


GIS®

# 2016 ANNUAL REPORT
# BUSINESS AND SUSTAINABILITY

# CONTENT

# MARKETABILITY

## GISSA vs CPI


- **GISSA has achieved a 61%* yield from January 2014 to March 2017, while the Mexican Stock Exchange's (BMV) CPI demonstrated 14% growth.**
- **We are a medium-marketability issuer whose rank is ascending.**
- **We are part of the following indexes at the BMV:**
  - **IMC30**
  - **SE3000-Industrial**
  - **BMV-Industrial**
- **In a proforma basis, the recent company acquisitions in Europe and Asia represent a doubling of sales for GISSA and a tripling of the EBITDA from 2014 to 2016.**

*Does not include dividend payments

# 40 YEARS


**On August 24, 2016, we celebrated 40 years of being listed on the Mexican Stock Exchange under the ticker GISSA.**

**GIS is a company with a solid corporate governance, focused on continuous growth, with proven experience in creating products and strengthening processes, supported by talent and technology.**

**For GIS, 40 years represents the start of a new cycle in which we will seek to grow toward globalization, and we are ready for it.**

40 AÑOS GISSA-BMV GIS

# GIS PROFILE

**GRUPO INDUSTRIAL SALTILLO (GIS)** is a Mexican company that designs, produces, and markets products for three sectors: Auto parts, Construction and Housewares with a presence on three continents: America, Europe and Asia.

Founded in 1928, the company has solid experience and knowledge of its products and the markets it participates in, supported by major brands and a flexible, dynamic, and productive organization that is focused on innovation and globalization.

It operates in six countries: Mexico, Spain, Italy, Czech Republic, Poland, and China. Additionally, it has a commercial presence in the United States of America, and has more than eight thousand employees in 25 production units all around the world.

Listed on the Mexican Stock Exchange since 1976 under the ticker symbol GISSA. The Company achieved $14,552 million pesos in sales and an EBITDA valued at 2,111 million pesos in 2016.

With five companies, the Auto parts sector casts and machines grayand ductile iron, as well as aluminum for brake, engine, transmission and suspension systems for the automotive industry.

The Construction sector designs, produces, and markets large-format ceramic and porcelain floors and coverings for domestic and institutional use. On the other hand, it develops, manufactures and markets a broad portfolio of residential and commercial water heaters that use gas, electric or solar power. It also markets fittings, flanges and piping for the industrial and construction sectors, primarily in steel, plastic, iron and copper.

The Housewares sector develops, manufactures and markets kitchenware and tableware made of various materials, such as: aluminum, enamel steel and ceramic; it furthermore markets a variety of household appliances.

GIS is a dynamic organization that, at the end of 2016, maintained annual double-digit growth in sales, EBITDA, and net profit for eight consecutive quarters.

# GIS BUSINESSES

| BUSINESS | PRODUCTS | BRANDS | PRODUCTION UNITS |
|---|---|---|---|
| **AUTOMOTIVE PARTS** | | | |
| CIFUNSA | Casting gray and ductile iron parts for the automotive, household appliance, agricultural and railway industries. | Cifunsa* | Saltillo, Coah. Mexico.<br>Irapuato, Gto. Mexico.<br>San Luis Potosí, S.L.P. Mexico. |
| EVERCAST | Casting and machining ductile iron parts for the automotive industry | Evercast | Irapuato, Gto. Mexico. |
| GISederlan | Machining gray and ductile iron parts for the automotive industry. | GISEderlan* | San Luis Potosí, S.L.P. Mexico. |
| ACE AUTOMOTIVE COMPONENTS EUROPE | Casting ductile iron parts and casting and machining iron for the automotive industry. | ACE* | Atxondo, Spain.<br>Brno, Czech Republic.<br>Breslavia, Poland.<br>Research center, Boroa, Spain. |
| INFUN Group | Casting and machining automotive parts. | Infun* | Barcelona, Spain.<br>Teruel, Spain.<br>Lleida, Spain.<br>Rovigo, Italy.<br>Wuhu, China. |
| **CONSTRUCCIÓN** | | | |
| VITROMEX® | Large-format ceramic and porcelain floor and<br>wall coverings. | Vitromex*<br>Arko*<br>Artemis*<br>Construpiso* | Saltillo, Coah. Mexico.<br>San José Iturbide, Gto. Mexico.<br>San Luis Potosí, S.L.P.Mexico.<br>Chihuahua, Chih. Mexico. |
| Cal·o·Rex | Solar, tank, tankless, electric and instantaneous water heaters for residential use.<br>Electric, gas, and storage tank heaters for commercial use.<br>Fluid conduction. | Calorex*<br>Cinsa*<br>Optimus*<br>Hesa*<br>American Standard**<br>Cifunsa*<br>Funcosa*<br>** License for USA. | Saltillo, Coah. Mexico. |
| **HOGAR** | | | |
| CINSA | Pots, pans, enamel steel, stainless steel and aluminum pans with and without a non-stick layer.<br>Ceramic tableware for domestic or institutional use.<br>Pressure cookers.<br>Blenders. | Cinsa*<br>Santa Anita*<br>Cook Now* | Saltillo, Coah. Mexico. |

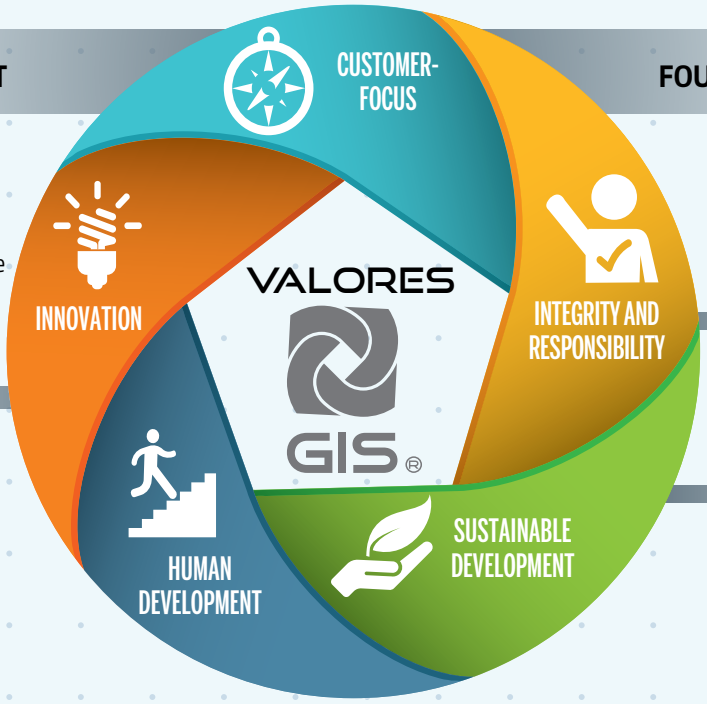
* Trademarks

# GIS DECALOGUE

## MANAGEMENT

### MISSION
- Create economic value, generate progress opportunities and improve the well-being of all the people and institutions with whom we interact.

### VISION
- Become a global organization that creates value through the development of leading companies.




## FOUNDATIONS

### IMPLEMENT:
- Zero accidents
- Operational excellence
- Outstanding execution
- Financial health

### DEVELOP:
- Body, mind and spirit
- Talent
- Service and trascendence
- Retention and punctuality

### GROW:
- Continous improvement
- Sales and profits
- Social responsibility
- Image and positioning

### CUSTOMER-FOCUS
- **I UNDERSTAND** the needs and expectations of our customers.
- **I FULFILL** the conditions, specifications and service level according to the client's needs.
- **I KNOW** our products and their benefits.
- **I ACT** and make decisions in order to satisfy our client's needs.

### INTEGRITY AND RESPONSIBILITY
- **I SPEAK** truthfully.
- **I ACT** with honesty and with transparency.
- **I AM** aware of the GIS values.
- **I TAKE** on the problem and the solution.
- **I MAKE** good use of resources.
- **I DEMAND** the best from myself and I fulfill the commitments that we make.

### SUSTAINABLE DEVELOPMENT
- **I CARE** for the environment.
- **I PROMOTE** the best use of raw materials and other supplies.
- **WE LOOK** for the use of renewable energy.
- **WE IMPROVE** quality of life.
- **WE SATISFY** the needs of interest groups.

### INNOVATION
- **I DO THINGS** differently, to obtain better results.
- **I ENCOURAGE** creativity.
- **I AM OPEN** to new ideas that will generate business growth.

### HUMAN DEVELOPMENT
- **I AM RESPONSIBLE** for my development.
- **I DEVELOP** the leadership and skills of my colleagues.
- **I PROMOTE** collaboration and teamwork.
- **I CONTRIBUTE** to build and environment where my colleagues can reach their maximum potential and performance.
- I RESPECT human dignity.

# LETTER TO SHAREHOLDERS

## "GLOBALIZATION, OUR NEW REALITY"

**JUAN CARLOS LÓPEZ VILLARREAL**
Chairman of the Board of Directors

**JOSÉ MANUEL ARANA ESCOBAR**
CEO

# DEAR SHAREHOLDERS

**For GIS, globalization** has become our new reality.

Guided by a management philosophy embodied in the Decalogue and a solid strategy that aligns GIS's talent, we advanced our vision of being a company with a global presence upon reaching the Chinese market at the end of 2016 and, by doing so, operating on three continents.

Thanks to the Board of Directors' commitment and experience, our employees' talent, and our financial strength, reinforced by the confidence of our worldwide industrial and consumer clients, we took a firm step forward toward a new reality that today translates into a differentiating advantage.

On December 28, 2016, we announced the acquisition of Infun Group; a European company with a operations in Spain, Italy and China; which is in addition to our geographical expansion strategy following the integration of ACE Group in December of 2015, which has a operations in Poland, Czech Republic, and Spain, positioning us as a global player in casting and machining automotive parts for engine, suspension and brake systems.

This movement represents a major breakthrough for GIS and, at the same time, an important challenge for our development over the next several years.

## PROFITABLE AND SUSTAINED GROWTH

GIS's growth has been accelerated and profitable. It is reflected in solid, consistent, double-digit annual growth in sales, EBITDA, and net profit over the last eight quarters.

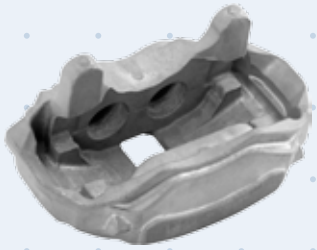
At the end of 2016, we achieved sales of $14,552 million pesos, which represented 29% growth compared to the previous year.

Today, we are an aligned organization that integrates our employees' commitment, dedication and talent, along with innovative solutions and technologies in our products and an operating discipline of excellence.

The integration of ACE, a company acquired at the end of 2015, allowed us to achieve a net profit of $1,177 million pesos in 2016, a figure that represents an 83% increase over the previous year. EBIT and EBITDA also showed 45% and 47% growth, respectively.

"We are an aligned organization that integrates our employees' commitment, dedication and talent, along with innovative solutions and technologies."

"GIS's growth has been accelerated and profitable, reflected in a solid and consistent growth rate."



## 2016: THE SUM OF RESULTS

GIS's positive results in 2016 reflect the growth of the three sectors in which we are active: Auto parts, Construction, and Housewares, which showed an increase in sales, measured in pesos, of 67%, 8% and 5%, respectively, compared to the previous year.

In the Auto parts sector, the integration of ACE, a European automotive company acquired at the end of 2015, had a positive effect on these results. Furthermore, it strengthened productive and engineering processes in Mexico by exchanging better practices between companies.

In Mexico, Cifunsa continues to add projects, and maintains its customers' confidence. One example of this was the recognition given to its Irapuato production plant by Fiat Chrysler Automobiles (FCA) in 2015 for its excellent level of quality, making aspecial mention upon the fact that GIS has been supplying continuously for them since 1965.

With regard to our co-investments (JVs), Evercast, in business for merely a year and a half, has managed to increase its income, has won multiple awards for its high efficiency and, at the beginning of 2017, put into operation the second production line it had planned. GISEderlan, a machining company, began authorization processes with clients during the second half of 2016.

In the Construction sector, Vitromex has maintained a solid growth rate over the past two years. Compared to 2015, it achieved a 13% growth in sales due to an efficient implementation of its S-Tile strategy, which includes technological upgrades to its plants. Proof of this is reflected in the fact that we have digitized 75% of our floor production lines throughout the year.

Calorex maintains its leadership in Mexico as role model in developing high-tech water heating solutions. During the latter half of the year, we made the decision to integrate this business with our fluid conduction business to take advantage of the commercial, logistical and distribution synergies. Income for this business grew 2% in a consolidated manner compared to 2015. We will capitalize on the momentum gained from investments in research and development in 2017.

At the end of 2016, our kitchenware and tableware business experienced a 5% growth in sales compared to the previous year. This achievement was primarily driven by the enamel steel, aluminum and ceramic lines, which enabled it to achieve the highest fourth-quarter growth levels in its history.

## DEFINING THE VISION

Upon creating GIS's Decalogue, we also redefined our vision for the future: become a global organization that creates value by developing leading companies. Two years after announcing this new vision, we have made it a reality.

The integration of ACE and the establishment of a joint venture with Fagor Ederlan were significant steps and, at the end of 2016, we achieved our goal of being in six countries on three continents: America, Europe, and Asia, by purchasing Infun Group.

The acquisition of Infun Group, a company that designs, produces and machines parts and components for engines, transmissions, and suspensions in the automotive industry, allows us to geographically diversify and expand our client base, in addition to generating synergies to accelerate the growth of our automotive parts sector.

With this purchase, GIS went from 320,000 to 525,000 tons of installed casting capacity per year at the end of 2016. Therefore, we are now one of the world's largest crankshaft manufacturers.

The transaction amounted to €280 million euros, plus the absorption of a maximum of €40 million euros in net debt, and included six production units distributed throughout Spain, Italy and China, including a joint venture with Fagor Ederlan for machining parts in China. Upon concluding the operation, an initial payment of €180 million euros was made to the vendor, leaving a residual of €100 million euros that will settle on December 2018.

"We are ready."

**PREPARING OURSELVES FOR THE FUTURE**

The new GIS business portfolio arrangement will open doors to new opportunities and markets.

Over the past several years, we have developed a talent management system that is tailored toward placing the right person in the right position and aligning the organization through open and consistent communication. Our people are committed to our mission, vision and act with excellence. We are very proud of them for their loyalty, commitment and hunger for success.

Today, we are facing globalization with firm foundations: a solid organization, with access to different markets, geographies and industries with a wide variety of prestigious products and brands in the markets where they operate.

2016 marks a memorable year in GIS's history, not only for reaching globalization, but also because we are celebrating 40 years of being a public company, and we celebrate it on the Mexican Stock Exchange by thanking shareholders and investors for their confidence and affirming our commitment to them.

We thank all our employees for their effort and the Board of Directors for their invaluable guidance and approach to consolidating the accomplishments of this past year. Likewise, we wish to express our gratitude and admiration to Alfredo Livas Cantú, may he rest in peace and may God protect him. He was a member of the Board of Directors and Chairman of the Audit Committee since 2009 and passed away in 2016.

**We are ready to consolidate the growth of GIS that we have paved over the past several years.**

**JUAN CARLOS LÓPEZ VILLARREAL**
Chairman of the Board of Directors

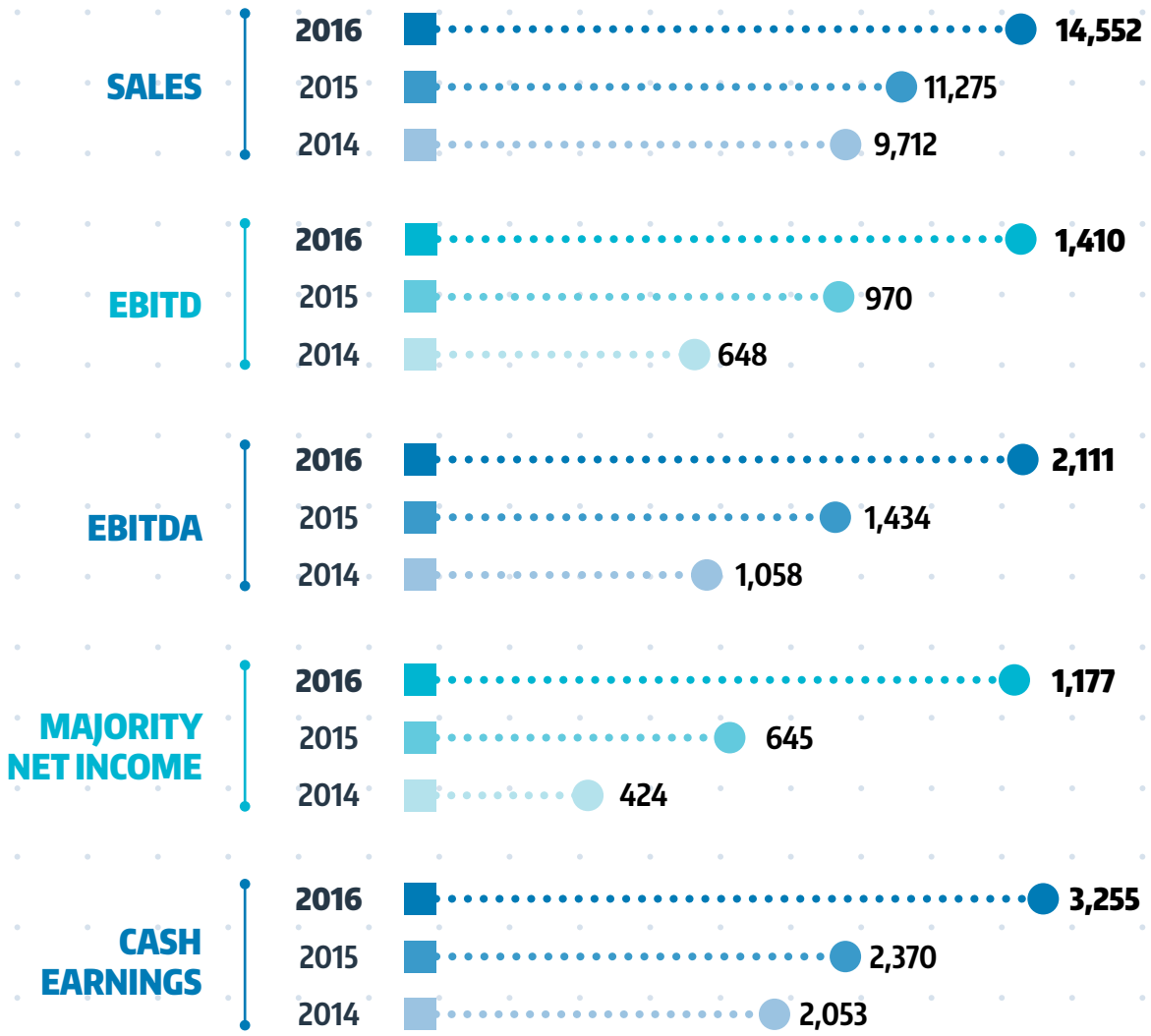
**JOSÉ MANUEL ARANA ESCOBAR**
CEO

# RELEVANT FIGURES

**SALES**
**14,552**
**29%**
GROWTH
VS 2015

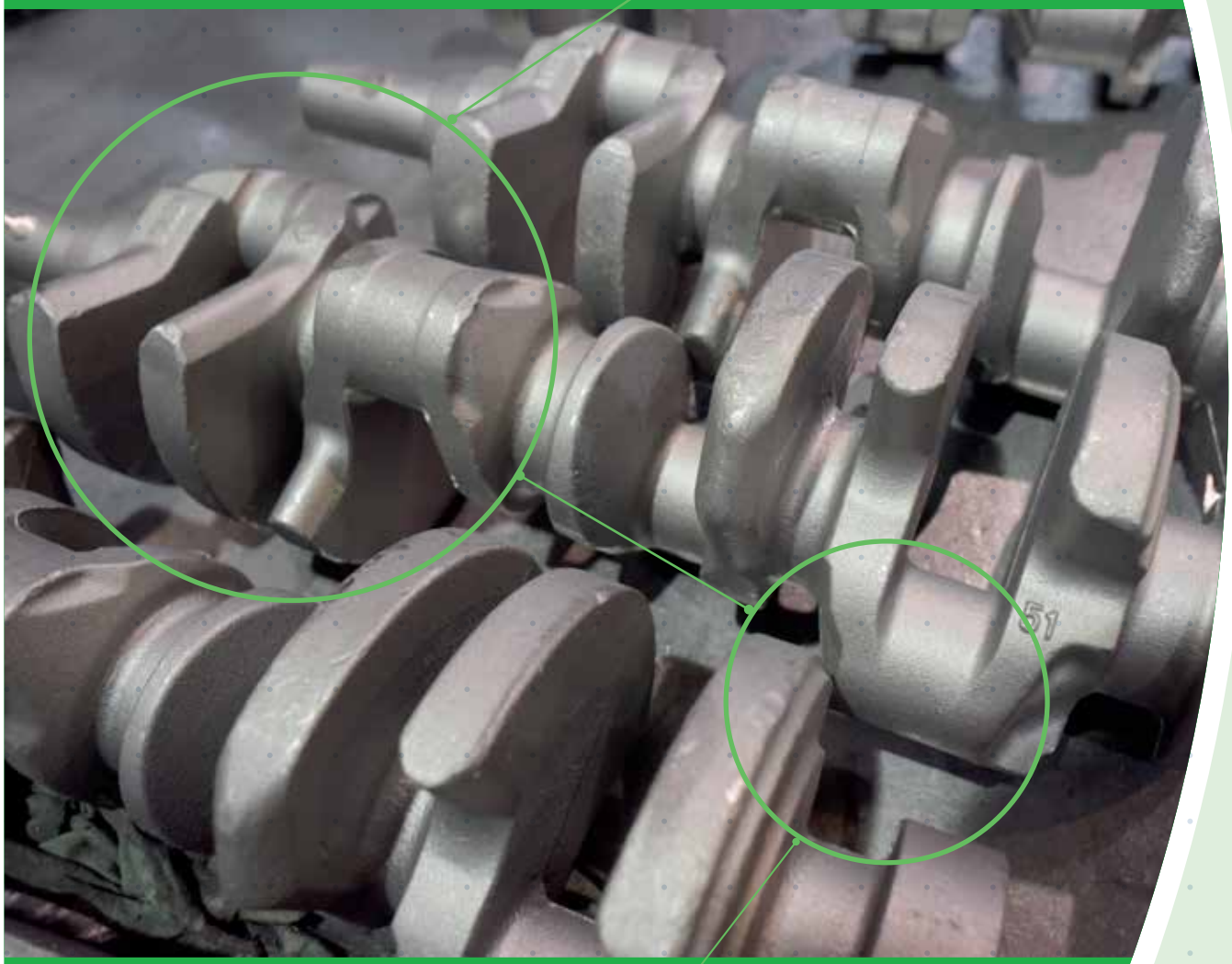
**EBIT**
**1,410**
**45%**
GROWTH
VS 2015

**EBITDA**
**2,111**
**47%**
GROWTH
VS 2015




EXPRESSED IN MILLIONS OF PESOS

# ECONOMIC PERFORMANCE



CIFUNSA® GISEDERLAN® EVERCAST ACE AUTOMOTIVE COMPONENTS EUROPE INFUN Group

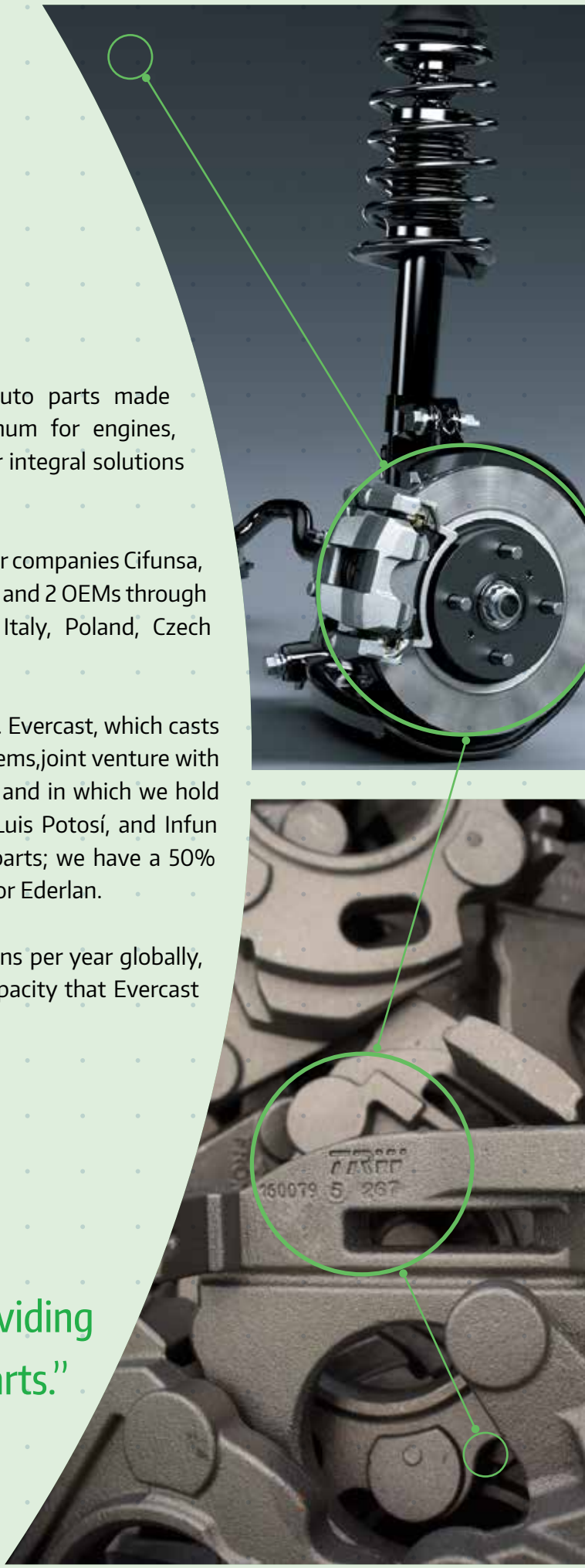
# AUTOMOTIVE PARTS

**We are a global company** that supplies auto parts made of grayand ductile iron, as well as aluminum for engines, transmissions and suspensions; in addition, we offer integral solutions with machining processes.

We have a global operation platform comprised of our companies Cifunsa, ACE and Infun Group, which allows us to supply Tier 1 and 2 OEMs through our production plants located in Mexico, Spain, Italy, Poland, Czech Republic and China.

We have strategic joint ventures in three companies. Evercast, which casts ductile iron and machines atuto parts for brake systems,joint venture with our client and partner ZF TRW, located in Irapuato, and in which we hold a 70% share. Likewise, GISEderlan, located in San Luis Potosí, and Infun Ederlan, based in China, focus on machining auto parts; we have a 50% joint investment in both with the European firm Fagor Ederlan.

At the end of 2016, we achieved 525,000 casting tons per year globally, including only 26,000 out of the 52,000 tons of capacity that Evercast will have in 2017.



"We have a global operational platform for providing iron and aluminum auto parts."

## POSITIVE RESULTS IN THE FACE OF GLOBALIZATION

Globalization as a challenge has led us to face two different panoramas in the automotive industry for the first time. In North America, we observed that sales of light vehicles had a growth of merely 1.7% compared to 2015, while the increase in Europe was 4.9% during the same period, according to Automotive News.

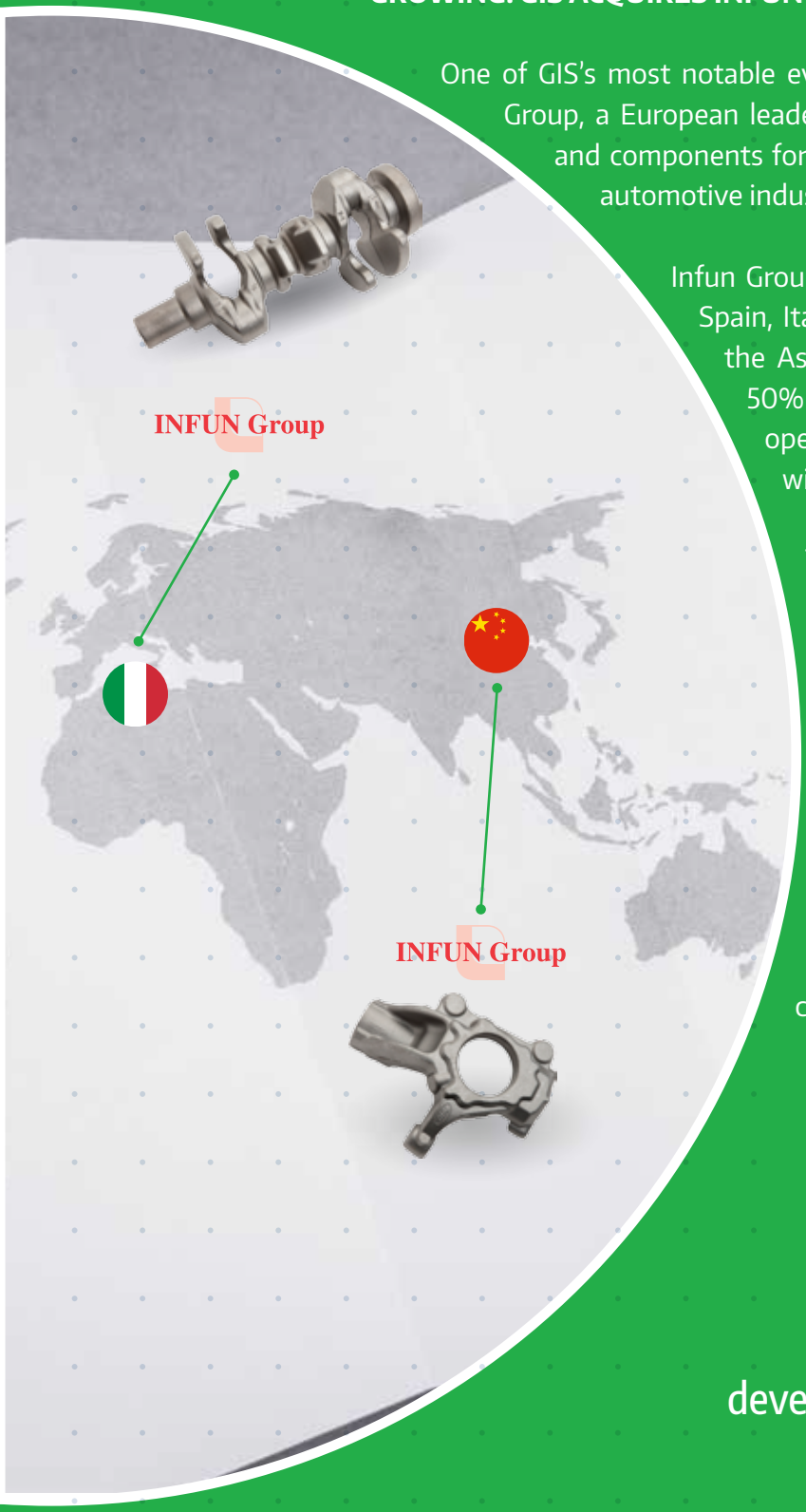
In 2016, consolidated sales for our Auto parts sector, excluding the joint venture, amounted to $6,629 million pesos, which represented a 67% compared to the previous year, as a result of the integration of ACE, a company acquired at the end of 2015.

Compared to 2015, the sector's EBIT and EBITDA exhibited increases of 45% and 56%, respectively, due mainly to the incorporation of ACE into the business portfolio as well as a favorable effect due to the exchange rate.

During 2016, we focused our efforts on ensuring the integration and exchange of best practices, in addition to strengthening our operational structure to successfully develop new products over the coming years with a consistent focus on the satisfaction of our clients.

The former allowed us to maintain the confidence and a leadership position with our current customers, who are the main suppliers of various OEMs at a global level. In addition, we integrated new tier clients, with which we managed to diversify clients in North America, Asia and Europe.

## GROWING: GIS ACQUIRES INFUN GROUP




One of GIS's most notable events during 2016 was the acquisition of Infun Group, a European leader in designing, producing and machining parts and components for engines, transmissions, and suspensions in the automotive industry.

Infun Group has iron casting and machining operations in Spain, Italy and China, which represents GIS's entry into the Asian market. The agreement included acquiring 50% of the machining company Infun Ederlan, which operates in China and is Infun Group's joint venture with Fagor Ederlan.

This European company has a solid client based focused on OEMs, which include Ford, Renault, FCA, GM, Daimler, Volvo and Chery, the latter of which is in China, in addition to systemists such as LUK. In 2016, their sales amounted to €204 million euros.

For GIS and our automotive parts sector, this acquisition is a firm step toward globalization, adding engineering capacity, developing new products and flexibility to better serve our customers in various parts of the world.

"The acquisition of Infun Group is a firm step toward globalization, adding engineering capacity, developing new products and flexibility."

# CIFUNSA®

**Casting gray** and ductile iron parts for the automotive, household appliance, agricultural, and railway industries.

**4 Production Units:**
1_Saltillo, Coah. Mexico.
2_San Luis Potosí, S.L.P. Mexico.
1_Irapuato, Gto. Mexico.

**Applications:**
Brakes
Transmission
Engine
Suspension

# CIFUNSA

**We are Mexico's largest foundry** with vertical molding lines. We specialize in casting auto parts for engines, transmissions, brake and suspension systems, and have three plants that are strategically located to serve clients in the North American market.

Furthermore, we produce parts for the railroad, agriculture and household appliance industries.

In 2016, production in the automotive industry in North America experienced 2% growth over the past year, boosted by an increase in pickup truck production.

In light of the industry's moderate growth and the recent acquisition of ACE, we are focusing on ensuring the exchange of best practices and creating synergies along with strengthening the business structure and customer focus.

As a result of the trust that we have earned from our clients, we have managed to increase sales and establish new commercial relationships with Asian clients such as Mobis, Seohan, Hitachi and Akebono, which provide us access to Asian assembly plants such as Hyundai, Kia, Nissan and Honda.

During 2016 we worked on making technological upgrades and developing processes and systems that would allow us to operate with greater efficiency. This breakthrough is the result of exchanging best practices with ACE, our subsidiary in Europe.

One example of this is the investment that we made in our San Luis Potosí plant for the purpose of installing a robotic cell to perform non-destructive acoustic resonance testing on 100% of all safety parts, which puts our inspection system at the forefront of the industry.

Furthermore, we began projects in our San Luis Potosí and Irapuato plants that are geared toward improving the product from an operational and engineering standpoint. In the Saltillo plant, we began managing through natural work teams.

"We began projects geared toward improving the product froman operational and engineering standpoint."

All our plants have certifications applicable to the automotive industry, highlighting the appreciation that Fiat Chrysler Automobiles (FCA) gave to the production unit in Irapuato for the excellent level of quality it demonstrated in 2015. For this reason, we had a special mention during our client's town hall meeting with its international suppliers. In that event, FCA emphasized that Cifunsa provided it with its first engine block in 1965 and that we continue to be its supplier for a critical engine component of theirs, the crankshaft.

By 2017, analysts estimate that there will be a slight decrease in the production of light vehicles in North America since production has reached historic maximums. At Cifunsa, we will stay focused on customer service and concentrate on executing actions to maximize productivity and achieve operating efficiency.

"We will stay focused on service and concentrate on executing actions to maximize productivity and achieve operating efficiency."

# EVERCAST

**Casting and machining** ductile iron parts for the automotive industry

**1 Production Unit:** Irapuato, Gto. Mexico.

**Applications:** Brakes

# EVERCAST

**Casts and machines** auto parts for brake systems; this joint investment in which GIS has a 70% share and ZF TRW a 30% share began operations during the third quarter of 2015.

This company's successful launch is confirmed by the fulfillment of volumes contracted by ZF TRW in terms of quality and timely delivery and, notably, due to a prominent level of efficiency and productivity.

This is reflected in several awards that Evercast has received despite its brief history, like the one issued by the Sociedad Mexicana de Fundidores [Mexican Foundrymen Society] for its outstanding performance in the industry.

It also received the 2016 Energy Efficiency Prize in the large company category, issued by the government of the State of Guanajuato, which demonstrates its aptitude for taking care of the environment, just as it was imagined during its design.

The collective experience of Evercast's partners has allowed for the project to be executed on time and within budget. Therefore, the second molding line was carried out in 2016, which was put into operation at the beginning of 2017, thereby achieving an installed casting capacity of 52,000 tons per year.

Over the course of the first year, the company has maintained high operating efficiency, allowing it to have very positive results, which, in accordance with current accounting policies, are only recognized under the equity method of accounting in GIS's earnings.

In 2017, we will work on implementing projects geared toward operational productivity and efficiency as a result of exchanging best practices between GIS's companies in America, Europe and China.

"The collective experience of Evercast's partners has allowed for the project to be executed on time and within budget."

# GISederlan®

**Machining gray and ductile iron parts** for the automotive industry

**1 Production Unit:**
San Luis Potosí, S.L.P. Mexico.

**Applications:**
Suspension
Steering
Brakes
Powertrain

"We aim to add value to our auto parts business through machining."

# GIS EDERLAN

**With a vision to integrate** itself in the automotive parts production chain by adding value to its products, GIS engages in machining iron parts through a joint venture with the Spanish company Fagor Ederlan.

GISEderlan, which is the result of both companies entering into a 50% partnership, machines auto parts for suspension, steering, brake and powertrain systems.

The partnership was signed on 2015 and—during the following year—an investment was made to build a new plant that was installed in San Luis Potosí, which could handle up to 5 million units in 2020.

At the end of 2015, the first projects were obtained for clients such as Eaton, Seohan, BMW and Ford, which began the authorization processes during the second half of 2016.

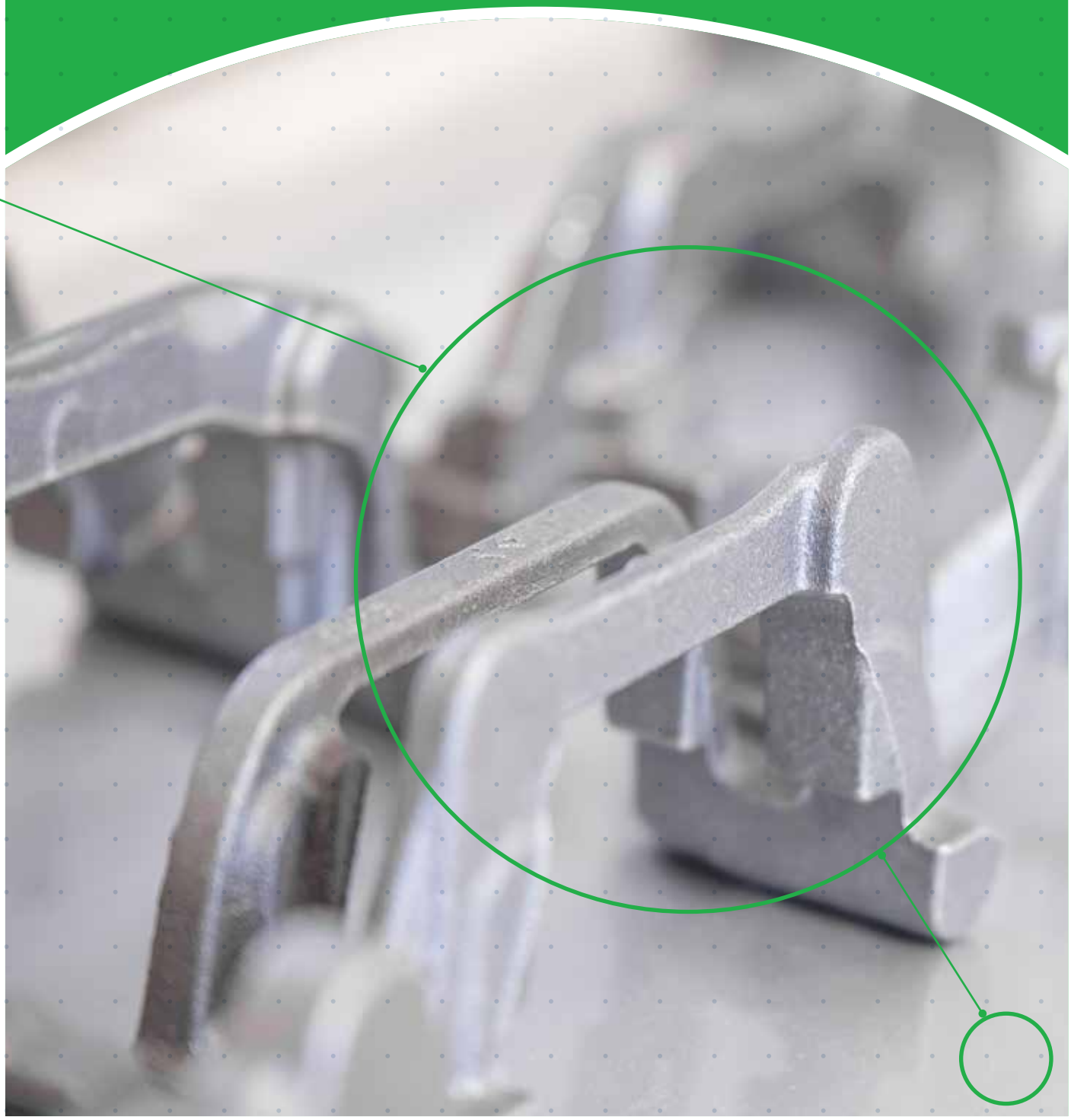
At GIS, we aim to add value to our Auto parts business through machining, getting closer to clients and differentiating ourselves by developing complex products that require experience and advanced engineering

ACE
AUTOMOTIVE COMPONENTS EUROPE

**Casting ductile iron parts** and casting and machining aluminum for the automotive industry.

**4 Production Units:**
1_Atxondo, Spain.
1_Brno, Czech Republic.
1_ Breslavia, Poland.
1_Research Center, Boroa, Spain.

**Applications:**
Brakes



# ACE

**In Europe, we are the automotive industry leader** in producing parts for safety systems. We are committed to casting iron along with casting and machining aluminum parts.

We have three production units in Spain, Poland, and the Czech Republic, in addition to an automotive design center called ACE 4C in Boroa, Spain.

During 2016, light automobile sales in Europe experienced a 4.9% growth. ACE achieved a 16% increase in iron casting volume compared to 2015, strengthened by greater utilization of installed capacity, particularly in the Czech Republic plant.

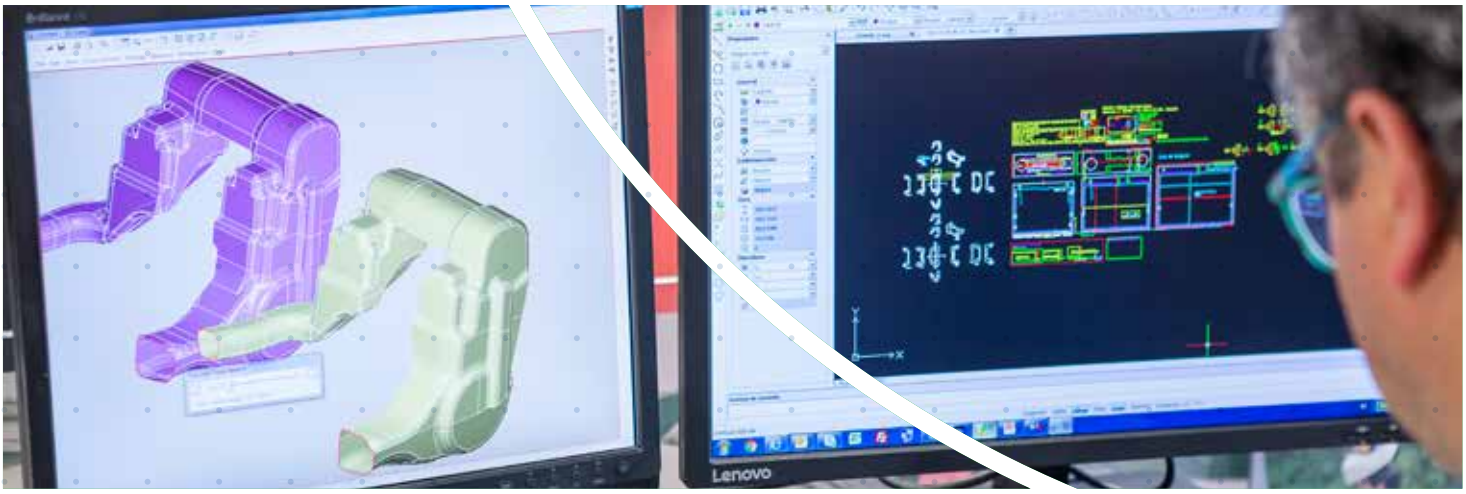
"We invest in equipment and updating the technology at our three plants with the goal of increasing our operational efficiency."

Likewise, the aluminum segment registered a 3% increase in volume in a sector that is characterized by a prominent level of complexity in developing parts.

At a consolidated level and in terms of pesos, the business had a 28% EBIT and 49% EBITDA increase compared to 2015.

We invested in equipment maintenance and updating the technology at our three plants with the goal of increasing our operational efficiency. Furthermore, we implemented initiatives geared toward continuous improvement, such as the Smart Factory project for integrating digital control in the production process and the Lean Logistics project, developed with Renault Consulting, aimed at improving the flows and processes of said area.

Together with Cifunsa, we began a talent development program in which three Mexican engineers participate, who joined a work-training process in our ACE 4C design center. This initiative is key for transferring best engineering practices and launching new products.



We continue to work on the Faros program, whose purpose is to develop five young talented people for 2.5 years, both in operational techniques and in management. As a result of this program, three of the five employees have already been promoted to new positions inside ACE.

We managed to maintain the certifications related to the automotive industry, as well as those related to safety and environmental protection. Likewise, we began developing a team of employees in Six Sigma, who finished their training at the beginning of 2017.

We invested approximately €10 million euros in 2017 to finish the second molding line in our plant in the Czech Republic and put into operation a new machining line in Poland.

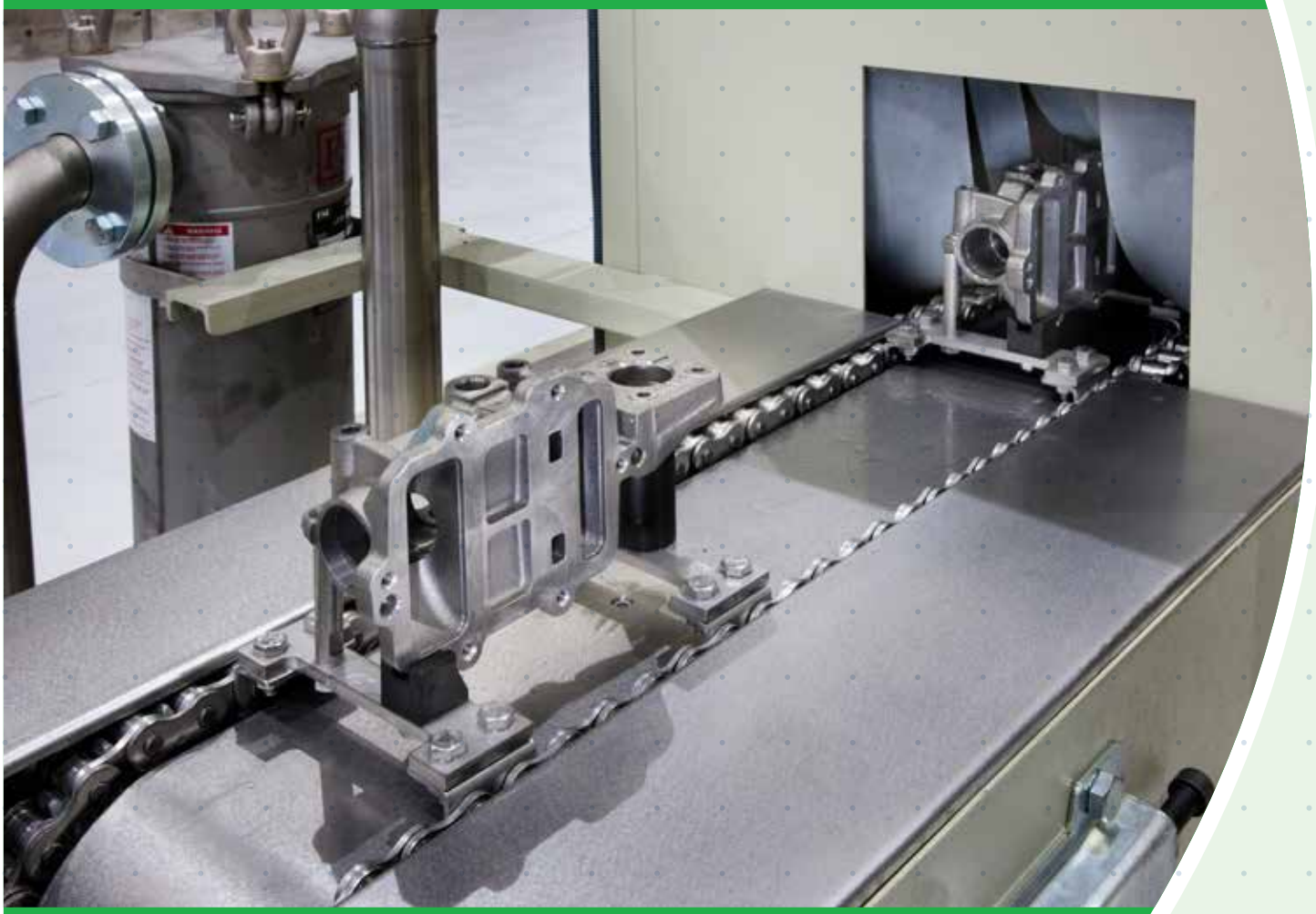
"We continue to develop talent to transfer best engineering practices and launch new products."

# INFUN Group

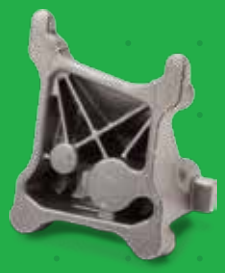
**Casting and machining**
automotive parts

**6 Production Units:**
1_Barcelona, Spain
1_Teruel, Spain
1_Lleida, Spain
1_Rovigo, Italy
2_Wuhu, China

**Applications:**
Engine
Transmission
Suspension



# GRUPO INFUN

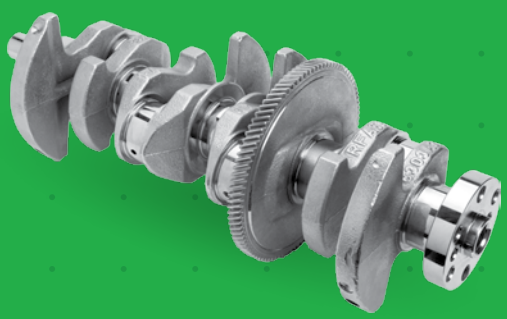


**Focused on our vision** of becoming a leading global company, we completed the acquisition of the European firm Infun Group on December 28, 2016.

This company designs, produces, and machines engine, transmission and suspension parts and components that are in demand by the automotive industry.

It has six production units for casting iron in Spain, Italy and China along with one for machining iron in Spain and China. As part of the agreement, we purchased 50% of the automotive parts machining company Infun Ederlan, which is a joint venture with Fagor Ederlan, a company based in China. In 2015, GIS also carried out a joint investment with Fagor Ederlan to create GISEderlan, a plant that operates in San Luis Potosí, Mexico.

Infun Group has a solid base of clients mainly composed of OEM automobile companies. Among the most noteworthy are Ford, Renault, FCA, GM, Daimler, Volvo, and Chery, the latter of which is in China, in addition to systemists such as LUK. At the end of 2016, Infun Group's sales increased to €204 million euros.



Upon integrating this company, GIS increased its global installed capacity per year, which exceeded 320,000 tons and reached 525,000 annual tons at the end of 2016.

The price of Infun Group's purchase amounted to €280 plus the absorption of a maximum of €40 million euros in net debt, an amount subject to certain adjustments that are normal in these types of transactions. Upon concluding the operation, an initial payment of €180 million euros was made to the vendor, leaving a residual of €100 million euros that will settle in two years.

As a result of the acquisition of Infun Group, we strategically diversified ourselves and complemented our talent, product portfolio and geographic presence.

"We increased our client base and created engineering and design synergies to accelerate the growth of our automotive parts sector."

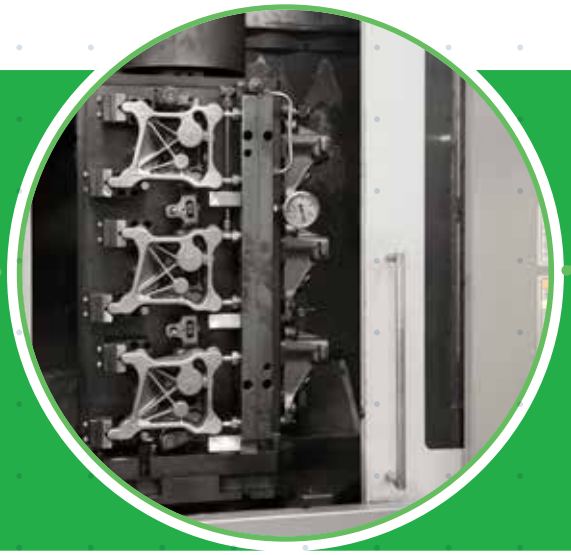
"Infun Group provides us with an opportunity to grow and strategically expand markets, foreign currency and cash flow generation."

Likewise, we increased our client base and created engineering and design synergies to accelerate the growth of our automotive parts sector.

As of today, GIS is a global competitor with engineering, design and manufacturing capacities for autoparts that open new paths to developing multi-region platforms.

The strengthening of our position in Europe and our entry into China, which is one of the world's largest automobile markets, offers us an opportunity to grow and achieve a strategic expansion of markets, foreign currency and cash flow generation.

At first, we have defined an integration plan to ensure continuity of both operations and quality, productivity and timely customer care systems. At the same time, we will be sharing best practices to create synergies and generate value.



# VITROMEX®

**Diseñamos**, produce and market the widest variety of ceramic and porcelain floors and coverings.

**5 Production Units:**
1_Saltillo, Coah. Mexico.
1_Chihuahua,Chih. Mexico.
1_San Luis Potosí, S.L.P. Mexico.
2_San José de Iturbide, Gto. Mexico.

**Applications:**
Residential
Institutional

**Brands:**

VITROMEX® MI ESPACIO, MI MUNDO
ARKO® INNOVATION DESIGN
ARTEMIS
construpiso®

# VITROMEX

**We provide solutions** for creating and transforming residential and institutional spaces by designing, producing and marketing ceramic and porcelain floors and coverings under the brands Vitromex, Arko, Artemis and Construpiso.

The wide variety of designs and formats that we offer our clients and consumers, primarily in Mexico and the United States, are manufactured with digital decoration technology that allows us to create finishes that are reminiscent of nature with a contemporary or rustic image, according to our clients' needs.

In 2016, the market for ceramic floors and coverings experienced double-digit growth in the national market and an approximate increase of 6% in the United States, driven by the construction of new housing and the commercial sector.

"We offer a wide variety of designs and formats to our clients and consumers."

## A STRATEGY WITH RESULTS

S-Tile, the strategy we use to manage the Vitromex business, has provided positive results over the past two years. In 2016, it allowed us to increase business sales 13% over the previous year.

In Mexico, we grew 15% compared to 2015, focusing on the Construction sector. We continue to strengthen our presence in the American market, where we managed to grow at the same rate as that country's construction industry.

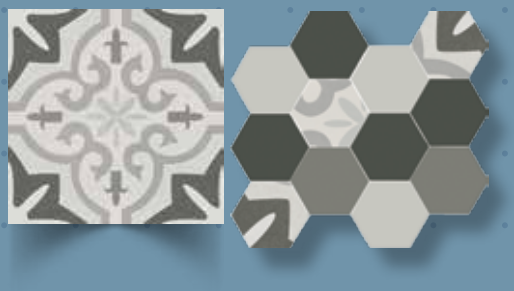
Furthermore, the development of actions focused on operational efficiency, combined with our production capacity's alignment with demand and continuous technological upgrades, has allowed us to achieve a 52% growth in EBIT compared to the year 2015.

We invested $302 million pesos in modernizing the technology in our production units in Mexico. An example of this is the increase in capacity in San José Iturbide, Guanajuato with a line that allows us production flexibility in large-format ceramic flooring. In addition, the plant in Chihuahua was adapted in response to the specific needs of the American market, incorporating cutting-edge technology in terms of energy efficiency and productivity.

At the end of 2016, we managed to have 75% of our floor production printed digitally, aligned with our technological renovation strategy that allows us to innovate and offer greater variety in terms of product design.

With the goal of having greater coverage of the national market, we invested in refurbishments, updates and opening new points of sale in our current distribution network and increased the number of distributors.

We share the knowledge we have of our market and put a priority on training the sales force in our dealer network to improve customer care and service to the end consumer and increase our sales.



"Operational efficiency, combined with the alignment of demand the technological upgrades, has allowed us to achieve a 52% growth in EBIT"

## FOCUSED ON CONTINUOUS IMPROVEMENT

To face the challenges of the economic environment and competitiveness in the construction industry, we continue to work on increasing operational productivity and efficiency in our five plants.

In order to achieve this, we take advantage of the integration and commitment of our human talent in multi-functional teams, which developed projects to be replicated in all production plants under the Six Sigma methodology.

Focused on continuous improvement and applying the S-Tile strategy, Vitromex carried out improvement projects in different areas such as: dealer and customer service, product portfolio, operational efficiency, supply chain, internal processes, business intelligence and talent. The purpose is to achieve a more competitive position on the market.

In 2017, we will continue to work alongside our distributors to boost market share in parts of Mexico with the greatest potential and we will seek greater participation on institutional projects of the construction market.

We will make headway on installing the latest generation of digital decoration equipment, updating our cutting and grinding capabilities to keep it aligned with product demand, and we will increase our installed capacity at the San Luis Potosí plant while consistently maintaining operational discipline.

# Cal·o·Rex M.R.

**We develop, manufacture and market** solutions for residential and commercial water heating.

**1 Production Unit:**
Saltillo, Coah. Mexico.

**Applications:**
Residential
Commercial


**Brands:**

Cal·o·Rex CINSA HESA Optimus American Standard

# CALOREX

**We are the leading Mexican company** in designing and manufacturing high-tech water heaters and the greatest variety of gas, electric, and solar products.

Calorex offers our clients and consumers in Mexico and the United States domestic and commercial water heating solutions that offer comfort, safety and efficiency.

Through this business, we market a wide variety of products for fluid conduction in plastic and metallic materials for domestic and industrial use.

In 2016, the market for water heating products and fluid conduction for the construction industry exhibited stable volume behavior.

One of the most relevant challenges that the business faced was mitigating the strong depreciation of the peso against the dollar as well as increase in raw materials and components.

The American market experienced marginal growth compared to 2015. This is largely due to the high demand in water heaters seen in previous years due to new energy efficiency regulations coming into force. For the fluid conduction division, the American market was affected due to low activity in the petroleum sector.

Calorex faced these challenges with better service, technological innovation, development of new products, the implementation of trade marketing programs and operational improvements.

## WE ARE A LEADER IN TECHNOLOGICAL INNOVATION

Our products are models of innovation and technology in the Mexican water heater market due to their development geared toward efficiency in gas consumption.

Over the course of 2016, we launched innovative technologies such as Confort-Heat, which provides instantaneous water in tank products without temperature variations, and Ultra Heat, which has a stainless-steel burner unique in its class, allowing it to achieve greater energy efficiency in tankless heaters.

In addition to renovating the image of Calorex products in all its categories, we also introduced to the market an updated version of the tank model with a timer, which guarantees greater programming capability and ease of use.

As a result, Calorex made the difference and changed the market trend, achieving an 8% growth in income compared to 2015.

Upon expanding our product portfolio in the instantaneous category, we generated 26% growth in this segment compared to 2015. This achievement was possible due to the flexibility of having production lines in Mexico.

One example is the "Optimus Solar Mix" instantaneous heater, which has an intelligent system that makes it compatible with solar heaters. Due to this characteristic, our product can participate in ecological housing support programs, a segment in which we achieved 63% market growth compared to the previous year.

We entered the low-cost evacuated tube solar heater market, which has exhibited growth in the replacement segment. We are focused on the West Bajío and Central Mexico regions. This new line of products constituted 11% of total solar heater sales in 2016.

With the goal of increasing our product offering in the highest-growth categories in the American market, we successfully launched instant condensing heaters and heat pumps.

"Our products are models of innovation and technology in the Mexican water heater market"

## AN EVOLVING BRAND

In 2016, we overhauled the image and the communication of our brand, Calorex, which we presented to consumers through a multimedia campaign that included social media, short films, advertising in Mexico City metro station, and specialized magazines, managing to make an impact on more than 19 million people in Mexico.

We strengthened our sales strategy and bond with the customer along with end consumer service, which was the impetus for the 9% growth in the traditional channel.

In 2016, we focused our efforts on increasing our brand presence in the country's major cities through exhibitions, activations and plumber training, for which we set up two units as mobile laboratories, a strategy that helps us strengthen ties with people influential in the purchase of water heaters.


"Through our Savings for Competitiveness program, we have generated savings amounting to more than $35 million pesos"

## OPERATIONAL EFFICIENCY IN THE FACE OF FUTURE CHALLENGES

Aiming to improve our competitiveness, we invested 15 million pesos in 2016 to modernize and increase the flexibility of our operations with the integration of new equipment for cutting sheets along with punches and an integral manufacturing cell for the external covers of water heaters, which reduces the need to manually handle the product by 50%.

Through our Savings for Competitiveness program, we have achieved savings amounting to more than $35 million pesos. This result is due to greater efficiency as well as better use of raw materials.

We invested nearly $8 million pesos in laboratory equipment for measuring coordinates, thereby ensuring component validation for manufacturing, and in a finished product release team that guarantees 100% compliance with regulations for residential heaters in the American market.

Seeking the most effective way to align supply with demand, we are working on a Sales & Operations Planning (S&OP) project, whose objective is to optimize the business's operational resources.

"We will maintain our focus on consolidating the current markets, both national and export."

## SYNERGY: CALOREX + FLUIDA

The fluid conduction business was heavily affected by the peso's devaluation against the dollar, prompting us to focus on the most profitable malleable iron product lines, which exhibited more than 5% growth in value.

Moreover, we are continuing to work with the channel management strategy, serving a base of more than 1,200 wholesale and retail clients, to whom we offer a wide variety of plumbing products under the brands Cifunsa and Funcosa.

In June, we integrated a new distribution center for the fluid conduction category. With an area of 5,000 square meters, this center allows us to add more than 7,800 positions to our storage capacity.

Taking advantage of the synergy created by the merging of the Water Heater and Fluid Conduction businesses, which we completed in the latter half of 2016, we began analyzing joint logistics and distribution strategies to achieve greater operational efficiency.

In 2017, the volatility of the foreign exchange market may continue to affect the cost of components, raw and energy materials, which may cause moderate economic growth with some opportunities in the vertical and plus construction segments.

We will maintain our focus on consolidating the current markets, both national and export, under an operational excellence scheme with strict cost control that will allow us to maintain our financial health.


**We design, produce and market** a wide range of kitchenware: pans, cookware, pressure cookers, made of enamel steel and aluminum, with and without a non-stick layer.

**In the tableware segment, we design and produce ceramic tableware** for domestic and institutional use, in addition to marketing household appliances.

**4 Production Units:**
Saltillo, Coah. Mexico.

**Applications:**
Residential
Institutional

**Brands:**



# CINSA

**We are a kitchenware and tableware brand** that is recognized by the consumer for its tradition, durability and design. We stand out because we are one of the world's largest producers of enamel steel, also known as pewter.

We design and create home solutions by producing kitchenware in enamel steel or aluminum, as well as ceramic tableware for domestic and institutional use, in addition to marketing pressure cookers and household appliances.

Cinsa finished the year with 5% sales growth compared to 2015 and achieved the highest level of sales for a fourth quarter in the history of this business. Excellent operational performance allowed for a 10% EBIT and EBITDA increase compared to the previous year.

For Cinsa, it was a year focused on reorganization and focusing the business on three large priorities:

1) Align the organization with innovation and customer focus
2) Focus on operational productivity
3) Align supply with demand

"The constant innovation and change in design has become a differentiator in the market."

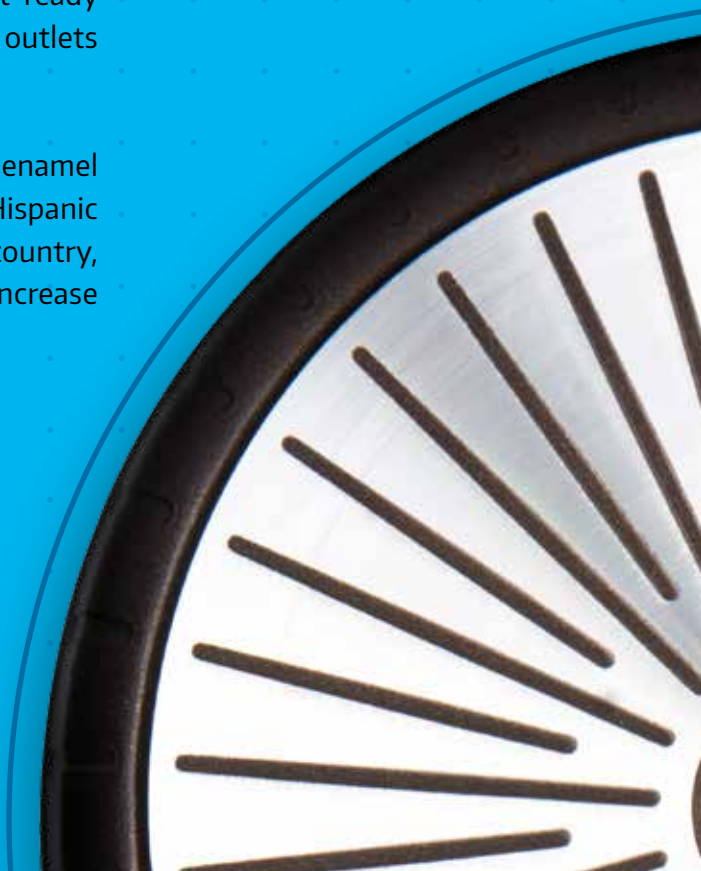
**ENAMEL STEEL, MORE RELEVANT THAN EVER**

At the commercial level, we define the priorities for increasing our market share and strengthening our leadership position in the vitrified steel market by designing new products and lines like Cocinova, aimed at young consumers.

The constant innovation and change in design has become a differentiator in the food service market; as a result, we launched a product line for department stores in 2016 in conjunction with renowned Mexican designers Pineda Covalin.

We develop our own design for institutional channel clients comprised of hotels, restaurants and cafeteria (HORECA), which translated into one of the pillars of growth for 2016. Furthermore, we had very positive results with the launch of a pallet ready program from the Attik enamel steel line in more than 300 outlets at self-service stores at the national level.

In the United States, we strengthened our pallet ready in enamel steel proposal for our client HEB. We focused on the Hispanic market to increase our market share in the neighboring country, which allowed us to triple sales in different channels and increase brand presence.



"The aluminum segment is growing and, accordingly, we are focusing on increasing our market share through modern designs and promotional programs."

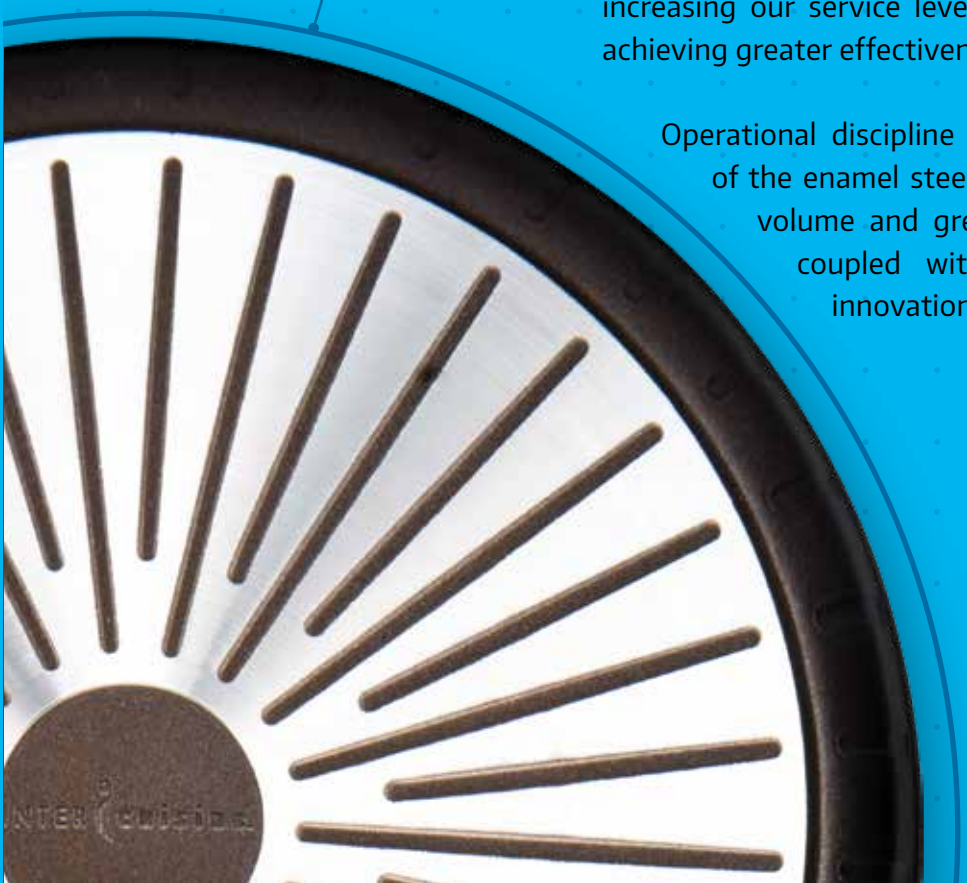
## COMMERCIAL AND OPERATIONAL FOCUS

The aluminum segment is growing and, accordingly, we are focusing on increasing our market share through modern designs and promotional programs such as "Ganador Instantáneo" (Instant Winner) in addition to creating new pressure cooker and household appliance lines for the self-service channel.

Over the last year, we actively disseminated our brand through social media and established a solid brand and product platform that will launch in 2017 with the goal of increasing sales.

We strategically aligned the business by implementing the Sales & Operations Planning (S&OP) process in record time, thereby laying down the foundation for having better inventory control, increasing our service levels with respect to delivery time, and achieving greater effectiveness in sales forecasts and planning.

Operational discipline boosted the increase in productivity of the enamel steel and aluminum unit due to increased volume and greater utilization of installed capacity, coupled with better productive planning and innovation.



As a result of the former, we are refocusing the portfolio of products, thereby achieving operational simplification and a reduction in costs incurred by changes. We also implemented improvements in the business' operational flow.

In the ceramic table products segment, we invested nearly $35 million pesos in launching new automation and flow lines, which will help satisfy incremental demand in specialized sector and develop special high-value parts.

In 2017, we will launch new product lines for higher-income young consumers and seek to maintain leadership in enamel steel products, grow the aluminum segment and maximize the profitability of ceramic lines, in addition to increasing our presence in the American market.

"We invested nearly $35 million pesos in launching new automation and flow lines"

The challenge posed by dollarized consumables and the increase in raw and energy materials will be faced with a focus on operational excellence and through greater knowledge of our Mexican consumers.

We will continue to strengthen our innovation processes in products, operation and marketing, which will be fundamental for Cinsa in the coming years.

"We will seek to maintain our leadership on enamel steel-line, boost aluminum-line presence and maximize ceramic-line profitability"

# FINANCIAL INFORMATION

## GRUPO INDUSTRIAL SALTILLO, S. A. B. DE C. V. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

# INDEPENDENT AUDITORS' REPORT

**To the Board of Directors and Stockholders of**
**Grupo Industrial Saltillo, S.A.B. de C.V.:**

(Thousands of pesos)

***Opinion***

We have audited the accompanying consolidated financial statements of Grupo Industrial Saltillo, S.A.B. de C.V. and subsidiaries (the "Group" or "GIS"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, the consolidated statements of income, of other comprehensive income, of changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Industrial Saltillo, S.A.B. de C.V. and subsidiaries, as of December 31, 2016 and 2015, and of its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015, in accordance with International Financial Reporting Standards (IFRS).

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key audit matters***

The key audit matters are those that, in our professional judgment, have been most relevant in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the overall consolidated financial statements and in forming our opinion thereupon, and we express no separate opinion on these matters.

**Business acquisition**

**Acquisition of Automotive Components Europe, S. A.**

**(See note 20b to the accompanying consolidated financial statements)**

| Key audit matter | How the key matter was addressed in our audit |
| --- | --- |
| During the last quarter of the year ended December 31, 2016, the Group's Management completed the fair value determination of the assets acquired and liabilities assumed of Automotive Components Europe, SA, recognizing in the consolidated financial statements as of that date, the purchase price allocation based on the corresponding fair values, including the goodwill determination (referred-to as the Purchase Price Allocation - PPA).<br><br>We consider this a key audit matter based on transaction's materiality, as well as the judgment involved in the purchase price segregation of the acquired business through: (i) fair value determination of the assets acquired (including the identification and valuation of intangible assets and liabilities assumed - net assets); ii) determining deferred income tax effects as of the acquisition date and iii) determining goodwill as of the acquisition date. | Our audit procedures for this key matter included the following, among others:<br><br>We reviewed the contracts and documents relevant to this transaction, in order to conclude on the identification of the acquiring and acquired companies, amount of the consideration, date of acquisition of control, among others.<br><br>With the support of our specialists, we evaluated the methodology applied in determining the fair values of the net assets as of the acquisition date, considering the requirements of applicable accounting standards.<br>We met with the specialists engaged by the Group's Management to find out the technical considerations in the net assets fair value determination.<br><br>In accordance with the corresponding accounting standards we evaluated:<br><br>That the net assets of the business acquired were adequately accounted for at the level of the Group's consolidated financial statements, including the effects of deferred income taxes and goodwill as of the acquisition date.<br><br>Adequacy of the disclosures about the acquired business. |

**Acquisition of Infun, S.A. and Altec Engineering, S.L.**

**(See note 20b to the accompanying consolidated financial statements)**

| Key audit matter | How the key matter was addressed in our audit |
| --- | --- |
| On December 28, 2016, the Group completed the 100% shares acquisition of Infun, S.A. And Altec Engineering, S.L., therefore, the determination of preliminary values represents a substantial role in accounting for the transaction at the level of the consolidated financial statements, including the preliminary determination of goodwill.<br><br>We consider this matter a key audit issue because of the materiality of the transaction as well as the judgment involved in the purchase price segregation of the business acquired through the preliminary fair value determination of the net assets and the goodwill. | Our audit procedures for this key matter included the following, among others:<br><br>We reviewed the contracts and documents relevant to this transaction, in order to conclude on the identification of the acquiring and acquired companies, amount of the consideration, date of acquisition of control, among others.<br><br>In accordance with the corresponding accounting standards we evaluated:<br><br>Whether, according to the characteristics of the transaction, it qualified as a business acquisition.<br>The initial accounting record, including the preliminary fair value distribution of the net assets acquired as well as the preliminary quantification of goodwill.<br><br>Disclosures about the acquired business. |

***Other information***

Management is responsible for other information. Other information includes the information included in the Group's annual report for the year ended December 31, 2016, which must be submitted to the National Banking and Securities Commission (the "Annual Report") and to the Mexican Stock Exchange, but does not include the consolidated financial statements and our auditors' report thereon. The annual report is estimated to be released after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in so doing, consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or whether it appears to be materially incorrect.

When we read the Annual Report, if we conclude that there is a material error in that other information, we are required to report that fact to those responsible for the Group's governance.

***Responsibilities of Management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRS, and for such internal control as Management deems necessary to enable the preparation of consolidated financial statements that are free of material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group'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 Group or to cease operations, or has no other realistic alternative.

***Auditors' responsibilities for the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response 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 due to fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We 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 Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonability of accounting estimates and related disclosures made by Management.

- We 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 provide significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We assess the overall presentation, structure and content of the consolidated financial statements, including disclosed information, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group 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 in the course of our audit.

We also provided those charged with the Group's governance with a statement that we have complied with the ethics requirements applicable to independence and that we have communicated all relations and other matters reasonably expected to affect our independence and, where appropriate, the corresponding safeguards.

Among the matters that have been communicated to those charged with governance, we determine those that have been the most relevant in the audit of the financial statements of the current period and that are, consequently, key audit matters. We describe these matters in our audit report, unless the legal or regulatory provisions prohibit publicly disclosing the matter or, under extremely infrequent circumstances, we determine that a matter should not be communicated in our report because it is reasonable to expect that the adverse consequences of doing so would surpass the public interest benefits thereof.

**KPMG CÁRDENAS DOSAL, S.C.**

**C.P.C. ROGELIO BERLANGA CORONADO**

Monterrey, Nuevo León, México
March 21, 2017

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2016 and 2015 (In thousands of pesos)

| | Note | | December 31, 2016 | December 31, 2015 |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 7 | $ | 3,254,537 | 2,370,177 |
| Assets held for sale | | | 39,295 | 27,780 |
| Trades and other accounts receivable | 8 | | 4,050,493 | 2,775,542 |
| Related parties | 26 | | 53,671 | 12,686 |
| Inventories, net | 9 | | 1,999,994 | 1,672,022 |
| Prepaid expenses | | | 24,901 | 11,607 |
| Total current assets | | | 9,422,891 | 6,869,814 |
| Noncurrent assets | | | | |
| Long-term spares inventory | 10 | | 413,628 | 220,116 |
| Property, machinery and equipment, net | 10 | | 8,628,059 | 6,547,109 |
| Intangible assets | 11 | | 6,604,681 | 1,580,879 |
| Other assets | | | 19,805 | 5,645 |
| Permanent investments | 12 | | 993,403 | 790,860 |
| Derivative financial instruments | 18 | | - | 356 |
| Deferred income taxes | 17 | | 443,498 | 337,280 |
| Total noncurrent assets | | | 17,103,074 | 9,482,245 |
| Total assets | | $ | 26,525,965 | 16,352,059 |

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2016 and 2015 (In thousands of pesos)

| | Note | | December 31, 2016 | December 31, 2015 |
|---|---|---|---|---|
| Current liabilities | | | | |
| Current installment of long-term debt | 14 | $ | 296,615 | 189,020 |
| Current installment of long-term other liabilities | 15 | | 34,806 | 8,468 |
| Finance leases | 28 | | 23,997 | 4,788 |
| Liability for tax consolidation | 17 | | 220,585 | 212,210 |
| Trades and other accounts payable | 13 | | 4,305,618 | 2,844,662 |
| Taxes payable | | | 61,723 | 72,778 |
| Deferred income | 22 | | 54,265 | 23,730 |
| Derivative financial instruments | 18 | | 927 | 720 |
| Related parties | 26 | | 4,558 | 27 |
| Total current liabilities | | | 5,003,094 | 3,356,403 |
| Noncurrent liabilities | | | | |
| Loans | 14 | | 6,820,865 | 1,884,727 |
| Other long-term liabilities | 15 | | 2,331,404 | 88,001 |
| Finance leases | 28 | | 65,702 | 15,365 |
| Derivative financial instruments | 18 | | 15,640 | 3,841 |
| Long term liability for consolidation purposes | 17 | | 585,043 | 773,367 |
| Employee benefits | 16 | | 235,087 | 280,735 |
| Total noncurrent liabilities | | | 10,053,741 | 3,046,036 |
| Total liabilities | | | 15,056,835 | 6,402,439 |
| Stockholders' Equity | 19 | | | |
| Capital stock | | $ | 3,343,895 | 3,343,895 |
| Additional paid-in capital | | | 236,350 | 236,350 |
| Allowance for repurchase of own shares | | | 500,000 | 492,757 |
| Allowance for cumulative translation effect | | | 1,389,186 | 723,696 |
| Allowance for actuarial measurements of benefits plan | | | 67,359 | 22,116 |
| Allowance for fixed asset revaluation surplus | | | 404,060 | 404,189 |
| Income tax on comprehensive income items | | | (201,002) | (187,475) |
| Retained earnings | | | 5,691,061 | 4,876,734 |
| Controlling interest | | | 11,430,909 | 9,912,262 |
| Non-controlling interest | | | 38,221 | 37,358 |
| Total stockholders' equity | | | 11,469,130 | 9,949,620 |
| Total liabilities and stockholders' equity | | $ | 26,525,965 | 16,352,059 |

The consolidated statements of financial position should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

As of December 31, 2016 and 2015 (In thousands of pesos)

| | Note | | December31, 2016 | December31, 2015 |
|---|---|---|---|---|
| Revenues | 22 | $ | 14,552,332 | 11,275,036 |
| Cost of sales | | | 10,384,248 | 8,106,104 |
| Gross profit | | | 4,168,084 | 3,168,932 |
| Administration and selling expenses | 24 | | 2,749,913 | 2,195,454 |
| Other expenses, net | 23 | | 7,987 | 3,221 |
| Total operating activities | | | 1,410,184 | 970,257 |
| Financial income | 25 | | (46,364) | (43,772) |
| Financial costs | 25 | | 154,651 | 117,417 |
| Exchange gain, net | 25 | | (35,164) | (145,287) |
| Net cost (income) financial | | | 73,123 | (71,642) |
| Share of profit of equity-accounted investees | 12 | | 41,051 | (52,085) |
| Income before taxes | | | 1,378,112 | 989,814 |
| Income taxes | 17 | | 199,855 | 344,528 |
| Net consolidated income | | | 1,178,257 | 645,286 |
| Non-controlling interest | | | 862 | 673 |
| Net income from non-controlling interest | | | 1,177,395 | 644,613 |

The consolidated statements of income should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

As of December 31, 2016 and 2015 (In thousands of pesos)

| | Note | | 2016 | 2015 |
|---|---|---|---|---|
| Net income | | $ | 1,177,395 | 644,613 |
| Other comprehensive income account | | | | |
| Items that are reclassified to results | | | | |
| Foreign currency translation differences | | | 665,490 | 388,609 |
| Items not reclassified to results | | | | |
| Net change in fair value of land and buildings | 10 | | (129) | 200,144 |
| Actuarial gains from defined benefit plans | 16 | | 45,243 | 19,813 |
| Income tax on the other comprehensive income | 17 | | (13,527) | (65,987) |
| Other comprehensive income for the year, net of taxes | | | 697,077 | 542,579 |
| Total comprehensive income – Company shareholders | | $ | 1,874,472 | 1,187,192 |
| Income attributable to: | | | | |
| Company stockholders | | $ | 1,177,395 | 644,613 |
| Non-controlling interest | | | 862 | 673 |
| Net income | | $ | 1,178,257 | 645,286 |
| Total comprehensive income attributable to: | | | | |
| Company stockholders | | $ | 1,874,472 | 1,187,192 |
| Non-controlling interest | | | 863 | 1,367 |
| Total comprehensive income | | $ | 1,875,335 | 1,188,559 |
| Earnings per share | | | | |
| Basic earnings per share | 21 | $ | 3.31 | 1.81 |

The consolidated statements of comprehensive income should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | Attributable to Company Stockholders | | | |
|---|---|---|---|---|---|
| | Note | Capital stock | Additional paid-in capital | Allowance for repurchase of own shares | Allowance for cumulative translation effect |
| Balance as of January 1, 2015 | | $ 3,343,895 | 236,350 | 500,000 | 335,087 |
| Net income | | - | - | - | - |
| Other comprehensive income | | | | | |
| Foreign currency translation differences | | - | - | - | 388,609 |
| Fixed assets revaluation | | - | - | - | - |
| Actuarial gains from defined benefit plan | | - | - | - | - |
| Total other comprehensive income | | - | - | - | 388,609 |
| Transactions with stockholders of the Company recognized directly in capital stock | | | | | |
| Repurchase of own shares | 19 b | - | - | (7,243) | - |
| Dividends paid to shareholders | 19 f | - | - | - | - |
| Total transactions with stockholders of the Company | | - | | (7,243) | - |
| Balance as of December 31, 2015 | | $ 3,343,895 | 236,350 | 492,757 | 723,696 |

| Attributable to Company Stockholders | | | | | | |
|---|---|---|---|---|---|---|
| Allowance for actuarial remeasurements of benefits plan | Allowance for surplus for revaluation of fixed assets | Income tax on comprehensive income tax | Retained earnings | Total controlling interest | Non-controlling interest | Total stockholders' equity |
| 2,303 | 204,045 | (121,488) | 4,588,172 | 9,088,364 | 35,991 | 9,124,355 |
| - | - | - | 644,613 | 644,613 | 673 | 645,286 |
| - | - | - | - | 388,609 | - | 388,609 |
| - | 200,144 | (60,043) | - | 140,101 | 694 | 140,795 |
| 19,813 | - | (5,944) | - | 13,869 | - | 13,869 |
| 19,813 | 200,144 | (65,987) | 644,613 | 1,187,192 | 1,367 | 1,188,559 |
| - | - | - | - | (7,243) | - | (7,243) |
| - | - | - | (356,051) | (356,051) | - | (356,051) |
| - | - | - | (356,051) | (363,294) | - | (363,294) |
| 22,116 | 404,189 | (187,475) | 4,876,734 | 9,912,262 | 37,358 | 9,949,620 |

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | Attributable to Company Stockholders | | | |
|---|---|---|---|---|---|
| | Note | Capital stock | Additional paid-in capital | Allowance for repurchase of own shares | Allowance for cumulative translation effect |
| Balance as of January 1, 2016 | | $ 3,343,895 | 236,350 | 492,757 | 723,696 |
| Net income | | - | - | - | - |
| Other comprehensive income | | | | | |
| Foreign currency translation differences | | - | - | - | 665,490 |
| Fixed assets revaluation | | - | - | - | - |
| Actuarial gains from defined benefit plan | | - | - | - | - |
| Total other comprehensive income | | - | - | - | 665,490 |
| Transactions with stockholders of the Company recognized directly in capital stock | | | | | |
| Repurchase of own shares | 19 b | - | - | 7,243 | - |
| Dividends paid to shareholders | 19 f | - | - | - | - |
| Total transactions with stockholders of the Company | | - | | 7,243 | - |
| Balance as of December 31, 2016 | | $ 3,343,895 | 236,350 | 500,000 | 1,389,186 |

The consolidated statements of changes in stockholders' equity should be read along with the notes to the consolidated financial statements which are a part thereof.

| Attributable to Company Stockholders | | | | | | |
|---|---|---|---|---|---|---|
| Allowance for actuarial remeasurements of benefits plan | Allowance for surplus for revaluation of fixed assets | Income tax on comprehensive income tax | Retained earnings | Total controlling interest | Non-controlling interest | Total stockholders' equity |
| 22,116 | 404,189 | (187,475) | 4,876,734 | 9,912,262 | 37,358 | 9,949,620 |
| - | - | - | 1,177,395 | 1,177,395 | 863 | 1,178,258 |
| - | - | - | - | 665,490 | - | 665,490 |
| - | (129) | 46 | - | (83) | - | (83) |
| 45,243 | - | (13,573) | - | 31,670 | - | 31,670 |
| 45,243 | (129) | (13,527) | 1,177,395 | 1,874,472 | 863 | 1,875,335 |
| - | - | - | (7,243) | - | - | - |
| - | - | - | (355,825) | (355,825) | - | (355,825) |
| - | - | - | (363,068) | (355,825) | - | (355,825) |
| 67,359 | 404,060 | (201,002) | 5,691,061 | 11,430,909 | 38,221 | 11,469,130 |

## GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CASH FLOWS

## As of December 31, 2016 and 2015 (In thousands of pesos)

| | Note | | 2016 | 2015 |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Net income | | $ | 1,178,257 | 645,286 |
| *Adjustments for:* | | | | |
| Depreciation and amortization | 10,11 | | 700,933 | 463,478 |
| Share of profit of equity-accounted investees | 12 | | (41,051) | 52,085 |
| Gain on sale of assets held for sale | 23 | | (5,312) | (20) |
| Write off of fixed assets not used | 23 | | 26,755 | 469 |
| Financial income, net | 25 | | 90,323 | 12,679 |
| Employee Statutory Profit Sharing | | | 15,688 | 18,558 |
| Prepaid expenses | | | 56,751 | 37,454 |
| Tax by incorporation regime | | | 7,780 | - |
| Income tax expense | 17 | | 199,855 | 344,528 |
| Unrealized exchange rate fluctuation | | | 81,454 | - |
| Cash flows provided by operating activities before changes in working capital and accruals | | | 2,311,433 | 1,574,517 |
| Change in inventories | | | (51,135) | (154,243) |
| Change in trades and other accounts receivable | | | (235,255) | (137,200) |
| Change in prepaid expenses | | | (70,045) | (38,789) |
| Change in trades and other accounts payable | | | 323,682 | 454,699 |
| Change in other long-term payables | | | 20,744 | - |
| Related parties | | | (36,454) | - |
| Change in accruals and employee benefits | 16 | | (405) | (28,779) |
| Cash flows provided by operating activities before income taxes and interest paid | | | 2,262,565 | 1,670,205 |
| Income taxes paid | | | (645,191) | (266,072) |
| Net cash flows provided by operating activities | | | 1,617,374 | 1,404,133 |
| Cash flows from investment activities | | | | |
| Business acquisition, net of cash received | 20 | | (3,024,201) | (1,174,226) |
| Acquisitions of permanent investments | 12 | | (36,336) | (224,216) |
| Repurchase of own shares | 19 | | - | (7,243) |
| Resources from the sale of assets held for sale | | | 16,515 | 350 |
| Acquisition of property, machinery and equipment | 10 | | (962,837) | (511,898) |
| Acquisition of intangible assets | 11 | | (27,931) | (38,567) |
| Interest received | | | 46,364 | 18,833 |
| Net cash flows used in investment activities | | | (3,988,426) | (1,936,967) |
| Cash flows from financing activities | | | | |
| Loans obtained | 14 | | 5,701,616 | 1,296,897 |
| Loans paid | | | (1,746,487) | (108,159) |
| Interest paid | | | (275,035) | (16,088) |
| Financial instruments | | | 2,490 | - |
| Financial leases | | | 3,649 | - |
| Dividends paid | 19 | | (355,825) | (355,899) |
| Net cash flows provided by financing activities | | | 3,330,408 | 816,751 |
| Net increase in cash and cash equivalents | | | 959,356 | 283,917 |
| Cash and cash equivalents at the beginning of the year | | | 2,370,177 | 2,052,855 |
| Exchange fluctuation effect on cash and cash equivalents | | | (74,996) | 33,405 |
| Cash and cash equivalents as of December 31 | 7 | $ | 3,254,537 | 2,370,177 |

The consolidated statements of cash flows should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

## 1 Reporting entity, acquisitions and other relevant events

Grupo Industrial Saltillo, S. A. B de C. V. (GISSA and/or the Company) was incorporated in Mexico as a corporation whose shares are listed in the Mexican Stock Exchange. The address registered of the Company is Isidro Lopez Zertuche No. 1495 Zona Centro C.P. 25000, in Saltillo, Coahuila.

The consolidated financial statements of the Company for the years ended December 31, 2016 and 2015 include those of the Company and its subsidiaries (overall the "Company" and individually "entities of the Company").

The Company through the subsidiary companies takes part in three business sectors: (i) Auto parts, engaged mainly in manufacturing, machining and selling auto parts in gray and ductile iron, as well as aluminum for the car industry, (ii) Construction, engaged mainly in manufacturing and marketing ceramic and water heaters, and marketing of lines of malleable iron and nipples and (iii) Home Products, engaged in manufacturing and marketing enameled steel kitchen items and ceramic dinnerware for home and institutional use.

| | December | | |
|---|---|---|---|
| Sector: Auto parts | 2016 | 2015 | Main activity |
| Cifunsa del Bajío, S.A. de C.V. (Mexico) | 100% | 100% | Production of gray, malleable and ductile iron components. |
| Industria Automotriz Cifunsa, S.A. de C.V. (Mexico) | 100% | 100% | Majority shareholder in various subsidiaries of auto parts industry producing components of gray and ductile iron for the automotive industry as well as pipe for sanitary facilities in general. |
| Tisamatic, S. de R.L. de C.V. (Mexico) | 100% | 100% | Manufacturing gray and ductile iron pieces for the car industry, as well as pipes for industrial sanitary facilities in general. |
| Tisamatic de México, S.A. de C.V. (Mexico) (2) | 0% | 100% | Provision of property leasing services, mainly to related parties. |
| ISLO Automotive, S.L. (Spain) | 100% | 0% | Majority shareholder of various subsidiaries of the auto parts sector producing parts of gray and ductile iron and aluminum for the automotive industry, based in Europe. |
| ACE Boroa, S.L. (Spain) (3) | 100% | 0% | Provision of personnel, technical and administrative advice to related parties. |
| ACE4C, A.I.E. (Spain) (3) | 100% | 0% | Provision of research and development for companies in the ACE group. |
| Fuchosa, S.L.U. (Spain) (3) | 100% | 0% | Production of ductile iron components for the automotive industry. |
| Europea Brakes and Chassis Components Poland, S.P.ZO.O. (Poland) (3) | 100% | 0% | Manufacture of iron calipers for braking systems for the automotive industry. |
| Feramo Metallum International, S.R.O. (Czech Republic) (3) | 100% | 0% | Production of parts of gray and ductile iron for the automotive industry. |
| Infun, S.A. (Spain) (6) | 100% | 0% | Major shareholder of several subsidiaries of the Auto parts sector producing gray and ductile iron as well as aluminum parts for the automotive industry, located in Europe. |
| Altec Engineering, S.L. (Spain) (6) | 100% | 0% | Automotive design and engineering service |
| Infun for S.p.A. (Italy) (6) | 100% | 0% | Production of gray iron and steel components |
| Casting Ros, S.A. (Spain) (6) | 100% | 0% | Production of gray iron and steel components |
| Infun Services, S.L. (Spain) (6) | 100% | 0% | Provision of personnel services, technical and administrative advisory to related parties. |
| Fundiciones Miguel Ros, S.A. (Spain) (6) | 100% | 0% | Production of gray iron and steel components |
| Infun Projects, S.L. (Spain) (6) | 100% | 0% | Major shareholder of several subsidiaries of the Auto parts sector producing gray and ductile iron as well as aluminum parts for the automotive industry, located in Europe. |
| Manteniment Foneria, S.L. (Spain) (6) | 100% | 0% | Repair, maintenance and cleaning services of machinery for the automotive sector |
| Infun Cast (Wuhu), Co. Ltd. (China) (6) | 100% | 0% | Production of gray iron and steel components |

## GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## As of December 31, 2016 and 2015 (In thousands of pesos)

| Sector: Building Products | 2016 | 2015 | Main activity |
|---|---|---|---|
| Manufacturas Vitromex, S.A. de C.V. (Mexico) | 100% | 100% | Majority stockholder of several subsidiaries of the building sector and manufacturing and marketing ceramic coating. |
| Calentadores de América, S.A. de C.V. (Mexico) | 100% | 100% | Majority stockholder of several subsidiaries of the building sector and manufacturing electric and gas water heaters. |
| Fluida, S.A. de C.V. (Mexico) | 100% | 100% | Marketing malleable iron connection lines and steel nipples used in hydraulic facilities in the building industry. |

| Sector: Home Products | 2016 | 2015 | Main activity |
|---|---|---|---|
| Cinsa, S.A. de C.V. (Mexico) | 100% | 100% | Majority stockholder of several subsidiaries of the home product sector and manufacturing and marketing kitchen items in enameled steel and ceramic dinnerware. |
| Cinsa y Santa Anita En Casa, S.A. de C.V. (Mexico) | 100% | 100% | Marketing items mainly for kitchens and tables in enameled steel, ceramic dinnerware and home products. |

| Other subsidiaries | 2016 | 2015 | Main activity |
|---|---|---|---|
| Asesoría y Servicios GIS, S.A. de C.V. (Mexico) | 100% | 100% | Provision of personnel, technical assistance, administrative and human resources services mainly to related parties. |
| Ingis, S.A. de C.V. (Mexico) | 100% | 100% | Provision of property leasing services, mainly to related parties. |
| Operación y Fomento Industrial, S.A. de C.V. (Mexico) (5) | 0% | 100% | Capture and manage financial resources, particularly related parties |
| Futurum Inc. y subsidiarias (E.U.A.) | 100% | 100% | Majority stockholder of several subsidiaries, located abroad. |
| Azenti, S.A. de C.V. (Mexico) | 100% | 100% | Staff services, technical and administrative advice to related parties |
| Aximus, S.A. de C.V. (Mexico) | 100% | 100% | Staff services, technical and administrative advice to related parties |
| Aguas Industriales de Saltillo, S.A. de C.V. (Mexico) | 35.2% | 35.2% | Provision of wastewater collection, treatment, management and distribution services |

| Joint Venture | 2016 | 2015 | Main activity |
|---|---|---|---|
| Evercast, S.A. de C.V. (Mexico) | 70% | 70% | Engaged mainly in manufacturing and selling auto parts in gray and ductile iron for the car industry. |
| Ineder Projects, S.L. (Spain) (6) | 50% | 0% | Production of gray iron and steel components |
| Infun-Ederlan Auto Parts (Wuhu) Co., Ltd. (China) (6) | 50% | 0% | Production of gray iron and steel components |
| Gisederlan, S.A. de C.V. (Mexico) (4) | 50% | - | Engaged mainly in manufacturing and selling auto parts in gray and ductile iron for the car industry. |

| Structured Entities | 2016 | 2015 | Main activity |
|---|---|---|---|
| Fideicomiso AAA GISSA (Mexico) (1) | 100% | 100% | Contract signed with NAFIN cataloged as intermediary non-bank vehicle granting financing to companies of which GIS is a supplier or client. |

(1) This Structured Entities in which the Company has no direct share or a right to vote. However, this entity consolidates because the Company has the ability to direct its main activities, and has the most significant exposure to the returns of the same, based on the terms of the contracts according to which this entity was established.

(2) In June 2015 the merger of Tisamatic de México, S.A. de C.V. (merged) in Tisamatic, S. de R.L. de C.V. (merging) took place.

(3) In December 2015 Grupo Industrial Saltillo, S.A.B. de C.V. it carried out the acquisition of all the shares of Automotive Components Europe S.A. (ACE).

(4) In February 2015 Grupo Industrial Saltillo, S.A.B. de C.V. through its subsidiary Automotive Cifunsa, S.A. de C.V. it agreed to form an alliance Gisederlan, S.A. de C.V. with a shareholding of 50%. During November 2016, Gisederlan started operations.

(5) The merger Operación y Fomento Industria1, S.A. de C.V. (target), into Asesoría y Servicios GIS, S.A. de C.V. (buyer) took place in October 2016.

(6) In December 2016, Grupo Industrial Saltillo, S.A.B. de C.V. bought all the shares of Infun, S.A. and subsidiaries and Altec Engineering, S.L. (INFUN).

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

**Significant transactions**

a) On November 23, 2016, the Company announced its intention to enter into an agreement to purchase shares of Grupo INFUN, a company dedicated to the design, production and machining of parts and components for engine, transmission and suspension in the automotive industry. Infun Group has iron casting and machining operations in Spain, Italy and China. On December 28, 2016, the acquisition of 100% of the shares of Grupo INFUN was completed.

With the incorporation of Grupo Infun, the Company strategically diversifies and complements talent, product portfolio, and geographical presence, expands the customer base, and generates engineering and design synergies to accelerate the growth of its Auto Parts Sector. The strengthening of the Company's position in Europe and entering one of the world's largest automotive markets: China, provides the opportunity for growth, and strategic expansion of markets, foreign exchange and generation of flows.

The Company agreed to acquire 100% of the shares representing the capital stock of INFUN and Subsidiaries, 100% of the shares representing Altec's capital stock and 50% of the shares representing the capital stock of Ineder and, indirectly, of INFUN Ederlan, at a total purchase price of € 280 million Euros. The payment of the transaction would be made in two parts. At the date of closing or completion of the transaction, the Company paid € 180 million Euros, while the remaining € 100 million Euros will be payable in two years, which are recognized as other long-term liabilities as described in note 15.

The price of the transaction was paid with own resources of approximately $60 million dollars and with resources obtained through a bank credit obtained by the Company. The bank loan was for $ 276.5 million dollars, with a term of 5 years, with a 12-month grace period payable in quarterly installments. The financing was also used to prepay both the $ 76.5-million-dollar loan contracted at the end of 2015 for the purchase of Automotive Components Europe (ACE), as well as the $15-million-dollar outstanding balance to expand the capacity of Tisamatic, S. de R.L. de C.V.

b) Between December 28 and 31, 2015, GISSA had related party transactions with ISLO Automotive, S.L.

c) On December 23, 2015, as a result of the acquisition of ACE Group, the Company recognized a goodwill of $695,017 as of December 31, 2016. In accordance with the guidelines established in IFRS 3 "Business Combinations", the Company has completed, jointly with independent advisors, the fair value determination of the net assets acquired, including intangible assets and the corresponding deferred tax effects, as mentioned in note 20 b).

d) On October 27, 2015, the Company announced its intention to conclude an agreement to acquire shares of a group based in Europe dedicated to the production of iron and aluminum components for the automotive industry. On December 23, 2015 the Company acquires the 100% of the shares of Automotive Components Europe, S.A. (ACE).

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

The acquisition of shares was made in stages, where 92.11% of shares were purchased in the tender offer, the 4.65% of shares were purchased directly from ACE (treasury shares) and having acquired a stake of 95% of shareholding the Company exercised its right to purchase the remaining shares from its minority shareholders who were forced to sell (squeeze out). Total shares acquired stood at 21,230,515 shares.

e) On February 17, 2015, Grupo Industrial Saltillo, S.A.B. de C.V, through its subsidiary Industria Automotriz Cifunsa, S.A. de C.V. (IACSA) agreed a partnership to establish a new company, machining iron components in the auto parts sector. This alliance was made with Fagor Ederlan, S. Coop (Ederlan) and Subsidiaries Ederlan, S. L. U. (Ederlan Subsidiaries) and the new company was established as Gisederlan, S.A. of C.V.

The shareholding of Industria Automotriz Cifunsa, S. A. de C. V. in the new company will be 50% and the remaining 50% belongs to Ederlan Subsidiaries, S. L. U. On May 28, 2015, the conditions were met and the approval of the competent authorities was obtained to formalize the alliance.

In the note 12 of the consolidated financial statements is included condensed information of the joint venture.

### 2 Basis of preparation

#### (a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted by public entities in Mexico in accordance with the amendments to the Rules for Public Companies and other Participants of the Mexican Securities Market, set forth by the National Banking and Securities Commission.

On March 21, 2017, José Manuel Arana Escobar (Chief Executive Officer), Jorge Mario Guzmán Guzmán (Finance and Administration Director) and Héctor Alfonso Gonzalez Guerra (Controllership Director) authorized the issuance of the attached financial statements and the notes thereto.

In accordance with General Corporations Law and the Company's by-laws, the stockholders are empowered to modify the financial statements after its issuance. The accompanying financial statements will be submitted for authorization from the next Stockholders Meeting for approval.

#### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the defined benefit liability to employees is measured at present value and the following major items of statement of financial position, which were measured at fair value:

- Financial assets held for sale;
- The assets of the defined benefit plan;
- Land and buildings are measured at fair value;
- Business combinations;
- Derivative financial instruments.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

### (c) Presentation of consolidated statements of income

The Company presents costs and expenses in the consolidated statements of income according to their function, as is the practice in the industry.

The Company presents operating income because it is considered a significant performance measurement for the users of the financial information. According to IFRS, the inclusion of subtotals as the "result of operating activities", and the adjustment of the income statement varies significantly by the industry and the Company, attending to specific needs. Revenues and costs that are operating in nature are presented herein.

The item "Other expenses, net" in the statements of income includes mainly income and expenses that are not directly related to the Company's main activities, or else that are of an unusual and/or nonrecurring nature, such as losses on sale of assets, among others.

The Company chose to present the comprehensive income in two statements: the first statement includes only the items that make up the net income or loss and is called "Consolidated Statements of Income", and the second statement includes part of the net income or loss with which the income statements concluded and immediately presents the OCI and the effects on OCI of other entities. This is called "Consolidated Statements of Comprehensive Income".

### (d) Presentation of consolidated statements of cash flows

The consolidated statements of cash flows of the Company are presented using the indirect method.

### (e) Functional and reporting currency

The Company's accompanying consolidated financial statements are presented in Mexican pesos ("pesos" or "$") because it represents the Mexican domestic currency and periodic reports to the Mexican Stock Exchange are carried in such currency.

Moreover, to determine the functional currency of each subsidiary of the Company, management assesses the economic environment in which it primarily generates and disburses cash. For this, factors related to sales, costs, sources of financing and cash flows generated by the operation are considered. Because some of the Company's subsidiaries have identified the dollar, euro and renminbi as functional currency, the financial information has been translated in accordance with the guidance in IAS 21 "Effect of exchange rate variations" to consolidate the financial statements, considering the methodology described in note 3 b).

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

As of December 31, 2016 and 2015, the peso/dollar exchange rates were $20.64 and $17.32, respectively. Furthermore, the peso/euro exchange rates were $21.76 and $18.85, respectively and for the year 2016 the peso/Renminbi was $2.9730. Unless otherwise indicated, all financial information presented in pesos has been rounded to the nearest thousand. When referring to "U.S. $" or dollars we refer to amounts expressed in thousands of United States of America or US dollars, when referring to "EUROS €" or euros we refer to amounts expressed in thousands of euros of the European Union and when referring to "Renminbi RMB" we refer to amounts expressed in thousands of Renminbi of the People's Republic of China.

### (f) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful lives of property, machinery and equipment, fair values of land and buildings, impairment of goodwill and long-lived assets; valuation allowances for receivables, other receivables, inventory and deferred income tax assets; valuation of derivative financial instruments, labor liabilities related to defined benefits and contingencies. Actual results could differ from those estimates and assumptions.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in the preparation of the consolidated statement of financial position under IFRS.

### (a) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and of the entities controlled by the Company and subsidiaries. All significant intercompany balances and transactions, and the unrealized income and expenses, have been eliminated in consolidation. Unrealized income derived from transactions between group entities in which there are investments accounted for under the equity method are eliminated against the investment to the extent of the Company's interest in the subsidiary. Unrealized losses are eliminated the same way as the unrealized income to the extent that there is no evidence of impairment.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### *(i) Subsidiaries*

The subsidiary companies are entities controlled by the Company. The financial statements of subsidiary companies are included in the consolidated financial statements of the Company as of the date control begins and through the date such control ends. Control is obtained when the Company: has power over the investment; is exposed, or entitled to, variable returns derived from its interest in said entity, and has the capacity to affect such returns through the power over the entity in which it invests.

When the Company has less than the majority of the voting rights of an investee, it has power over it when the voting rights are sufficient to give it the practical ability to conduct its relevant activities unilaterally. The Company considers all relevant facts and circumstances to assess whether its voting rights in the investee are sufficient to give it power, including:

- The percentage of the Company's interest in the voting rights in relation to the percentage and the dispersion of the voting rights of the other holders thereof;
- Potential voting rights held by the Company, other shareholders or third parties;
- Rights derived from other contractual agreements, and
- Any additional fact and circumstance indicating that the Company has, or does not have, the current ability to direct the relevant activities at the time the decisions are to be made, including the tendencies of shareholders' voting at previous.

When the Company's interest in the subsidiaries is less than 100%, the interest attributed to external shareholders is reflected as non-controlling interest.

The income and each component of other comprehensive income is attributable to controlling and non-controlling interests. The comprehensive income of the subsidiaries is attributed to the controlling and non-controlling interests even if it gives rise to a deficit in the latter.

The accounting policies of subsidiaries have been adequate when it has been necessary to comply with the policies adopted by the Company.

### *(ii) Joint venture*

A joint venture is a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control in a business, which exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. The results and assets and liabilities of the joint ventures are incorporated into the financial statements using the equity method. When the Company carries out transactions with its joint venture, the resulting gain or loss from such transactions are recognized in the consolidated financial statements of the Company only to the extent of participation in the joint venture that relates to GISSA.

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***(iii) Non-controlling interests***

Non-controlling interests are measured at the proportionate share of the net identifiable assets at the acquisition date.

Changes in the Company's participation in an associate or joint venture that does not result in a loss of control are record as equity transactions.

***(iv) Structured entities***

The Company has incorporated a structured entity for operating purposes. The Company has no direct or indirect shares in such entity. A structured entities consolidated if, based on the evaluation of the economic substance of the relationship with the Company and the risks and benefits of the structured entities, the Company concludes that it controls the structured entities. The structured entities controlled by the Company was incorporated under terms that impose strict limitations on the power of decision making of the management of structured entities, resulting in the Company receiving most of the benefits related to the operations and net assets of the structured entities, and keeping most of the residual or ownership risks related to the structured entities or the assets.

**(b) Foreign currency**

***(i) Foreign currency transactions***

Transactions in foreign currency are translated to the respective functional currencies of the company's entities at the exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss from monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for payments and effective interest during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary asset and liability transactions denominated in foreign currency and valued at fair value are retranslated to the functional currency at the exchange rate on the dates the fair value was determined. The differences arising from this translation are recognized in income. The non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate on the date of the transaction.

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### *(ii) Translation of financial statements of subsidiaries in foreign currency*

The financial statements of foreign operations to be consolidated are translated to the reporting currency, initially identifying whether the functional currency and the recording currency of the foreign operations are different:

In order to translate foreign currency into a functional currency, which is the case for Mexican entities of the auto parts segment, the translation is made using the following exchange rates: 1) closing for monetary assets and liabilities, 2) historical for nonmonetary assets and stockholders' equity, and 3) that of the date they were accrued for income, costs and expenses, except for those arising from nonmonetary items that are translated at the historical exchange rate of the nonmonetary item. Translation effects are recognized in the income statement of the period.

If the functional and recording currency are the same but different from the reporting currency, which is the case of United States of America entities, and the auto parts segment in México and Europe, the conversion of its financial statements is performed using the following exchange rates: 1) closing, for assets and liabilities and 2) historical for stockholders' equity and 3) that of the accrual date for revenues, costs and expenses. The translation effects are recorded in stockholders' equity.

The financial statements of foreign operations are translated into the pesos at the exchange rate at year end for the balance sheet accounts, and at the exchange rates of each month within the period for income statement accounts. Functional currency is that in which each consolidated entity generates and spends cash. The corresponding translation effect is included in "Other capital reserves" and is presented in the comprehensive income statement of the year as part of the translation result until the net investment abroad is disposed of.

### (c) Financial instruments

### *(i) Non-derivative financial instruments*

Non-derivative financial instruments include: cash and cash equivalents, accounts receivable and other accounts receivable, suppliers, loans and interest payable, customer advances, other accounts payable and accrued liabilities.

The Company initially recognizes suppliers, loans and interest payable, customer advances, other accounts payable and accrued liabilities issued on the date on which they originate. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

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The Company discontinues a financial asset when the contractual rights to the cash flows coming from the assets expire, or the rights to receive the contractual cash flows from the financial asset are transferred in a transaction where substantially all risks and benefits of holding the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company removes a financial liability when satisfied or canceled, or expire their contractual obligations.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

*Non-derivate financial assets*

Cash and cash equivalents include the cash balances and deposits on demand with original maturities of less than three months.

Accounts receivable and loans are financial assets with fixed or determined payments that are not listed in an active market. These assets are recognized initially at fair value plus the costs directly attributable to the transaction. After initial recognition, the accounts receivable and loans are measured at amortized cost using the effective interest method, less impairment losses. Accounts receivable includes trades receivable and other accounts receivable.

Assets available for sale are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are recognized at fair value, and changes other than impairment losses are recognized in the fair value reserve. When these assets are derecognized, the cumulative gain or loss in equity is reclassified to income.

*Non-derivative financial liabilities*

These financial liabilities are initially recognized at fair value plus the costs directly attributable to the transaction. After initial recognition, these financial liabilities are valued at amortized cost using the effective interest method.

The Company removes a financial liability when they meet or canceled, or expire their contractual obligations.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans, interest payable, customer advances, other accounts payable and accrued liabilities.

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These financial liabilities are initially recognized at fair value plus the costs directly attributable to the transaction. After initial recognition, these financial liabilities are valued at amortized cost using the effective interest method.

***(ii) Derivative financial instruments***

The Company contracts derivative financial instruments to hedge its exposure to risks of exchange rates and interest rates arising from its operating, financing and investing. According to its policy, the Company does not retain or issue derivative financial instruments for trading purposes. However, if derivatives financial instruments do not qualify for hedge accounting are accounted for as trading instruments.

Initial designation of the hedge, the Company formally documents all relationships between hedging instruments and covered items, including the objectives and risk management strategy for carrying out the hedge transaction and the methods used to evaluate the effectiveness of the hedge. The Company performs an assessment at the beginning of the operation of the hedge and ongoing basis, if it is expected that the hedging instruments are "highly effective" in do offsetting changes in fair value or cash flows of the respective items covered during the period for which the hedge is determined, and if the actual results of each hedge are within a range of 80-125 percent.

In the case of cash flow hedge of a projected transaction, the transaction must be highly probable to occur and present an exposure to variations in cash flows could affect the final result reported.

Embedded derivatives are separated of main agreement and accounted separately, if the economic characteristics and risks of main agreement and embedded derivative are not closely related. An instrument separate with the same terms as the embedded derivative meets the definition of a derivative, and the combined instrument is not measured at fair value through income statements.

The derivatives instruments recognized at fair value; attributable cost are recognized in income statements as incurred. Subsequent to initial recognition, the derivatives instruments are measured at fair value and the changes on such value are accounted as described below:

The fair value of exchange rate forward contracts is determined based on their market price, if any. Otherwise, the fair value is estimated by discounting the difference between the contractual price and the current price of the forward for the remaining time of the contract maturity using a risk-free interest rate.

The fair value of swap contracts or interest rate swaps is determined based on the prices of recognized markets and when they are not traded in an organized market, this value is determined based on technical bases and valuation inputs accepted in the financial circle. It is determined based on the quotes provided by brokers. These quotes are subject to fairness tests discounting the estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date.

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The fair values of the derivatives reflect the credit risk of the Company and the counterparty, previously taking into account guarantees and collateral submitted or received.

*Cash Flow Hedge*

When a derivative is designed as a hedging instrument in the variability of cash flows attributable to a particular risk related to a recognized assets or liability or a transaction projected that could affect the final result, the effective portion of the changes in the fair value of derivative are recognized in the other comprehensive income and presented in the hedging reserve in stockholder´s equity. The amount recognized in the other comprehensive income is removed and included in income in the same period in which the results are affected by the cash flows covered under the same line of other comprehensive income. Any ineffective portion of changes in the fair value of the derivative are recognized immediately in the profit or loss of the period.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is removed, then it discontinues the hedge accounting prospectively. The cumulative gain or loss recognized in previously in other comprehensive income and presented in the hedging reserve in stockholders' equity remains there until the forecast transaction affects the results. When the hedge item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when it is recognized. If you no longer expect the projected transaction will occur, then the balance of other comprehensive income is recognized immediately in income. In other cases, the amount recognized in other comprehensive income is transferred to income in the period in which the results are affected by the hedged item.

**Separate Embedded Derivatives**

The Company and its subsidiaries reviewed by procedure celebrating contracts with over U.S. $50 thousand or more than 90 calendar days, in order to identify possible effective value of embedded derivatives, and if so, proceed to applies whether or not segregating them from the respective contracts hosts. If required the segregation of these embedded derivative financial instruments the Company and its subsidiaries recognize them on the statement of financial position at fair value and in the income statement the change in the fair value thereof, in accordance with current regulations, and is at the discretion of the Company, the possibility of designating these embedded derivatives under any of the accounting models for acceptable coverage.

***(iii) Capital stock***

*Common shares*

Common shares are classified in stockholders' equity. The incremental costs directly attributable to the issue of common shares and options on shares are recognized as a deduction of stockholders' equity, net of tax effects.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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*Repurchase of sharess*

When capital stock recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve and are presented as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

### (d) Property, machinery and equipment

#### *(i) Recognition and measurement*

Land and buildings are measured at fair value every three years based on periodic appraisals made by independent appraisers. The increase in book value of the assets as consequence of the revaluation is recognized directly in revaluation surplus in the comprehensive income account, unless a decrease previously recognized in the income and loss statement, in which case the reversal amount is recognized directly in the mentioned statement. The decrease in book value of the assets as a consequence of the revaluation is recognized directly in income and loss statement when there is no previous revaluation; when there is a previous revaluation, the decrease in fair value is recognized in revaluation surplus until depletion and the remainder is recognized in income and loss statement. When a revalued asset is sold or retired, the revaluation surplus amount of the asset is transferred to accumulated earnings.

Items of machinery and equipment, furniture and fixtures, transportation equipment and computer equipment are valued at cost less accumulated depreciation and accumulated impairment losses. The cost includes expenses directly attributable to the acquisition of the asset. The computer programs acquired that are an integral part of the functionality of the corresponding fixed assets are capitalized as part of this equipment. The depreciation of these assets starts when the assets are in place and under the necessary conditions for operation.

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets, which require a substantial period of time until they are ready for use or sale, are added to the cost of those assets during that time up to the time they are ready for use or sale.

The income obtained from the temporary investment of funds of specific loans pending to be used in qualifying assets, is deducted from the costs for loans eligible to be capitalized.

All other borrowing costs are recognized in the results during the period in which they are incurred.

When the components of an item of property, machinery and equipment have different useful lives, they are recorded as separate components (major components) of property, machinery and equipment.

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Gains and losses for the sale of an item of property, machinery and equipment are determined by comparing the proceeds from the sale to the book value of property, machinery and equipment and are recognized net within "other income" in the statement of income.

***(ii) Subsequent costs***

a. Major maintenance
Expenditures for repairs and modifications or improvements that prolong the useful life of the assets beyond the originally estimated, which allows the entity to obtain future economic benefits that can be measured reliably, are capitalized as fixed assets.

b. Spares

The key spares maintained as stock that qualify to be classified as fixed assets are capitalized as part of the equipment for which they were acquired, once they are used.

The replacement cost of these items is recognized in the book value if it is likely that the future economic benefits flow to the entity and the cost can be determined reliably. The book value of the part replaced is retired. Expenditures for maintenance and ordinary repairs that keep the assets in efficient working order, without increasing the useful life, are not capitalized and are recognized in income as incurred.

***(iii) Restoring costs***

When the Company has a legal obligation, at the end of the use of assets, to restore the site for those assets on which there is this obligation, the restoring cost is estimated and included in the initial cost of the asset and this is the present value of future cash flows expected to incur for such obligation. A liability for the obligation at present value is also recognized. At December 31, 2016 and 2015 the provision for restoration costs represented $2.3 and $2.2 million, respectively.

***(iv) Depreciation***

Depreciation is calculated on the amount susceptible to depreciation, corresponding to the cost of an asset, or another amount that replaces the cost, less the residual value.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of an item, after deducting the estimated costs of disposal, if the asset were already of the age and condition expected at the end of his life useful. The Company's practice is to use its assets until it's totally used.

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Depreciation is recognized in the income and loss statement using the straight-line method according to the estimated useful life of each component of an item of property, machinery and equipment, since this better reflects the usage patter expected of the future economic benefits included in the asset. Leased assets are depreciated for the duration of the lease or the useful life of the assets, whichever is lower, unless there is reasonable certainty that the Company will acquire ownership of the leased assets at the end of the lease.

The average estimated useful lives for the current periods are indicated below:

- Buildings 50 years
- Machinery and equipment 14 years
- Furniture and equipment 10 years
- Other components 3 years

The useful lives and residual values are reviewed at year-end and adjusted when necessary.

### (e) Intangible assets

#### *(i) Goodwill*

This represents the excess from the purchase value of the companies over the identified amount of tangible and intangible assets of these companies. These are considered to have indefinite useful life because there are no legal, regulatory, contractual, competitive or economic factors that limit the useful life and are subject to annual impairment tests and at any time an impairment indication arises.

*Subsequent valuation*

Expenditures on research activities, undertaken with the objective of gaining new scientific or technical knowledge and understanding, are recognized in the income and loss statement as incurred.

#### *(ii) Development costs*

Expenditures on research activities, undertaken with the objective of gaining new scientific or technical knowledge and understanding, are recognized in the income and loss statement as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in income as incurred.

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Capitalized development costs is measured at cost less accumulated amortization and any accumulated impairment losses

***(iii) Patents, brands and other intangible assets***

Other intangible assets acquired by the Company, with defined useful lives, are recorded at cost or fair value less accumulated amortization and accumulated impairment losses. The intangible assets with indefinite useful lives are recorded at cost or fair value and are subject to annual impairment tests, and at any time an indication of impairment arises. Relationship to customers with defined useful lives are recorded at fair value.

***(iv) Subsequent expenditures***

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in income as incurred.

***(v) Amortization***

The amortization is calculated on the cost of the asset or other amount that replaces cost, less the residual value.

The amortization is recognized in the income and loss statement under the straight-line method based on the estimated useful life of the intangible assets, other than goodwill, from the date they are available for use, this reflects the expected usage pattern of the future economic benefits included in the asset in the best way.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| • Brands and patents | Indefinite |
| • List of clients | 10 y 17 years |
| • Non –compete agreements | 5 years |
| • Software for internal use | 7 years |
| • Development costs | 7 years |

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(f) Inventories**

Inventories are measured at the lower of cost and net realizable value, whichever is lower. Cost is determined using the average cost method, and includes the expenditures incurred due to the acquisition of inventory, production or transformation costs and other costs incurred to place them in the current site and condition. The cost of finished goods and work in process inventories includes a proper portion of the overall production expenses based on the normal operation capacity.

The net realizable value is the estimated sales price in the normal course of operations, less the estimated termination costs and selling expenses.

The Company makes an estimate for obsolete and/or slow-moving inventories, considering the internal control process and operating and market factors of its products and the occurrence of internal events, such as physical or external damages, such as technological changes or market conditions, some portion of the balance has become obsolete or impaired. This estimate is reviewed periodically and is determined by considering the rotation and use of raw materials, products in process and finished goods, which are affected by changes in production processes and by changes in the market conditions in which the Company operates.

**(g) Business combinations**

Business combinations are recognized through the purchase method, allocating the price paid to take control of the entity to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The acquired intangible assets are identified and recognized at fair value. The unallocated portion of the purchase price represents the goodwill, which is not amortized and is subject to periodic impairment assessments, may be adjusted for any correction of the value of assets acquired and/or liabilities assumed within twelve months of the purchase. The expenses associated with the purchase are recognized in the income statement as incurred.

Management uses professional judgment to determine whether the acquisition of a group of assets constitutes a business combination. For this, the Company evaluates all qualitative aspects of the transaction. Such a determination could have a significant impact on how assets acquired and liabilities are accounted for, both upon initial recognition and subsequent years.

**(h) Impairment**

***(i) Financial assets***

A financial asset not classified as at fair value through income is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired includes default or delinquency by a debtor, restructuring of an amount owed to the Company in terms that the Company would not consider otherwise, indications that a debtor will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in fair value below the cost is objective evidence of impairment.

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The Company considers evidence of impairment for accounts receivable and investments in held-to-maturity titles at both a specific asset and collective level. All individually significant accounts receivable and investments in held-to-maturity titles are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Accounts receivable and investments in held-to-maturity titles that are not individually significant are collectively assessed for impairment by grouping together accounts receivable and investments in held-to-maturity titles with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance for receivables. Interest on the impaired asset continues to be recognized through the discount effect for the passage of time. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is recognized in income statement.

***(ii) Non-financial assets***

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recovery value of goodwill and indefinite-lived intangible assets or not yet available for use, is estimated each year on the same date.

The recoverable amount of an asset or cash-generating unit is the greater of the value in use and fair value less costs of sale. In assessing value in use, the estimated future cash flows are discounted to 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 impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. For goodwill impairment test purposes, goodwill acquired in a business acquisition is distributed to the group of CGUs expected to benefit from the synergies of the combination. This distribution is subject to an operating segment limit test and reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is any indication that an operating asset might be impaired, then the recovery value of the cash-generating unit to which the corporate asset belongs is determined.

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An impairment loss is recognized if the carrying amount of an asset or the cash-generating unit is greater than recovery value. Impairment losses are recognized in the income and loss statement, except for revalued assets. Impairment losses recorded in relation to the cash-generating units are distributed first to reduce the carrying value of any goodwill distributed to the units and then to reduce the carrying value of other assets in the unit (group of units) on an apportionment basis.

No impairment losses with respect to goodwill are reversed. For other assets, impairment losses recognized in previous periods are assessed as of the reporting date to identify indications that the loss had been reduced or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recovery value. An impairment loss is only reversed to the extent that the carrying amount of the asset is not greater than the carrying amount that would have been determined net of depreciation or amortization, had no impairment loss been previously recognized.

When the asset or the cash-generating unit is updated through the revaluation model, the reversal of the impairment loss determined is recorded in income for up to the amount that had been previously recognized in the statement of comprehensive income; and the difference, if any, is recorded in the revaluation surplus.

**(i) Employee benefits**

***(i) Defined benefit plans***

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation with respect to defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is made annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit for the Company, the asset recognized is limited to the total unrecognized prior service costs and the present value of the available economic benefits, in the form of future plan reimbursements or future reductions to plan contributions. To calculate the present value of the economic benefits, are considered the minimum funding requirements that apply to any plan of the Company. An economic benefit is available for the Company if it can be realized during the life of the plan, or upon settling the obligations of the plan.

When the plan benefits are improved, the portion of improved benefits related to prior services by the employees is recognized in the income and loss statement under the straight-line method during the average period until the right to the benefits is acquired. To the extent that the right to the benefits is immediately realized, the expense is recognized immediately in the income and loss statement.

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The Company recognizes actuarial re-measurements from defined benefit plans in the comprehensive income account in the period they occur.

Additional pension plan granted by the Company in accordance with applicable law, the Company grants seniority premiums in retirement or replacement retirement pension, which represents the right of the employee to receive remuneration retirement corresponding to a number of days' wages (12) for each year of service, once certain conditions have been fulfilled for their calculation and payment, specified in the Act or in accordance with the terms of the benefit plan.

***(ii) Defined contribution benefit plans***

The costs of these plans are recognized in operating results as incurred. The liabilities for these plans are settled through contributions to the employees' retirement accounts, and no prospective obligations are generated.

***(iii) Termination benefits***

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if: the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

***(iv) Short-term benefits***

The short-term employee benefit obligations are valued on a base with no discount and are charged to income as the respective services are rendered.

A liability is recognized for the amount expected to be paid under the short-term cash bonus plans, vacations, year-end bonus, employee participation in profits if the Company has a legal or assumed obligation to pay these amounts as a result of prior services provided by the employee, and the obligation can be reliably estimated.

### (j) Provisions

A provision is recognized if, as a result of a past event the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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### *(i) Warranties*

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

### (k) Income tax (IT)

Income taxes include current and deferred tax. Current income taxes of the year are determined in accordance with the tax provisions in force in the country where each subsidiary operates. The effect on income from income taxes recognizes the amounts generated in the year, as well as deferred income taxes, determined in accordance with the tax laws applicable to each subsidiary, except those corresponding to a business combination, or items recognized directly in stockholders' equity or in the comprehensive income account.

Deferred IT are recorded according to the asset-liability method, which compares book and tax values of the assets and liabilities of the Company and deferred taxes (assets or liabilities) are recognized with respect to the temporary differences between such values. No taxes are recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction other than a business acquisition and that does not affect the accounting or tax result, and differences related to investments in subsidiaries and joint ventures to the extent that it is likely that they will not be reversed in the foreseeable future. Additionally, no deferred taxes are recognized for taxable temporary differences derived from the initial recognition of goodwill. The deferred taxes are calculated using the rates expected to apply to the temporary differences when reversed, based on the enacted laws as of the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset the tax assets and liabilities incurred, and correspond to income tax by the same tax authority and to the same tax entity or over different tax entities but intend to settle tax assets and liabilities incurred on net base or tax assets and liabilities materialize simultaneously.

A deferred tax loss carry forward asset, tax credits and deductible temporary differences are recognized to the extent that it is likely that taxable income may be available in the future against which they can be applied. The deferred assets are reviewed as of the reporting date and are reduced to the extent that the realization of the corresponding tax benefit is no longer probable.

The statutory rates of the countries where the Company conducts operations mainly are as follows:

| Country | 2016 | 2015 |
|---|---|---|
| | % | % |
| Mexico | 30 | 30 |
| United States of America | 40 | 40 |
| Spain | 28 | 28 |
| Poland | 19 | 19 |
| Czech Republic | 19 | 19 |
| Italy | 31 | 31 |
| China | 33 | 33 |

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### (l) Revenue

#### *(i) Products sold*

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

#### *(ii) Customer discounts*

In the normal course of business, the Company provides, volume discounts, which are obtained as a result of keeping certain sales levels which are based on a minimum guaranteed amount and additional amounts obtained from certain sales levels. All discounts are provisioned clients as they get. The discounts received as a result of taking certain sales levels are accrued on sales estimates based on the periods previously agreed with the client.

The Company makes an estimate for doubtful accounts, considering the internal control process and factors such as the financial and operating position of the clients, as well as the economic conditions of the country. This estimate is reviewed periodically and the condition of overdue accounts is determined considering the maturities and terms established in the contracts.

### (m) Government grants

The Company recognizes a government grant initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Company will comply with all the conditions attached to the grant, and are systematically recorded in the income and loss statement in which the entity recognizes expenses for the related cost, as other income during your lifetime.

### (n) Financial income and costs

Financial income includes interest income on funds invested, gains on the sale of financial assets available for sale and changes in the fair value of financial assets at fair value through income or loss, and exchange gains. Interest income is recognized in the income and loss statement as accrued, using the effective interest method.

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Financial costs include interest expenses on loans, discount effect due to the passage of time over accruals, dividends of preferred shares classified as liabilities, exchange losses, changes in fair value of assets at fair value through income or loss and impairment losses recognized in financial assets. The loan costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in income using the effective interest method.

Exchange gains and losses are reported on a net base.

### (o) Earnings per share

The Company presents information on basic earnings per share (EPS) corresponding to common shares. Basic EPS is calculated by dividing net controlling income by the weighted average of common shares in circulation during the year. The Company has no equity instruments that are potentially dilutive.

### (p) Segment information

The operating segments are defined as the components of a company, oriented to the production and sale of goods and services, subject to risks and benefits other than those associated to other business segments. The Company is involved mainly in three segments: auto parts, building products and home products.

The subsidiaries of the Company are grouped according to the business sectors in which they operate. For internal and organizational purposes, each business manages and supervises all activities of the respective business, which refer to production, distribution and marketing of the products. Consequently, Company management internally evaluates the results and performance of each business for the decision-making process. Following this approach, in the day-to-day operation, the economic resources are assigned based on the operation of each business.

Transactions between segments are determined based on prices comparable to those that would be used with or between independent parties in comparable operations at market value.

### (q) Assets available for sale

Non-current assets or groups available for sale that include assets, which are expected to be recovered mainly through their sale and not by their continuous use, are classified as available for sale. Immediately prior to being classified as available for sale, the assets or components of a group of assets available for sale are revalued according to the Company's accounting policies. Subsequently, the assets or group of assets available for sale are usually recorded at lower of carrying value and fair value less costs of sale. Any impairment loss of a group of assets available for sale is first distributed to goodwill and later to the remaining assets and liabilities on an apportionment basis, except that no losses are distributed in inventories, financial assets, deferred tax assets, employee benefit assets, investment properties, which are continued being valued according to the Company's accounting policies. The impairment losses in the initial classification of assets available for sale and the subsequent revaluation gains or losses are recognized in the income and loss statement. No gains that surpass any accumulated impairment loss are recognized.

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### (r) Contingencies

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

### (s) Capital leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as capital leases. Upon initial recognition, the leased asset is determined considering the amount lesser of fair value and the present value of the minimum lease payments. After initial recognition, the amount of the asset is amended in accordance with the applicable accounting policy at the same.

### (t) New IFRS not yet adopted

There are different IFRS issued as of the date of these financial statements that have yet to be adopted and they are described below. Except when mentioned otherwise, the Company considers adopting these IFRS on the dates they are effective.

IFRS 9, *Financial instruments*

On July 2014, IASB issued IFRS 9, Financial instruments: classification and measurement ("IFRS 9"), which replace IAS 39. This standard includes requirements for recognizing and measuring, impairment, discharge and general hedging accounting. This version of the IFRS 9 replaces all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early application permitted. The IFRS 9 does not replace the requirements of the portfolio fair value hedge accounting for interest rate risk.

IFRS 9 is a complete standard that includes previous requirements issued and the following additional changes: the introduction of a new model of impairment of the expected loss, and limited changes to the requirements for classification and measurement of financial assets. Specifically, the new impairment model contracts are based on the expected credit losses instead of the losses incurred, and shall apply to debt instruments measured at amortized cost or fair value through other comprehensive income, to lease receivables, assets, certain written loan commitments and financial guarantee contracts. As for the new category of measuring fair value through other comprehensive income, shall apply to debt instruments that are within a business model whose objectives are achieved by collecting contractual cash flows and financial asset sales.

The Company is currently evaluating the impact of IFRS 9 on the classification and valuation of financial assets and liabilities, impairment of financial assets and hedging activities. Preliminarily: a) The Company has no fixed rate investments held to maturity; and b) the expected loss on accounts receivable from customers is considered to replace the current allowance for doubtful

accounts. The Company considers the full adoption of IFRS 9 on January 1, 2018. The Company expects no significant effect on results through the adoption of IFRS 9. However, early application of IFRS 9 is not considered.

IFRS 15, *Revenue from contracts with customers*

This standard was issued in May 2014 and it is effective for periods beginning on or after January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on monitoring, i.e. uses the notion of control to determine when a good or service is transferred to the customer.

The standard also introduces a single comprehensive model for the recognition of revenue from contracts with customers and replaces the latest revenue recognition guide, including the targeting of the industry. This integrated model introduces a five-step approach to revenue recognition: 1) identification of the contract; 2) identify performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to each performance obligation in the contract; 5) recognize the revenue when the entity satisfies a performance obligation. Furthermore, the amount of required disclosures in both annual financial statements as intermediates increases.

The Company, along with the specialists, began evaluating during 2016 the impacts of IFRS 15 on the registration and disclosures of income. During 2017, the Company will analyze the contracts with customers in all the countries in which it operates to analyze the different deliverables and other offers (discounts, etc.) therein, among other aspects, in order to determine possible differences in accounting recognition of revenues in relation to current IFRSs. Additionally, training in the new standard has been provided to key personnel with the support of external experts. During 2017, the Company plans to complete analysis and quantify any necessary adjustments, if any portion of the income currently recognized at the date of the transaction or deferred over a period of time, as applicable, should be recognized differently when adopting IFRS 15. Beginning January 1, 2018, the Company plans to adopt IFRS 15 using the full retrospective approach. The Company does not consider early application of IFRS 15.

IFRS 16, *Leases*

The standard was issued in January 2016 and the changes will be effective from January 1, 2019. This standard raises fundamental changes to the accounting treatment of leases for tenants. IFRS 16 eliminates the current dual accounting model to establish a new accounting model which until then leases that were recognized in the financial statements and operating leases were outside the financial statement. For landlords no modifications.

The Company, along with the specialists, began evaluating during 2016 the impacts of IFRS 16 and to analyze the main operating and financial leases in force in order to inventory the main characteristics thereof (types of assets, payments engaged, due dates, renewal clauses, etc.). During 2017, the Company will revalue its policy under IFRS 16, in order to establish the bases and be able to quantify the necessary adjustments for the appropriate recognition of the "right-of-use" assets and the corresponding financial liabilities, with the plan to adopt IFRS 16 on January 1, 2019 in full retrospective form. On a preliminary basis, based on the analysis at the reporting date, the Company believes that with the adoption of IFRS 16, most operating leases will be recognized

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in the statement of financial position by increasing assets and liabilities, without a significant initial effect in net assets. The Company does not consider an early application of IFRS 16.

*Annual improvement cycle 2014-2016*

This improvement cycle is effective for annual periods that start on January 1, 2018 and amends the following standards: IAS 28, Investments in associates and joint ventures, which explain that the choice to measure an investment in an associate or a joint venture, which is in the hands of an entity that is a venture capital organization or other qualified entity, at fair value through results, is available for each investment in an associated company or a joint venture on an investment-by-investment basis at the time of initial recognition.

IFRIC 22, *Interpretation on Foreign Currency Transactions and Advance Considerations*

This interpretation is effective for annual reporting periods beginning after January 1, 2018, although early adoption is allowed and seeks to clarify accounting for transactions involving receiving or paying an anticipated consideration in foreign currency. Interpretation is being issued to reduce differences in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances where the consideration is received or paid before the asset, expense or income is recognized.

The Company is in the process of determining the potential impacts that will affect the consolidated financial statements from the adoption of said standards.

### 4 Reclassifications

a) In order to better present the balances with related parties and the enforceability of other long-term liabilities, the Company made certain reclassifications to the statement of financial position for the year ended December 31, 2015.

| | Previously reported | Reclassifications | Reported December 31, 2015 |
|---|---|---|---|
| **Statement of financial position** | | | |
| Related parties | $ - | 12,686 | 12,686 |
| Total current assets | 6,869,814 | 12,686 | 6,882,500 |
| Current installment of long-term loans | 197,488 | (8,468) | 189,020 |
| Current installment of other long-term liabilities | 8,468 | 8,468 | 16,936 |
| Trades and other accounts payable | 2,832,003 | 12,659 | 2,844,662 |
| Related parties | - | 27 | 27 |
| Total current liabilities | 3,356,403 | 12,686 | 3,369,089 |
| Loans | 1,920,130 | (35,403) | 1,884,727 |
| Other long-term liabilities | 52,598 | 35,403 | 88,001 |
| Total liabilities | 6,402,439 | 12,686 | 6,415,125 |

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The Company did not find it necessary to present these reclassifications as of January 1, 2015, as they did not substantially modify the financial information at that date.

b) In order to contribute to a better presentation of the Company's consolidated income statements and make it equivalent to the practice of the industry, the financial income and costs related to the monetary items of working capital (Operating CFR), are no longer part of operating income and have been reclassified to net financial cost (income). This reclassification does not modify equity or net income generated.

| | | Previously reported | Reclassifications | Reported December 31, 2015 |
|---|---|---|---|---|
| **Statement of income** | | | | |
| Operating financial costs (income) | $ | 40,992 | (40,992) | - |
| Operating activities | | 929,265 | (40,992) | 888,273 |
| Financial costs | | 56,451 | 40,992 | 97,443 |
| Net financial cost (income) | | (112,634) | 40,992 | (71,642) |

### 5 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (a) Property, machinery and equipment

The fair value land and buildings recognized as a result of a business acquisition is based on market values in the normal course of business and according to the accounting policies of the Company. The market value of land and buildings is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

#### (b) Intangible assets

The fair value of patents and trademarks acquired in a business acquisition is based on the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets such as software is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

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### (c) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### (d) Non-derivative financial liabilities

The fair value determined for disclosure purposes is based on the present value of future principal and interest cash flows, discounted at the market interest rate on the measurement rate. Regarding the liability component of the convertible instruments, the market interest rate is determined with reference to similar liabilities with no conversion option. The market interest rate of financial leases is determined based on reference to similar leases.

## 6 Operating segments

The Company has three operating reportable segments, which are the Company's business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's CEO (the chief operating decision maker) reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Company's reportable segments:

- Auto parts, manufactures, machines and sells gray and ductile iron castings, as well as aluminum castings for the auto industry;

- Construction, manufactures and markets ceramic tiles and water heaters; and markets of lines of malleable iron and steel nipples.

- Housewares, manufactures and sells kitchen and table enamel steel items and ceramic dinnerware for domestic and institutional use.

Information related to the profit or loss of each one of the operating segments is listed below. Performance is measured based on the income of each segment before income tax, and included in the management reports reviewed by the Company's Chief Executive Officer. Each segment's income is used to measure performance since management considers this information is the most appropriate to evaluate the results of certain segments as compared to other entities operating in the same line of business as the Company.

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## (a) Operating segment information

| Cumulative as of Dec-16 | | Auto parts | Building products[2] | Home products | Other subsidiaries and eliminations[3] | Consolidated |
|---|---|---|---|---|---|---|
| Export sales | $ | 6,629,266 | 1,367,011 | 148,263 | | 8,144,540 |
| Domestic sales | | - | 5,033,179 | 1,251,186 | 123,427 | 6,407,792 |
| Net sales | $ | 6,629,266 | 6,400,190 | 1,399,449 | 123,427 | 14,552,332 |
| Operating income | $ | 953,973 | 354,095 | 79,172 | 22,944 | 1,410,184 |
| Net income | $ | 558,445 | 15,098 | 9,443 | 594,409 | 1,177,395 |
| Total assets | $ | 8,784,129 | 6,119,311 | 992,909 | 10,629,616 | 26,525,965 |
| Total liabilities | $ | 3,678,547 | 2,351,569 | 301,303 | 8,725,416 | 15,056,835 |
| Depreciation and amortization | $ | 457,694 | 174,147 | 42,773 | 24,319 | 698,933 |
| EBITDA (1) | $ | 1,411,667 | 528,242 | 121,945 | 47,263 | 2,109,117 |

| Acumulado a Dic.-15 | | Auto parts | Building products[2] | Home products | Other subsidiaries and eliminations[3] | Consolidated |
|---|---|---|---|---|---|---|
| Export sales | $ | 3,962,812 | 1,310,277 | 126,329 | - | 5,399,418 |
| Domestic sales | | - | 4,607,367 | 1,207,491 | 60,760 | 5,875,618 |
| Net sales | $ | 3,962,812 | 5,917,644 | 1,333,820 | 60,760 | 11,275,036 |
| Operating income | $ | 657,071 | 366,751 | 72,280 | (125,845) | 970,257 |
| Net income | $ | 285,010 | 45,636 | 1,200 | 312,767 | 644,613 |
| Total assets | $ | 6,712,672 | 5,226,596 | 915,753 | 3,497,038 | 16,352,059 |
| Total liabilities | $ | 1,970,503 | 1,751,596 | 228,852 | 2,451,488 | 6,402,439 |
| Depreciation and amortization | $ | 250,249 | 155,132 | 38,093 | 20,004 | 463,478 |
| EBITDA (1) | $ | 907,320 | 521,883 | 110,373 | (105,841) | 1,433,735 |

(1) Earnings before interest, taxes, depreciation and amortization.

(2) The building-products segment includes a sub-segment engaged in manufacturing and marketing water heaters which represents 17.5 % and 17.1% of net consolidated sales, 1.3% and 12.3% of net consolidated income and 4.9% and 8.3% of total consolidated assets as of December 31, 2016 and 2015, respectively.

(3) The other subsidiaries and eliminations mainly include assets and liabilities related to goodwill, bank loans and other long-term liabilities, among others.

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| Cumulative as of Dec-16 | | Heaters | % per/Construction | % per/consolidated |
|---|---|---|---|---|
| Net sales | $ | 2,541,192 | 39.7% | 17.5% |
| Net income | | 15,559 | 103.1% | 1.3% |
| Total assets | $ | 1,308,421 | 21.4% | 4.9% |
| **Cumulative as of Dec-15** | | | | |
| Net sales | $ | 1,931,109 | 32.6% | 17.1% |
| Net income | $ | 78,973 | 173.0% | 12.3% |
| Total assets | $ | 1,350,311 | 25.8% | 8.3% |

### (b) Main clients

In 2016 and 2015, revenue from a customer of the auto parts segment represented approximately 8% and 11% of the total revenues of the Company, respectively.

### 7 Cash and cash equivalents

Cash and cash equivalents include the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Bank balances) | $ | 1,728,841 | 701,414 |
| Investments at immediate realization value | | 1,525,696 | 1,668,763 |
| Cash and cash equivalents in consolidated statements of financial position and consolidated statements of cash flows | $ | 3,254,537 | 2,370,177 |

Note 18 disclose the Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities.

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## 8 Trades and other accounts receivable

Trades and other accounts receivable include the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Trades receivable | $ | 3,973,054 | 2,790,476 |
| Other non-commercial accounts receivable | | 163,370 | 62,577 |
| Refundable value added tax | | 95,216 | 52,436 |
| Refundable income tax | | 9,616 | 27,456 |
| | | 4,241,256 | 2,932,945 |
| Less: | | | |
| Allowance for doubtful accounts | | (87,463) | (86,508) |
| Allowance for discounts and rebates | | (103,300) | (70,895) |
| | | (190,763) | (157,403) |
| Total trades and other accounts receivable | $ | 4,050,493 | 2,775,542 |

In the normal course of business, the Company provides discounts and rebates by volume to their customers, which are provided as a result of the accomplishment of certain sales levels. The estimated discounts are based on periods and agreements previously established with their customers through contractual arrangements.

Note 18 disclose the Company's exposure to credit and exchange risks and impairment losses related to trades and other accounts receivable.

## 9 Inventories

Inventories include the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Finished goods | $ | 1,232,436 | 1,060,804 |
| Raw material | | 644,683 | 524,000 |
| Work in process | | 139,732 | 107,149 |
| Merchandise in transit | | 127,864 | 88,261 |
| | | 2,144,715 | 1,780,214 |
| Less: allowance for obsolete and slow-moving inventory | | (144,721) | (108,192) |
| Total | $ | 1,999,994 | 1,672,022 |

As of December 31, 2016 and 2015, the raw material, supplies and changes in finished goods and work in process recognized as part of cost of sales amounted to $8,800,991 and $7,309,933, respectively.

Estimates for obsolescence and slow inventory movements for the years ended December 31, 2016 and 2015 were $36,529 and $20,568, respectively.

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## 10 Property, machinery and equipment

The reconciliation of the beginning and ending balances of property, machinery and equipment are presented below:

| | | Land and buildings | Machinery and equipment | Furniture and equipment | Transportation equipment | Computer equipment | Investments in process | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as of January 1, 2015 | $ | 3,613,676 | 6,637,720 | 62,268 | 46,003 | 42,368 | 86,480 | 10,488,515 |
| Additions | | - | - | - | - | - | 688,139 | 688,139 |
| Business acquisition | | 314,508 | 575,133 | 4,306 | 3,680 | 4,792 | 84,547 | 986,966 |
| Transfer | | 17,225 | 274,460 | 1,901 | 5,353 | 6,705 | (305,644) | - |
| Disposal | | (2,808) | (58,654) | (753) | (683) | (204) | - | (63,102) |
| Write off of fixed assets not used | | - | (28,264) | | (1,267) | - | - | (29,531) |
| Revaluation | | 310,974 | - | - | - | - | - | 310,974 |
| Reclassification of assets held for sale | | (5,137) | - | - | - | - | - | (5,137) |
| Effect of changes in exchange rates | | (9,449) | 446,244 | 3,317 | 2,071 | 4,906 | 29,163 | 476,252 |
| Balance as of December 31, 2015 | $ | 4,238,989 | 7,846,639 | 71,039 | 55,157 | 58,567 | 582,685 | 12,853,076 |

| | | Land and buildings | Machinery and equipment | Furniture and equipment | Transportation equipment | Computer equipment | Investments in process | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as of January 1, 2016 | $ | 4,238,989 | 7,846,639 | 71,039 | 55,157 | 58,567 | 582,685 | 12,853,076 |
| Additions | | - | - | - | - | - | 872,768 | 872,768 |
| Business acquisition | | 580,530 | 692,735 | 3,626 | 8,410 | 5,621 | - | 1,290,922 |
| Transfer | | 100,256 | 454,699 | 3,200 | 489 | 3,340 | (561,984) | - |
| Disposal | | (25,269) | (81,101) | (2,065) | (7,610) | (99) | (225) | (116,369) |
| Write off of fixed assets not used | | (377) | (6,399) | (489) | (2,723) | (755) | - | (10,743) |
| Revaluation | | (88) | - | (139) | - | (35) | - | (262) |
| Reclassification of assets held for sale | | (32,885) | - | - | - | - | - | (32,885) |
| Effect of changes in exchange rates | | 197,870 | 767,267 | 3,306 | 1,189 | 5,350 | 3,489 | 978,471 |
| Balance as of December 31, 2016 | $ | 5,059,026 | 9,673,840 | 78,478 | 54,912 | 71,989 | 896,733 | 15,834,978 |

| | | Land and buildings | Machinery and equipment | Furniture and equipment | Transportation equipment | Computer equipment | Investments in process | Total |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment** | | | | | | | | |
| Balance as of January 1, 2015 | $ | 1,344,580 | 4,198,902 | 53,671 | 22,653 | 13,187 | - | 5,632,993 |
| Depreciation of the period | | 76,944 | 345,391 | 2,476 | 7,410 | 2,813 | | 435,034 |
| Disposals | | (2,179) | (58,413) | (712) | (28) | (184) | - | (61,516) |
| Revaluation | | 110,830 | - | - | - | - | | 110,830 |
| Write off of fixed assets not used | | - | (27,898) | - | (1,164) | - | - | (29,062) |
| Reclassification of assets held for sale | | (1,979) | - | - | - | - | - | (1,979) |
| Effect of changes in exchange rates | | (8,934) | 222,054 | 923 | 1,144 | 4,480 | - | 219,667 |
| Balance as of December 31, 2015 | $ | 1,519,262 | 4,680,036 | 56,358 | 30,015 | 20,296 | - | 6,305,967 |
| | | | | | | | | |
| Balance as of January 1, 2016 | $ | 1,519,262 | 4,680,036 | 56,358 | 30,015 | 20,296 | - | 6,305,967 |
| Depreciation of the period | | 101,527 | 502,579 | 3,946 | 7,220 | 6,033 | - | 621,305 |
| Disposals | | (217) | (68,851) | (395) | (6,207) | (56) | | (75,726) |
| Revaluation | | 2,800 | 3 | - | - | - | - | 2,803 |
| Write off of fixed assets not used | | (338) | (7,802) | (515) | (2,202) | (325) | - | (11,182) |
| Reclassification of assets held for sale | | (26,682) | - | - | - | - | - | (26,682) |
| Effect of changes in exchange rates | | 36,828 | 348,343 | 1,141 | 681 | 3,441 | - | 390,434 |
| Balance as of December 31, 2016 | $ | 1,633,180 | 5,454,308 | 60,535 | 29,507 | 29,389 | - | 7,206,919 |
| | | | | | | | | |
| **Book values** | | | | | | | | |
| As December 31, 2016 | $ | 3,425,846 | 4,219,532 | 17,943 | 25,405 | 42,600 | 896,733 | 8,628,059 |
| As December 31, 2015 | $ | 2,719,727 | 3,166,603 | 14,681 | 25,142 | 38,271 | 582,685 | 6,547,109 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

As of December 31, 2016 and 2015, the depreciation in profit or loss represented $621,305 and $435,034 respectively and was included on the cost of sales.

As of December 31, 2016 and 2015, there are no liens on the fixed assets.

### (a) Revaluation of land and buildings

As described in note 3, the Company with the support of an independent third party specialist, carried out appraisals of land and building, which in accordance with the accounting policy describe in note 3. At December 31, 2015 it was determined that the fair value was $2,753,193 with an impact on the surplus in stockholders' equity of $200,144. During 2016 there were no significant changes in the fair value of land and buildings.

### (b) Investments in process

Investments in process include basically investments in different machinery focused on new production projects. As of December 31, 2016 and 2015, investments in process represented $896,733 and $582,685, respectively, and are related basically to investments made in the auto part segment.

### (c) Long-term spare parts

As of December 31, 2016 and 2015, long-term spare parts are the following:

| | | | |
|---|---|---|---|
| Long-term spare parts [1] | $ | 413,628 | 220,116 |

[1] It is mainly composed of spare parts and safety parts of the machinery and equipment of some subsidiary companies, mainly in the auto parts segment.

## 11 Intangible assets

Intangible assets are mentioned below:

| | | Goodwill | Patents and trademarks | Development costs | Costumer relationship | Security deposits and other | Total |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| Balance as January 1, 2015 | $ | 571,439 | 121,294 | 188,622 | - | 90,138 | 971,493 |
| Acquisitions | | - | 1,915 | 36,652 | - | - | 38,567 |
| Business acquisition | | 313,014 | - | - | 355,862 | 8,784 | 677,660 |
| Refunds | | - | - | - | - | (843) | (843) |
| Effect of changes in exchange rates | | 44,587 | - | 4,122 | - | (3,900) | 44,809 |
| Balance as December 31, 2015 | $ | 929,040 | 123,209 | 229,396 | 355,862 | 94,179 | 1,731,686 |
| | | | | | | | |
| Balance as January 1, 2016 | $ | 929,040 | 123,209 | 229,396 | 355,862 | 94,179 | 1,731,686 |
| Acquisitions | | - | - | 19,679 | - | 8,252 | 27,931 |
| Business acquisition | | 4,948,634 | - | - | - | 18,278 | 4,966,912 |
| Effect of changes in exchange rates | | 48,428 | - | - | 55,059 | 5,101 | 108,588 |
| Balance as December 31, 2016 | $ | 5,926,102 | 123,209 | 249,075 | 410,921 | 125,810 | 6,835,117 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | Goodwill | Patents and trademarks | Development costs | Costumer relationship | Security deposits and other | Total |
|---|---|---|---|---|---|---|---|
| ***Amortization and impairment losses*** | | | | | | | |
| Balance as January 1, 2015 | $ | - | - | (77,429) | - | (42,660) | (120,089) |
| Amortization of the period | | - | - | (16,041) | - | (12,403) | (28,444) |
| Effect of changes in exchange rates | | - | - | (2,275) | - | - | (2,275) |
| Balance as December 31, 2015 | $ | - | - | (95,745) | - | (55,063) | (150,808) |
| Balance as January 1, 2016 | $ | - | - | (95,745) | - | (55,063) | (150,808) |
| Amortization of the period | | (3,207) | - | (26,084) | (41,092) | (9,245) | (79,628) |
| Balance as December 31, 2016 | $ | (3,207) | - | (121,829) | (41,092) | (64,308) | (230,436) |
| ***Book values, net*** | | | | | | | |
| Balance as December 31, 2016 | $ | 5,922,895 | 123,209 | 127,246 | 369,829 | 61,502 | 6,604,681 |
| Balance as December 31, 2015 | $ | 929,040 | 123,209 | 133,651 | 355,862 | 39,116 | 1,580,879 |

### (a) Relationship with customers

ACE Group has recognized an intangible in books for the customer relationship that amounts to $410,921, payable in 10 years, in accordance with the Purchase Price Allocation ("PPA"). As of December 31, 2016 there is an amortization of $41,092.

### (b) Impairment of development costs

The carrying value of development costs at December 31, 2016 includes $163,006 related to the project accounting software update for the Company. These costs include both the value of licenses for $34,931 and the costs of implementing this software for $128,075. The implementation was carried out in various stages during the years 2014, 2015 and 2016 and still awaiting completion of the last stage for the financial year 2017. The estimated life of these costs is 7 years. Amortization for the years 2016 and 2015 are related to the licenses already in use.

### (c) Impairment tests for cash-generating units that include goodwill, other intangibles assets, brands and patents.

For impairment test purposes, goodwill, other intangibles assets, brands and patents are assigned to the cash-generating units (CGU) of the Company that represent the lowest level therein at which are monitored for internal purposes of management, which are not greater than the operating segments of the Company reported in note 6. Heaters CGU is part of the construction segment and Tisamatic, ACE and INFUN CGU'S are part of the auto parts sector.

The total carrying amounts were assigned to each cash-generating unit as well as the related impairment losses that were recognized as shown below:

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| December 31, 2016 | | Goodwill | Patents and trademarks | Costumer relationship | Others intangibles |
|---|---|---|---|---|---|
| INFUN unit [1] | $ | 4,948,634 | - | - | - |
| ACE unit[2] | | 361,442 | - | 369,829 | 17,579 |
| Heaters unit | | 337,304 | 123,209 | - | - |
| Tisamatic unit | | 275,515 | - | - | 16,461 |
| | $ | 5,922,895 | 123,209 | 369,829 | 34,040 |

| December 31, 2015 | | Goodwill | Patents and trademarks | Costumer relationship | Others intangibles |
|---|---|---|---|---|---|
| ACE unit[1] | $ | 313,014 | - | 355,862 | - |
| Heaters unit | | 337,304 | 123,209 | - | - |
| Tisamatic unit [2] | | 275,515 | - | - | 24,911 |
| Home unit | | 3,207 | - | - | - |
| | $ | 929,040 | 123,209 | 355,862 | 24,911 |

(1) This preliminary goodwill was generated in December 2016, therefore, it has not been distributed to any CGU and will be adjusted according to the final effects of the PPA, see note 20a.

(2) This goodwill was generated in December 2015.

The impairment test of the cash-generating Heaters unit, cash-generating Tisamatic and cash generating ACE, were based on the methodology of use value of assets, discounting the future expected cash flows from continued use of the assets using the following key assumptions:

- The cash flows were projected based on past experiences, actual operating results and the five-year business plan for Heaters and seven-year for Tisamatic and ACE, respectively.

- The investments in machinery and equipment are considered only to keep the current manufacturing capacities which cover the amounts the volumes forecast in the projections of 5 and 7 years, respectively.

- With regard to the Heaters cash-generating unit and, considering the current economic conditions, the sales prices increase by 3% and in production by 4% until the year 2020, then in that year the production capacity is maintained and variations in the sale price are not expected. Moreover, an average 16% increase in production capacity is expected up to 2018 for Tisamatic's cash-generating unit, considering current economic conditions. Subsequently, production is expected to be maximized and maintained and sales prices are not expected to increase. Only a monthly surcharge for the movement in the cost of purchasing the metal load will apply. An average increase of 6% in revenues is considered for ACE up to 2013. Subsequently, the production is maintained and no variations in the sales price are expected.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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- The cost of domestic intermediate goods purchased in pesos is estimated to increase according to domestic inflation. The cost of imported intermediate goods will be similar but according to the inflation of the U.S.A..Other costs are estimated to increase in proportion to inflation of the country.

- Efficiencies of production costs are provided for.

- A discount rate of Heaters, Tisamatic and ACE of 13.48%, 9.77%, and 11.90%, respectively, was applied to determine the recoverable amount of tangible and intangible assets with indefinite life. The discount rate was calculated based on the weighted average cost of capital, which was based on a) a possible debt leveraging range of 33% at a market interest rate of 4.55% for heaters and 2.93% for auto parts b) capital of 67.0% with a market cost of 17.88% for heaters and of 18.95% for auto parts per cash-generating unit.

- Cash flows were projected for heaters of 9 years more (2021 to 2030) and 9 years more for the Auto Parts businesses (2023 to 2032) assuming the same operating flow as the previous year since the assets have the capacity to generate future profits for over 5 and 7 years respectively.

- A terminal value is obtained in 2023 and 2030, respectively, considering the operating flow of that year and the abovementioned discount rate.

The values assigned to the key assumptions represent the management evaluation of future tendencies in the business and are based on both external and internal sources.

If the discount rate used increases a percentage point (13.48 + 1, 9.77 + 1 y 11.90 + 1, according to the CGU), the value obtained as flow is sufficient to cover even the assets analyzed.

### 12 Joint Venture

Evercast, S.A. de C.V., (Evercast) is a Company of ductile iron foundry to make parts of brake systems. The ownership of GIS through its subsidiary Industria Automotriz Cifunsa, S.A. de C.V. (IACSA) in Evercast is 70% and the remaining 30% belongs to Kelsey Hayes Company, a subsidiary of TRW Automotive Holdings Corp. which is client of auto parts segment of the Company.

Gisederlan, S.A. de C.V. (Gisederlan) is a new company machining iron components in the auto parts sector. The shareholding of Automotive Cifunsa, S. A. de C. V. in the new company will be 50% and the remaining 50% is held by Ederlan Subsidiaries, S. L. U.

As mentioned in note 2a, dated December 28, 2016, the Company purchased shares in different entities. As part of this same purchase, the Company acquired 50% of the shares of Ineder Projects, S.L.

Both Evercast and Gisederlan and Ineder has been structured through a separate vehicle, consequently has been classified as a joint venture, that will be accounted as an investment using the equity method. The prior mentioned based on the documentation established in the Shareholders' Agreement, in which were designated the relevant activities and were agreed the decision process for extraordinary issues that affects the performance of companies.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

The following is a condensed information of the entities, which was prepared in accordance with IFRS:

| | | Evercast | | Gisederlan | | Ineder |
|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 | 2016 |
| Revenues | $ | 817,398 | 142,187 | 1,917 | - | - |
| Profit (loss) from continuing operations | | 149,337 | (86,002) | (21,367) | (2,679) | - |
| Net financial income | | 59,720 | 17,435 | 8,968 | 984 | - |
| Profit (loss), net | | 72,606 | (72,703) | (19,546) | (2,386) | - |
| Current assets | | 635,370 | 525,838 | 208,333 | 87,215 | 2,504 |
| Noncurrent assets | | 1,690,513 | 1,375,957 | 303,959 | 55,584 | 186,728 |
| Total assets | | 2,325,883 | 1,901,795 | 512,292 | 142,799 | 189,232 |
| Current liabilities | | 200,539 | 161,408 | 56,395 | 6,983 | 2,439 |
| Noncurrent liabilities | | 856,608 | 707,599 | 245,321 | - | 217,229 |
| Total liabilities | $ | 1,057,147 | 869,007 | 301,716 | 6,983 | 219,668 |
| Total stockholders' equity | $ | 1,268,736 | 1,032,788 | 210,576 | 135,816 | (30,436) |

At December 31, 2016 and 2015 the investment in shares valued with the equity method is as following:

| | % | | Investment 2016 | Investment 2015 |
|---|---|---|---|---|
| Evercast, S.A. de C.V. | 70 | $ | 888,115 | 722,952 |
| Gisederlan, S.A. de C.V. | 50 | | 105,288 | 67,908 |
| Ineder Projects, S.L. | 50 | | - | - |
| Total | | $ | 993,403 | 790,860 |

| | % | | Participación en resultados 2016 | Participación en resultados 2015 |
|---|---|---|---|---|
| Evercast, S.A. de C.V. | 70 | $ | 50,824 | (50,892) |
| Gisederlan, S.A. de C.V. | 50 | | (9,773) | (1,193) |
| Ineder Projects, S.L. | 50 | | - | - |
| Total | | $ | 41,051 | (52,085) |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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During year 2016, capital contributions were made to Gisederlan for $36,336 and during year 2015, capital contributions were made to associated Evercast and Gisederlan for $158,374 and $65,842, respectively. The aforementioned contributions were made proportionally by investors so that no dilution for either party. The translation results recorded in 2016 and 2015 amounted to $126,293 and $82,456, respectively.

### 13 Trades and other accounts payable

Trades and other accounts and short-term accumulated expenses payable include:

| | | 2016 | 2015 |
|---|---|---|---|
| Trades payable | $ | 2,918,190 | 1,742,796 |
| Provision [4] | | 481,717 | 356,610 |
| Nacional Financiera, SNC [1] | | 325,439 | 253,546 |
| Sundry creditors [2] | | 280,515 | 234,421 |
| Advances from customers | | 77,895 | 55,327 |
| Other accounts payable [3] | | 221,862 | 201,962 |
| | $ | 4,305,618 | 2,844,662 |

#### *(1) Nacional Financiera, SNC*

A line of credit was approved on September 27, 2016. This credit line was established to finance the Company's suppliers through electronic discounts and under the scheme of supply chains for an amount of $600 million of pesos. At December 31, 2016 and 2015, an amount of $325 and $254 million of pesos respectively, had been disposed, payables at 90 days, respectively.

#### *(2) Sundry creditors*

Company provides various payment obligations related to investments in fixed assets.

#### *(3) Other accounts payable*

This concept includes, but is not limited to; Withholdings to third parties from Value Added Taxes and Income Taxes, balances pending payment to the Mexican Social Security Institute, INFONAVIT, FONACOT and others. Additional a German Court Judgment to Infun, S.A. As debtor and in favor of the Kreditanstalt für Wiederaufbau (Institute of Credit for Reconstruction), for an amount of $ 22,803

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### *(4) Accruals*

The movement of provisions at December 31, 2016 and 2015 was as following:

| | | Wages and other payments to personnel | Warranties | Contingencies provision | Others | Total |
|---|---|---|---|---|---|---|
| Balance as January 1, 2015 | $ | 170,223 | 9,642 | 54,496 | 68,163 | 302,524 |
| Provision created during the year | | 439,750 | 98,880 | - | 511,995 | 1,050,625 |
| Provision used during the year | | (409,329) | (99,889) | (241) | (487,270) | (996,729) |
| Annual effect of present value | | - | - | - | 190 | 190 |
| Balance as December 31, 2015 | $ | 200,644 | 8,633 | 54,255 | 93,078 | 356,610 |
| Balance as January 1, 2016 | $ | 200,644 | 8,633 | 54,255 | 93,078 | 356,610 |
| Provision created during the year | | 1,336,583 | 19,582 | 12,405 | 927,449 | 2,296,019 |
| Provision used during the year | | (1,307,176) | (20,927) | (1,219) | (841,766) | (2,171,088) |
| Annual effect of present value | | - | - | - | 176 | 176 |
| Balance as December 31, 2016 | $ | 230,051 | 7,288 | 65,441 | 178,937 | 481,717 |

### *(a) Wages and other payments to personnel*

The balance of this provision is related to personnel services. This provision includes mainly accruable vacations, savings funds, productivity bonus, year-end bonus, among others.

### *(b) Warranties*

The balance of this provision is related to the Construction segment. This provision is the best estimate related to possible malfunctions and claims in certain components of the products produced by the segment over a 5 years base, which is the average of the warranties granted for each product sold.

### *(c) Contingencies provision*

As of December 31, 2016 and 2015, there is a provision of $65,441 and $54,255, respectively, which is generated by the contractual obligations assumed by the sale of a subsidiary Company during the year 2012.

### *(d) Others*

As of December 31, 2016 and 2015, there is a provision of $178,937 and $93,078, respectively that includes mainly replacement of tools, energy, as well as for various professions related services and obligations of strategic investment projects of the Company.

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Note 18 disclose the Company's exposure to exchange and liquidity risk related to trades and other accounts payable and a sensitivity analysis for financial assets and liabilities.

### 14 Loans

As of December 31, 2016 and 2015 bank loans include the following:

| | 2016 | 2015 |
|---|---|---|
| Amended Agreement to the long-term credit agreement of Grupo Industrial Saltillo, S.A.B. de C.V. as borrower with HSBC Bank USA (Admin and Collateral Agent), HSBC Securities USA, The Bank of Nova Scotia and Banco Santander México as Joint Lead Arrangers and Bookrunners as Financial Creditors for up to US$ 276.5 million plus US$50 million in a revolving line of credit (Amended and Restated Credit Agreement), payable in 5 years starting 2016 through 2021 with a year grace period in the payment of capital. Interest is amortized quarterly in March, June, September and December of each year. The rate is variable based on LIBOR plus a surcharge that goes from 2.25% to 4.50% based on the leverage ratio. This contract is guaranteed by Calentadores de América, S.A. de C.V., Cinsa, S.A. de C.V., Cifunsa del Bajío, S.A. de C.V., Manufacturas Vitromex, S.A. de C.V., Fluida, S.A. de C.V., Tisamatic, S de R.L. de C.V. as Joint Obligors. | $ 5,568,944 | - |
| Long-term credit opening agreement of Grupo Industrial Saltillo, S.A.B. de C.V. as borrower with Banco Santander (Mexico) S.A. Multiple Banking Institution Santander Financial Group as Agent Bank, and Banco Nacional de Comercio Exterior, S.N.C., BBVA Bancomer, S.A., Comerica Bank, HSBC Mexico, Scotiabank Inverlat, S.A. and Banco Santander México, S.A. as Financial Creditors, for up to US $ 76.5 million. On December 23, 2016, the Company entered into an agreement modifying this loan agreement, amending the general terms and conditions and the amount of the loan. This loan was prepaid December 27, 2016 through the agreement described in the previous paragraph. | - | 1,304,767 |
| Long-term credit opening agreement of Tisamatic, S. de R.L. de C.V. as borrower with Banco Santander (México) S.A. Multiple Banking Institution Santander México Financial Group and Banco Nacional de Comercio Exterior, S.N.C. as bank creditors for up to US$ 30 million and with an outstanding balance as of December 31, 2015 of US$ 20 million. This credit was prepaid on December 27, 2016 for an outstanding balance of $ 15 million dollars. | - | 342,360 |
| Financings of Fuchosa, S.L.U. as borrower with the Center for Industrial Technology Development, Public Business Entity, for the development of different technology research and development projects, for up to a joint amount of 2 million euros whose balance as of December 31, 2016 is $ 427 thousand Euros at preferential interest rates with different payments of capital that go from 2 to 11 years. | 9,297 | 4,612 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | 2016 | 2015 |
|---|---|---|---|
| Long-term credit opening agreement of Fuchosa, S.L.U. as borrower with Caixa Bank, S.A. as bank creditor for up to EUR$ 2 million. Installments are quarterly, with a fixed annual rate of 1.25%, for a term of 5 years. | $ | 43,534 | 37,701 |
| Long-term credit opening agreement of Fuchosa, S.L.U. as borrower with Bankinter, S.A. as bank creditor for up to EUR$ 2 million and with an outstanding balance as of December 31, 2016 for $ 1.4 million euros. Installments are quarterly, with a fixed annual rate of 1.30%, for a term of 4 years. | | 30,183 | 35,401 |
| Long-term credit opening agreement of Feramo Metallum, International s.r.o. as borrower with Banco Bilbao Vizcaya Argentaria, S.A. as bank creditor for up to EUR$ 3 million, with a fixed annual rate of 1.50%, for a term of 5 years. This credit has the joint guarantee of ACE Boroa, S.L.U. and Fuchosa, S.L.U. | | 65,302 | 56,552 |
| Overdraft credit line of Feramo Metallum, International s.r.o as borrower with Banco Popular Español, S.A. as bank creditor for up to EUR$ 2 million, which as of December 31, 2016 has not been used, with a fixed annual rate of 3.25%. This credit has the joint guarantee of ACE Boroa, S.L.U. | | - | 5,278 |
| Revolving line of credit of European Brakes and Chasis Components SP. Z O.O. as borrower with Banco Zachodni WBK, S.A. as bank creditor for up to EUR$ 1.5 million and with an outstanding balance as of December 31, 2016 for $ 1 million Euros, with a variable rate of EURIBOR 1M + 1.6%. With due date in 2017.. | | 21,680 | 28,276 |
| Long-term credit opening agreement of ACE Boroa, S.L. as borrower with CaixaBank, S.A., Banco Santander, S.A., as financing entities and Bookrunners Banco Popular Español, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., as financing entities CaixaBank, S.A. / Banco Santander, S.A., as agent and CaixaBank, S.A., as guarantee agent, for up to 15 million euros and with an outstanding balance of 10 million euros. It has a variable rate of Euribor 6M plus a margin of 2.25%. This credit has the joint guarantee of Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O., Feramo Metallum, International s.r.o., Automotive Components Europe S.A. and ACE 4, A.I.E. | | 211,870 | 232,409 |

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | 2016 | 2015 |
|---|---|---|---|
| Long-term overdraft line of ACE Boroa, S.L. as borrower with CaixaBank, S.A., Banco Santander, S.A., as financing entities and Bookrunners, Banco Popular Español, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., as financing entities CaixaBank, S.A. / Banco Santander, S.A., as agent and CaixaBank, S.A., as guarantee agent, for up to 5 million euros and whose balance as of December 31, 2016 has not been used. It has a variable rate of Euribor 6M plus a margin of 2.25%. This credit has the joint guarantee of Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O., Feramo Metallum, International s.r.o., Automotive Components Europe S.A. and ACE 4, A.I.E. | $ | - | 26,391 |
| Financing of Infun, S.A. as borrower with the Center for Industrial Technology Development, Public Business Entity, for the development of different technology research and development projects, for up to an amount of $ 334 thousand Euros and with an outstanding balance as of December 31, 2016 of $ 209 thousand Euros at a preferential rate, for a term of 11 years. | | 4,540 | - |
| Long-term bank loan agreement of Altec Engineering, S.L. as borrower with Ibercaja Banco, S.A. as bank creditor for up to EUR$ 500 thousand and with an outstanding balance as of December 31, 2016 of $ 459 thousand Euros. Installments are monthly, with a rate of Euribor 12M + 1.60%, for a term of 5 years. | | 10,008 | - |
| Long-term bank loan agreement Infun For, S.P.A. as borrower with Banco Santander, S.A. as bank creditor for up to EUR$ 5 million. Installments are quarterly, with a fixed annual rate of 1.55%, for a term of 7 years. | | 108,836 | - |
| Long-term bank loan agreement of Infun For, S.P.A. as borrower with Banca Monte dei Paschi di Siena, S.p.A. as bank creditor for up to EUR$ 1 million and with an outstanding balance as of December 31, 2016 of $ 681 thousand Euros. Installments are monthly, with a rate of Euribor 6M + 2.75%, for a term of 5 years. | | 14,839 | - |
| Long-term bank loan agreement of Infun For, S.P.A. as borrower with Banco Popolare, S.C. as bank creditor for up to EUR$ 500 mil. Installments are semiannual, with a rate of Euribor 3M + 1.65%, for a term of 1 year. | | 10,884 | - |
| Long-term bank loan agreementInfun For, S.P.A. as borrower with Bankinter, S.A. as bank creditor for up to EUR$ 3 million and with an outstanding balance as of December 31, 2016 of $ 2.6 million euros. Installments are quarterly, with a fixed annual rate of 1.85%, for a term of 4 years. | | 57,400 | - |
| Long-term bank loan agreement of Infun For, S.P.A. as borrower with Cassa di Risparmio di Ferrara, S.p.A. as bank creditor for up to EUR$ 500 thousand and with an outstanding balance as of December 31, 2016 of $ 380 thousand Euros. Installments are monthly, with a rate of Euribor 6M + 2.20%, for a term of 5 years. | | 8,274 | - |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | 2016 | 2015 |
|---|---|---|---|
| Long-term bank loan agreement of Infun For, S.P.A. as borrower with Deutsche Bank, A.G. as bank creditor for up to EUR$ 1 million and with an outstanding balance as of December 31, 2016 of $ 871 thousand Euros. Installments are monthly, with a rate of Euribor 12M + 1.55%, for a term of 5 years. | $ | 18,961 | - |
| Long-term bank loan agreement of Infun For, S.P.A. as borrower with Ibercaja Banco, S.A. as bank creditor for up to EUR$ 2 million. Installments are monthly, with a rate of Euribor 3M + 1.60%, for a term of 5 years. | | 43,534 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Banco Santander, S.A. as bank creditor for up to EUR$ 13 million. Installments are quarterly, with a fixed rate of 1.55%, for a term of 7 years. This credit has the joint guarantee of Fundiciones Miguel Ros, S.A. and Casting Ros, S.A | | 282,706 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Banco Bilbao Vizcaya Argentaria, S.A. as bank creditor for up to EUR$ 3 million and with an outstanding balance as of December 31, 2016 of $ 2.4 million euros. Installments are quarterly, with a fixed rate of 2.95%, for a term of 6 years. This credit has the joint guarantee of Fundiciones Miguel Ros, S.A. y Casting Ros, S.A. | | 51,750 | - |
| Long-term bank loan agreementInfun, S.A. as borrower with Banco Popular Español, S.A. as bank creditor for up to EUR$ 4 million and with an outstanding balance as of December 31, 2016 of $ 2.8 million euros. Installments are monthly, with a rate of Euribor 12M + 1.60% annual for a term of 6 years. This credit has the joint guarantee of Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. | | 61,357 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Deutsche Bank, A.G. as bank creditor for up to EUR$ 4 million and with an outstanding balance as of December 31, 2016 of $2.6 million euros. Installments are quarterly, with an annual rate of Euribor 6M + 1.80% for a term of 6 years. | | 57,126 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Bankia, S.A. as bank creditor for up to EUR$ 4 million and with an outstanding balance as of December 31, 2016 of $2.6 million euros. Installments are monthly, with an annual rate of Euribor 12M + 2.25% for a term of 4 years. This credit has the joint guarantee of Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. | | 56,317 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Bankinter, S.A. as bank creditor for up to EUR$ 6 million and with an outstanding balance as of December 31, 2016 of $ 4.6 million euros. Installments are quarterly, with a fixed rate of 1.75% for a term of 6 years. This credit has the joint guarantee of Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. | | 99,435 | - |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | 2016 | 2015 |
|---|---|---|---|
| Long-term bank loan agreement of Infun, S.A. as borrower with Bankinter, S.A. as bank creditor for up to EUR$ 1 million with a single payment at a fixed rate of 1.75% for a term of 4 years. This credit has the joint guarantee of Fundiciones Miguel Ros, S.A. y Casting Ros, S.A. | | 21,705 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Banca March, S.A. as bank creditor for up to EUR$ 2 million. Installments are quarterly, with an annual rate of Euribor 3M + 1.50% for a term of 6 years. | | 43,283 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Banco de Sabadell, S.A. as bank creditor for up to EUR$ 3.4 million. Installments are monthly, with an annual rate of Euribor 6M + 1.15% for a term of 5 years. | | 73,716 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Bankinter, S.A. as bank creditor for up to EUR$ 2 million and with an outstanding balance as of December 31, 2016 of $ 1.8 million euros. Installments are quarterly, with an annual rate of Euribor 6M + 1.65% for a term of 5 years. | | 39,254 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with CaixaBank, S.A. as bank creditor for up to EUR$ 3 million. Installments are semiannual, with an annual rate of Euribor 6M + 1.35% for a term of 6 years. | | 64,971 | - |
| Long-term bank loan agreement of Infun, S.A. as borrower with Deutsche Bank, A.G. as bank creditor for up to EUR$ 2 million and with an outstanding balance as of December 31, 2016 of $1.7 million euros. Installments are monthly, with an annual rate of Euribor 12M + 1.55% for a term of 5 years. | $ | 37,774 | - |
| Grand total | | 7,117,480 | 2,073,747 |
| Current installment | | 296,615 | 189,020 |
| Long-term debt | $ | 6,820,865 | 1,884,727 |

Bank loans establish certain restrictive obligations, among which stand out that there should be no indications of going concern, all assets cannot be merged, liquidated or dissolved, no changes can be made in accounting policies or reporting practices, except as required in the applicable IFRS and submit quarterly reports along with a certificate of compliance signed by a Company official.

As of December 31, 2016 and 2015, the Company has complied with the restrictive and financial obligations (if any), established in the different debt contracts mentioned above.

The Amended Agreement to the long-term credit opening agreement of Grupo Industrial Saltillo, S.A.B. de C.V. for $326.5 million dollars of which $276.5 million dollars have been used and the remaining $50 million dollars correspond to a revolving line of credit, has an outstanding balance as of December 31, 2016 of $5,707 million pesos net of $138 million pesos of acquisition expenses of such credit, which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force. The Company has granted several pledges to secure the credit mentioned, see note 27.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

The long-term credit opening agreement of ACE Boroa, S.L. for $10 million euros, has an outstanding balance as of December 31, 2016 of $217.7 million pesos net of $5.8 million pesos of expenses of engaging this credit, which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the financings granted to Fuchosa, S.L.U. by the Center for the Industrial Technology Development of $452 thousand Euros or the equivalent in pesos of $9.8 million is subtracted $532 thousand pesos for adjustments to the loans mentioned according to the characteristics thereof.

The outstanding balance of the credit of Infun, S.A. with Banco Santander, S.A. (Spain) of $13 million euros or the equivalent in pesos of $283 million is subtracted $267 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with Bankinter de $4.6 million euros, or the equivalent in pesos of $99.8 million is subtracted $374 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with Bankinter de $1 million euros, or the equivalent in pesos of $21.8 million is subtracted $62 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with CaixaBank, S.A. de $3 million euros, or the equivalent in pesos of $65 million is subtracted $331 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with Banco Bilbao Vizcaya Argentaria, S.A. de $2.4 million euros, or the equivalent in pesos of $52 million is subtracted $208 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with Banco Popular Español, S.A. de $2.8 million euros, or the equivalent in pesos of $62 million is subtracted $295 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

The outstanding balance of the credit of Infun, S.A. with Deutsche Bank, A.G. de $2.6 million euros, or the equivalent in pesos of $57 million is subtracted $284 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with Deutsche Bank, A.G. de $1.7 million euros, or the equivalent in pesos of $38 million is subtracted $151 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with Banca March, S.A. de $2 million euros, or the equivalent in pesos of $44 million is subtracted $252 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS in force.

The outstanding balance of the credit of Infun, S.A. with Bankinter, S.A. de $1.8 million euros, or the equivalent in pesos of $39 million is subtracted $94 thousand pesos for engagement expenses of this credit which will be amortized under the effective interest method for the life thereof. This is presented in the statement of financial position to comply with the IFRS.

The company and its subsidiaries have complied with the restrictive and financial obligations (if any) established in the different debt agreements mentioned above at closing of the 2016 fiscal year.

Maturities of long-term debt are listed below:

| | | |
|---|---|---|
| 2018 | | 910,464 |
| 2019 | | 1,431,466 |
| 2020 | | 1,962,860 |
| 2021 and thereafter | | 2,516,075 |
| | $ | 6,820,865 |

### 15 Other long-term liabilities

a) Other financings

Some subsidiaries of GIS signed financing contracts with different institutions for technologic development projects, which did not meet the necessary characteristics to be considered bank debt.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

b) A.M. Gestion, S.L.

Additionally, and as mentioned in note 2 to the financial statements, on December 28, 2016, the acquisition of Infun Group was completed with an investment of approximately EUR€280 million, of which EUR€180 million were paid in December 2016 and the remaining EUR€100 million will be paid no later than December 2018. The portion of the price that will be paid after two years of the acquisition was recognized as a long-term liability with financial cost.

As of December 31, 2016 and 2015, other long-term liabilities include the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Financings of Fuchosa, S.L.U. as borrower with the Center for the Industrial Technology Development Public Business Entity, for the development of different technology research and development projects, for up to a joint amount of €1.2 million euros, without accruing interest, with different payments of capital that go from 2 to 11 years | $ | 26,146 | 30,159 |
| Financing of Fuchosa, S.L.U. as borrower with the Ministry of Industry, Tourism and Commerce, for a technology development project, for up to €1 million euros, without accruing interest with due date on October 30, 2024. | | 14,167 | 13,713 |
| Financing of Fuchosa, S.L.U. as borrower with the Company for the Promotion and Industrial Reconversion, for a technology development project, for up to EUR $ 123 thousand, without accruing interest and for a term of 12 months. | | 2,674 | - |
| Financings of Casting Ros, S.A. as borrower with Center for the Industrial Technology Development Public Business Entity as well as with el Ministry of Industry, Energy and Tourism (Spain) MINETAD for the development of different technology research and development projects, for up to a joint amount of €7.4 million euros and with a balance as of December 31, 2016 of €3.7 million euros without accruing interest, with different payments of capital that go from 10 to 15 years. | | 80,538 | - |
| Financings of Infun, S.A. as borrower with el Center for the Industrial Technology Development Public Business Entity for the development of different technology research and development projects, for up to a joint amount of €2.1 million euros and with balance as of December 31, 2016 of €635 thousand Euros without accruing interest, with different payments of capital that go from 9 to 14 years. | | 13,826 | - |
| Financing of Infun, S.A. as borrower with the Center for the Industrial Technology Development Public Business Entity for the development of different technology research and development projects, for an amount of €532 thousand Euros and with balance as of December 31, 2016 of €133 thousand Euros without accruing interest for a term of 11 years. | | 2,899 | - |
| Deferred payment by Grupo Industrial Saltillo, S.A.B. de C.V. as debtor to A.M. Gestión, S.L. for the acquisition of Grupo Infun for €100 million euros with a variable rate of Euribor 3M + 3.00% for a term of 2 years. | | 2,176,720 | - |
| Other liabilities | | 49,240 | 52,597 |
| Grand total | | 2,366,210 | 96,469 |
| Current installment | | 34,806 | 8,468 |
| Other long-term liabilities | $ | 2,331,404 | 88,001 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

Of the outstanding balance of the financings granted to Fuchosa, S.L.U. by the Center for Industrial Technology Development for €1.3 million euros, or the equivalent in pesos of $28.6 million of pesos is subtracted $2.4 million of pesos for adjustments to the aforementioned loans according to their own characteristics.

Of the outstanding balance of the financing granted to Fuchosa, S.L.U. by the Ministry of Industry, Tourism and Commerce for €692 thousand Euros or the equivalent in pesos of $15 million is subtracted $893 thousand pesos for adjustments to the aforementioned loans according to their own characteristics.

The maturities of long-term creditors are listed below:

| | | |
|---|---|---|
| 2018 | | 2,315,544 |
| 2019 | | 18,944 |
| 2020 | | 19,719 |
| | $ | 2,354,207 |

Note 18 discloses the Company's exposure to interest rate risk, exchange rate and liquidity risk and a sensitivity analysis for financial assets and liabilities.

### 16 Employee benefits

#### a) Defined plan benefits

| | | 2016 | 2015 |
|---|---|---|---|
| Present value of defined benefit obligations with no funding | $ | 235,087 | 280,735 |
| Present value of defined benefit obligations with funding | | 162,957 | 137,407 |
| Total present value of defined benefit obligations | | 398,044 | 418,142 |
| Plan assets at fair value | | (162,957) | (137,407) |
| Net projected liabilities in the statement of financial position | $ | 235,087 | 280,735 |

The Company has implemented a defined benefit pension plan that substantially covers all of its trusted personnel. Benefits of the pension plan are calculated based on the years of service and the amount of compensation of employees. Likewise, it recognizes the obligations arising from payments that seniority bonuses should make to their employees and workers when they reach an advanced age.

The defined benefit plans in Mexico usually expose the Company to actuarial risks such as interest rate risk, longevity and salary. However, none of these is considered to have had unusual behaviors during periods reported.

During the period there were no amendments, curtailments and settlements in the plans of benefits granted to employees.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

### (i) Composition of plan assets

| | | 2016 | 2015 |
|---|---|---|---|
| Equity securities | $ | 27,148 | 19,661 |
| Share investment companies | | 6,550 | 9,859 |
| Public debt securities | | 115,538 | 101,595 |
| Private debt securities | | 13,721 | 6,292 |
| | $ | 162,957 | 137,407 |

### (iii) Change in the present value of plan assets

| | | 2016 | 2015 |
|---|---|---|---|
| Defined benefit obligations as of January 1 | $ | 418,142 | 414,253 |
| Benefits paid by the plan | | (28,843) | (17,503) |
| Labor cost of current service and financial cost | | 52,217 | 48,711 |
| Actuarial re-measurements recognized in the comprehensive income account | | (43,472) | (27,319) |
| Defined benefit obligations as of December 31 | $ | 398,044 | 418,142 |

### (iii) Change in the present value of plan assets

| | | 2016 | 2015 |
|---|---|---|---|
| Fair value of plan assets as of January 1 | $ | 137,407 | 104,739 |
| Benefits paid by the plan | | (21,398) | (13,914) |
| Contributions made during the year | | 35,900 | 47,600 |
| Expected return on plan assets | | 9,504 | 6,488 |
| Actuarial losses recognized in the comprehensive income account | $ | 1,544 | (7,506) |
| Fair value of plan assets as of December 31 | | 162,957 | 137,407 |

### (iv) Expense recognized in income

| | | 2016 | 2015 |
|---|---|---|---|
| Labor cost of current service | $ | 24,974 | 22,249 |
| Interest on obligation | | 27,469 | 26,462 |
| Expected return on plan assets | | (9,504) | (6,488) |
| | $ | 42,939 | 42,223 |

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As of December 31, 2016 and 2015 (In thousands of pesos)

The expense is recognized in the following line items of the statement of income:

| | | 2016 | 2015 |
|---|---|---|---|
| Cost of sales | $ | 24,974 | 22,249 |
| Financial cost | | 17,964 | 19,974 |
| | $ | 42,938 | 42,223 |

**(v) Actuarial gains and (losses) recognized in the comprehensive income account**

| | | 2016 | 2015 |
|---|---|---|---|
| Accumulated amount as of January 1 | $ | 22,116 | 2,303 |
| Recognized during the year | | 45,243 | 19,813 |
| Accumulated amount as of December 31 | $ | 67,359 | 22,116 |

**(vi) Actuarial assumptions**

The main actuarial assumptions as of the reporting date (expresses as weighted average):

| | 2016 | 2015 |
|---|---|---|
| Discount rate as of December 31 | 7.75% | 6.75% |
| Expected return rate of the plan assets as of January 1 | 7.75% | 6.75% |
| Rate of compensation increase | 4.00% | 4.00% |

Assumptions on future mortality are based on statistics published and mortality rates. Currently the retirement age in Mexico is 65. Current longevities that underlie the values of liabilities in the defined benefit plans are:

| | | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Longevity upon retirement of current pensioners: | $ | | |
| Men | | 21.88 | 22.18 |
| Women | | 24.43 | 24.90 |
| Longevity upon retirement of current members whose age is: | | | |
| Men | | 24.22 | 23.38 |
| Women | | 26.19 | 25.95 |

Reasonably possible changes in the relevant actuarial assumptions presented at balance sheet date, when the other assumptions remain constant, would have affected the defined benefit obligation in the amounts included in the table below. (vii)

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

**(vii) Sensitivity Analysis**

The principal actuarial assumptions at the reporting date (expressed as weighted averages):

| | Defined obligation benefits | |
|---|---|---|
| | Increase | Decrease |
| Discount rate (change of 1%) | 366,395 | 434,574 |
| Future compensation increase (change of 1%) | 425,522 | 374,071 |

Although the analysis does not consider the distribution of expected cash flows under the plan, if it provides an approximation of the sensitivity of the assumptions presented.

**b) Defined Contribution Plan**

The consolidated cost of defined contribution plans for the years ended December 31, 2016 and 2015 was approximately $4,977 and approximately $5,057, respectively. The Company periodically brings the amounts offered in the plan to individual employee accounts exist no outstanding liabilities at the date of the financial statements.

### 17 Income tax (IT)

The Company determined the income tax for each subsidiary based on the applicable tax law in its respective country.

The Company determined until December 31, 2013 the income tax on a consolidated basis. From 1 January 2014 a new option scheme for groups of companies, same as was adopted by the Company and its subsidiaries in Mexico are established.

As of December 31, 2016 there is a long-term income tax payable of $585,043 and $220,585 short-term, as well as long-term payable of $773,367 and short-term payable of $212,210 as of December 31, 2015 corresponding to the income tax deferred derived from the consolidation mechanisms. According to the law in force at December 31, 2013, the Company during 2016 and 2015 paid $215,149 and $33,769 as a result of applying the 15% and 25% respectively to the elimination of the effects of fiscal consolidation in 1999-2004, 2005, 2006, 2007 and 2008. With regard to the effects of fiscal consolidation arising after 2004, these should be considered in the sixth year after its occurrence, and to be paid over the next five years in the same proportion (25% 25%, 20%, 15% and 15%). Taxes payable resulting from changes in the law will increase inflation in terms of the Law on Income Tax. Also derived from the tax reforms effective from January 1, 2010 and 2014, the Company has evaluated each of the effects of the consolidation regime and has determined that the impacts are properly recognized and disclosed in its financial statements consolidated.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

The tax expense for the years ended December 31, 2016 and 2015 includes the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Current IT | $ | 403,303 | 282,723 |
| Deferred income tax | | (237,884) | 98,482 |
| Long term liability for consolidation purposes | | 27,420 | 18,671 |
| Income tax on dividends received from subsidiaries abroad | | (8,668) | (52,801) |
| Others | | 15,684 | (2,547) |
| Total income tax | $ | 199,855 | 344,528 |

The tax expense attributable to pre-tax income differed from the amounts calculated at the different rates of subsidiaries to pretax income, as a result of the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Net income | $ | 1,177,395 | 644,613 |
| Income tax expense | | 199,855 | 344,528 |
| Income before taxes | | 1,377,250 | 989,141 |
| | | | |
| Expected expense | | 413,175 | 296,742 |
| Increase (decrease) of: | | | |
| Effect of inflation, net | | (18,066) | (14,776) |
| Upgrade of consolidation liability | | 27,420 | 18,671 |
| Recognition of deferred assets not recognized previously | | (205,986) | - |
| (Excess) in accrual of long term liability for consolidation purposes | | - | (5,075) |
| Share of profit of equity- accounted investees | | (12,315) | 15,626 |
| Effect from the difference in foreign jurisdiction rates | | (8,888) | 5,358 |
| Non deductible | | 44,568 | 44,371 |
| Others, net | | (40,053) | (16,389) |
| | | | |
| Income tax expense | $ | 199,855 | 344,528 |

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

## (a) Deferred tax assets and liabilities recognized

The deferred tax assets and liabilities derive from the following:

| | | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Property, machinery and equipment | $ | - | - | 430,854 | 377,651 | 430,854 | 377,651 |
| Intangible assets | | - | - | 276,205 | 238,664 | 276,205 | 238,664 |
| Other assets | | - | - | 3,155 | 2,439 | 3,155 | 2,439 |
| Inventories | | - | - | - | - | - | - |
| Accruals | | (457,585) | (411,885) | - | - | (457,585) | (411,885) |
| Tax losses | | (696,127) | (544,149) | - | - | (696,127) | (544,149) |
| Tax (assets) liabilities, net | $ | (1,153,712) | (956,034) | 710,214 | 618,754 | (443,498) | (337,280) |
| Of which: | | | | | | | |
| Tax (assets) liabilities in Mexico, net | $ | (1,091,200) | (905,273) | 574,566 | 422,719 | (516,634) | (482,554) |
| Tax (assets) liabilities abroad, net | | (62,512) | (50,761) | 135,648 | 196,035 | 73,136 | 145,274 |

## (b) Change in temporary differences during the period

Deferred tax assets and liabilities arise as follows:

| | | January 1, 2016 | Recognized in income | Other comprehensive income | Business acquisitions | December 31, 2016 |
|---|---|---|---|---|---|---|
| Property, machinery and equipment | $ | 377,651 | (64,891) | 149,400 | (31,307) | 430,900 |
| Intangible assets | | 238,661 | 37,541 | - | - | 276,205 |
| Other assets | | 2,439 | 717 | - | - | 3,156 |
| Accruals | | (411,883) | (59,273) | 13,573 | - | (457,632) |
| Tax losses | | (544,148) | (151,978) | - | - | (696,127) |
| Tax (assets) liabilities, net | $ | (337,280) | (237,884) | 162,973 | (31,307) | (443,498) |

| | | January 1, 2015 | Recognized in income | Other comprehensive income | Business acquisitions | December 31, 2015 |
|---|---|---|---|---|---|---|
| Property, machinery and equipment | $ | 175,316 | (34,053) | 157,874 | 78,514 | 377,651 |
| Intangible assets | | 114,248 | 6,776 | 2,555 | 115,082 | 238,661 |
| Other assets | | - | - | - | 2,439 | 2,439 |
| Inventories | | 488 | (488) | - | - | - |
| Accruals | | (334,115) | (59,182) | 5,946 | (24,532) | (411,883) |
| Tax losses | | (703,348) | 185,429 | - | (26,229) | (544,148) |
| Tax (assets) liabilities, net | $ | (747,411) | 98,482 | 166,375 | 145,274 | (337,280) |

In assessing the recoverability of deferred assets, the Company's management considers the probability that they could not be recovered, in whole or in part. Final realization of deferred assets depends on generating taxable income in the periods in which temporary differences are deductible.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

As of December 31, 2016 and 2015, the Company has not recognized deferred tax assets of approximately $84,349 and $286,483, respectively, related to tax losses which are estimated will not be used, which can expire partially or fully between 2017 and 2026 (see table below).

As of December 31, 2016, the tax losses carryforward and the year in which the right to use them will expire are as follows:

| Year of origin | Expiration year | | Updated amount as of December 31, 2015 | Updated amount as of December 31, 2016 |
|---|---|---|---|---|
| 2007 | 2017 | $ | 215,326 | 224,156 |
| 2008 | 2018 | | 21,355 | 22,078 |
| 2009 | 2019 | | 15,474 | 15,994 |
| 2010 | 2020 | | 1,680,862 | 1,368,514 |
| 2011 | 2021 | | 49,680 | 51,348 |
| 2012 | 2022 | | 329 | 341 |
| 2013 | 2023 | | 279,489 | 262,762 |
| 2014 | 2024 | | 285,218 | 286,915 |
| 2015 | 2025 | | 133,614 | 140,947 |
| 2016 | 2026 | | - | 141,115 |
| | | $ | 2,681,347 | 2,514,170 |

As of December 31, 2016 the companies that are part of the ACE Group have tax losses carryforward of approximately $ 84 million pesos, which generated a deferred tax asset of $ 26,224. The Company expects to realize all of these losses in a term not exceeding five years.

### (c) Long term liability for consolidation purposes

| | | 2016 | 2015 |
|---|---|---|---|
| Deferred liability for consolidation purposes | $ | 985,577 | 994,161 |
| Liability for consolidation purposes update | | 27,420 | 18,671 |
| Accumulated payments of liability | | (215,149) | (33,769) |
| Optional deferred tax regime for group companies | | 7,780 | 6,514 |
| Total | $ | 805,628 | 985,577 |
| Liabilities for short-term fiscal consolidation | $ | (220,585) | (212,210) |
| Deferred liability for consolidation purposes | | 585,043 | 773,367 |

## 18 Financial instruments

### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet the contractual obligations, and arises mainly from the Company's trades receivables and investment securities and derivative financial instruments.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

**Investments**

The Company limits exposure to credit risk by investing only in liquid instruments and with counterparties of good credit quality. Therefore, management does not expect any of the counterparties to default on obligations.

The carrying amount of financial assets represents the maximum credit exposure. Maximum credit risk exposure as follows:

| | | Book Value | |
|---|---|---|---|
| | | 2016 | 2015 |
| Cash and cash equivalents | $ | 2,963,267 | 701,414 |
| Investments held to maturity | | 291,270 | 1,668,763 |
| Financial assets held for sale | | 39,295 | 27,780 |
| Accounts receivable | | 3,973,054 | 2,790,476 |
| Prepaid expenses | | 24,901 | 11,607 |
| | $ | 7,291,787 | 5,200,040 |

The maximum credit risk exposure for trade receivables as of December 31, 2016 and 2015 by geographical region is shown below:

| | | Book Value | |
|---|---|---|---|
| | | 2016 | 2015 |
| Domestic | $ | 2,103,645 | 1,873,013 |
| United States | | 617,892 | 225,952 |
| Other Latin American countries | | 45,196 | 369,523 |
| Euro Zone countries | | 1,195,913 | 310,986 |
| Other regions | | 10,408 | 11,002 |
| | $ | 3,973,054 | 2,790,476 |

The maximum credit risk exposure for trades receivable as of December 31, 2016 and 2015 by type of client is shown below:

| | | 2016 | 2015 |
|---|---|---|---|
| Wholesale customers | $ | 3,728,176 | 2,593,008 |
| Retail customers | | 21,008 | 22,791 |
| Self-service | | 114,128 | 82,983 |
| Promotions | | 41,407 | 18,695 |
| Catalog | | 21,759 | 22,822 |
| Others | $ | 46,576 | 50,177 |
| | | 3,973,054 | 2,790,476 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

A breakdown of trade accounts receivable, showing overdue balances, but not impaired according to their status at the reporting date, is presented below:

| | | Gross 2016 | Impairment 2016 | Gross 2015 | Impairment 2015 |
|---|---|---|---|---|---|
| Current | $ | 3,812,895 | - | 2,659,275 | - |
| 0 to 30 days overdue | | 76,410 | - | 44,693 | - |
| 31 to 120 days overdue | | 8,061 | (7,665) | 18,217 | (18,217) |
| Over 120 days overdue | | 75,688 | (79,798) | 68,291 | (68,291) |
| | $ | 3,973,054 | (87,463) | 2,790,476 | (86,508) |

The movement in allowances for doubtful balances and discounts and bonuses with respect to trade accounts receivable during the year was as follows:

| | | Doubtful Allowance | | Discounts Allowance | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Beginning balance | $ | 86,508 | 67,587 | 70,895 | 83,500 | 157,403 | 151,087 |
| Increase during the period | | 91,711 | 22,250 | 231,820 | 214,699 | 323,531 | 236,949 |
| Amounts canceled to other trades receivable | | 84,206 | 396 | 186,916 | 200,156 | 271,122 | 200,552 |
| Decrease due to reversal | | 6,550 | 2,933 | 12,499 | 27,148 | 19,049 | 30,081 |
| Ending balance | | 87,463 | 86,508 | 103,300 | 70,895 | 190,763 | 157,403 |

The Company's exposure to credit risk is mainly affected by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, which includes the risk of default in the industry and country in which customers operate, as these factors may influence credit risk. In 2016 and 2015, the Company's products were marketed with a large number of customers, without significant concentration in any specific customer.

***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking the Company's reputation.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The following are the contractual maturities of financial liabilities, including the estimated interest payments and excluding the impact of the compensation agreements. The cash flows included in the maturity analysis are not expected to be presented much before or for sensitively different amounts.

| 2016 | | Book value | Contractual cash flows | 0-6 months | 6-12 months |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trades and other accounts payable | $ | 4,256,454 | 4,256,454 | 4,256,454 | - |
| Bank loans and interest | | 296,615 | 296,615 | - | 296,615 |
| Sundry creditors | | 34,806 | 34,806 | - | 34,806 |
| Finance leases | | 23,997 | 23,997 | - | 23,997 |
| **Derivative financial liabilities** | | | | | |
| Currency forwards | $ | 12,142 | 12,142 | - | 12,142 |

| 2015 | | Book value | Contractual cash flows | 0-6 months | 6-12 months |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trades and other accounts payable | $ | 2,832,003 | 2,832,003 | 2,832,003 | |
| Bank loans and interest | | 197,488 | 197,488 | - | 197,488 |
| Finance leases | | 4,788 | 4,788 | 4,788 | - |
| **Derivative financial liabilities** | | | | | |
| Currency forwards | $ | (720) | (720) | (30) | (690) |

### *Capital management*

The Company's management monitors the mix of debt and equity instruments of the investment portfolio based on market indices. Significant investments within the portfolio are managed individually and all purchase and sale decisions are approved by the Risk Management Committee.

The main goal of the Company's investment strategy is to maximize return on investment with the purpose of complying in part with the company's defined non-funded benefit obligations; management receives the support of external advisers in this sense. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on the basis of fair value.

The Company does not enter into commodity contracts other than to meet the Company's intended use and sale requirements; these contracts are not settled in net terms

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of the financial instruments held. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys derivatives, and also incurs financial liabilities, in order to manage market risks. All these transactions are measured according to guidelines established by the Risk Management Committee. Generally, the Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

Risk hedges

In transactions with derivative financial instruments recorded as risk hedges and therefore a hedge relationship is established, the Company formally documents the objective of the hedge, the risk management strategy, the hedging instrument, the item or transaction hedged, the nature of the risk being hedged, and the methodology for measuring hedge effectiveness.

The Company performs prospective and retrospective effectiveness tests to ensure at all times that hedging relationships have a high effectiveness in accordance with accounting standards. Upon detecting ineffectiveness, the Company records this ineffective amount in results.

The current portfolio of derivative financial instruments and their fair value as of December 31, 2015 is listed below.

**a) Forwards currency (FX Forward)**

At 31 December 2016 had concluded several contracts are exchange foreign currency flows Forward FX rate. Such transactions represent hedging mechanisms to minimize foreign exchange risks in future currency flows are mainly used for the payment of expenses and Zlotys and according to Czech accounting standards, crowns are considered hedge.

Then the position is given at December 31, 2015.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

Then the position is given at December 31, 2015.

| Derivatives instruments | Position | Total notional | Currency | Basic conditions | | Fair value in thousands of Pesos | | Due date | Subsidiary |
|---|---|---|---|---|---|---|---|---|---|
| Long-term liability | | | | | | 2016 | 2015 | | |
| Forward Plain Vanilla | Purchase CZK / Sale EUR | 106,935,000 | Czech crowns | Delivery Euros y receive Crowns a future exchange rate | $ | (927) | (30) | October 8, 2018 | European Brakes and Chasis Components SP. Z O.O. |
| Forward Plain Vanilla | Purchase CZK / Sale EUR | 96,650,000 | Czech crowns | Delivery Euros y receive Crowns a future exchange rate | | - | (690) | December 31, 2016 | Feramo Metallum, International S.R.O. |
| Total liability | | | | | $ | (927) | (720) | | |

| Derivatives instruments | Position | Total notional | Currency | Basic conditions | | Fair value in thousands of Pesos | | Due date | Subsidiary |
|---|---|---|---|---|---|---|---|---|---|
| Long-term (liability) asset | | | | | | 2016 | 2015 | | |
| Forward Plain Vanilla | Purchase PLN / Sale EUR | 17,000,000 | Polish zlotys | Delivery Euros y receive Zlotys a future exchange rate | $ | (499) | (115) | October 8, 2018 | European Brakes and Chasis Components SP. Z O.O. |
| Forward Plain Vanilla | Purchase PLN / Sale EUR | 15,000,000 | Polish zlotys | Delivery Euros y receive Zlotys a fixed exchange rate | | (1,283) | 471 | April, 9, 2018 | European Brakes and Chasis Components SP. Z O.O. |
| Forward Plain Vanilla | Purchase CZK / Sale EUR | 95,565,000 | Czech crowns | Delivery Euros y receive Crowns a future exchange rate | | (524) | - | December 28, 2018 | Feramo Metallum, International S.R.O. |
| Total (liability) asset | | | | | $ | ( 2,306) | 356 | | |

## b) Hedging Interest Rate (Interest Rate Swap)

At 31 December 2016 had concluded several contracts are exchange flows denominated interest rate swaps. Such transactions represent hedging mechanisms to minimize the risks of increases in interest rates in various credit agreements which companies may have made GIS. These transactions according to accounting standards, are considered hedge.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

Then the position is given at December 31, 2016 and 2015.

| Derivative instruments | Position | Notional total | Currency | Basic conditions | Fair value in thousands of Pesos 2016 | 2015 | Due date | Subsidiary |
|---|---|---|---|---|---|---|---|---|
| Subsidiary | Pays fixed / receives variable rate | 498,000 | Euros | Pays fixed EURIBOR and receives variable EURIBOR | (55) | (115) | December 31, 2017 | European Brakes and Chasis Components SP. Z O.O. |
| Interest Rate Swap | Pays fixed / receives variable rate | 2,500,000 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (1,729) | (1,897) | July 30, 2020 | ACE Boroa, S.L.U. |
| Interest Rate Swap | Pays fixed / receives variable rate | 2,500,000 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (1,677) | (1,829) | July 30, 2020 | ACE Boroa, S.L.U. |
| Interest Rate Swap | Pays fixed / receives variable rate | 2,000,000 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (532) | - | July 1, 2022 | Infun, S.A. |
| Interest Rate Swap | Pays fixed / receives variable rate | 2,591,209 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (5) | - | November 17, 2018 | Infun, S.A. |
| Interest Rate Swap | Pays fixed / receives variable rate | 2,386,972 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (993) | - | November 17, 2020 | Infun, S.A. |
| Interest Rate Swap | Pays fixed / receives variable rate | 2,637,477 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (1,951) | - | April 14, 2020 | Infun, S.A. |
| Interest Rate Swap | Pays fixed / receives variable rate | 13,000,000 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (4,610) | - | September 28, 2023 | Infun, S.A. |
| Interest Rate Swap | Pays fixed / receives variable rate | 165,771 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (9) | - | February 3, 2021 | Altec Engineering, S.L. |
| Interest Rate Swap | Pays fixed / receives variable rate | 5,000,000 | Euros | Pays fixed EURIBOR and receives a variable EURIBOR | (1,773) | - | September 28, 2023 | Infun For, S.P.A. |
| Total long-term liability | | | | | $ (13,334) | (3,841) | | |
| | | | | **Grand Total Long-term liability** | **$ (15,640)** | **(3,841)** | | |

### c) Commodity Swaps

Some of the subsidiaries involved in the manufacture of products used in its basic processes direct and indirect commodities such as natural gas (Commodities), whose price is based on the parameters of supply and demand in major international markets.

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To minimize the risk of fluctuations in international prices of commodities, the Company and certain of its subsidiaries selectively use contracts called "Commodity Swap" which, through regular exchange of flows, for transforming the variability of these prices, prices fixed during the term of the hedging relationship. For the recruitment of these instruments, the Company established with the counterpart to consume volumes and fixing prices, allowing you to cover risks in varying prices.

As of December 31, 2016 and 2015 it does not have current positions.

Derivative financial instruments classified as trading (not designated as hedges)

During 2016 and 2015, the Company and its subsidiaries held portfolios of derivative financial instruments that did not qualify as hedges and therefore had to be qualified for trading.

Guaranteed Capital investments.

Grupo Industrial Saltillo, S.A.B. de C.V. ("GIS" o "The Company"), in compliance with their policies, conducts periodic investment with guaranteed capital.

During 2016, the Company and its subsidiaries hired instruments Capital Guaranteed Investment guy, which do not qualify as financial instruments and derivatives that do not meet the characteristics described in the International Financial Reporting Standards (IFRS). These instruments are hybrid contracts containing two types of contracts: 1) host contract, which is not a derivative, but a debt contract and corresponding to the investment of a guaranteed principal and its return to the due date and in which not necessarily a fixed interest rate or variable is paid to market conditions and 2) a contract called embedded derivative. Such embedded derivative was linked to the behavior of the exchange rate, where according to their performance behavior builds based on the amount of guaranteed capital.

During 2016 the Company and its subsidiaries hired some investment of this type, which according to their characteristics and completion dates, expired during the same. These positions had different terms ranging up to 11 calendar days. Intermediaries of these positions were: UBS, A.G. y Monex Casa de Bolsa, S.A. de C.V., Banco Santander (México), S.A.

These investments had guaranteed capital returns were linked to performance of the peso / dollar. These positions were maturing naturally in accordance with the agreed conditions. At year-end 2016 GISSA not have current positions.

The maximum value of the aforementioned investments for the year 2016 was $75 million and US $ 12.5 million.

1. Recognition.

In the event that current positions are taken, it would proceed with the following recognition:

The host contract to be a debt contract is accordingly an asset, in this case, a non-derivative financial asset.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. Classification of financial assets.

This type of investment cannot be measured at their amortized cost, because there is a possibility that no cash flows received from interest.

Such investments from being unable to measure the cost of depreciation are then measured at fair value through profit and loss

3. Measurement.

Certificates of deposit and investments with guaranteed capital are measured and recognized on the balance sheet at fair value and subsequent changes in fair value must be recognized in the income statement as gains or losses on market valuation.

For purposes of accounting records, the figures reported in the statement issued by the counterparty are used.

As of December 2016 and 2015 the company and its subsidiaries do not have current positions.

***Foreign Currency risk***

The Company is exposed to currency risk by conducting various sales, purchases and loans originating from other than the functional currency. The Company is exposed to currency risk through the following currencies: Pesos, Dollars, Euros and Zlotys and renminbi.

Interest on loans are denominated in currencies that match the cash flows generated by the underlying operations of each company, these can be in dollars, euros or pesos mainly according to the needs of the investment project to be financed. This provides an economic hedge and no derivatives are held.

Following exposure to currency risk (values in thousands of pesos):

| | | 2016 | | | |
|---|---|---|---|---|---|
| | | USD | Zlotys | Euros | Rmb |
| Cash | $ | 1,455,469 | 4,069 | 675 | 44,303 |
| Temporary investments | | 242,011 | - | - | |
| Accounts receivable | | 50,056 | 1,046 | - | 82,251 |
| Prepayments | | 18,662 | 480 | 262 | 22 |
| Related parties | | 53,671 | - | - | - |
| Warranty deposits | | 3,375 | - | 425 | 37 |
| Bank loans | | (5,710,078) | - | (2,176,720) | - |
| Suppliers | | (494,600) | (17,394) | (99,803) | (59,108) |
| Related parties | | (4,558) | - | - | - |
| Net exposure | $ | (4,385,992) | (11,799) | (2,275,161) | 67,505 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| | | 2015 | | |
|---|---|---|---|---|
| | | USD | Zlotys | Euros |
| Cash | $ | 261,930 | 8,109 | 369,370 |
| Temporary investments | | 1,381,168 | - | - |
| Accounts receivable | | 957,095 | - | 324,788 |
| Related parties | | 12,686 | - | - |
| Bank loans | | (1,647,127) | - | (470,491) |
| Suppliers | | (1,384,388) | - | (223,931) |
| Net exposure | $ | (418,636) | 8,109 | (264) |

The following exchange rates applied during the year:

| | Average type | | Spot exchange rate at the date of the report |
|---|---|---|---|
| | 2016 | 2015 | |
| US [1] | 20.64 | 17.32 | 18.99 |
| EUR [2] | 21.76 | 18.85 | 20.52 |
| Zlotys [3] | 4.93 | 4.41 | 4.81 |
| Renminbi [4] | 2.97 | - | 2.76 |

[1] American dollar
[2] Euro
[3] Polish Zloty
[4] Chinese Renminbi

***Sensitivity analysis of exchange.***

| 2016 | Equity | Income |
|---|---|---|
| US (10% de strengthening) | (4,435) | (4,435) |
| US (10% de weakening) | 4,435 | 4,435 |
| EUR (10% de strengthening) | (2,275) | (2,275) |
| EUR (10% de weakening) | 2,275 | 2,275 |
| Zotlys (10% de strengthening) | (12) | (12) |
| Zotlys (10% de weakening) | 12 | 12 |
| Renminbi (10% de strengthening) | 186 | 186 |
| Renminbi (10% de weakening) | (186) | (186) |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

| 2015 | Capital | Income |
|---|---|---|
| US (10% de strengthening) | (42,943) | (42,943) |
| US (10% de weakening) | 42,943 | 42,943 |
| EUR (10% de strengthening) | (26) | (26) |
| EUR (10% de weakening) | 26 | 26 |
| Zotlys (10% de strengthening) | 811 | 811 |
| Zotlys (10% de weakening) | (811) | (811) |

***Interest rate risk***

Fluctuations in interest rates impact primarily loans by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The administration has a risk management committee which discusses, among other things, whether each of the credits contracted either for working capital or to finance investment projects should be (according to market conditions and the functional currency of the Company) engaged in fixed or variable rate. See detail of loans in note 15.

Following exposure of the Company to bank loans subject to interest rate in thousands of pesos is presented, based on notional amounts at December 31, 2016 and 2015:

| | | Book Value | |
|---|---|---|---|
| | | 2016 | 2015 |
| Short - term loans | $ | 296,615 | 189,020 |
| Long - term loans | | 6,820,865 | 1,884,727 |
| | $ | 7,117,480 | 2,073,747 |

The following exchange rates were applied during the period:

| | Libor rate at reporting date |
|---|---|
| Libor 3M | 0.61% |
| Libor 2.875M | 0.61% |
| Euribor 1M + 1.6% | -0.21% |
| Euribor 6M + 2.25% | -0.04% |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Sensitivity analysis of exchange rate

| | Equity | Income |
|---|---|---|
| **2016** | | |
| Libor (Increase 50 BP) | (31,714) | (31,714) |
| Libor (Increase 20 BP) | (12,686) | (12,686) |
| Libor (Decrease 50 BP) | 31,714 | 31,714 |
| Libor (Decrease 20 BP) | 12,686 | 12,686 |

| | Equity | Income |
|---|---|---|
| **2015** | | |
| Libor (Increase 50 BP) | (9,671) | (9,671) |
| Libor (Increase 20 BP) | (3,868) | (3,868) |
| Libor (Decrease 50 BP) | 9,671 | 9,671 |
| Libor (Decrease 20 BP) | 3,868 | 3,868 |

***(a) Fair values vs. book values –***

The fair values of financial assets and liabilities along with the carrying amounts shown in the statement of financial position are presented below:

| | | Book value 2016 | Fair value 2016 | Book value 2015 | Fair value 2015 |
|---|---|---|---|---|---|
| **Liabilities recorded at amortized Cost** | $ | (7,117,480) | (7,106,980) | (2,117,618) | (2,117,618) |
| Bank loans | | (89,699) | (89,699) | (20,153) | (20,153) |
| Financial leasing | $ | (7,207,179) | (7,196,679) | (2,137,771) | (2,137,771) |

*Fair value hierarchy*

The table below analyzes financial instruments carried at fair value by valuation method on the fair value hierarchy.

The different levels are defined as follows:

- Level 1 data are listed prices in active (unadjusted) markets for identical assets and liabilities, which the Company has the ability to trade at the date of measurement. A price listed in an active market provides the most reliable evidence of fair value and is used without adjustments to determine fair value where available.

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- Level 2 data are data other than prices listed in active markets that are observable directly or indirectly for the asset or liability and are used primarily to determine the fair value of shares, investments and loans that are not actively traded. Level 2 data includes stock prices, certain interest rates and yield curves, implied volatility, credit margins, and other data obtained, including data extrapolated from other observable data. In the absence of level 1 data, the Company determines fair values, through the interaction of applicable Level 2 data, the number of instruments and/or other relevant terms of the contracts, as applicable.

- Level 3 data are those that are not observable for the asset or liability. The Company uses these data to determine the fair value, when there are no level 1 or level 2 data, in valuation models such as discounted cash flows.

| | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **December 31st, 2016** | | | | | |
| Derivative financial assets | $ | - | 16.567 | - | 16.567 |
| Derivative financial liabilities | $ | - | 16.567 | - | 16.567 |

| | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **December 31st, 2015** | | | | | |
| Derivative financial assets | $ | - | 356 | - | 356 |
| Derivative financial liabilities | $ | - | (4.561) | - | (4.561) |

### 19 Stockholders' equity and allowances

#### (a) Capital stock and additional paid-in capital

| | Ordinary shares | |
|---|---|---|
| | 2016 | 2015 |
| Authorized shares - nominal value | 355,825,849 | 355,825,849 |

Series "A" will represent the total number of common shares that will have full voting rights and enjoy all political and equity rights that law grants.

The updated amounts of the adjusted capital stock account (CUCA) and of the net taxable income account (CUFIN), as of December 31, 2016 and 2015 include the following:

| - | | 2016 | 2015 |
|---|---|---|---|
| Adjusted Capital Stock Account (CUCA) | $ | 2,622,836 | 2,537,573 |
| Net Taxable Income Account | | 3,336,237 | 2,936,869 |

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### (b) Reserve for repurchase of own shares

At the General Ordinary Stockholder Meeting held on April 12, 2016, the stockholders authorized allocating an amount of up to $500 million pesos to repurchase and reallocate own shares, and also agreed that the product of the sale of these own shares, if any, made by the Company during this period, will be added to the maximum amount authorized for the purposes indicated previously.

In the General Ordinary Shareholders' Meeting held in September 2015, the repurchase of 225,391 ordinary shares of the "A" series in the amount of $7,243 was authorized. At December 31, 2015, the balance of the reserve approved by the Assembly for the repurchase of shares amounted to $492.8 million pesos. With the aforementioned repurchase the balance of the shares outstanding at the end of 2015 amounted to 355,826 shares.

At the Ordinary General Meeting of Shareholders on April 22, 2015, was authorized to allocate an amount of $500 million pesos to repurchase and resale of own shares, also agreed that the proceeds of the sales of these own shares if the Company made during this period will be added to the maximum amount authorized for the above purposes.

### (c) Allowance for cumulative translation effect

The allowance for translation includes all of the translate differences between the recording and functional currency of auto parts segment, derived from the translation of foreign operation financial statements, as well as the translation of liabilities that protect the net investment of the Company in a foreign subsidiary

### (d) Allowance for actuarial gains from the benefit plan

Actuarial gains reserve includes changes in the obligations of deferred compensation plans and changes in plan assets actuarial gains or losses.

### (e) Allowance for fixed asset revaluation surplus

The allowance for revaluation includes the effect of the revaluation of land and buildings before the reclassification as an investment property.

### (f) Dividends

At the General Ordinary Stockholder Meeting held on April 12, 2016, the stockholders approved the proposal to pay a dividend for each series "A" share in circulation issued of $0.60 pesos per share starting April 20 and up to an additional $0.40 pesos per share, and the Board of Directors is empowered to evaluate and decide possible payment.

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At the Annual General Ordinary Stockholder Meeting of Grupo Industrial Saltillo, S.A.B. de C.V., held on April 12, 2016, the stockholders declared the payment of dividend in cash at a ratio of $0.60 pesos for each share in circulation, payable in a single installment starting April 20, 2016 upon submission of coupon 3 of the definitive titles "Issue 2013". The dividend amounted to $213,495 M.N.

The Board of Directors of Grupo Industrial Saltillo, S.A.B. de C.V., at the meeting held on October 20, 2016, the directors resolved to pay a dividend in cash at a ratio of $0.40 pesos for each share in circulation, in a single installment starting November 3, 2016, upon submission of coupon 4 of the definitive titles "Issue 2013", in accordance with the powers delegated thereto by the Annual General Ordinary Stockholder Meeting held on April 12, 2016 to distribute the remainder of the dividend authorized by this Meeting. The dividend amounted to $142,330.

As of December 31, 2016, there are dividends declared and not paid to the stockholders for $720 that are represented by $152 declared during 2015, $152 declared during 2014, $266 declared in 2013 and $150 declared during 2012.

At the Ordinary General Meeting of Shareholders, it on April 22, 2015, the proposal to pay a dividend of $1 peso for each of the outstanding shares issued Series "A" in the amount of $356,051 which was payable as of April 30, 2015 was approved. The total number of issued shares is 356,051. Dividends paid amounted to $355,899.

### 20 Acquisition

a) INFUN, S.A.

As mentioned in note 1 (a) dated November 23, 2016, the Company announced an agreement for the acquisition of shares of INFUN Group based in Europe and China, dedicated to the design, production and machining of engine parts and components, transmission and suspension in the automotive industry. On December 28, 2016, the acquisition of 100% of the shares of Grupo INFUN (INFUN) was completed.

The acquisition of INFUN Group is part of the Company's internationalization process and reinforces its presence in Europe initiated by the purchase of ACE, and also represents the beginning of operations in Asia de INFUN Group.

The Company agreed to acquire 100% of the shares representing INFUN's capital stock and INFUN's Subsidiaries, 100% of the shares representing Altec's capital stock and 50% of the shares representing Ineder and, indirectly, INFUN Ederlan, at a total purchase price that amounted to €280 million euros equivalent to $6,035,540, assuming, in addition, a debt of up to €40 million euros, subject to certain usual adjustments and conditions for this type of operations.

The price of the transaction was paid with own resources of approximately $ 60 million dollars, as well as the resources obtained from a bank credit up to $ 276.5 million dollars, for a term of 5 years, with a 12- month grace period and quarterly installments, plus a revolving credit of up to $50 million dollars, for a term of 3 years. The financing will also be used to refinance or prepay both the credit engaged in late 2015 for the purchase of Automotive Components Europe (ACE)

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of $76.5 million dollars, and the outstanding balance of the credit for the expansion of capacity of Tisamatic, S. de R.L. de C.V.

The transaction qualifies as a business acquisition, in accordance with IFRS 3, pursuant to the foregoing and derived from the fact that the business combination took place very close to the closing of the 2016 financial year, the preliminary distribution of the fair values of the assets acquired and the liabilities assumed as of the date of acquisition are as follows:

| | | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and equivalents | $ | 855,789 |
| Accounts receivable and other accounts receivable | | 1,026,848 |
| Inventories, net | | 276,837 |
| Property, machinery and equipment, net | | 1,290,922 |
| Other current assets | | 18,340 |
| Intangibles | | 18,278 |
| Deferred income taxes | | 31,307 |
| **Total assets acquired** | | 3,518,321 |
| | | |
| **Liabilities** | | |
| Short-term loans | | 183,885 |
| Trades and other accounts payable | | 1,117,664 |
| Financial instruments | | 9,872 |
| Long-term loans | | 971,147 |
| Financial leasing | | 65,897 |
| Other long-term liabilities | | 72,275 |
| **Total liabilities acquired** | | 2,420,740 |
| Total net assets acquired as of December 31, 2016 | | 1,097,581 |
| Effect of exchange fluctuation of net assets acquired | | (10,675) |
| **Total net assets acquired as of the acquisition date** | $ | 1,086,906 |

As a result of the transaction, the Company recognized a goodwill of $4,948,634, in a preliminary manner, which will be adjusted during the period defined by IFRS 3, once the Company, during 2017, carries out with independent third parties the valuations of the fair values of the net assets acquired, including intangible assets and the effects of the corresponding deferred taxes, in accordance with the guidelines established in IFRS 3.

For the twelve months period as of December 31, 2016, INFUN generated revenues of $4,311,632 and a profit of $541,881, had the acquisition occurred on January 1, 2016, Management of the Company estimates that consolidated revenues and consolidated net income could have amounted to $18,863,964 and $1,720,138, respectively.

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b) Automotive Components Europe, S.A.

As mentioned in note 1 (a) on October 27, 2015, the Company announced its intention to conclude an agreement to acquire shares of a Europe-based and provides foundry services for the automotive industry group. The December 23, 2015, it was materialized the acquisition of 100% of the shares of Automotive Components Europe, S.A. (ACE).

The buying process aforementioned actions was given as follows: First shares acquired 92.11% of the total shares of ACE through a public offering, contemporaneously with it acquired an additional 4.65% directly to ACE and that it held in its treasury. Therefore, derivative and had acquired a stake of over 95% shareholding, GISSA exercised its right to purchase the remaining shares from minority shareholders, who were forced to sell ("Squeeze out"). Once carried out the above transactions, the total shares acquired stood at 21,230,515 representing 100% of the share capital of ACE.

In this regard the Company pays 16.20 zlotys for each of the shares of ACE, regardless of the stage in which they were obtained. The total purchase price of the shares of ACE amounted to $1,524,706 equivalent to approximately US $88 million. To carry out the transaction, the Company obtained financing from Banco Santander S.A. (Mexico) and several financial creditors for US $76.5 million equivalent to $1,296,896 and the balance was settled with equity.

The transaction qualifies as a business combination in accordance with IFRS 3, and has been accounted for as a single operation and it is determined that there is a correlation to run each of the acquisitions of shares as specified by IFRS 10.

As a result of the transaction, the Company recognized a goodwill of $695,017 in a preliminary manner, which was adjusted during the period defined by IFRS 3, once the Company during the year 2016, carries out with independents third parties the valuations of the fair value of the net assets acquired, including intangible assets and the effects of the corresponding deferred taxes, in accordance with the guidelines established in IFRS 3.

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According to the above, the final distribution of the fair values of the assets acquired and liabilities assumed at the acquisition date are as follows:

| | | 2015 | | |
|---|---|---|---|---|
| | | Balances originally reported | PPA effects and homologation of accounting policies | Adjusted balances |
| **Assests** | | | | |
| Cash | $ | 350,482 | - | 350,482 |
| Other accounts receivable | | 314,055 | - | 314,055 |
| Inventories[1] | | 180,313 | (3,186) | 177,127 |
| Property, plant and equipment[1] | | 806,375 | 180,591 | 986,966 |
| Intangible assets | | 8,794 | 355,852 | 364,646 |
| Other assets | | 111 | - | 111 |
| Total assets acquired | | 1,660,130 | 533,257 | 2,193,387 |
| **Liabilities** | | | | |
| Loans | | 470,492 | - | 470,492 |
| Trade and other payables | | 220,852 | - | 220,852 |
| Finance leases | | 20,153 | - | 20,153 |
| Financial instruments | | 4,205 | - | 4,205 |
| Impuestos a la utilidad diferidos[1] | | (19,170) | 164,444 | 145,274 |
| Deferred income taxes[1] | | 133,909 | 13,421 | 147,330 |
| Total liabilities acquired | | 830,441 | 177,865 | 1,008,306 |
| **Total net assets acquired** | $ | 829,689 | 355,392 | 1,185,081 |

(1) From the final distribution of fair values and enactment of accounting policies described above, the Company recognized ending goodwill of $313,014, which was adjusted according to the guidelines established in IFRS 3.

### 21 Earnings per share

The basic earnings per share are calculated by dividing the income attributable to common and preferential stockholders by the weighted average of common and preferential shares in circulation, respectively, during the year. The Company has no common shares with potential dilutive effects.

A reconciliation of the weighted average number of shares is shown below:

| | Shares | |
|---|---|---|
| | 2016 | 2015 |
| Weighted-average of shares for the period ended December 31 | 355,825,849 | 355,975,042 |
| EPS (Pesos for share) | 3.31 | 1.81 |

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## 22 Revenues

Revenues include the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Sale of products | $ | 14,404,918 | 11,174,679 |
| Income from services | | 147,414 | 100,357 |
| Total income | $ | 14,552,332 | 11,275,036 |

As of December 31, 2016 and 2015 the Company has deferred income for $54,265 and $23,730, respectively, representing the fair value of the portion of the consideration received or to be received regarding the development of new products and technology derived from tax incentives with CONACYT and support provided by the government for various expansions of production facilities.

## 23 Other expenses

Other expenses include the following:

| | | 2016 | 2015 |
|---|---|---|---|
| Cost of disposal of fixed assets | $ | 1,156 | 1,586 |
| Write off of fixed assets not used | | 26,755 | 469 |
| Cancelation of non-recovered VAT | $ | 130 | 1,240 |
| Revenue customer balance | | - | (54) |
| Gain on sale of assets held for sale | | (5,312) | (20) |
| Other income | | (14,742) | - |
| | $ | 7,987 | 3,221 |

## 24 Personnel costs

Personnel costs include the following:

| | Note | | 2016 | 2015 |
|---|---|---|---|---|
| Salaries and wages | | $ | 886,677 | 609,869 |
| Expenses related to defined benefit plans | 16 | | 42,939 | 42,223 |
| Expenses related to long-term service benefit plans | 16 | | 4,977 | 5,057 |
| | | $ | 934,593 | 657,149 |

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## 25 Financial income and costs

| | | 2016 | 2015 |
|---|---|---|---|
| **Recognized in income** | | | |
| Interest income in investments held to maturity whose value has not decreased | $ | 46,364 | 43,772 |
| Exchange fluctuation | | 1,228,647 | 554,001 |
| Financial income | | 1,275,011 | 597,773 |
| | | | |
| Interest expenses | | 136,687 | 97,443 |
| Exchange fluctuation | | 1,193,483 | 408,714 |
| Labor liability financial cost | | 17,964 | 19,974 |
| Financial costs | | 1,348,134 | 526,131 |
| Net financial (income) costs recognized in income | $ | 73,123 | (71,642) |

## 26 Related parties transactions and balances:

a) Compensations to key management personnel:

For the years ended December 31, 2016 and 2015, the total compensation for services rendered by our advisors and directors was approximately $ 95,378 and $ 92,228, respectively. This amount includes fees, wages, variable compensation, and retirement benefits.

b) Operations and balances of the Company with associates are the following:

Balances receivable from and payable to related parties as of December 31, 2016 and 2015 include the following:

| ***Accounts receivable:*** | | 2016 | 2015 |
|---|---|---|---|
| Evercast, S.A. de C.V. [1] | $ | 28,128 | 11,621 |
| Infun-Ederlan Auto Parts (Wuhu) [2] | | 20,211 | - |
| Gisederlan, S.A. de C.V. [1] | | 5,332 | 1,065 |
| | $ | 53,671 | 12,686 |

| ***Accounts payable:*** | | 2016 | 2015 |
|---|---|---|---|
| Evercast, S.A. de C.V. [1] | $ | 115 | 27 |
| Infun-Ederlan Auto Parts (Wuhu) [2] | | - | - |
| Gisederlan, S.A. de C.V. [1] | | 4,443 | - |
| | $ | 4,558 | 27 |

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Operations with related parties as of December 31, 2016 and 2015 include the following:

| Evercast | | 2016 | 2015 |
|---|---|---|---|
| Revenues from sales of goods [1] | $ | 63,584 | - |
| Revenues from sales of raw material [2] | | 10,578 | 7,257 |
| Services rendered [3] | | 147,414 | 100,357 |
| Purchase of products [4] | | 1,149 | 5,761 |
| Contracting services | | 2,609 | - |
| Recovery of expenses | | (99) | - |
| Financial cost [5] | | 59,287 | 41,426 |

| GisEderlan | | 2016 | 2015 |
|---|---|---|---|
| Revenues from sales of goods [1] | $ | 4,745 | - |
| Revenues from sales of raw material [2]) | | 304 | 578 |
| Services rendered [3] | | 6,880 | 1,690 |
| Contracting services | | 54 | - |
| Raw material purchase cost [4] | | 2,111 | - |
| Rent received | | 420 | 175 |
| Financial cost [5] | | 16,435 | 4,482 |

(1) These operations correspond to sales of finished goods of foundry businesses to related parties.

(2) These operations correspond to sales of materials of foundry businesses to related parties.

(3) These operations correspond to the provision of personnel, technical and administrative advisory and human resources services mainly to related parties.

(4) These operations correspond to the purchase of finished goods of the foundry business from related parties.

(5) These operations correspond to collecting and managing financial resources from related parties.

### 27 Commitments

a) Collateral granted by Calentadores de América, S.A. de C.V., Cinsa, S.A. de C.V., Cifunsa del Bajío, S.A. de C.V., Manufacturas Vitromex, S.A. de C.V., Fluida, S.A. de C.V., Tisamatic, S de R.L. de C.V., for Grupo Industrial Saltillo, S.A.B. de C.V. in a long-term credit agreement with HSBC Bank USA (Admin and Collateral Agent), HSBC Securities USA, The Bank of Nova Scotia and Banco Santander México as Joint Lead Arrangers and Bookrunners, for up to US $276.5 million.

b) Collateral granted by Calentadores de América, S.A. de C.V., Cinsa, S.A. de C.V., Cifunsa del Bajío, S.A. de C.V., Manufacturas Vitromex, S.A. de C.V., Fluida, S.A. de C.V., Tisamatic, S de R.L. de C.V., for Grupo Industrial Saltillo, S.A.B. de C.V in a long-term credit agreement with HSBC Bank USA (Admin and Collateral Agent), HSBC Securities USA, The Bank of Nova Scotia y Banco Santander México as Joint Lead Arrangers and Bookrunners, for a revolving line engaged for up to US $50 million which along with the credit of paragraph (b) mentioned above total $326.5 million dollars.

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c) Pledge granted by Grupo Industrial Saltillo, S.A.B. de C.V. on the shares of Islo Automotive, S.L. as guarantee in the long-term credit of Grupo Industrial Saltillo, S.A.B. de C.V. with HSBC Bank USA (Admin and Collateral Agent), HSBC Securities USA, The Bank of Nova Scotia and Banco Santander México as Joint Lead Arrangers and Bookrunners, for up to US $326.5 million.

d) Pledge granted by Grupo Industrial Saltillo, S.A.B. de C.V. on the shares of Infun, S.A. as guarantee in the long-term credit of Grupo Industrial Saltillo, S.A.B. de C.V. with HSBC Bank USA (Admin and Collateral Agent), HSBC Securities USA, The Bank of Nova Scotia and Banco Santander México as Joint Lead Arrangers and Bookrunners, for up to US $326.5 million.

e) Pledge granted by Grupo Industrial Saltillo, S.A.B. de C.V. on the shares of Altec Engineering, S.L. as guarantee in the long-term credit of Grupo Industrial Saltillo, S.A.B. de C.V. with HSBC Bank USA (Admin and Collateral Agent), HSBC Securities USA, The Bank of Nova Scotia and Banco Santander México as Joint Lead Arrangers and Bookrunners, for up to US $326.5 million.

f) Pledge granted by Grupo Industrial Saltillo, S.A.B. de C.V. on the rights to the SPA in case of default on this document, signed by GISSA and A.M. Gestión, S.L. and Mersan Invest, S.L. in the long-term credit of Grupo Industrial Saltillo, S.A.B. de C.V. with HSBC Bank USA (Admin and Collateral Agent), HSBC Securities USA, The Bank of Nova Scotia and Banco Santander México as Joint Lead Arrangers and Bookrunners as Financial Creditors for up to US $326.5 million.

g) Grupo Industrial Saltillo, S.A.B. de C.V. as guarantor for Manufacturas Vitromex, S.A. de C.V. in a lease of forklifts for up to $901 thousand dollars whose outstanding balance is $249 thousand dollars as of December 31, 2016.

h) Cifunsa del Bajío, S.A. de C.V., as joint obligor of Evercast, S.A. de C.V. in a master lease for computer equipment with Hewlett-Packard Operations México, S. de R.L. de C.V. as lessee for a balance of US $103 thousand dollars as of December 31, 2016.

i) Grupo Industrial Saltillo, S.A.B. de C.V. as joint obligor for Evercast, S.A. de C.V. in a credit agreement with Comerica Bank, for up to $50 million dollars, whose outstanding balance as of December 31, 2016 amounts to $41 million dollars.

j) Grupo Industrial Saltillo, S.A.B. de C.V. as joint obligor for Evercast, S.A. de C.V. in a revolving line of credit with Comerica Bank, for up to $ 5 million dollars, whose balance as of December 31, 2016 has not been used.

k) Grupo Industrial Saltillo, S.A.B. de C.V. as guarantor for Gisederlan, S.A. Of C.V. in a loan policy with Santander, S.A. (Spain), whose outstanding balance is $12 million dollars as of December 31, 2016.

l) Collateral granted by ACE Boroa, S.L.U., for Feramo Metallum, International s.r.o. in an Overdraft Line Agreement with Banco Popular Español, S.A. as creditor for up to EUR $2 million, whose balance as of December 31, 2016 has not been used.

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m) Collateral granted by ACE Boroa, S.L.U. y Fuchosa, S.L.U. for Feramo Metallum, International s.r.o. for a long-term credit with Banco Bilbao Vizcaya Argentaria, S.A. as Creditor for up to EUR$ 3 million.

n) Collateral granted by Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O., Feramo Metallum, International s.r.o., Automotive Components Europe S.A. and ACE 4, A.I.E. for ACE Boroa, S.L.U. in a syndicated long-term loan from CaixaBank, S.A., Banco Santander, S.A., as financing entities and Bookrunners Banco Popular Español, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., as financing entities CaixaBank, S.A./Banco Santander, S.A., as agent and CaixaBank, S.A., as guarantee agent, for up to EUR $15 million, whose outstanding balance amounts to $10 million euros as of December 31, 2016.

o) Collateral granted by Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O., Feramo Metallum, International s.r.o., Automotive Components Europe S.A. and ACE 4, A.I.E. for ACE Boroa, S.L.U. in a revolving long-term line of credit from CaixaBank, S.A., Banco Santander, S.A., as Financing Entities and Bookrunners Banco Popular Español, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., as financing entities CaixaBank, S.A. / Banco Santander, S.A., as agent and CaixaBank, S.A., as guarantee agent, for up to EUR $5 million, whose outstanding balance as of December 31, 2016 has not been used.

p) Pledge granted by ACE Boroa, S.L.U. on the shares of Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O., Feramo Metallum, International s.r.o., ACE 4C, A.I.E. for ACE Boroa, S.L.U. to guarantee the syndicated long-term loan of ACE Boroa, S.L.U. from CaixaBank, S.A., Banco Santander, S.A., as financing entities and Bookrunners Banco Popular Español, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., as financing entities CaixaBank, S.A. / Banco Santander, S.A., as agent and CaixaBank, S.A., as Guarantee agent, which amounts to EUR$15 million, whose outstanding balance is $10 million euros as of December 31, 2015, as well as guarantee the revolving line of credit for up to EUR $5 million, whose balance as of December 31, 2016 has not been used.

q) Guarantee on accounts receivable from European Brakes and Chasis Components SP. Z O.O. in a revolving line of credit from Bank Zachodni WBK, S.A. for up to 3.5 million euros with an outstanding balance of $954 thousand euros as of December 31, 2016.

r) Collateral granted by Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O., Feramo Metallum, International s.r.o., Automotive Components Europe S.A. and ACE 4, A.I.E. for ACE Boroa, S.L.U. in a contract to conduct derivative financial operations with CaixaBank, S.A., for up to a hedging maximum of $2.5 million euros as of December 31, 2016.

s) Collateral granted by Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O., Feramo Metallum, International s.r.o., Automotive Components Europe S.A. and ACE 4, A.I.E. for ACE Boroa, S.L.U. in a contract to conduct derivative financial operations with Bankinter, S.A., for up to a hedging maximum of $2.5 million euros as of December 31, 2016.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

t) Infun, S.A., Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as guarantors for Ineder Projects, S.L. in a Bank Loan from Santander, S.A. (Spain), whose outstanding balance is $5 million euros as of December 31, 2016.

u) Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as guarantors for Infun, S.A. in a Bank Loan from Santander, S.A. (España), whose outstanding balance is $13 million euros as of December 31, 2016.

v) Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as guarantors for Infun, S.A. in a Bank Loan from Banco Bilbao Vizcaya Argentaria, S.A., whose outstanding balance is $2.4 million euros as of December 31, 2016.

w) Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as guarantors for Infun, S.A. in a Bank Loan from Banco Popular Español, S.A., whose outstanding balance is $2.8 million euros as of December 31, 2016.

x) Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as guarantors for Infun, S.A. in a Bank Loan from Bankia, S.A., whose outstanding balance is $2.6 million euros as of December 31, 2016.

y) Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as guarantors for Infun, S.A. in a Bank Loan from Bankinter, S.A., whose outstanding balance is $4.6 million euros as of December 31, 2016.

z) Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as guarantors for Infun, S.A. in a Bank Loan from Bankinter, S.A., whose outstanding balance is $1 million euros as of December 31, 2016.

aa) Grupo Industrial Saltillo, S.A. B. de C.V., and subsidiaries use different bank instruments for the acquisition of raw material, spares, machinery and finished goods particularly to import them, mainly letters of credit. These letters of credit, issued in favor of different suppliers, have an outstanding balance as of December 31, 2016 of $28.2 million dollars, which have been issued by different national banking institutions.

bb) Grupo Industrial Saltillo, S.A.B. de C.V. as a joint obligor in a current account credit line agreement for factoring suppliers with Nacional Financiera, S.N.C, for up to 600 million pesos, whose outstanding balance as of December 31, 2016 amounts to $319 million pesos.

cc) Several subsidiaries of the Company have entered into various agreements for the supply of wind energy at different terms.

dd) The Company has entered into service agreements with related parties under which these companies provide them with advisory services and services in fiscal, auditing, financial, legal, data processing and control, communications and public relations matters in the area of Human resources, information technology, strategic planning, and necessary administrative policies and procedures for operations. These are one-year contracts. Total payments for this item, which are included in administrative expenses, were $147,414 in 2016 and $100,357 in 2015.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

### 28 Financial leases

Certain subsidiaries of GISSA held leasing contracts for the purchase of various fixed assets, which have the necessary characteristics according to the regulations in which are reported to be regarded as such. According to the regulations mentioned these leases are considered as financial liabilities.

These leases are detailed below:

| | | 2016 | 2015 |
|---|---|---|---|
| Feramo Metallum, International S.R.O., has several leases for the acquisition of fixed assets. At 31 December 2015, the unpaid balance of these instruments is EUR $114 thousands. | $ | 2,487 | 1,357 |
| European Brakes and Chassis Components SP. Z.O.O., has several leases for the acquisition of fixed assets. At 31 December 2015, the unpaid balance of these instruments is EUR $981 thousands. | | 21,314 | 18,796 |
| Altec Engineering, S.L., has different financial leases for the acquisition of fixed assets. As of December 31, 2016, the outstanding balance of these instruments is $2.8 million euros. | | 60,771 | - |
| Casting Ros, S.A., has financial leasing for the acquisition of fixed assets. As of December 31, 2016, the outstanding balance of these instruments is $133 thousand euros. | | 2,898 | - |
| Infun For, S.P.A., has financial leasing for the acquisition of fixed assets. As of December 31, 2016 As of December 31, 2016, the outstanding balance of these instruments is $102 thousand euros. | | 2,229 | - |
| Grand total | | 89,699 | 20,153 |
| Current portion of finance leases | | 23,997 | 4,788 |
| Long-term leases | $ | 65,702 | 15,365 |

Maturities of long-term leases are detailed below:

| | | |
|---|---|---|
| 2018 | $ | 24,651 |
| 2019 | | 21,246 |
| 2020 | | 13,800 |
| 2021 and thereafter | | 6,005 |
| | $ | 65,702 |

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

The Company and its subsidiaries held leasing contracts within their production processes, which have all the necessary features in accordance with the regulations in which are reported to be regarded as such. These leases are detailed below..

1. Heating of America, Inc. de CV, Cifunsa del Bajío, S.A. de C.V., Vitromex Manufacturing, Inc. de C.V., Tisamatic, S. de R.L. de C.V., have operating leases, primarily for forklift equipment. As of December 31, 2016 and 2015, the expenses for these leases were approximately $1,211 and $1,057 dollars, respectively.

2. Asesoría y Servicios GIS, S.A. de C. V., Calentadores América, S. A. de CV, Cifunsa del Bajío, S.A. de C.V., Cinsa, S.A. de C.V., Fluida, S.A. de C.V., Manufactureras Vitromex, S.A. de C.V., and Tisamatic, S. de R. L. de C.V., have leasing contracts for computer equipment with defined lifetimes. As of December 31, 2016 and 2015 these leasing expenses were approximately $1,022 and $1,002 dollars, respectively.

3. Asesoria y servicios GIS, S.A. de C.V., Aximus, S.A. de C.V., and Azenti, S.A. de CV, have leasing contracts for cars with defined lifetimes. As of December 31, 2016 and 2015, leasing expenses were approximately $18,643 and $17,561, respectively.

4. Tisamatic, S. de R.L. de C.V. and Cifunsa del Bajío, S.A. de C.V., have operating leasing, primarily of compressors. At December 31, 2016 and 2015, the leasing expense was approximately US$1,060 y US $201, respectively.

5. Asesoría y Servicios GIS, S.A. de C.V., Calentadores de América, S.A. de C.V., Cifunsa del Bajío, S.A. de C.V., Cinsa, S.A. de C.V., Azenti, S.A. de C.V., Fluida, S.A. de C.V., Manufacturas Vitromex, S.A. de C.V., and Evercast, S.A. de C.V., have operating leasing contracts of real state with defined lifetimes. As of December 31, 2016 and 2015, the expense for these leases was approximately $54,336 and $32,233, respectively.

6. Of the outstanding balance of one of the financial leases of European Brakes and Chasis Components SP Z O.O. for $ 282 thousand Euros $ 34 thousand pesos are subtracted for expenses of contracting this credit which will be amortized during the life thereof. This is presented in the balance sheet to comply with IFRS.

The future minimum annual payments for these operating leases by currency are as follows:

| Year | Million of dollars | Million of pesos |
|---|---|---|
| 2018 | 962 | 69,634 |
| 2019 | 302 | 54,137 |
| 2020 | - | 39,453 |
| 2021 | - | 200 |
| | $ 1,264 | 163,224 |

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 (In thousands of pesos)

## 29 Contingencies

### (a) Litigations

The Company is involved in a number of lawsuits and claims, arising from its ordinary course of business; those matters are not expected to have a significant impact on the Company's future financial position and results of operation.

In cases whose resolutions are considered likely and that will mean an outflow of cash or other resource from the Company, accruals have been recorded that represent the best estimate of these likely payments.

### (b) Tax contingencies

Under tax laws in force, the authorities are empowered to review up to five tax years prior to the most recent income tax return filed.

According to the Income Tax Law, companies conducting operations with related parties are subject to certain tax limitations and obligations as concerns the agreed pricing, which must be comparable to the prices agreed by or between independent parties engaged in similar operations.

If the tax authorities review prices and disallow the amounts determined, they could demand payment of fines on unpaid tax, which can be up to 100% of the restated amount of the unpaid tax, aside from the tax itself and the respective ancillary charges (inflation adjustment and interest on unpaid taxes).

# CORPORATE GOVERNANCE

**By defining** strategic, operational, supervision and management roles, corporate governance is a mechanism that regulates the ties and relationships between the company's shareholders, directors and administration.

Our corporate governance is comprised of:

- **BOARD OF DIRECTORS**
- **AUDIT COMMITTEE**
- **CORPORATE PRACTICES COMMITTEE**
- **PLANNING AND FINANCING COMMITTEE**
- **STEERING COMMITTEE**

The incorporation and functions of the Board of Directors and said committees conform to the statues of the Stock Market Law (Ley de Mercado de Valores), particularly articles 24, 25, 28, 41, 42 and 43.

Through the Board of Directors and committees that emanate from it, businessmen with solid prestige contribute their knowledge and experience to defining and following the strategy of GIS and its companies.

## BOARD OF DIRECTORS

The Board of Directors is responsible for defining the strategic corporate vision, defining and supervising the implementation of our philosophy and values, and supervising operations with related parties. It promotes the use of mechanisms to ensure the quality of information and identification, analysis, administration, and control systems for adequate risk disclosure. Likewise, it also promotes the creation of internal monitoring schemes.

GIS's CEO submits the investment budget annually to the Board of Directors, through which production equipment acquisitions and improvements are presented to help comply with the strategic plan, develop operational and commercial activities that boost and maintain the businesses' competitiveness, always looking to focus on our employees' quality of life at work as well as preserving and improving the environment.

The Company's Board of Directors is elected by the shareholders in a meeting. Each shareholder or group of shareholders controlling 10% of shares is entitled to designate a director. All shares have a voting right, without distinction, and take part in electing the director.

No director has the casting vote; all director votes are equal.

Our Board of Directors is composed of 12 main directors: five propietary members and seven independent directors. Independent directors are people who are selected due to their capability, experience and professional prestige who can carry out their functions free of conflicts of interests without being subordinate to personal, equity or economic interests.

## MANAGEMENT COMMITTEES

| | COMMITTEES | TYPE |
|---|---|---|
| LUIS ARIZPE JIMÉNEZ | Audit<br>Corporate Practices | Independent member |
| JOSÉ MANUEL CANAL HERNANDO | Audit | Independent member |
| FERNANDO CHICO PARDO | Planning and Financing | Independent member |
| EUGENIO CLARIOND REYES-RETANA | Audit | Independent member |
| ALEJANDRO DÁVILA LÓPEZ | Planning and Financing | Propietary Member |
| GUILLERMO ELIZONDO LÓPEZ | Planning and Financing | Propietary Member |
| FRANCISCO GARZA EGLOFF | Corporate Practices | Independiente |
| CLAUDIO X. GONZÁLEZ LAPORTE | Corporate Practices | Independiente |
| FERNANDO LÓPEZ ALANÍS | Planning and Financing | Propietary Member |
| ERNESTO LÓPEZ DE NIGRIS | Planning and Financing | Propietary Member |
| JUAN CARLOS LÓPEZ VILLARREAL | Planning and Financing | Propietary Member |
| MANUEL RIVERA GARZA | Planning and Financing | Independiente |

In addition to shareholders' right to nominate directors at the annual general meeting, the Board of Directors seeks to present proposals to designate independent directors who meet the formal independence criteria established by law, have knowledge of the business and markets in which the company operates, and a profile that complements their knowledge, the experience and characteristics of the remaining directors, seeking a healthy mix of opinions and points of view, with the ability to express them objectively.

Independent directors and their respective deputies in their case are nominated for approval by the maximum governing body (Shareholders' Meeting) and are selected pursuant to the terms of article 26 of the Stock Market Law. The General Shareholders' Meeting is the body that rates the independence of its directors who possess this character as set forth in this article and based on the information that the persons who are the subject of this designation or ratification would provide them or be recorded in the company's records.

No GIS director performs executive functions, and the chairmanship of the board and the company's General Management are held by different executives, which helps create equality among the directors.

The Board of Directors meets at least six times a year, in accordance with the pre-established calendar, and evaluates the financial results and compliance with the company's strategic, social and environmental goals, along other activities, considering the opinions of the competent committees.

All directors will receive, in advance and if possible, the information to be discussed in the board meetings and the draft minutes of the previous board meeting; they may obtain additional information that they need from General Management in order to evaluate it, be able to pronounce and cast their vote. Furthermore, they have access to relevant executives whenever they require something to be cleared up or more information

Members of the Board of Directors may take part in the meetings via remote communication, where engagement concerning the issues submitted for discussion is guaranteed and they can express their point of view and cast their vote; this remote participation is valid for all legal purposes.

The Board of Directors may agree upon the meetings' agenda. 15 days before the board meeting date, directors that constitute a fourth of the Board of Directors may request to include issues that they believe should be dealt with in accordance with the Board of Directors' rules and the 29th article of the articles of association.

GIS's Integrity Process and Code of Ethics governs the behavior and conduct of all its employees and interest groups, including the Board of Directors.

In compliance with Corporate Coordinating Counsel's Code of Best Practice, GIS engaged the services of the Alder Koten company in 2016 to evaluate its board. As a result of said evaluation, the advisory board on December 8, 2016 decided to form work groups to improve management of this body.

The Board of Directors is responsible for monitoring GIS's overall performance and adhering to corporate governance practices and policies through the Audit, Corporate Practices and Finance Committee.

## AUDIT COMMITTEE

The Audit Committee is composed of three independent directors. The Chairman is designated by the Shareholders' Meeting, the other two are nominated by the Board of Directors.

Some of the committee's most important activities include: evaluating the internal control and management systems of the company's Internal Auditing and responding to any important deficiency; following up on corrective or preventative measures that are adopted in case of non-compliance with guidelines, operational and accounting policies.

Additionally, it is tasked with evaluating the performance of external auditors, in addition to describing and valuating its services that are unrelated with auditing financial statements.

It is also responsible for revising and recommending the company's financial statements to the Board of Directors for approval; evaluating the effects that may result from modifying approved accounting policies during the fiscal year; monitoring compliance of agreements general shareholders' and Board of Directors' meetings; and ensuring compliance with the provisions of the Code of Ethics and that the Complaints System is in working order.

## CORPORATE PRACTICES COMMITTEE

It is the committee tasked with evaluating the performance of the relevant executives, along with reviewing their compensation, policies and guidelines for using or enjoying the assets that conform the company's wealth and juridical persons that it monitors through related persons.

It assists the Board of Directors in preparing the Annual Report that is presented to shareholders and carries out the activities stipulated in the Stock Market Law.

The Corporate Practices Committee is composed by three independent members of the Board of Directors; one of them must preside over the committee and is nominated by the Shareholders' Meeting. Members of the committee are designated annually by the Board of Directors on the motion of the Chairman of said corporate body.

The Corporate Practices Committee communicates with the Board of Directors through its meetings, which are convened with advance notice at least twice a year.

## PLANNING AND FINANCING COMMITTEE

This committee makes recommendations to the Board of Directors based on its analysis of the Business's strategic plans, and the investments, acquisition proposals and divestments presented by the CEO.

It provides its opinion on investment and credit instruments to finance the group's expansions and on funds and investment policies. The committee is composed of seven members of the Board of Directors.

## STEERING COMMITTEE/LEADERSHIP TEAM

The group of general and corporate manager is called GIS's Steering Committee and holds a meeting once a month with the CEO.

During these meetings, its members present the CEO with the businesses' monthly and cumulative results along with strategies and tactics to follow during the year to achieve the goals committed with the Board of Directors.

The Steering Committee conducts long-term strategic planning exercises every year and defines its annual budget using the strategic metrics to be fulfilled in the business; these are documents that are authorized by the Board of Directors.

Likewise, this committee approves the businesses' management's own policies and, through the CEO, submits to the Board of Directors changes or adjustments to the practices and policies that it is responsible for authorizing.

This system is carried out in every business that has a CEO and an executive team that replicates the role of GIS's Steering Committee.

The Audit, Corporate Practices, Finance, and Steering Committees hold meetings various times per year as per an agenda. The CEO submits the suggestions and recommendations of said committees for the approval and consideration of the Board of Directors.

## GIS'S STEERING COMMITTEE

**JOSÉ MANUEL ARANA ESCOBAR**
CEO

**JORGE MARIO GUZMÁN GUZMÁN**
CFO

**LUIS FERNANDO SALDAMANDO ARVIZU**
Talent and Culture

**RICARDO SANDOVAL GARZA**
Institutional Relationships

**VALENTE GARZA RECIO**
Supply Chain and Projects

**JORGE ALBERTO RADA GARZA**
Global Automotive Parts

**PAOLO BORTOLAN**
Vitromex

**JAVIER CANTÚ GARZA**
Calorex

**RAUL VELASCO MAGAÑA**
Cinsa

## EXERCISING OWNERSHIP RIGHTS OF INSTITUTIONAL INVESTORS

All shares grant a right to a single vote, without distinction.

Shareholders have the right to take part in, and be properly informed about, decisions that involve fundamental changes to the company in accordance with the law and corporate statutes. Furthermore, they also have the opportunity to participate effectively and vote in shareholder meetings through forms that the company makes available to them, along with the information to be dealt with in every single item of the agenda at least 15 days in advance.

Shareholders that represent at the very least 10% of capital stock may request the convocation of a General Shareholders' Meeting in accordance with the terms stipulated in Article 50 of the Stock Market Law, and all voting results will be revealed in accordance with applicable legal provisions. The process may be consulted with greater detail on GIS's web page, under the "Bylaws" section, in the "Corporate Governance" column in the "Investors" microweb.

A vast majority of the company's shares are in national investment portfolios and are held through intermediaries of the Mexican's stock exchange. However, to facilitate preparation and voting in the meetings, the Company has managed to publish its meeting much further in advance than the minimum required by law.

The meetings' agenda specifies the specific proposal with regard to dividend payments. Likewise, on the occasion of corporate restructurings, the company publishes a brochure where it promptly provides explanations in detail to facilitate decision-making and the corresponding votes of all shareholders.

"We have information backup plans for central systems, tested and live, for audit and recovery purposes."

# AUDIT COMMITTEE'S ANNUAL REPORT

**To the Board of Directors of**
**Grupo Industrial Saltillo, S.A.B. de C.V.:**

In compliance with the stipulations set forth in Articles 42 and 43 of the Stock Market Law and the Audit Committee's rules, we inform you about the activities that we completed during the year ending on December 31, 2016. In carrying out our work, we have been aware of the recommendations established in the Code of Best Corporate Practices. We convened at least every quarter and, based on a work program, carried out the activities described below.

## RISK ASSESSMENT

We made sure that the administration—in compliance with its responsibilities—has carried out the process to identify and evaluate the main risks facing the businesses and to implement activities and checks that allow for the mitigation of the aforementioned.

## INTERNAL MONITORING

We have been extensively monitoring the advancements that are being implemented and improvements to the internal control system being presented by the administration through quarterly reports prepared by the respective departments and, as a result, we have expressed our comments and observations, which have been factored in to improve the same.

## EXTERNAL AUDITING

We recommended to the Board of Directors that they hire external auditors for the group and subsidiaries for the 2016 business year. To that end, we ensured its independence and compliance with the requirements set forth by law. We analyzed their focus and work program with them, along with their coordination with the Internal Auditing department.

We maintained constant and direct communication to inform ourselves of their work progress, their progress, and made note of their comments regarding their review of the quarterly and annual financial statements. We promptly familiarized ourselves with their conclusions and reports on annual financial statements and monitoring the implementation of the annotations and recommendations that they developed as they were working.

We recommended the approval of the fees paid to external auditors for their auditing services and other authorize services, ensuring that they do not interfere with the company's independence.

We began the process of evaluating their services, corresponding to the 2016 fiscal year, which we will report in due time.

## INTERNAL AUDITING

With the goal of maintaining its independence and objectivity according applicable regulation and, in accordance with General Management, we have concluded that the Internal Auditing department will functionally report to the Audit Committee.

We reviewed and approved the annual audit program in due time, ensuring that it has been elaborated based in the operational and business risks in the group's different units. As a result, we also approved

the annual budget and the organizational structure of the function.

We received periodic reports on the progress of the approved work program, the variations that it may have had, and the causes that produced it.

We monitored the observations and suggestions that they developed and their timely implementation.

We ensured that an annual training program was implemented for the department's personnel.

We initiated an evaluation process of the Internal Auditing program to be carried out by the business units' managers and the committee itself.

A Quality Evaluation was performed, which was carried out by an independent outside company, in which improvement recommendations were made, which we assessed and requested to be implementation

**FINANCIAL INFORMATION, ACCOUNTING POLICIES AND REPORTS TO THIRD PARTIES**

Together with the people responsible for implementing them, we reviewed the company's quarterly and annual financial statements and recommended to the Board of Directors that they be approved and authorized for publishing. As part of this process, we considered the opinion and comments of external auditors and ensured that the criteria, accounting policy and the information used by the administration to prepare the financial information were adequate, sufficient and were applied in a manner consistent with the previous year. Accordingly, the information presented by the administration reasonably reflects the financial situation, the company's operating and cash flow results for the year ending in December 31, 2016.

We also reviewed the quarterly reports that the administration prepares to be presented to the Mexican Stock Exchange, shareholders and the general public. We verified that they were prepared in accordance with international financial information standards, using the same accounting criteria used to prepare the annual information. Our review included being satisfied that there was a comprehensive process that provides reasonable security for its content. As a result, we recommended in every quarter that the board approve its publication.

We approved the incorporation of the company's accounting policies, the new accounting procedures that took effect in 2016 as a result of adopting international accounting standards.

We conducted a review, an analysis, gave our opinion and, where appropriate, reviewed the accounting records of the following relevant operations:

- Evaluating the purchase price (Purchase Price Accounting PPA) of Automotive Components Europe S.A. ("ACE Group").
- Acquisition of Infun Group's shares and the financing related to this operation.
- Recoverability of taxes for deferred asset related to fiscal losses.

## COMPLYING WITH REGULATION, LEGAL ASPECTS, AND CONTINGENCIES

We confirmed the existence and reliability of the aspects established by the group to ensure compliance with different legal provisions to which it is subject, ensuring that they are adequately disclosed in the financial information.

We periodically reviewed the various fiscal, legal and labor contingencies that exist in the group and examined the effectiveness of the procedure that was established to identify and monitor it, as well as properly disclose and register it.

## CODE OF CONDUCT

We ensured the existence of adequate processes to fulfill the Code of Conduct, including its dissemination to personnel as well as updating and applying the appropriate sanctions in case of any detected infringements.

We reviewed the complaints received through the system that the company has established for that purpose and monitored its proper and timely resolution.

## ADMINISTRATIVE ASPECTS

We regularly held committee meetings with the administration to keep ourselves informed of the company's process, activities, relevant and unusual events. We also held meetings with external and internal auditors to discuss the progress of their work, the limitations that they may have had to carry it out, and we sought to facilitate any private communication they wished to have with the committee.

We held executive meetings where committee members participated exclusively, and in which agreements and recommendations for the Administrations were established.

The Chairman of the Audit Committee provided quarterly reports to the Board of Directors on the activities that were carried out.

Tasks that we carried out were properly documented in minutes prepared for every meeting we held, which we reviewed and approved.

Kind regards

**ING. LUIS ARIZPE JIMÉNEZ**
Chairman of the Audit Committee

March 24, 2017

# REPORT FROM THE CORPORATE PRACTICES COMMITTEE

**With regards to the fiscal year ending in December 31, 2016.**

**February 23, 2017**

**To the Board of Directors**
**Grupo Industrial Saltillo, S.A.B. de C.V. (the "Company")**

In the name of the Corporate Practices Committee, I present you with the report on the activities that the committee itself has carried out during the fiscal year ending on December 31, 2016, in compliance with the stipulations of Article 43 of the Stock Market Law and the 40th Article of the Company's Articles of Association.

When carrying out its functions in said fiscal year, the committee issued its recommendations on topics under its responsibility, with emphasis on the following:

1. The performance of the relevant executives in 2015 along with the corresponding payment of its fixed and variable compensation, made in 2016. Likewise, their performance objectives for 2016 were reviewed.

2. Guidelines on wage and salary increases were reviewed, along with compensation for the relevant Executives.

3. The automotive parts sector CEO's succession process, which included: a) defining the job profile in the face of challenges that the sector faces, b) evaluating the candidates considered suitable for the position and reviewing the automotive parts sector's global structure.

4. Revising GIS's planning and development strategy as well as the promotability and improvements in the performance feedback process.

5. The plan and measures to expand and retain technical expertise in GIS's automotive parts sector was stipulated.

6. Actions taken in 2016 regarding the social responsibility strategy along with a new organization for executing the same were revised.

7. Information was provided on the level of adhesion in the CCE's good practices.

8. The new CPC regulation in the board was updated and approved.

9. To this day, this committee is not aware of the Board of Directors or any director, relevant executive, or person of authority taking advantage of business opportunities for themselves or for the benefit of third parties that correspond to the company or its subsidiaries, and that the Company has carried out significant operations with related parties.

**ING. FRANCISCO GARZA EGLOFF**

# ENVIRONMENTAL PERFORMANCE

GIS®

**Our mission at GIS is to** create economic value, generate progress opportunities and improve the well being of all the people and institutions with whom we interact; this is how we commit and connect to our interest groups.

One of our five values is sustainable development, because we are convinced of our duty to take advantage of all natural resources and take care of the environment while we are creating value for our clients and consumers in the world.

The behaviors that we promote are taking care of and taking advantage of energy resources, in addition to using clean and efficient technologies that will allow us to generate savings and implement eco-friendly processes.

In 2016, six of our plants in Mexico consumed electrical power produced in Cosoleacaque, Veracruz through certified efficient co-generation, which is a cleaner process compared to what the Federal Electricity Commission uses to provide power. We used more than 260 million kWh of electrical power that came from a cleaner source.

"One of our values is sustainable development, because we are convinced of our duty to take advantage of all natural resources and take care of the environment."

Our European plants use electrical power derived from 100%-renewable sources, which means that production of said power does not produce pollutants, which helps us reduce the ecological footprint of our operations. One example is the Infun plant in Italy, which consumes more than 20 million kWh of renewable energy.

We encourage our employees and their family to participate in voluntary activities that benefit our environment, because we are interested in raising awareness of responsibility. Last year, we carried out events in different areas that we operate in, and planted trees in our facilities.

In all our businesses, we implemented measures that are focused on reducing the environmental footprint of our companies, aiming to preserve environmental quality in the communities where we are present.

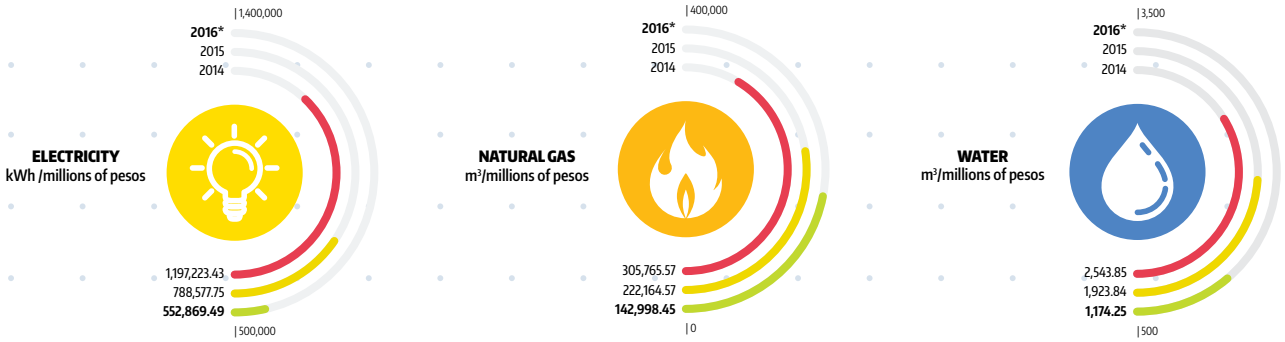
The main resources that we use in our production plants are electrical power, natural gas and water. Understanding the relationship among them and the utility value created through our products allows us to have an indicator of how we transform these natural resources to create value for all the people and institutions with whom we interact.

The results of the annexed chart show the progressive annual improvement that we have had in the interrelationship between using resources and generating value.

Investment projects by all businesses to improve their environmental performance are approved and monitored by the Board of Directors, which allows us to seek continual improvement as set forth in our Environmental Protection Policy.

At the end of 2016, the first trail projects in the new GIS Ederlan plant were carried out and, as a result, their environmental indicators will be measured as of 2017.

**CONSUMPTION PER USE INDICATOR**




*2016's results include resource consumptions and the financial results of the auto parts Casting businesses (Cifunsa and ACE), and the Vitromex, Calorex, and CINSA businesses.

# CIFUNSA®

**Possessing production facilities** in the states of Coahuila, San Luis Potosí and Guanajuato in Mexico, Cifunsa is a company that casts auto parts made of gray and ductile iron.

The nature of the foundry business entails significant power and fuel consumption, which translates into environmental impact measured through the carbon footprint.

For this reason, Cifunsa has taken steps to reduce the carbon footprint for the third consecutive year. We have focused on three areas: efficient use of resources, operational excellence and using energy from cleaner sources.

In 2016, we invested more than $800,000 to control the use of human, technological and natural resources in our processes in the most efficient manner possible, which helped us increase operational efficiency.

Cifunsa's three plants used energy from an efficient co-generation process certified and endorsed by the Energy Regulatory Commission.

Considering that one of the environmental factors of this business is the production of waste, we developed strategies to reduce leaks in sand systems, control processes and re-use materials. These actions reduced the generation of special handling waste by more than 8,000 tons compared to 2015.

Furthermore, we invested more than $1.3 million dollars in a project that ensures that waste is managed at appropriate places and that they do not pose any environmental harm. This system was validated in 2016 by a verification unit certified before the Mexican Accreditation Entity (EMA).

For the second year in a row, and at the request of our client Nissan, we satisfactorily took part in the Carbon Disclosure Project (CDP). Upon obtaining a "C" grade, we improved two aspects with respect to 2015.

In addition to the carbon footprint, the CDP measures our operations' impact on water. In this case, the Saltillo plant increased a level over the previous year and obtained a "B" grade. This grade puts Cifunsa among the models in Latin America when it comes to water management strategies.

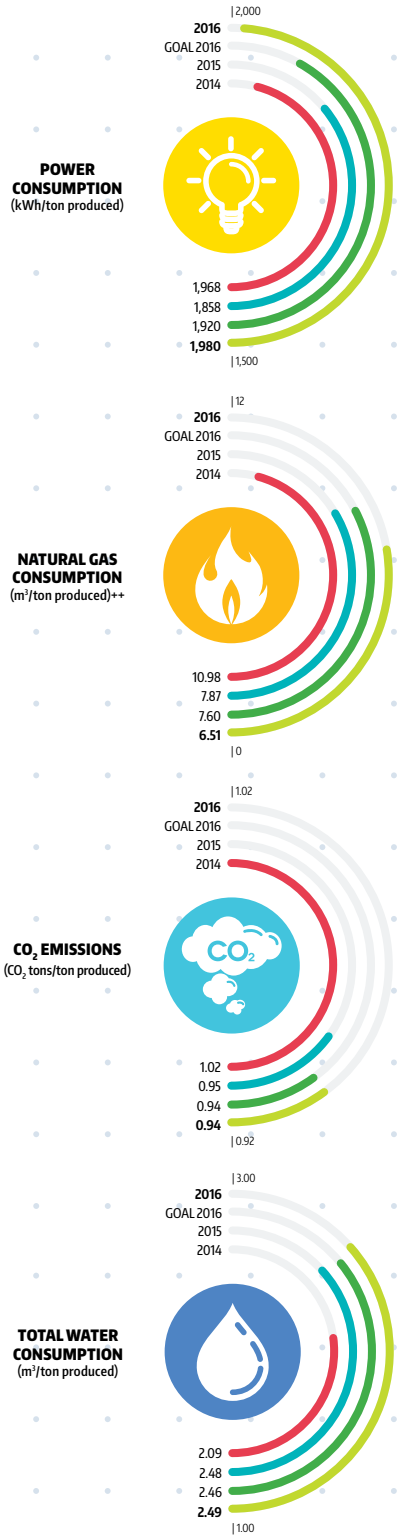
With regard to natural gas consumption per produced unit, we managed to improve more than 16% compared to 2015 as a result of a program aimed at eliminating obsolete piping and improvements in pre-heating pots for casting.

The Saltillo, San Luis Potosí and Irapuato plants maintained ISO 14001:2004 certification upon receiving their third-party monitoring audits in 2016. Seeking continued improvement, we carried out environmental audits in three plants with external provider Grupo Eiffel. The Saltillo plant, which resolved 92% of its issues at the end of 2016, stood out.

We defined improvements in the cooling process, which allowed us to use a greater amount of recycled water and reduce consumption of ground water. Compared to 2015, we maintained a stable trend.

Throughout the year, we will continue to fulfill the Official Mexican Standard regarding polluting emissions to the environment thanks to 100% monitoring of the chimneys in our three facilities. Most noteworthy in line with this purpose is the $75,000-dollar investment to improve the extraction system of the San Luis Potosí plant, which increased its collecting capacity.

**ENVIRONMENTAL AGENT**




++CONSUMPTION FOR THE SALTILLO AND IRAPUATO PLANTS ONLY.

**Business that casts and machines auto parts** for brake systems, this production unit, inaugurated in 2015, was designed to operate with an elevated level of sustainability.

The Evercast plant met its environmental goals for 2016. Among other things, it improved its power consumption per unit produced indicator by 24% compared to 2015, exhibiting great efficiency in continuous operation. Consequently, this business won second place in the State Energy Efficiency Prize 2016, issued by Guanajuato's State Energy Council.

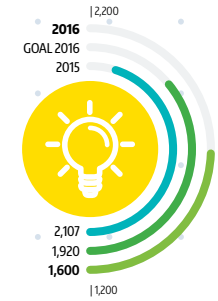
Upon finishing the year, we became one of the first companies in Mexico to receive ISO 14001:2015 certification, which is the latest version of this international standard. This achievement was possible because we demonstrated our commitment to ensuring the highest environmental performance standards, adherence to strict operation controls and its continuity over time.

The LP gas consumption index for pot pre-heating was reduced by more than 50% thanks to operational excellence and coordination among different departments to ensure the efficient use of resources. In addition, there was a significant reduction in combustion gases emitted to the atmosphere.

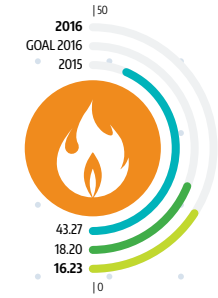
As a vital resource, water is a key indicator in Evercast's operations and, in 2016, we managed to decrease water consumption per unit produced by 37%.

**ENVIRONMENTAL AGENT**

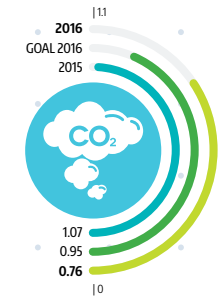
**POWER CONSUMPTION**
(kWh/ton produced)



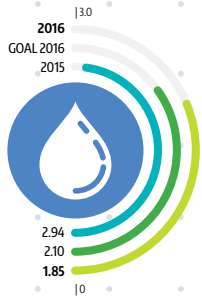

**LP GAS CONSUMPTION**
(liters/ton produced)




**$CO_2$ EMISSIONS**
(CO2 tons/ton produced)




**TOTAL WATER CONSUMPTION**
(m3/ton produced)



ACE
AUTOMOTIVE COMPONENTS EUROPE

**ACE, a company that casts** ductile iron parts and casts and machines aluminum parts for the automotive industry, operates in Spain, Czech Republic and Poland.

In 2016, its plants received follow-up audits to ratify its ISO 14001 certification, which ensures that it has an environmental management system to prevent negative impacts and mechanisms to reduce noise along with waste assessment.

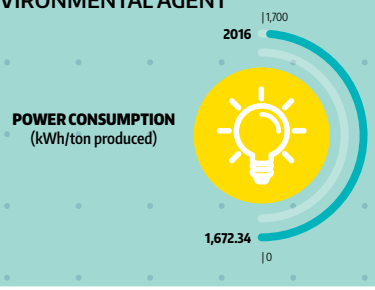
ACE's plants invested more than €200,000 euros to improve and optimize its dust collection systems. This allows for atmospheric emissions to be controlled, which is one of the most relevant environmental aspects in casting processes.

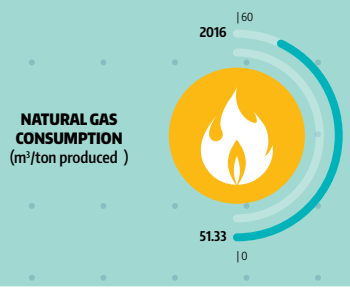
The Poland plant received approval from visiting authorities to validate compliance with wastewater discharge parameters and the noise levels emitted by the company.

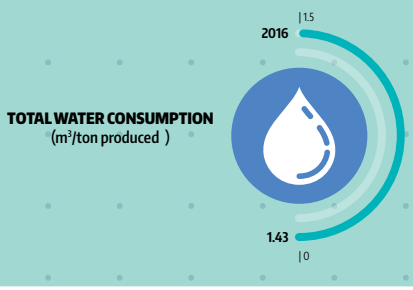
Electrical power is one of the main consumables of ACE's production plants, which is why it is important to underscore that it completed the year with an indicator of 1,672.34 kWh/ton, a highly competitive level in the industry. This result confirms the efficient use of resources and lower environmental impact from the consumption of electrical power. The Czech Republic's production unit invested €78,000 euros to optimize its electric power consumption.

ACE's plants consumed 1.43 cubic meters of water per ton produced, which is an ideal level of resource use. Furthermore, it has treatment processes to re-use this resource. In 2016, the company invested more than €65,000 to ensure proper operation of the water treatment plants in Spain and Czech Republic.

**ENVIRONMENTAL AGENT**



# INFUN Group

**In December 2016**, GIS acquired the Infun Group, a company that designs, casts and machines ductile iron parts for the automotive industry. It operates in Spain, Italy and China.

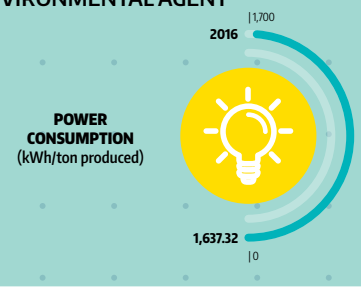
All its plants are ISO 14001-certified, which guarantees that they have an environmental management system to prevent negative impacts on the environment. The European plants are regularly inspected to validate compliance with legal requirements.

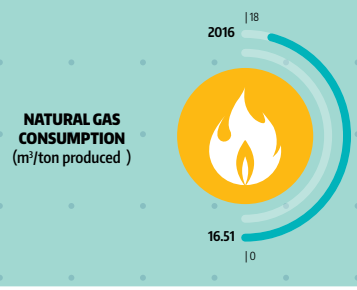
The plant in Teruel, Spain is noteworthy, where a project has been launched with a center specializing in re-using or selling waste. Alongside this is the launch of a program to reduce sand waste production in the Chinese plant.

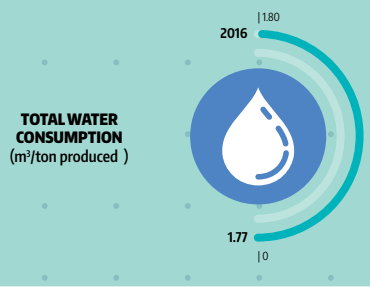
More than €340,000 euros were invested to have more effective control of particle emissions to the atmosphere at the Barcelona, Spain and Rovigo, Italy plants. These resources were aimed at installing new dust collection systems to increase particle collection.

In electric power, which is one of the main consumables for operating foundries and whose proper use is vital for ensuring an organization's efficiency and profitability, many initiatives have been launched, such as a project to automatically turn on foundry ovens at the Italy plant and improvements to increase the use of natural energy in many production areas of the Barcelona plant.

ENVIRONMENTAL AGENT



# VITROMEX®

**With production units** in Chihuahua, San Luis Potosí, San José Iturbide and Saltillo, Vitromex produces ceramic and porcelain tiles and coverings for floors and walls.

This business uses stone materials to manufacture its products, which is why one of the main factors to mitigate the effects of coverings production is to help improve and preserve the biodiversity in the communities it operates in.

In 2016, we rescued 1,421 native species that were in material banks and mills, which ensures its subsistence and re-integration into the natural environment. Furthermore, we planted 3,263 plants of various species in our facilities.

We helped preserve the environment by planting 1,842 plants to reforest areas outside of our facilities, which constitutes an improvement of 22% compared to the previous year. Worth mentioning is the work carried out in el ejido Palo Colorado, located in the municipality of Miguel Allende, Guanajuato, where we planted 1,372 twisted acacia and Kidneywood trees.

Compared to 2015, we increased production by 42% in our greenhouse in the city of Chihuahua. We managed to produce more than 7,000 plants such as Acacia rigidula (chaparro prieto), Dasylirion texanum (the Texas sotol), Celtis pallida (desert hackberry), Acacia farnesiana (sweet acacia) and Prosopis laevigata (smooth mesquite). This is how we help promote biodiversity, which is one of the main environmental aspects that we seek to address at Vitromex.

To ensure regulatory compliance, we carried out an environmental auditing program in all our production plants via Grupo Eiffel and Ramboll Environ. We were also audited by our clients to verify compliance with applicable legal requirements and relevant points of environmental preservation.

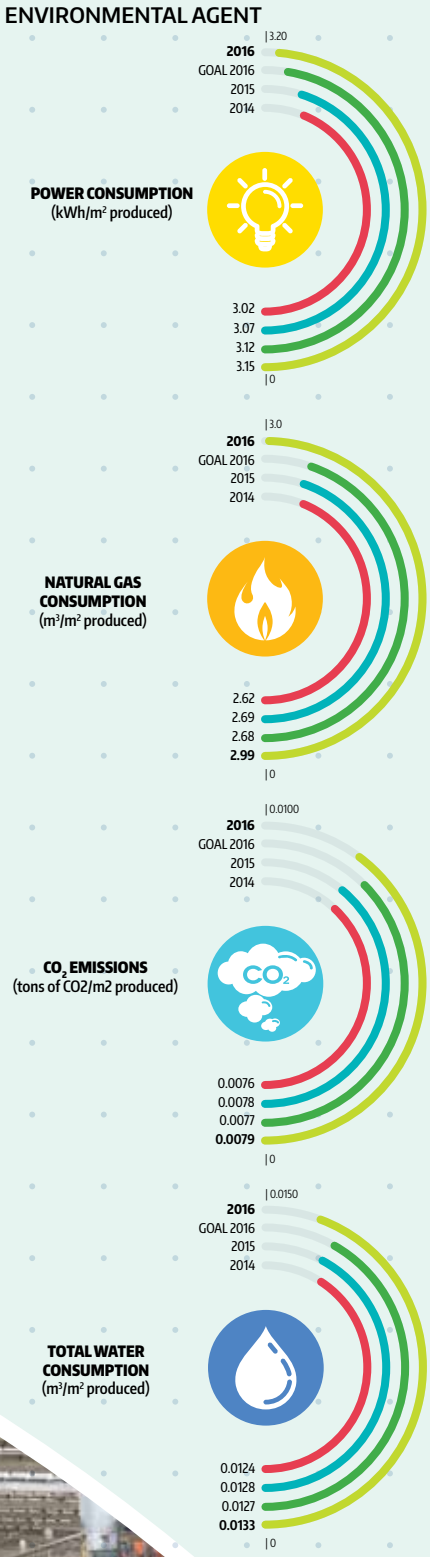
It is important to point out that the San Luis Potosí plant resolved 100% of the issues that were found and maintains up-to-date certifications like Clean Industry, which is granted by PROFEPA, and Green Squared, granted by the Tile Council of North America.

Natural gas consumption for operating the ovens is the main environmental issue for Vitromex, due to the production of combustion gases that are released into the environment. This is why the $10 million-pesos investment made by the Saltillo plant is important to eliminate heat leaks in ovens, an improvement that generated a 3.8% reduction in gas consumption per square meter of covering produced in that plant.

The San José Iturbide plant invested more than $5 million pesos in a treatment plant that will allow it to re-use water in its production processes. This will allow it to improve its water footprint as of next year.

To reduce the carbon footprint, we renovated the equipment and replaced underperforming lamps with high-efficiency ones. One example thereof is the plant in San José Iturbide, where we replaced 60 lamps with LED technology.

Aligned with its business strategy, Vitromex continued to implement digital printing technology for coverings as well as automating and improving processes to provide added value to our portfolio of products, which were measures that generated increases in electricity, natural gas and water consumption compared to 2015.




Cal·o·Rex M.R.

**Calorex has a facility in Saltillo**, where we produce and market a wide variety of water heaters. Furthermore, after integrating the Fluida business, we marketed products for fluid conduction in materials such as iron and copper as well as PVC, CPVC, Pe-Al-Pe and PPR. We have distributions centers in Jalisco, Nuevo León and the State of Mexico.

Compared to 2015, we had a 0.3% performance improvement in electric power consumption per unit produced. This result was possible thanks to technological modernization and the use of more efficient and productive equipment.

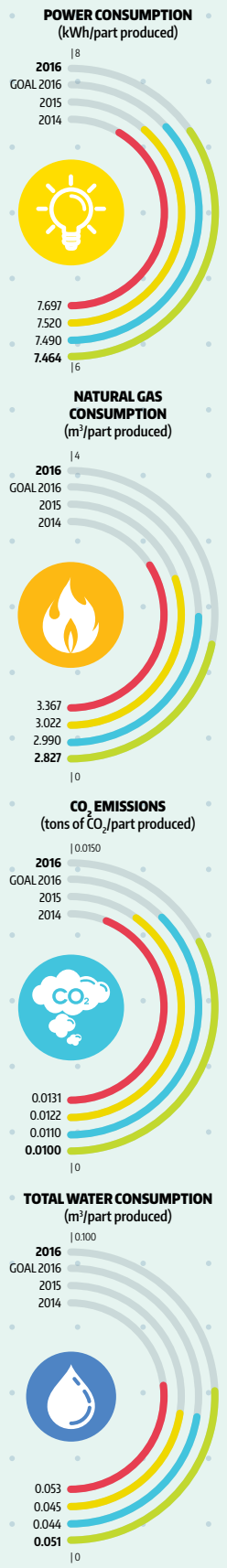
More effective production planning allowed us to optimize the saturation of ovens, a key factor to having a 5.4% improvement in gas consumption.

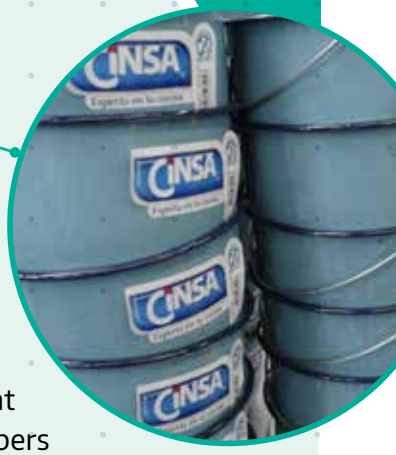
In 2016, we utilized 1,950 cubic meters of treated water, which implies that we decreased consumption of ground water. Furthermore, we resolved 92% of the issues that we had during the external audit performed by Grupo Eiffel.

Re-using waste that is generated by the plant has been one of our priorities for preserving the environment. Compared to 2015, we increased plastics recycling by 67.7 tons and managed to reduce the volume of trash sent to the landfill by 20%.

In the area of particle emissions from productive processes, Calorex invested $2.2 million pesos in our equipment and installation improvements, actions that ensured compliance with standards and minimization of emissions.

## ENVIRONMENTAL AGENT






**Cinsa is a company that** manufactures kitchenware and tableware; it has four production units in the city of Saltillo, three that focus on manufacturing pots, pans and cookware made of vitrified steel and aluminum, and one more that produces ceramic tableware.

In 2016, we invested $1.6 million pesos in three dust collectors in the first production area to comply with current regulations and adhere to our commitment of having better air quality in our community.

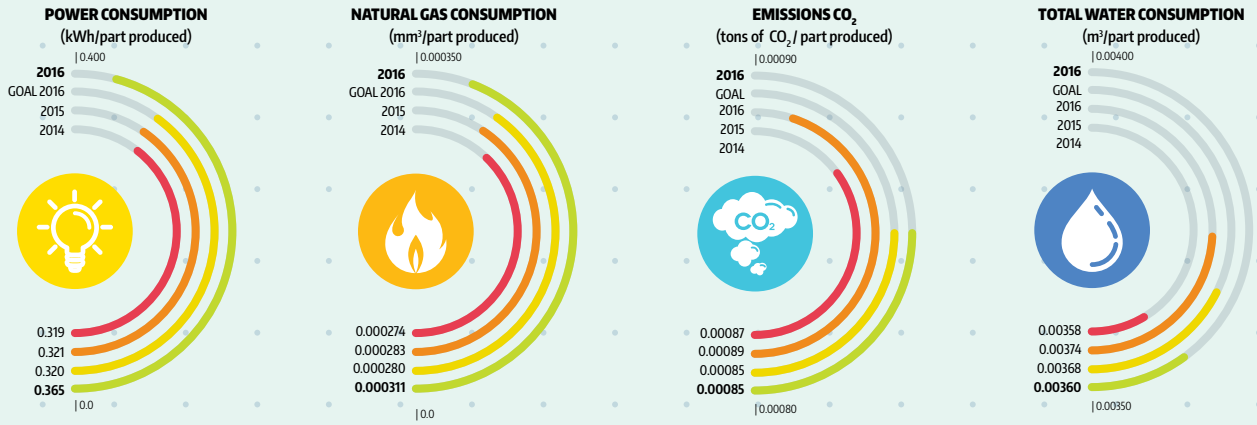
In line with the sustainable development value, we and our employees encouraged the adoption of more than 250 trees in celebration of Safety, Health and Environment month.

Together, the kitchenware and tableware plants used 3,789 cubic meters of treated water in 2016, an amount equivalent to what eight families of five members need for one year.

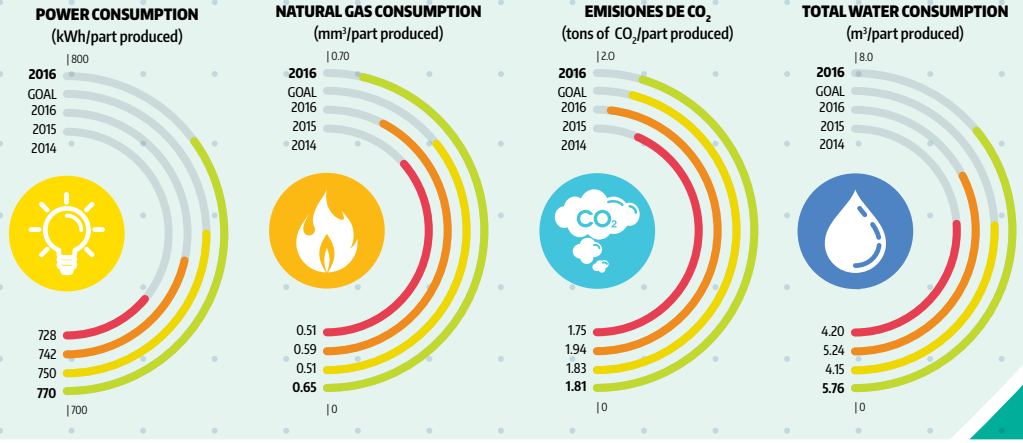
The kitchenware and tableware production units had an increase in power consumption per unit produced due to the integration of equipment such as the pneumatic transport system and the automation of processes in the tableware plant, which were improvements that required an investment of more than $4 million pesos.

At the tableware facility, we improved water consumption by 3.7% compared to 2015.

## ENVIRONMENTAL AGENT (TABLEWARE PLANT)




## ENVIRONMENTAL AGENT (KITCHENWARE PLANT)



# SOCIAL PERFORMANCE

**At GIS, we are aware that building** lasting relationships with clients, consumers, employees, suppliers, shareholders, civil society organizations and government institutions in every community we operate in strengthens us as a company.

Based on our Corporate Statements, we allocate resources to put into practice the value of human development, promoting the integral growth of our employees and their families. Furthermore, we seek to generate progress and well-being opportunities for our interest groups.

Over the year, we have carried out different events and actions in countries in which we operate on the American, European and Asian content, all for the purpose of promoting the executing of GIS's values and aligning our employees to achieve objectives.

# OUR EMPLOYEEES

For GIS, it is essential to increase and align our relationship with more than 8,000 employees that are a part of our businesses in Mexico and now, the world.

We strengthened the leadership of our brands thanks to the quality and efficiency of products, with which we continuously innovate supported by the talent of our employees and the knowledge of consumers.

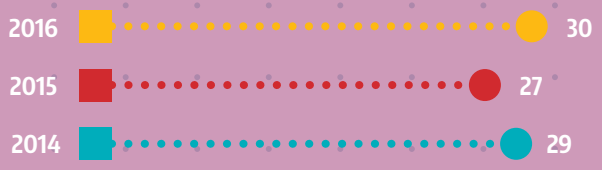
With the goal of facing GIS's growth toward globalization, we are working on our management culture, which seeks to develop talent to guide the company's performance toward achieving its vision.

In 2016, we carried out actions to improve work conditions and environment, in addition to aligning our organization through communication from senior management and expressing gratitude to their employees.

One example thereof is the Leadership Academy, which was carried out in the first quarter of the year. The management team and GIS's management met over two days to familiarize themselves with annual results and the challenges that all the businesses face in 2016. This institutional event, which includes dialog sessions and leadership development, will be carried out once a year.

We also carried out dialog sessions with GIS's General Management and the Businesses' Management and have open and collaborative spaces that foster communications at the corporate offices in Mexico City.


**INVESTMENT TRAINING IN MEXICO** (Millions of pesos)



We invested more than $30 million pesos in developing, training and coaching our work force in Mexico, a figure that represents an 11% increase compared to 2015. This amount represents 2.66% of payroll, which is a model in the industries in which we participate.

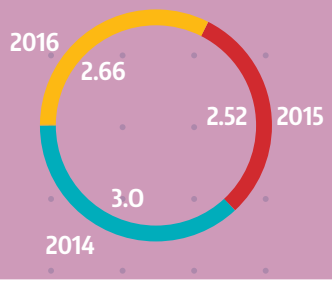
In ACE's European operations, we invested more than €250,000 euros in training and personal development activities. Infun Group, a company that was acquired in December 2016, invested more than €200,000; both in Europe and Asia; to enhance the capabilities and abilities of its employees, which reflects its adherence to the GIS Decalogue's philosophy.

For four consecutive years, we carried out the GIS Leadership Program, where more than 120 employees participated. This initiative is based on employees' growth as people with integrity, who are responsible, aware of their personality, of how they manage their emotions and how they impact the people with which they coexist and interact every day. Communication, responsibility and teamwork abilities are developed to promote positive changes.

GIS's development agenda includes two formal dialog sessions between bosses and employees. These meetings, which are aimed to document the progress in performance objectives and the results of their 360-degree evaluations, are documented through the "Success Factors" talent management system.

The training programs that are most representative of ACE in Europe are Faros and Artes, both of which are based on developing great potential in general abilities and business management. There are currently six employees in Faros, whereas 20 participate in Artes, an initiative that represents an investment of more than €55,000 euros.

**TRAINING AS % OF PAYROLL IN MEXICOO**



Infun's plants in Italy and China are noteworthy, where more than 2,500 hours of training were provided to employees for developing operational and management abilities.

We have a Talent Succession Process at all levels of the organization that offers a career plan to encourage staying at GIS. Every year, employees register and document names of possible candidates for their successors as well as their career aspirations.

In 2016, evaluations of the work climate in ACE plants were carried out via the Trust Index Assessment. The ACE4C investigation center, which obtained a rating of 66 points with 88% participation, is noteworthy. In these evaluations, employees also have the opportunity to propose improvement actions, suggestions that are reviewed and considered for action plans.

These satisfaction surveys are given to personnel at Infun's plants in Spain and China, and their results are the basis for creating development plans for improving work conditions. Special mention should be made of the Teruel, Spain plant, which has an equality plan among men and women, along with a harassment protocol.

Through the Quality of Life Committees, we continue developing efforts to improve our work environment and culture. As part of this work, we carry out actions in all business units in Mexico.

These committees are constituted by voluntary employees that have agreed to become the link between their colleagues and their businesses' General Management to optimize working conditions in their locations. Your suggestions and opinions are used to improve internal events such as Three Kings' Day, Children's day, Mother's Day, Father's Day, or the traditional posadas. Furthermore, they are a starting point for perfecting the benefits that our employees have, such as access to healthy food, plans and actions to improve work-life balance as well as maternity and paternity policies that go beyond the legal minimum.

One action that we performed in 2016 and reflects our commitment to our employees' quality of life was the launch of the "Flex Time" program. This flexible schedule plan allows our employees to select the most appropriate schedule to manage their personal and work life in the most balanced manner.

As set forth in our Ethics Code, we adhere to compliance with the Global Compact to ensure respect for basic human rights through mechanisms that are focused on prohibiting child and forced labor. We apply strict hiring checks and validations in all our operations to ensure that these rights are preserved.

At its Spanish plant, ACE has a program whose objective is to promote a work-family balance to improve its employees' quality of life. It also has an equal opportunity program for women in all operations. For its part, the plant at Czech Republic implements policies to prevent a hostile work environment and offers benefits to promote a healthy life.

One of the most relevant actions that we carried out in Mexico in 2016 was the launch of the "Life Mentors" program. We began at Cinsa with a group of mentors that provided our employees with emotional support through counseling. The objective is to help them identify and empower their abilities to boost their personal and family development, which has a positive impact on quality of life and human excellence.

The challenge for the coming year is to consolidate this program throughout the entire organization to multiply the benefits in the different communities in which we operate.

Vive GIS, a bi-monthly magazine, is an internal communication tool with which we keep our employees informed about the businesses' most notable events and the locations in which we are present. It is delivered directly to employees' homes as a strategy to get their families involved in GIS's happenings.


In addition to face-to-face reunions that are carried out in production units with business management, a new internal communication channel, electronic and via bulletin boards, was built to timely inform all employees about the quarterly results that GIS reports to the Mexican Stock Exchange.

The commitment and loyalty by employees has enabled GIS to grow and develop, evolving into a global company. It is because of this that recognition is given to personnel whose career and tenure with the company spans from 5 to 40 years. This encouragement is issued for every five years an employee is with the company.

In Mexico in the year 2016, tribute was paid to 61 employees that are considered forgers of our history. Those who had 25 and 40 years with the company received a present and attended a special celebratory dinner.

Acknowledging achievements and results motivates people to boost their commitment, give the best of themselves, and maintain positive collaborative behaviors and attitudes that allow them to work as a team.

GIS's Recognition Program is aligned with our Corporate Statements to recognize the results of the people and work teams that manage to meet and exceed their objectives, maintaining integral behavior in accordance with the three foundations of GIS: implement, develop, and grow. Employees are nominated by their co-workers, and their results are evaluated by the management team.

This GIS Award is issued by General Management to those who achieve extraordinary results over their career or who perform a high-impact activity for the company. These awards are issued during a gala dinner by GIS's Leadership Academy, which gathers all the businesses' executives.

In Europe, ACE provides training and development options to personnel with high potential who meet productivity assistance, and goal attainment standards. Furthermore, it provides information so that employees can have a clear idea of how the performance bonus is calculated. On the Asian continent, Infun employees have been publicly honored for their achievements in the work environment.


GIS's plants all over the world have mechanisms to encourage employee participation in programs and contests that include the issuing of awards. One example is Infun, which carried out drawing and photography contests as part of its activities in 2016.

Industrial, occupational and environmental safety is a priority that is included in our Corporate Statements as a fundamental part of the "Implement" foundation. We keep track of it in monthly outcome meetings headed by the CEO of GIS and continuously reinforce our safety operational system in all Mexican units.

We offer our employees opportunities to improve their health through informative capsules on healthy habits. We also have programs to keep track of employees' progress in healthy behaviors and sports activities. More than 1,000 employees participated in Mexico in 2016, and we believe in teamwork as a resource to achieve results. To that end, we have natural work teams in all businesses, which promote innovation and continuous improvement.

One noteworthy plant is the one in Evercast, which already has 15 natural work teams after one year of beginning operations, which implies the participation of more than 150 employees. In 2016, this business received ten work merit awards issued by the government of the State of Guanajuato for implementing improvement projects.

In appreciation of the results obtained by the natural work teams, the 12 best ones in Mexico participated in the annual Innovation and Continuous Improvement event last year, where prominent Lean Manufacturing projects were presented. Teams presented to GIS's CEO and member of the management team projects that are geared toward improving production processes and increasing productivity.

Furthermore, seven projects were awarded for implementing innovative ideas that consolidate our competitive position on the market. 45 Green Belt certificates were also issued in this event, and one Black Belt.

For the fifth year in a row, GIS and all its Mexican businesses were awarded with the distinctive Socially Responsible Company, issued by the Centro Mexicano para la Filantropía [Mexican Center for Philanthropy] and la Alianza por la Responsabilidad Social Empresarial [Alliance for Corporate Social Responsibility]. Our organization ranks 42 among 364 companies certified in the 0-5 years category to voluntarily and publicly committing themselves to maintain socially responsible management with continuous improvement as part of its culture and business strategy.

With the goal of giving transparency to recruitment and selection processes, the members of the Integrity Committees of each GIS business monitor the promotion and acquisition of talent through the GIS opportunity portal.

In care and compliance with our employment policies, which favor respecting human rights, gender diversity, beliefs, social class and political affiliation along with including people with different capabilities, GIS's operations in Mexico had a total of 6,395 employees: 22% women and 78% men. ACE's Polish plant stands out, since more than 31% of its employees are women.

We comply with applicable labor regulations, our employees are hired with indefinite work contracts and have social security services, competitive salaries, savings funds, life insurance, transport service, a lunch subvention, and social welfare benefits. 98% of our personnel in Mexico is part of the variable compensation scheme that is tied to the business's results, a percentage that is a model in the industries in which we participate in the country.

Our employees have the right to free association, and our union model in Mexico is very robust, proof of which can be found in the 40th anniversary celebration of the Cifunsa union in 2016. In all our operation units, employees that have perfect attendance for the year are awarded for this important achievement, reflecting one of our values: Responsibility and integrity.

Actions to improve our work environment, increase communication with personnel, monitor the integrity process in the businesses and the results of the Great Place to Work survey, along with the initiatives by the Quality of Life Committees, allowed us to reduce voluntary turnover in Mexico by 7.5% compared to 2015.

In our Eastern European operations, where the labor market is more dynamic, it is worth noting the strategies carried out by the Czech Republic plant in salary revision processes by PwC, appraisals that will be considered for 2017.

| TRAINING INVESTMENT IN MEXICO [1] | 2016 | 2015 | 2014 |
|---|---|---|---|
| ORGANIZATION | 7,219 | 6,851 | 6,293 |
| NON-PRODUCTION EMPLOYEES | 5,035 | 1,686 | 1,516 |
| PRODUCTION EMPLOYEES | 2,184 | 5,165 | 4,777 |

[1] Includes all GIS personnel in Mexico and the United States and ACE personnel in Europe. Does not include the Infun Group.

# OUR FAMILIES, COMMUNITIES AND INTEREST GROUPS.


In addition to strengthening our relationships, GIS's integration with different interest groups creates value for all and thus, we have had contact mechanisms and methods that promote harmony.

Through various events, we helped hundreds of disadvantaged people and communities. We have had the help of our personnel and their families in different cities, such as in Saltillo, where we helped more than 650 children with social responsibility activities.

Because of these actions, DIF Coahuila awarded GIS as a "Committed Company" in 2016.

The integral development of our employees involves their families through recreational, social and sports projects. We held soccer and softball tournaments at the various locations where GIS operates in addition to open house events so that our employees and their families can familiarize themselves with the production processes and, at the same time, participate in healthy harmonious activities.

We joined social responsibility activities in the city of Saltillo through RED SumaRSE Coahuila, with which we carry out sustainable projects in addition to promoting a culture of participation. In 2016, GIS joined the first joint social investment initiative to help educate more than 4,800 children in taking care of the environment.

Through our executives, we participated in intermediate agencies with the goal of creating synergies and maintaining a close relationship with our interest groups. We promoted the development of national industry together with institutions such as Coparmex and Canacintra. Last year, Coparmex recognized all our businesses in Saltillo for their track record and continuous participation in building a better society.

Last year, 43 women took part in training and empowerment activities through the Asociación Nacional Pro Superación Personal, A.C. (ANSPAC), which offers tools and tips to employees and wives who are mothers. The objective is to promote their personal growth and comprehensive improvement of their families.

We are committed to the culture of inclusion for vulnerable community members. In Spain, the ACE business has a cooperation program with URBEGI to employ people with limited hearing capacity in some activities in the finishing area. And at the Teruel, Spain plan, the Infun Group works with the CUMI special employment center to hire people with different capabilities in the parts verification area and surveillance service.

GIS is a leading company in developing the Mexican Dual Training Model (MMFD) in Coahuila. Last year, 11 students finished their studies with this system; of which eight were integrated into GIS to work in some of its businesses.

A total of 40 GIS employees participated in this program and helped develop the abilities of young people, thereby putting into practice the human development value. Currently, 24 graduates from generations three and four are working in our businesses.

During the first quarter of 2016, GIS was recognized as a pioneering company in MMFD's advertisement, an award that was issued by the Secretariat of Public Education and the Corporate Coordinating Counsel.

In Spain, ACE and the Infun Group have a robust association program with universities to develop projects and professional practices for undergraduate and postgraduate students.


All our businesses participate in specialized organisms in their respective industries. In Mexico, the CEO of Evercast presided over the Sociedad Mexicana de Fundidores in 2016, and the CEO of Calorex held the same position at the Asociación Nacional de Fabricantes de Aparatos Domésticos [Association of Manufacturers of Domestic Appliances]. In Spain, ACE is closely linked to the FEAF and FVEM foundry organizations, while Infun Group maintains a collaboration agreement with the Instituto de Educación Secundaria de Utrillas [Utrillas Secondary Education Institute] and the Centros Educativos de las Cuencas Mineras [Cuencas Mineras Education Center].

GIS is a sports promoter in Saltillo. In 2016, its San Isidro 15K race marked 41 years of existence, which makes it the formal sporting event of its kind with the longest tradition in the city. 3,100 runners signed up in the last edition, more than 100 of which work at GIS.


Over the year, GIS has provided $5.2 million pesos in economic and in kind donations to public and private social, educational and religious assistance institutions. Worth mentioning are the Leaders of Tomorrow scholarship, the Mexican Red Cross, el Patronato de la Casa de los Niños, A.C., Instituto Juvenil Saltillense, A.C., The Telethon Foundation, and the Asociación de Amigos del Desierto de Coahuila.

Infun Group donated €7,000 euros to the Wuhu community in China to help people in the region who suffered losses due to flooding. It also donated more than €2,000 euros to various literary and sports events in Italy and took part in the 1 a 1 Colaboradores y Empresa [1 to 1 Employees and Company] donation program to help those who were ravished by earthquakes in Italy in 2016.

Aligned with the focus on generating value and development opportunities in the communities where we operate, the ACE plant in Poland helped needy people in the area with more than €1,500 euros' worth of basic foodstuffed donations and cohabitation events. And in Spain, it donated more than €2,000 euros to help restore the Euskal Herria region's historic and cultural heritage.


GIS was recognized as a leading company in the Environmental Leadership Program, granted by the Federal Attorney's Office for Environmental Protection (PROFEPA). This distinction is the result of the sum of all its businesses' and supply chain's efforts to reduce the environmental footprint.

As a leading company, GIS brought together the talent of employees from Calorex, Cinsa, Cifunsa and ASGIS along with that of eight providing companies to develop projects that promote the efficient use of energy and natural resources and reduce emissions to the environment. 22 projects were integrated that could generate estimated savings of up to 39,000 m3 of water in one year, enough volume to supply 86 five-member families for 12 months, as well as a reduction of 5.2 million kWh of power and savings of up to $11.2 million pesos.

GIS maintains a solid relationship with its clients, not only to offer it quality products but also to exceed its expectations in complying with indicators related to sustainability in its operations. Evidence of this are the awards given by Fiat Chrysler and SISAMEX, who awarded the Cifunsa Irapuato and Cifunsa Saltillo plants, respectively, as excellent suppliers.

In this same aspect, our Vitromex, Cinsa and Calorex businesses receive annual audits by clients such as The Home Depot, Lowe's, Sears and Wal-Mart, among others, to validate our commitment in the areas of social and environmental responsibility, which are an integral part of our culture of sustainability.

# CERTIFICATES*

| BUSINESS | CERTIFICATE | DESCRIPTION | ISSUED BY: |
|---|---|---|---|
| CIFUNSA | TS 16949 | International standard for quality management systems in the automotive industry | International Organization for Standardization ISO |
| | ISO/TS 9000 | | |
| | ISO 14000 | International standard for environmental management systems | |
| | APQP | Advanced product quality planning | |
| | VDA de VW | Audit process standard | Volkswagen AG |
| VITROMEX | ISO 9000:2008 | International standard for quality management systems | International Organization for Standardization ISO |
| | ONNCCE | Certificate of technical product documents | National Standardization Body and Construction and Building Certification |
| | PTCA | Standard for porcelain coverings | Certification Agency for Porcelain Coverings |
| | Green Squared | Certificate of accreditation as sustainable coverings | Tile Council of North America |
| | Industria Limpia | National Environmental Certification | PROFEPA |
| | ESR | Socially Responsible Company | CEMEFI |
| CALOREX | ISO 9000:2008 | International standard for quality management systems | International Organization for Standardization ISO |
| | NOM | Official regulation on the design and characteristics of products and processes | Official Journal of the Federation |
| | ANCE | Certificate for product marketing | Association for Standardization and Certification, A.C. |
| | ONNCCE | Certificate for technical documentation of the solar heaters | National Standardization Body and Construction and Building Certification |
| | EMA | Laboratory test management certificate | Mexican Accreditation Entity |
| | NBIB | Certificate of safety for boilers and pressure vessels | National Board of Boiler and Pressure Vessel Inspectors |
| | UL | Product certificate | Underwriters Laboratories |
| | CSA | Product certificate | Canadian Standards Association |
| | ETL | Certificate for energy-saving technologies within the tax incentive program | Department of Energy and Climate Change of the United Kingdom |
| | ASME | Certificate for pressurized container construction | American Society of Mechanical Engineers |
| | SENER | Approval for performing energy consumption tests | Secretariat of Energy |
| | CONUEE | Product certificate of efficiency and energetic use | Comisión Nacional para el Uso Eficiente de la Energía [National Commission for the Efficient use of Energy] |
| | ICONTEC | International Standardization Body for Products and Services | Colombian Institute of Technical Standards and Certification |
| | CASCEM | Best practice for C-TPAT certification | Mexican Council for Foreign Trade |
| | C-TPAT | Certificate for safety in the supply chain and the borders of the USA | US Customs and Border Protection |
| CINSA | NOM | Official regulation on the design and characteristics of products and processes | Official Journal of the Federation |
| | ANCE | Certificate of process design and performance results | Association for Standardization and Certification, A.C. |

*In Mexico

# INTEGRITY PROCESS

**The objective of the integrity** process is to ensure that GIS's values are reflected in the daily behavior of its employees, directors, customers and suppliers as part of its organizational culture through three components:

- **Ethics Code**
- **Integrity Committees**
- **Support Process for Ethics Code Violations**

As an organization, we have set ourselves apart by promoting honest and transparent interaction of the people, companies and institutions with whom we interact to consolidate our mission: create economic value, generat progress opportunities and improve the well being of all the people and institutions with whom we interact. Because of this, achieving ethical performance is one of our priorities.

The Ethics Code, which is based on GIS's values, is a guiding document that rules proper behavior for our employees, directors, communities related to the organization, in accordance with the company's policies, behavioral standards and the GIS Decalogue.

To bring the Code of Ethics to life, the committed involvement of all the people is required by experiencing the values of GIS and complying with its policies. The professionalism that we have achieved throughout the years has allowed us to create an environment that is favorable to developing our talent.

The fifth edition of the Code of Ethics includes, among other things, the ten principles of the United Nations Global Compact related to human and labor rights, the environment and corruption, in addition to emphasizing the importance of not making contributions to political parties.

Through an e-learning tool and a monitoring process, every GIS company ensures that all the employees receive an Integrity Process course, which certifies comprehension of the Code of Ethics through an evaluation that is carried out upon concluding training.

"Generate progress opportunities and improve the well being of all people and insitutions with whom we interact."

Likewise, we continue efforts to promote the construction of an ethical environment via a communication campaign through various means: flyers, posters, and comics at all plants, as well as informative reunions with employees, clients and suppliers.

The Integrity Committees, which are composed by employees with proven honesty and responsibility, are the bodies in charge of making the Ethics Code a way of life, in addition to dealing with and responding to complaints that arise.

In 2016, the new members of the committees were trained through the Mexican chapter of the Association of Certified Fraud Examiners (ACFE), the purpose of which is to give them the ability to deal with complaints that arrive through the Integrity Process. They are trained to perform in a professional manner and in accordance with the best practices taught by professionals in the subject area.

The future vision of the Integrity Process is to have the same process applied in all our operations in America, Europe, and Asia to have the elements that allow us to define the behavioral reference framework with which all of us as employees should comply.

In 2016, we received 201 complaints, 55% of which were anonymous. It was a record year with regard to the number of complaints, which demonstrates the confidence and certainty created by the Integrity Process for GIS's employees and interested parties.

It is important to point out that, thanks to the autonomous and decentralized complaint mechanisms, any internal or external person related to GIS may make use of them to report deviations from the Code of Ethics and ensure that their case will be dealt with.

Out of all the complaints received in 2016, 26% did not prosper, 30% of them were a request to clarify facts, 25% recommended a call to action, and 19% recommended that a contract be suspended or terminated. Upon finishing the year, 36 matters were still in the support process.

## SUPPORT PROCESS FOR VIOLATIONS

Submitted complaints, either personally or anonymously, due to Ethics Code violations are dealt with through the Integrity Process. The following means may be used:

- **Phone line** 01 800 00 37 447 (01 800 00 ES GIS) in Mexico and 1-888-309-1498 in the United States.
- **E-mail:** reportalogis@tipsanonimos.com/comite.auditoria@gis.com.mx
- **Web site in Mexico** https://www.tipsanonimos.com/reportalogis and in the United States https://gis.alertline.com.
- **Through a third party.** In this case, the complaint is made by telephone from the Support Center, which allows for data to be provided by people not affiliated with GIS.
- **Mailboxes** located in the company and places with a low influx of personnel to preserve anonymity.
- **Personalized attention** by the Integrity Committees located in every GIS company.

Of the complaints received in 2016, 52% were sent via e-mail, 42% through the web page, and 6% through the support center.

The work and monitoring performed by the Integrity Committees allow for areas of opportunity to be identified in the company and actions to be determined that improve the ethical behavior expected in GIS. A breakdown of the policy violated in each single reported deviation helps create process indicators that serve as the foundation for outlining business management.

| Integrity Process | 2016 | 2015 | 2014 |
|---|---|---|---|
| Number of complaints/total from employees | 3.14% | 2.10% | 2.10% |
| Did not prosper | 21% | 27% | 37% |
| Explanation of facts | 26% | 27% | 18% |
| Call to action | 20% | 19% | 24% |
| Contract suspension or cancellation | 15% | 10% | 8% |
| Support process | 18% | 17% | 13% |

*Indicators only apply to operations in Mexico.

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