018	2017	2016
Income before income taxes	\$ 11,561,688	\$ 14,779,547	\$ 16,309,223
Depreciation and amortization	2,217,695	2,261,993	2,093,893
Interest income	(584,266)	(323,564)	(377,811)
Interest expense	567,124	575,880	518,538
Exchange gain (loss)	91,830	415,259	(893,770)
Gain/(loss) on property revaluation	(221,908)	(115,955)	(135,845)
Revaluation of trademarks	-	-	(8,672)
Impairment of property, plant and equipment and of exploration expenses	467,884	30,228	44,091
Effects of valuation of financial instruments	(289,436)	1,836	38,180
Equity in income of associated companies and joint ventures	(787,689)	(2,507,468)	(1,868,484)
Income from the purchase of SROM shares	-	(1,246,031)	(1,141,267)
<b>EBITDA</b>	<b>\$ 13,022,922</b>	<b>\$ 13,871,725</b>	<b>\$ 14,578,076</b>

EBITDA for Grupo Carso at December 31, 2018 decreased by 6%.

**Cash flows from operating activities:**

	2018	2017	2016
– Retail	\$ 1,426,345	\$ 539,272	\$ 3,411,862
– Industrial	(970,849)	2,472,243	3,399,261
– Infrastructure and construction	1,345,240	1,373,981	1,308,893
– Carso Energy	1,081,273	1,530,460	(61,405)
– Others and eliminations	6,410,356	3,734,341	(1,480,993)
<b>Total consolidated</b>	<b>\$ 9,292,365</b>	<b>\$ 9,650,297</b>	<b>\$ 6,577,618</b>

#### Cash flows from investing activities:

	2018	2017	2016
– Retail	\$ (1,353,616)	\$ 2,415,727	\$ (2,649,251)
– Industrial	(1,059,295)	508,165	(1,599,630)
– Infrastructure and construction	751,325	(850,172)	(77,264)
– Carso Energy	(5,268,055)	(5,950,646)	(4,496,581)
– Others and eliminations	1,802,088	(1,887,508)	(610,566)
<b>Total consolidated</b>	<b>\$ (5,127,553)</b>	<b>\$ (5,764,434)</b>	<b>\$ (9,433,292)</b>

#### Cash flows from investing activities:

	2018	2017	2016
– Retail	\$ (2,597,298)	\$(2,730,806)	\$ (3,962,032)
– Industrial	(1,960,126)	(2,467,661)	(1,952,684)
– Infrastructure and construction	(1,202,765)	(460,807)	(779,297)
– Carso Energy	2,956,914	3,450,389	4,885,265
– Others and eliminations	1,958,261	(2,187,123)	1,448,506
<b>Total consolidated</b>	<b>\$ (845,014)</b>	<b>\$(4,396,008)</b>	<b>\$ (360,242)</b>

#### 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.

	2018	%	2017	%	2016	%
North America	\$ 11,444,714	11.84	\$ 11,007,952	11.76	\$ 10,244,484	10.77
Central and South America and the Caribbean	9,169,204	9.49	7,623,891	8.15	6,981,115	7.33
Europe	430,564	0.45	379,356	0.41	259,174	0.27
Rest of the world	255,477	0.26	252,235	0.27	207,388	0.22
Total exports and foreign	21,299,959	22.04	19,263,434	20.58	17,692,161	18.59
Mexico	75,339,874	77.96	74,329,179	79.42	77,495,474	81.41
<b>Net sales</b>	<b>\$ 96,639,833</b>	<b>100.00</b>	<b>\$ 93,592,613</b>	<b>100.00</b>	<b>\$ 95,187,635</b>	<b>100.00</b>

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 16	Leases
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015–2017 Cycle	Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes and IAS 23, Borrowing Costs
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Entity in future periods, except as noted below:

#### IFRS 16, Leases

##### General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Entity will be 1 January 2019.

The Entity has chosen the full retrospective application of IFRS 16 in accordance with IFRS 16:C5(a). Consequently, the Entity will restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

##### Impact of the new definition of a lease

The Entity will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Entity will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Entity.

##### Impact on Lessee Accounting

###### Operating leases

IFRS 16 will change how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Entity will:

- Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Entity will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Entity is finalizing the evaluation of the impacts of this norm that will be important mainly in the commercial sector. To know the preliminary impacts, we can refer to Note 28 I b) where the lease commitments have been disclosed.

#### **Finance leases**

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Entity will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Entity's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Entity's consolidated financial statements.

#### **Impact on Lessor Accounting**

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Entity will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognized on the finance lease receivables. The leased assets will be derecognized and finance lease asset receivables recognized. This change in accounting will change the timing of recognition of the related revenue (recognized in finance income).

#### **Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures**

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

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.

#### **Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes and IAS 23, Borrowing Costs**

The *Annual Improvements* include amendments to four Standards.

#### **IAS 12, Income Taxes**

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

#### **IAS 23, Borrowing Costs**

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

#### **IFRS 3, Business Combinations**

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

#### **IFRS 11, Joint Arrangements**

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

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.

#### **Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement**

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

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.

#### **IFRIC 23, Uncertainty over Income Tax Treatments**

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as an entity; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - o If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - o If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

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.

## 32. Authorization to issue the consolidated financial statements

On March 29, 2019, the issuance of the accompanying consolidated financial statements was authorized by L.C. Arturo Spínola García, Finance Director; 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, 2017 and 2016, were approved at the Ordinary Shareholders' Meetings held on April 26, 2018 and April 27, 2017, respectively.

**Investor Relations:**

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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

**Depository Bank:**

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Shareowner Services  
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Pittsburgh, PA 15252-8516  
Tel. 1-888-BNY-ADRS(269-2377)  
1-201-680-6825  
shrrelations@bnymellon.com  
www.bnymellon.com/shareowner

**Websites:**

For more information about Grupo Carso and the social responsibility activities, please visit: [www.carso.com.mx](http://www.carso.com.mx)

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