MEGACABLE®

Connecting You to the world

2017 Annual Report

Contents

Relevant **Data**

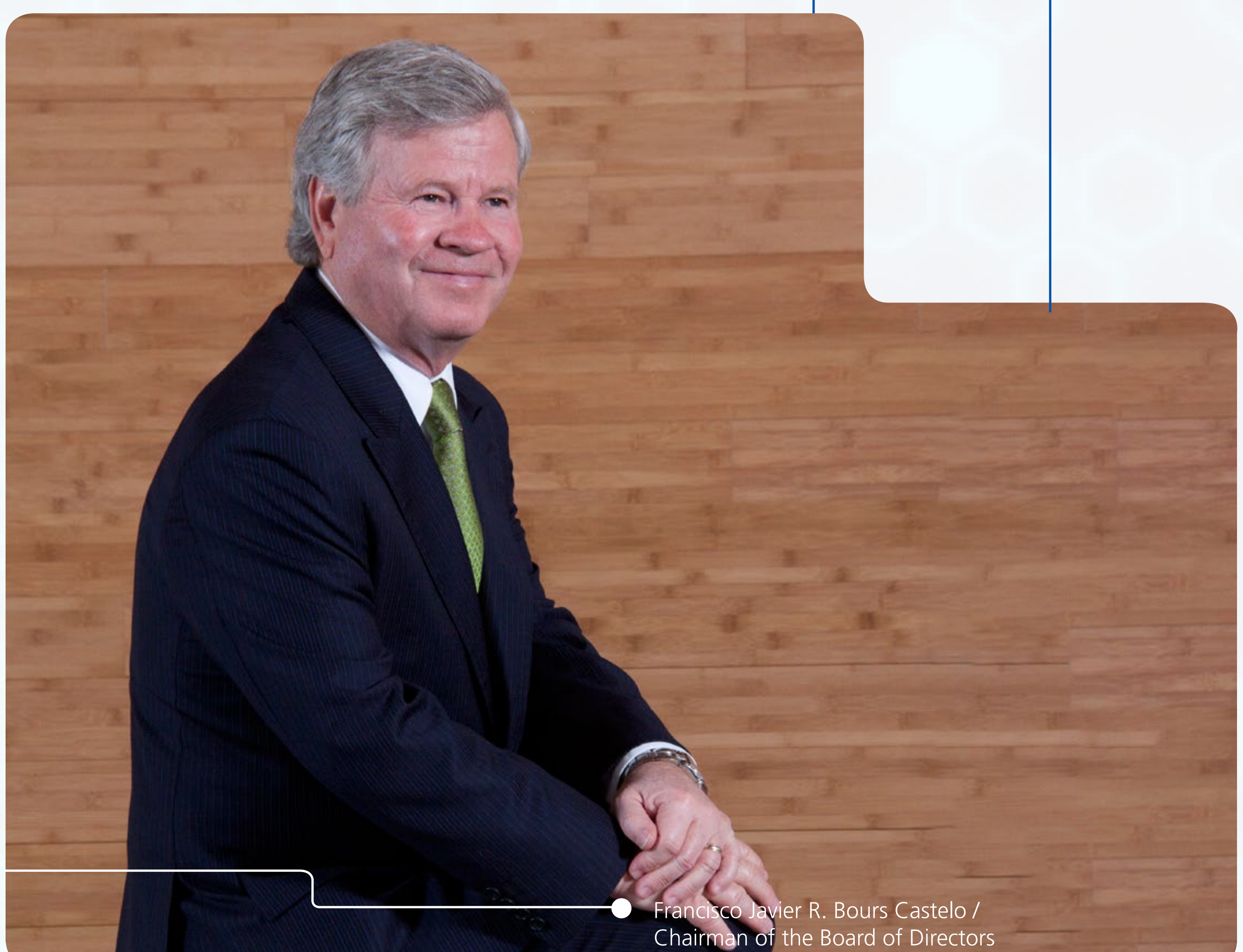
ho1a + Metrocarrier Corporate Offices

Audited Consolidated Financial Statement (As of December 31)	2016	2017	2016 vs 2017
Service Revenue	$17,002	$17,238	1.4%
Service Costs	5,500	4,811	-12.5%
OPEX	6,630	7,278	9.8%
Consolidated EBITDA	$6,966	$7,643	9.7%
Consolidated EBITDA Margin	41.0%	44.3%	8.2%
Adjusted EBITDA for Cable Operations	6,538	7,149	9.3%
Adjusted EBITDA Margin for Cable Operations	44.9%	46.5%	3.7%
Net Profit	3,865	3,806	-1.5%
Total Assets	32,575	35,978	10.4%
Cash and Cash Equivalents	1,148	3,168	175.9%
Total Liabilities	9,398	10,198	8.5%
Stockholders' Equity	23,177	25,781	11.2%

Operating Results (As of December 31)	2016	2017	2016 vs 2017
Homes Passed	7,867,995	8,135,428	3.4%
Network Kilometers	54,339	56,287	3.6%
Two-Way Network Percentage	98.0%	98.0%	
Cable Subscribers	2,971,181	3,040,278	2.3%
Digital Cable Subscribers	2,175,664	2,355,939	8.3%
Cable Penetration Rate/Homes Passed	37.8%	37.4%	
HSD Internet Subscribers	2,227,629	2,625,041	17.8%
Penetration Rate/Cable Subscribers	75.0%	86.3%	
Telephony Subscribers	1,176,029	1,466,535	24.7%
Penetration Rate/Cable Subscribers	39.6%	48.2%	
Unique Subscribers	3,305,801	3,404,800	3.0%
Revenue Generating Units	6,374,839	7,131,854	11.9%
RGUs per Unique Subscriber	1.93	2.09	8.6%

Letter from the Chairman **of the Board of Directors**

to the General Ordinary Stockholders Meeting of Megacable Holdings S.A.B. de C. V.



Francisco Javier R. Bours Castelo / Chairman of the Board of Directors

We have consolidated our value proposition, offering the best products at accessible prices, becoming the most competitive option available on the market, operating more efficiently and exceeding customer service levels.

Esteemed shareholders,

2017 got off to a complicated and challenging start: increased prices of a range of goods and services led to a decrease in the purchasing power of our main market, not to mention the effect that programming changes made in 2016 and the transition period for the analog switch-off had on the number of subscribers at the beginning of the year. These challenges tested our strategy and our ability to drive innovation and continue offering competitive and quality solutions, in addition to maintaining profitable growth.

During the second quarter of 2017, we got back on track, driving growth and launching new, innovative and highly attractive products, helping us to remain at the cutting edge of the industry and offering new ways to access content. We also further consolidated our position in the services we already offered. Today, Megacable is a company that has expanded its horizons and strengthened its position.

We have consolidated our value proposition, offering the best products at accessible prices, becoming the most competitive option available on the market, operating more efficiently and exceeding customer service levels.

As a result, our growth rate is above the industry average in a very competitive market, and we have achieved two decades of growth and excellent levels of profitability.

Some of our most relevant achievements include the launch of Xview, an innovative entertainment system that combines online content and libraries on a single platform, allowing users to decide what, when and where they want to watch their favorite programs. This new product is revolutionizing the market in Mexico and is growing quickly.

Our products and services aimed towards the enterprise and corporate segments also experienced significant growth as a result of our flexible and efficient solutions, mainly due to our modern network, and cutting-edge technology, all of which have driven the integration of multiple additional services at very competitive prices.

In 2017, we increased our penetration in the corporate telecommunications market, where we are targeting the SME market, a segment that, given its characteristics, represents a major area of growth.

We have deployed network infrastructure to cater to this market in cities like Cancun, Mexico City, Ciudad Juarez, Monterrey and Tijuana, where the Company has no residential network infrastructure.

To fulfill our commitment to social responsibility, we have implemented measures to help decrease energy consumption, increase the use of renewable energy sources, and optimize our use of resources in general.

Door-to-door salesmen

To be consistent with our activities, in the 30 news programs that we broadcast in the same number of geographical regions, we provide coverage of local and regional news, helping create better and more informed citizens while engaging with society to help find best practices to achieve a positive evolution in the communities in which we operate.

We employ more than 18,500 people at Megacable, who, through on-going training opportunities and the constant growth within the Company, have access to integral development opportunities, helping them develop in both their professional and personal lives.

In 2017, Megacable consolidated its investment capacity through successful cash generation strategies, achieving a healthy balance sheet that has helped us to continue growing organically while monitoring inorganic growth opportunities. Our wide-ranging experience, quick decision-making process and consolidated business model will continue to be the guiding force behind our investment process.

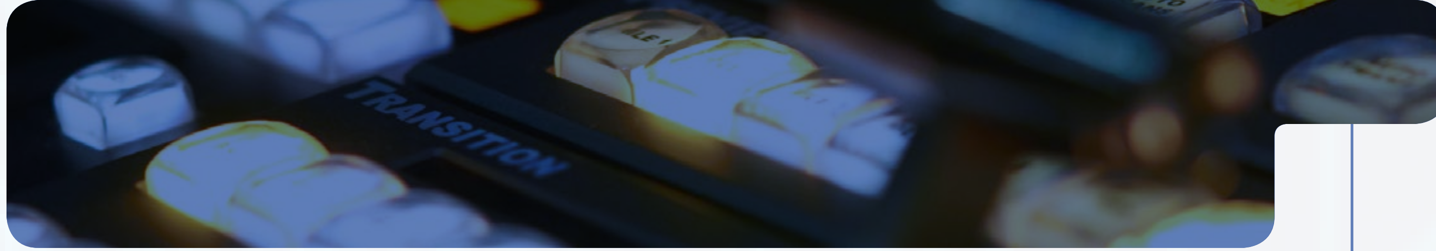
Our vision for the future is to become the best telecommunications Company by offering the best products at the best prices.

This is our commitment, and, through the professionalism and dedication of our employees, the experience, knowledge and vision of our Board Members and Management Team, and the trust our customers and shareholders place in us, we are certain that we will continue achieving our growth and profitability goals. I would like to thank each and every one of them.

Sincerely,

Francisco Javier R. Bours Castelo
Chairman of the Board of Directors

Manuel Urquijo Beltrán
Secretary of the Board of Directors



Letter from the Chief **Executive Officer**

to the Ordinary General Shareholders Meeting of Megacable Holdings S.A.B. de C. V.

ho1a + Metrocarrier Corporate Offices

We have become a benchmark for companies in our sector as a result of our strengths.

Esteemed Shareholders and Members of the Board of Directors:

The end of 2016 and the beginning of 2017 were challenging times for the Company, as a result of economic instability in the country, including a rise in inflation stemming from increased energy prices, and other operational factors, such as changes to programming and the negative effects of the analog shut down; however, our strength and experience have enabled us to turn these challenges into opportunities for growth through a more efficient commercial strategy, which has led to successful results.

We have become a benchmark for companies in our sector as a result of our strengths: a highly innovative spirit, cutting-edge technology, rational and effective investments, careful cost control, outstanding service, our capacity for growth, and the leadership we have shown over time.

Another Year of Exponential Growth.

One of our major achievements in the mass market was the 12% increase in RGU's (Revenue Generating Units) compared to 2016, reaching 7,131,854.

We also achieved an 8% increase in RGU's per unique subscriber, reaching 2.09, which means that our packaging strategy has been a success, allowing us to increase our presence in the households we serve offering a wider range of services.

Job creation has also been a significant indicator as the number of employees has increased in line with the Company's growth, although this has occurred at a slightly lower rate as a result of increased productivity. Today, we have better trained and better paid employees.

We have rolled out an improved sales strategy with new products, ensuring an increase in the number of subscribers, mainly in the cable segment, where, after a complicated first quarter, we successfully closed 2017 with a 2% increase in a year-on-year comparison. In terms of Internet subscribers, we grew by 18%, while the Telephony segment increased by 25%. Our Corporate segment continued growly quickly thanks the expansion of our operations.

We know that good results are, to a large extent, the result of the highly committed and trained team we have, which is why we have implemented strategies to improve working conditions and drive employee development.

Monitoring our strategy, making the right decisions at the right time, and driving integration between the Company's areas have allowed us to improve the indicators for the first quarter of the year and achieve the goals we set for ourselves in 2017.

The experience of the Board of Directors and the leadership of our management team have allowed us to keep Megacable on the right path, helping it become the best telecommunications company in Mexico.

Integrated Services Center (CIS)

It is with great pleasure that we present the results achieved in 2017:

Video

To the end of 2017, we had a total of 3,040,278 subscribers, a 2% increase compared to 2016. Revenue for this business unit dropped by 5% as a result of a lower number of average subscribers per year. It is important to highlight the recovery made in this segment, with the subscriber base growing by 5% over the past 9 months, after the downward trend seen in Q1 2017, stemming from the analog shut down and changes to programming.

Negotiations with content providers have been fundamental and continue to produce positive results, considerably reducing costs and driving profitability.

Our star product, Xview, has been widely accepted by subscribers, given that it represents a new way of watching the TV, offering interactive channels on TV screens or mobile devices via a user-friendly and intuitive platform.

This product also offers subscribers the opportunity to watch programs, series, sports and news shows that are aired live or over the past 48 hours. This platform includes an extensive selection of series, an enormous list of movies from a range of genres, and more than 70 HD channels; a total of 8,000 hours of programming. In 2017, we achieved coverage to encompass 22 cities and more than 170,000 customers.

3'040,278
cable subscribers in 2017

+8,000
hours of programming available on XView wherever, whenever and however our customers want to access them

22
cities covered and more than 170,000 XView subscribers

Internet

We continue reporting double-digit growth in this area thanks to our competitive advantage: offering our customers the best possible products and services at the fastest speeds and the lowest prices. In 2017, our subscriber base increased by 18% in a year-on-year comparison, reaching 2,625,041. Revenue from this business unit increased by 15%.

This market still represents a major growth opportunity, which is why we ensure we offer our subscribers the highest quality service and the best experiences, offering increases in Internet speeds from 5 to 10 Mbps and 10 to 20 Mbps at no extra cost. To the end of 2017, 53% of our subscribers had speeds upwards of 20 Mbps.

Telephony

Our business strategy has allowed us to maintained increases in this area despite the market contracting. This is the result of our continuing efforts to improve the best triple play proposals on the market.

In 2017, our sales strategy led to a 25% increase in subscribers compared to 2016, achieving a total of 1,466,535.

Corporate Telecommunications

This segment encompasses MetroCarrier, MCM and Ho1a, and represented a major part of the Company given its growing market share and positive results. In 2017, we successfully expanded our operations in Mexico City, Monterrey, Tijuana, Ciudad Juarez and Cancun.

In 2017, revenue from this segment reached MXN $2.354 billion, representing an increase of 31% in a year-on-year comparison. This segment currently represents 14% of our total revenue.

Revenue and Operating Margins

In a year-on-year comparison, we achieved an increase of 1%, reaching MXN $17.238 billion; however, excluding revenue from the CFE project, our Company grew by 7%, highlighting its continuing growth. This is the result of our excellent performance, both in the massive and corporate markets, thanks to our innovative products and attractive options for the market.

The EBITDA margin for cable operations was 46.5%, reaching MXN $7.149 billion, a 9% increase compared to 2016; while the Consolidated EBITDA margin increased significantly to 44.3%, reaching MXN $7.643 billion.

Balance Sheet

Megacable's balance sheet reflects the strength of its operations, enabling it to continue generating cash and maintaining the lowest leverage in the industry, resulting in significant organic and inorganic growth potential.

Total assets reached MXN $35.978 billion to the end of 2017, representing an increase of 10% or MXN $3.403 billion in a year-on-year comparison. This increase is the result of on-going investments to improve our network, as well as cash generation for our operations throughout the year. Current assets represent 16% of the Company's total assets.

Short-term liabilities reached MXN $3.879 billion, a 12% decrease compared to 2016, which is the result of the loan payment for the CFE project and the maturity of a USD $30-million commercial loan. This is the result of leveraging 0.12 times the Company's EBITDA. Short-term liabilities represent 38% of total liabilities and 11% of total assets.

Total liabilities reached MXN $10.198 billion, a 9% increase in a year-on-year comparison, resulting from an MXN $1.7 billion loan that will mature in 2019. The company's total equity increased by 11% in 2017 as a result of accumulated profits, reaching MXN $25.781 billion and continuing the double-digit growth trend of the Company's book value.

Capital Investments

In 2017, total CAPEX investments reached MXN $4.693 billion, representing an 8% decrease compared to 2016. These investments have been earmarked mainly to expand the corporate network to provide coverage in new cities, the acquisition of terminal equipment for subscribers, the construction of new kilometers and the updating of our network.

We consider our network to be one of our main assets and one of our greatest strengths, which is why we continue to invest in increasing our capacity and making it more efficient. This is the result of the ever-changing panorama we operate in, mainly in terms of the habits of our subscribers. These investments help us to develop services that meet the expectations and requirements of our customers, in terms of content, quality and accessibility.

Our network currently covers 8.1 million homes and more than 56,000 kilometers, increases of 3% and 4%, respectively, compared to 2016. Our capital investments represent 27% of our revenue.

2'625,041

Internet subscribers in 2017

+31%

in Corporate Telecommunications revenue

Integrated Services Center (CIS)

ho1a + Metrocarrier Corporate Offices

Transmission and Control Center

Market Performance

The Company's operating and financial results had a positive effect on our share price (CPO), which stood at MXN $80.01 at the end of December 31, 2017, an annual increase of 15.3%. Furthermore, the Company's market capitalization reached MXN $68.9 billion by the end of 2017, a 15% increase compared to 2016. As a result of this trend, in September 2017, our CPO was included in the Mexican Stock Exchange's (BMV) market main index, which comprises 35 companies that meet a range of selection criteria, including market capitalization and trading history, increasing our share development possibilities on the market.

We have a total of 1.721 billion Series A shares, of which, to the end of December 31, 2017, there were 1.720 billion in circulation. We have a free float of 35%, with investors owning 600 million Series A shares, equivalent to 300 million CPO's.

Human Capital

The way we work focuses on achieving results, which is why, from the recruitment process onwards, we ensure that our new employees meet the requirements of the Megacable family, helping them integrate easily into our family.

Thanks to this carefully monitored process, we have innovative and committed employees who can rapidly adapt to the demands of their surroundings. In 2017, we created 564 new jobs, representing a 3% increase in a year-on-year comparison, reaching a total of 18,513 employees.

Through our Employee Development Program, we offer education, training and certification opportunities. A clear example of this is the annual Megatec event, which is aimed at technology providers who want to share their experience and knowledge with our employees.

We also use 360° performance evaluations for our employees, in addition to workplace climate surveys, career development plans, and other activities that help us drive their growth within the Company and achieve numerous success stories.

The telecommunications market in Mexico still represents a major potential for growth, which is why we will continue to embody the values that have helped us achieve success. We will continue working and innovating to remain profitable, offering our customers the best products, outstanding service and the most attractive options available on the market through a robust strategy and the tools necessary to make this a reality.

Sincerely,

Enrique Yamuni Robles
CEO

Manuel Urquijo Beltrán
Secretary of the Board of Directors

Corporate **Information**

Integrated Services Center (CIS)

Mission

To provide entertainment services, telecommunications and logistical solutions, to the corporate and residential segments that exceed our customers' expectations.

Vision

To be the best telecommunications company in the country.

Values

- Honesty
- Commitment to Work
- Customer Service Attitude
- Respect for People
- Efficiency in the use of Resources
- Loyalty

Operational Scheme

Board of Directors and Management Team

The Board of Directors is composed of 11 members, 3 of whom are independent directors. The members of the Board of Directors are appointed by the General Shareholders Assembly.

Francisco Javier Robinson Bours Castelo
Chairman of the Board

Enrique Yamuni Robles
Chief Executive Officer

Manuel Urquijo Beltrán
Board Secretary

Sergio Jesús Mazón Rubio
Consejero

Jesús Enrique Robinson Bours Muñoz
Member

Juan Bours Martínez
Member

Arturo Bours Griffith
Member

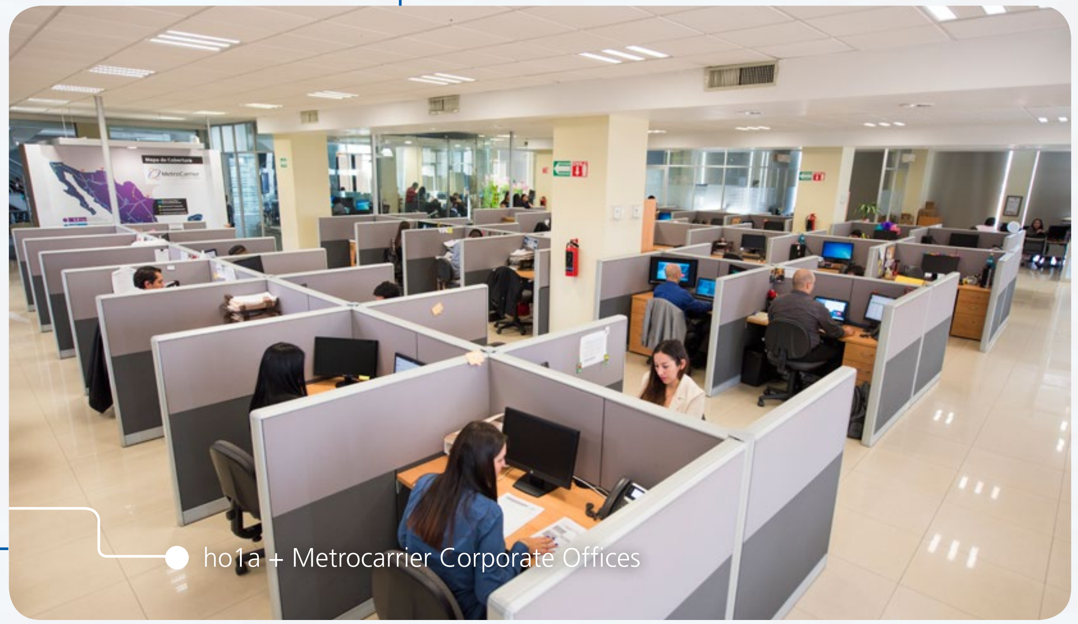
José Gerardo Robinson Bours Castelo
Member

Mario Laborín Gómez
Independent Member

Nicolás Olea Osuna
Independent Member

Pablo Rión Santisteban
Independent Member

Door-to-door salesmen


ho1a + Metrocarrier Corporate Offices

Megacable Corporate Offices


Transmission and Control Center

Board of Directors' Committees

The Company has two Board of Directors Committees:

Best Corporate Practices Committee

Comprising 3 independent members:

Nicolás Olea Osuna
Chairman

Mario Laborín Gómez
Member

Pablo Rión Santisteban
Member

Audit Committee

Comprising 3 independent members:

Pablo Rión Santisteban
Chairman

Mario Laborín Gómez
Member

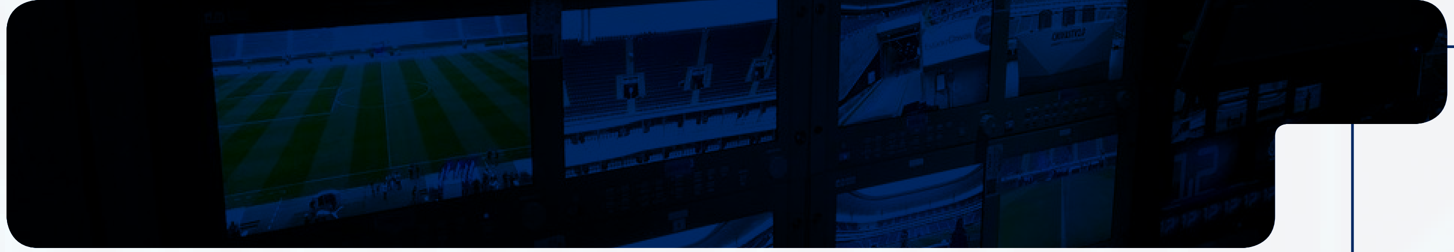
Nicolás Olea Osuna
Member

Management Team

Enrique Yamuni Robles
Chief Executive Officer

Raymundo Fernández Pendones
Deputy General Director

Luis Antonio Zetter Zermeño
Chief Financial and Administrative Officer



Consolidated **Financial Statements**

December 31, 2017 and 2016

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Report of Independent Auditors
To the Shareholders and Directors of Megable Holdings, S.A.B. de C.V. and subsidiaries.

Opinion

We have audited the consolidated financial statements of Megacable Holdings, S.A.B. de C.V. and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Ethics Standards of Mexican Institute of Public accountants together with other requirements applicable to our audit in Mexico. We have fulfilled our other ethical responsibilities in accordance with those requirements and standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Timely recognition of revenue pertaining to the Cable and Internet segment

As mentioned in Note 25 to the consolidated financial statements (Segment Reporting), the cable and internet segments represent a significant part of the Company's income in 2017. The cable and internet segments include operation of a multiple cable and internet service system in Mexico and of telecommunications facilities, through optic fiber and coaxial cable, covering certain cities and regions of the country.

Revenue from the cable segment stems mainly from monthly rent on the following packages: conecta, basic, premier and high definition channels, as well as from installation fees, pay per view and other related charges, and as for the internet segment, revenue stem mainly from monthly rent charged to customers of the residential and business sectors, as well as from installation fees.

During our audit, we focused on these items due mainly to the importance of revenue from the cable and internet segments ($12.6 thousand million at December 31, 2017), and because a) of the risk of failure to recognize said revenue in the proper period due to the high number of subscribers; b) the services cover different terms; c) invoices are not necessarily issued when the services are rendered; d) there are certain procedures and manual records involved in this process.

In particular, we have concentrated our audit efforts on verifying that revenue is recognized in the period in which the cable or internet services were rendered.

How the matter was approached during our audit

We evaluated and considered the design and operation of the controls pertaining to revenue recognition of the cable and internet segments, including Management's review and authorization of the amounts invoiced and/or collected from customers that were recorded as deferred income (liability) due to the fact that the services have not been provided to the subscribers, as well as the amount recognized as revenue pertaining to services rendered yet to be invoiced or collected.

We obtained a breakdown of the amounts corresponding to services rendered yet to be invoiced and collected at December 31, 2017. On a selective basis, we recalculated the amounts used, the data (information on the customer, service type and term, rates and term covered) obtained from the respective contracts.

Additionally, with the support of our systems experts, we obtained a breakdown of income from cable and internet television services charged and invoiced in advance at December 31, 2017 and 2016.

We selected a sample of subscribers to compare said list's information, as follows: a) date of issuance of the invoice, b) the days or months for which cable and internet services have not yet been provided, with the starting and ending dates of the agreement, as well as the invoice issued, c) the total amount paid for the cable and internet services with the price established in the contracted package and the invoice issued and d) the date of payment with the subscriber's receipt of payment. On this information basis, we recalculated the corresponding amount of deferred revenue.

We obtained a breakdown of the journal entries made during the year, to identify unusual items recorded manually, that could affect revenue recognition.

Assessment of goodwill impairment:

As mentioned in Note 4.1.3 of the consolidated financial statements "Accounting estimations and judgments", the Company annually estimates the recovery value of its cash generating units (UGE from Spanish) to determine whether or not its goodwill is impaired.

During our audit, we focused on this item due mainly to the materiality of the book value of goodwill ($4,378 million at December 31, 2017) and because Company Management must make significant judgments to determine the recovery value of the Group's UGE, of which the most relevant are Bajío, Occidente, Centro, Pacífico, Sureste and TCO, thus involving estimations of future business results and the discount rate applied to related future cash flow forecasts.

In particular, our audit work focused on relevant premises such as the discount rate, percentages of growth in sales, pretax results, interest, depreciation and amortization (EBITDA) and the capital structure.

We evaluated and considered future cash flow projections prepared by Company Management, and the processes used to prepare them, as well as compared them with the business plans approved by Management.

We considered and evaluated, with our experts' support, the projections provided by Management, according to the historical figures and expectations for growth of the industry in which the Company operates. Moreover, we evaluated and checked whether all relevant UGE were identified, including allocation of goodwill among them.

We compared the actual results for the current year with the figures budgets for the prior year, to determine whether any of the assumptions included in the projections could be considered very optimistic.

We also obtained and discussed with Management, for all relevant UGE, the calculations corresponding to sensitization periods under the income approach, which is used by Management in determining the recovery value and we considered the related disclosures in the notes.

Moreover, we have compared, with the support of valuation experts:

- The discount rate used with market rates according to information pertaining to public companies in the industry.
- The sales growth percentage, EBITDA and capital structure with information pertaining to the telecommunications industry market.

Other Information

Management is responsible for the other information. The other information comprises the annual report presented to Comisión Nacional Bancaria y de Valores (CNBV): and the annual information presented to shareholders, (but does not include the consolidated financial statements or this auditor's independent report thereon), which will be issued after the date of this report.

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

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

When we read the other information not yet received, we will issue the report required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if required, describe the issue in our report.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company´s financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 taken 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. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluated whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the relative disclosures presented by the Administration
- 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 facts or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the related disclosures included in the notes, and whether the consolidated financial statements represent the underlying transactions and events.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit is reported below.

PricewaterhouseCoopers, S.C.

C.P.C. Oscar A. Barrera Godínez
Audit Partner

Guadalajara, Jalisco, April 25, 2018

Consolidated statements of financial position
December 31, 2017 and 2016
(Figures in thousands of pesos)

	Note	At december 31 2017	2016
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	2.5 and 5	$3,167,661	$1,148,139
Accounts receivable, net	2.7 and 6	1,434,811	2,076,099
Recoverable income tax		-	30,862
Value added tax and others		613,873	1,022,403
Inventories	2.11 and 7	426,960	533,040
Total current assets		5,643,305	4,810,543
Properties, networks and equipment, net	2.12 and 9	24,378,696	21,771,486
Goodwill	2.13 and 10	4,378,397	4,378,397
Other intangible assets, net	2.13 and 11	324,681	358,331
Related parties	24	1,027,123	1,006,900
Investments in shares in affiliate and joint business	2.2 and 8	147,486	20,596
Deferred taxes on profits	2.18 and19	44,780	151,294
Other assets		33,761	77,868
Total noncurrent assets		**30,334,924**	**27,764,872**
Total assets		**$35,978,229**	**$32,575,415**
Liabilities and stockholders' equity:			
CURRENT LIABILITIES			
Short-term portion of long-term notes payable		$ -	$ 5,613
Bank loans	2.16 and 13	131,833	1,567,631
Suppliers	2.15	1,561,165	1,917,052
Related parties	24	350,624	137,043
Income taxes	2.18 and 19	933,033	606,829
Other accounts payable	2.15 and 14	902,129	687,156
Total current liabilities		**3,878,784**	**4,921,324**

Consolidated statements of financial position
December 31, 2017 and 2016
(Figures in thousands of pesos)

	Note	At december 31 2017	2016
LONG-TERM LIABILITIES:			
Long-term documents payable		-	5,901
Bank loans	2.16 and 13	3,926,777	2,064,572
Related parties	24	603,608	701,778
Employee benefits	2.19 and 15	218,928	204,015
Deferred taxes on profits	2.18 and 19	1,569,587	1,500,662
Total long term liabilities		**6,318,900**	**4,476,928**
Total liabilities		**10,197,684**	**9,398,252**
STOCKHOLDERS' EQUITY:			
Capital stock	2.20 and 17	910,244	910,244
Net premium on placement of shares	2.20 and 17	2,117,560	2,117,560
Retained earnings	2.20 and 17	20,838,864	18,423,613
Reserve for the repurchase of shares	2.20 and 17	272,789	161,845
Legal reserve	2.20 and 17	488,832	488,832
Total stockholders’ equity - controlling portion		24,628,289	22,102,094
Non-controlling portion		1,152,256	1,075,069
Total stockholders’ equity		**25,780,545**	**23,177,163**
Total liabilities and stockholders’ equity		**$35,978,229**	**$32,575,415**

The accompanying notes are in integral part of these consolidated financial statements.

Lic. Enrique Yamuni Robles
CEO

C.P. Luis Antonio Zetter Zermeño
CFO

Consolidated statements of comprehensive income
December 31, 2017 and 2016
(Figures in thousands of pesos)

	Note	At december 31 2017	2016
Service income	2.23 and 25	$17,238,095	$17,002,426
Cost of services	20	6,949,346	7,392,973
Gross profit		10,288,749	9,609,453
Selling expenses	20	4,715,236	4,286,944
Administration expenses	20	423,655	450,014
		5,138,891	4,736,958
Other income - Net	21	95,655	51,467
Operating income		5,245,513	4,923,962
Financial income	22 and 24	343,569	238,067
Financial expenses	22	(345,529)	(365,497)
		(1,960)	(127,430)
Equity in the results of joint business	8	-	-
Profit before income taxes		5,243,553	4,796,532
Income taxes	2.18 and 19	(1,270,523)	(677,055)
Net profit for the period		3,973,030	4,119,477
Other comprehensive items:			
Other comprehensive items: Items that will not subsequently be reclassified to income Actuarial profits and losses, net	15	5,848	(9,149)
Comprehensive income for the year		$3,978,878	$4,110,328
Comprehensive income attributable to:			
Controlling interest		$3,806,209	$3,864,524
Non-controlling interest		172,669	245,804
Net profit attributable to:			
Controlling interest		$3,800,361	$3,873,673
Non-controlling interest		172,669	245,804
Earnings per basic and diluted share:			
Attributable earnings per common share of the controlling company	2.24 and 18	$2.22	$2.25
CPO income	2.24 and 18	$4.47	$4.49

The accompanying notes are in integral part of these financial statements.

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CFO

Consolidated statements of changes in stockholders ' equity
December 31, 2017 and 2016
(Figures in thousands of pesos)

	Note	Social stock	Net premiun on placement of shares	Reserve for repurchase of shares	Retained earnings	Legal reserve	Total stockholders' equity controlling interest	Non-controlling interest	Total stockholders ' equity
Balance at January 1, 2016		**$910,244**	**$2,117,560**	**$225,897**	**$15,728,266**	**$488,832**	**$19,470,799**	**$829,265**	**$20,300,064**
Transactions with stockholders:									
Net sales of own shares	17			(64,052)			(64,052)		(64,052)
Dividends declared	17				(1,169,177)		(1,169,177)		(1,169,177)
Total transactions with stockholders		910,244	2,117,560	161,845	14,559,089	488,832	18,237,570	829,265	19,066,835
Net income					3,873,673		3,873,673	245,804	4,119,477
Total other items of comprehensive income for the year					(9,149)		(9,149)		(9,149)
Comprehensive income					3,864,524		3,864,524	245,804	4,110,328
Balance at December 31, 2016		**910,244**	**2,117,560**	**161,845**	**18,423,613**	**488,832**	**22,102,094**	**1,075,069**	**23,177,163**
Transactions with stockholders:									
Net sales of own shares	17			110,944			110,944		110,944
Dividends declared	17				(1,390,958)		(1,390,958)	(95,482)	(1,486,440)
Total transactions with stockholders		910,244	2,117,560	272,789	17,032,655	488,832	20,822,080	979,587	21,801,667
Net income					3,800,361		3,800,361	172,669	3,973,030
Total other items of comprehensive income for the year					5,848		5,848		5,848
Comprehensive income					3,806,209		3,806,209	172,669	3,978,878
Balance at December 31, 2017		**$910,244**	**$2,117,560**	**$ 272,789**	**$20,838,864**	**$488,832**	**$24,628,289**	**$1,152,256**	**$25,780,545**

The accompanying notes are in integral part of these financial statements.

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C.P. Luis Antonio Zetter Zermeño
CFO

Consolidated statements of cash flow
December 31, 2017 and 2016
(Figures in thousands of pesos)

Cash flows from operating activities:	Note	At December 31 2017	2016
Profit before income taxes		$5,243,553	$ 4,796,532
Cost for the period of employee benefits	15	14,913	10,532
Bad debt reserve	20	57,274	90,137
Depreciation	9	2,375,584	2,064,194
Amortization	11	118,604	29,451
Profit (loss) on the sale of property, systems and equipment	21	(8,608)	12,054
Interest receivable	22	(260,694)	(238,067)
Allowance for obsolete inventories	20	1,666	22,482
Exchange fluctuation	22	345,529	187,598
Interest payable	22	(82,875)	177,899
		7,804,946	7,152,812
Changes in working capital:			
(Increase) decrease in accounts receivable	6	907,922	(296,728)
(Increase) decrease in recoverable income tax		30,862	88,161
Increase in value added tax and others		408,530	(90,118)
Increase (decrease) in related parties	24	237,891	199,020
(Increase) decrease in inventories	7	104,414	(90,167)
Decrease (increase) in other assets		44,107	32,642
(Decrease) increase in suppliers	2.15	(734,629)	(878,333)
Increase in other accounts payable	14	(429,298)	(503,055)
		8,374,745	5,614,234
Paid taxes on profits		(770,897)	(614,401)
Net cash flows from operating activities		**7,603,848**	**4,999,833**

Cash flows from investment activities:	Note	At December 31 2017	2016
Interest collected	22	260,694	185,723
Loan to related parties	24	(122,710)	(316,638)
Amounts collected on loans to related parties	24	105,893	-
Acquisition of properties, networks and equipment	9	(4,271,016)	(5,062,646)
Investments in affiliates	8	(126,890)	(20,596)
Acquisition of intangible assets	11	(84,954)	(333,231)
Net cash flows used in investing activities		**(4,238,983)**	**(5,547,388)**
Cash flows from financing activities:			
Interest paid	22	(345,529)	(187,598)
Bank loans received	13	1,862,205	1,672,769
Bank loans paid	13	(1,504,308)	(1,232,992)
Financial leasing paid	16	(125,886)	(152,809)
Dividend payment	17	(1,486,440)	(1,169,177)
Sale of own shares	17	148,943	83,481
Purchase of own shares	17	(37,998)	(147,533)
Net cash flows used in investing activities		**(1,489,013)**	**(1,133,859)**
Decrease in cash and cash equivalents		1,875,852	(1,681,414)
Cash and cash equivalents at beginning of year		1,148,139	2,803,889
Exchange fluctuations of cash and cash equivalents		143,670	25,664
Cash and cash equivalents at end of year		**$3,167,661**	**$1,148,139**

At December 31, 2017 and 2016, acquisitions totaled $275,701 and $190,376, respectively, related to networks and equipment not requiring the use of cash, as they were acquired through financial leasing.

The accompanying notes are in integral part of these financial statements.

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CEO

C.P. Luis Antonio Zetter Zermeño
CFO

Note 1 - Group reporting:

When these notes make reference to Megacable Holdings, S. A. B. de C. V and its subsidiary Mega Cable, S. A. de C. V. (Mega Cable), the term Group is used. The Group is indirectly controlled by the Bours and Mazon families and the trust managed by Nacional Financiera, S.N.C. Institución de Banca de Desarrollo, which holds 99% of the group shares. The subsidiary Mega Cable is the holding company for a group of companies engaged in the installation, operation, maintenance and exploitation of telephone, Internet and television cable signal distribution systems, as well as providing business solutions for the business segment. The Group is registered at the Mexican Stock Exchange and is active in more than 26 states in Mexico. The Group has determined that its regular operating cycle is to be from January 1 to December 31 of each year.

The Group's head office is located at Av. Lázaro Cárdenas 1694, Col. Del Fresno, C.P. 44900, Guadalajara, Jalisco, México.

The accompanying consolidated financial statements show Group figures (see Note 2.2), including those for joint ventures and associates at December 31, 2017 and 2016, in which the Company exercises significant influence and control, respectively.

Telecommunications Reform

On June 11, 2013 the Decree amending and adding various disposition in articles 60, 70, 27, 28, 73, 78, 95 and 105 of the "Constitution" was published in the Official Gazette, which establishes the obligation to the Congress to issue an unique Legal Ordinance that regulates in a convergent manner the use and exploitation of the radio electric spectrum, telecommunications networks and the rendering of the radio broadcasting and telecommunications services as well as.

The Federal Telecommunications Institute was created on September 10, 2013, and the July 14, 2014 Official Gazette carried the decree containing the Federal Telecommunications and Radio Broadcasting Law, in which various provisions on Telecommunications and Radio Fusion are reformed and repealed, coming into effect on August 13, 2014.

The new Federal Telecommunications Law (the Law) establishes measures for Predominant Economic Agents in the telecommunications and radio-broadcasting sectors, respectively, of which the measure to charge no interconnection rate on calls ending in the network of the Economic Telecommunications Agent TELMEX/TELNOR had an asymmetric impact on the Group.

However, there were other new provisions such as the public offer for wholesale link services and infrastructure sharing, which MEGA CABLE has disputed since 2015, arguing for higher rates in the services offered, as well as use of TELMEX's available infrastructure.

Moreover, in January 2016, MEGA CABLE was granted a sole concession title, whose content considers national coverage, for a 30 year term, enabling the Group to provide any type of telecommunications service technically feasible for its infrastructure (only having to request the necessary radio-electric spectrum) anywhere in the country. Said model establishes obligations such as: registering the services to be rendered; the information pertaining to the passive and active infrastructure, broadcasting media and rights of way; coverage programs, investment, quality and coverage commitments; no discrimination; establishing and publishing its Code of Commercial Practices; refraining from transmitting information that affects the sound development of programs aimed at children and teenagers; providing the IFT with information and allowing inspection of its facilities; submitting audited financial statements.

Juridical-Regulatory Framework - Interconnection of networks with other operators 2017

Since 2015, the dispute of interconnection rates has been mechanical and with prior knowledge of the terms of the resolution issued by the Federal Telecommunications Institute (the Institute), as in December very year, the Institute publishes the interconnection rates applicable for the following year, as a result of which, the applicable rates were established for the interconnection discounts between operators during 2017 and 2016:

Operators other than the Predominant Operator

Item	2017 Rate	2016 Rate
For termination of local service to mobile users as per the "the caller pays" modality	$ 0.1906MXN	$ 0.1869MXN
For termination of short messages by mobile users	$ 0.0250MXN	$ 0.0189MXN
For termination of local service used by fixed users	$ 0.003094MXM	$ 0.003088MXM
In the case of the Predominant Economic Agent		
For local service origination service for fixed users	$ 0.004386MXN	$ 0.003816MXN
For transit services	$ 0.004550MXN	$ 0.004608MXN

In 2017, the obligation remained for TELMEX, TELNOR and TELCEL, as long as they continue with the preponderance declaration, not to charge the Group for call-ending services in the Predominant Agent's network.

However, TELCEL filed for injunction before the Supreme Court of Justice (SCJN from Spanish), which ruled that IFT is entitled to determine the asymmetric regime related to interconnection rates for ending traffic in the Predominant Economic Agent's (AEP from Spanish) mobile network, based on a cost model consistent with international best practices. As a result, IFT determined the following rates for 2018 (published in November 2017):

- For termination in the AEP's mobile, network for Local Services in users under the "el que llama paga" modality: $0.028562 pesos per minute of interconnection.
- For termination of short messages (SMS) by mobile users: $0.007269 pesos per message.
- For origination pertaining to local service for fixed users: $0.003092 pesos per minute of interconnection.
- For transit services: $0.003809 pesos per minute

The operators that have requested the IFT to resolve disputes regarding interconnection rates for 2017 with MEGA CABLE are:

TELÉFONOS DE MÉXICO, TELÉFONOS DEL NOROESTE, TELCEL, ALESTRA, AVANTEL, MAXCOM, MARCATEL, GRUPO DE TELECOMUNICACIONES MEXICANAS, PEGASO, AXTEL, IUSACELL.

These disputes on the matter of obtaining interconnection rates are founded in article 129 of the Law, which establishes that at the latest by July 15 each year, the concessionaires must file before that Institute the dispute corresponding to the interconnection rates applicable to the following year; otherwise, the rates resulting from the resolution for the following year cannot be applied.

The Institute settled the rates applicable for 2017 based on the cost models used to determine the restatement, taking into account information pertaining to the demand of services, the prices of supplies used, the cost of the weighted average capital, the exchange rate and inflation based on the average expected for 2017, which resulted in an impact for the Group as a result of the economic increase with regard to the consideration for interconnection services paid by MEGA CABLE for operators challenging said rates for that year, as set out in the above paragraph, as the latter ends a larger number of minutes in the networks of other concessionaires, given its large number of subscribers. The aforementioned impact will depend on the number of minutes per month that MEGA CABLE ends in the network of each concessionaire during 2017. Among the operators other than the Predominant Economic Agent, with respect to the marginal cost of termination rates, there are no significant changes in terms of income or expenses. As for the AEP, the termination rate will continue to be free.

There were disputes over the rates with the Telecommunications operators listed below in 2017; the Institute resolved that the company was entitled to apply the above mentioned rates as from January 1, 2017.

TELÉFONOS DE MÉXICO, TELÉFONOS DEL NOROESTE, ALESTRA, AVANTEL, MAXCOM, MARCATEL, GRUPO DE TELECOMUNICACIONES MEXICANAS, PEGASO, BESTPHONE, TOTAL PLAY, AXTEL, GRUPO AT&T, IENTC, VAOSA, STARSATEL, TELCEL (RADIOMOVIL DIPSA)

In order to obtain access to the rates settled by the Institute, a resolution by said authority must be secured, to support the rate for the year in question, in the understanding that said resolution is subject to tax, that is to say, that it generates the obligation for the concessionaires to apply and comply with the legal provisions set out in article 129 of the law regarding the interconnection rates, which sets out the mechanics of the dispute process and the terms for the Institute to resolve them.

For as long as they continue with the preponderance declaration, TELMEX and TELNOR will not charge the company for termination of calls in the Predominant Agent's network and for TELCEL, the rates determined in the resolution issued by the SCJN with regard to the asymmetric interconnection rates in the AEP's mobile net for 2018 will be applied.

SIGNAL RETRANSMISSION

The obligation and right remain in place to retransmit TELEVISA and TVAZTECA open signal channels free of charge in the MEGA CABLE within its areas of coverage, with the latter required to retransmit said channels, as well as the signals of Federal Public Institutions.

The obligation to retransmit greater audience multiprogrammed signals, including those pertaining to federal public institutions, remains in place.

With respect to all of the processes described in the above paragraphs, it is concluded that at the date of issuance of the financial statements, there has been no relevant impact on the financial situation.

Note 2 - Summary of significant accounting policies:

Following is a summary of the most significant accounting policies used in preparing the consolidated financial statements, which have been applied consistently in the years presented, unless otherwise specified.

2.1 Bases for preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), interpretations thereof (IFRIC) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) on the historical cost basis of accounting.

IFRS require certain critical accounting estimations to be made when preparing the financial statements. They also require management to apply judgment in determining the accounting policies to be applied by the Group. The line items involving a greater degree of judgment or complexity or the areas in which the assumptions and estimates are significant for the consolidated financial statements are described in Note 4.

The individual financial statements for statutory purposes prepared as per Financial Reporting Standards are the basis for the payment of dividends.

2.1.1 Changes in accounting policies and disclosures

a.New standards, amendments to standards and interpretations adopted by the Group

The Group has adopted the following standards for the first time for the period started on January 1, 2017:

- Recognition for deferred tax asset for non realizable losses - Amendment to IAS 12
- Initiative of disclosures - Amendments to IAS 7
    - » Annual revisions of cycle 2014 - 2016 IFRS 12

Adoption of these amendments has had no impact in the current period or any preceding period and is unlikely to affect any future periods.

b.New standards, modifications to standards and interpretations issued whose adoption is not yet required and have not been adopted by the Group.

A number of new standards, amendments to standards and interpretations thereof have been published, and are not effective for reporting periods at December 31, 2017. Following is the Group's evaluation of the effects of these new standards and interpretations:

IFRS 9 - Financial Instruments

Nature of the change

IFRS 9 addresses the classification, measurement and disposal of financial assets and financial liabilities; it introduces new rules for hedge accounting of impairment for financial assets.

The changes contained in IFRS 9 included a change in the methodology for modification of financial instruments. In July 2017, the IASB confirmed the book recording of changes in financial liabilities as per IFRS 9. This means that when a financial liability measured at its amortized cost is modified, without this leading to its derecognition, a gain or loss must be applied to income. The gain or loss is calculated as the difference between the cash flows of the original contract and the modified cash flows discounted at the effective original interest rate. During 2017, the company did not restructure its financial liabilities.

Impact

The Group conducted an in-depth evaluation of the classification and measurement of financial assets and does not expect the new guidelines to have a significant impact on the classification and measurement of financial assets.

There will be no impact on the accounting treatment of the Group's financial liabilities, since the new requirements affect only accounting for financial liabilities designated at fair value through profit or loss, which the Group does not hold.

The new rules for hedge accounting will align the accounting for hedge instruments by making them more compatible to the Group's risk management practices. As a general rule, more hedging relations might be eligible for hedge accounting as the standard introduces a focus more based on principles.

At present, the Group does not apply hedge accounting and thus does not expect a significant impact following adoption of IFRS 9. Moreover, the Group does not expect a significant impact on the book recording of its hedge relations, given that at December 31, 2017, it has contracted none.

The new impairment model requires recognition of impairment estimations based on expected rather than incurred credit losses, under IAS 39. It is applied to financial assets classified at amortized cost, debt instruments measured at VRORI, contractual assets arising from contracts with clients in accordance with IFRS 15, accounts receivable from leasing, loan commitments and certain financial guarantee agreements. The Group has conducted an in-depth evaluation of how its impairment estimations could be affected by the new model; however, it has been determined that said impact is not significant.

Date of mandatory application / Date of adoption by Group

Must be applied for periods beginning on January 1, 2018 or after.

The Group does not intend to adopt IFRS 9 prior to the date for mandatory adoption thereof.

IFRS 15 Revenue from client contracts

Nature of change

The IASB has issued a new rule for revenue recognition. This standard will replace IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts.

With respect to standard IFRS 15 Income from Regular Operations Arising from Contracts with Customers, which provides the principles to be applied for reporting useful information on the amount, timing of recognition and uncertainties related to income and cash flows stemming from its contacts to provide goods and services to its customers and clients, respectively. The main principles of this standard is to recognize income so that they represent the transfer of control of goods and services to customers/ clients and on amounts that reflect the consideration which the Company expects to have the right to receive in exchange, implying greater judgments and estimations for application thereof.

IFRS 15 presents a model based on 5 steps for identifying, measuring and recognizing income under contracts with customers. The steps in question are as follows:

Step 1: Identifying the contract with the customer/client

Certain criteria must be met in order for a contract to be recorded by the five step method; i.e. an entity must evaluate whether or not is it likely lot collect the amounts it is entitled to prior to applying the guidelines contained in IFRS 15. Guidelines are introduced for the combination of contracts for accounting purposes, and for recording the effects of changes to existing contracts.

Step 2: The separate performance obligations must be identified

The performance obligation is the analysis and recording unit of this fivestep model, and represents all promises or commitments made that imply the transfer to the customer/client of goods or services (or group of goods or services) that is different or a series of different goods or services that are substantially the same and that have the same pattern of transfer to the customer/client.

Step 3: Determining the price of the transaction

The transaction price is the consideration an entity expects to receive in exchange for providing goods or services to a customer/client. Several factors must be assessed to determine the transaction price, including the existence of variable considerations, significant financing components, non-monetary considerations or payments made to the customer/client.

Step 4: Assigning the price of the transactions involved in each performance obligation

The price of the transaction must be assigned to the different performance obligations in the contract according to their independent selling prices, maximizing the use of information observable in the market.

Step 5: Revenue recognition

Revenue is recognized when (or the extent to which) control of the performance obligations under the contract is transferred. This can occur at one point in time or over time, according to certain specific criteria.

IFRS 15 went into effect for the annual periods beginning on January 1, 2018, allowing entities to apply one of two transition criteria: the complete retrospective method or the modified retrospective method. At December 31, 2018, the Group is considering the possibility of applying, for the first time, IFRS 15, for the comparative financial statements at December 31, 2018 and 2017, using the modified retrospective method for transition. This method implies retrospective application of IFRS 15 only to contracts still in effect at January 1, 2018, applying at that date any impact of adoption to retained earnings, as a result of which, revenue corresponding to 2017 would be presented under IAS 18.

The retrospective method would imply that, retroactively, IFRS 15 would be applied to each period for presentation of the financial statements at December 31, 2018 and 2017, as per IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors; however, the Group considers that the modified retrospective method meets the needs of its stockholders and other users of financial information.

In this regard, the Group has opted to apply the new standard only to contracts not yet completed at January 1, 2018.

The new standard defines a not-yet-completed contract as one where the goods and/or services have not been transferred under the terms of the contract.

Impact

To date, the Companies that form part of the Group have completed the diagnosis to evaluate the potential impact of adoption of IFRS 15, covering all the types of transactions and contracts with customers/clients for which it recognizes revenue for ordinary activities. As a result of this process, a series of impacts have been determined at some of the companies within the group, following quantification of which, it was determined that they are not significant with respect to the consolidated figures. Moreover, we expect to make adjustments to our processes, controls and systems that will help to meet the requirements of this new standard.

In order to evaluate the impact of adoption, the group used a portfolio approach, as many of its contracts are similar and share the same characteristics, as a result of which, the Group expects the effect of applying said approach to a group of contracts would not differ significantly, if each contact were considered separately.

Date of mandatory application / Date of adoption by Group

Mandatory for periods beginning on or after January 1, 2018. Expected date for adoption by the Group: January 1, 2018

IFRS 16 Leases

Nature of the change

The result will be that almost all of the lease agreements will be recognized in the statement of financial position, as the distinction between financial leasing and operating leasing is eliminated. The new standard requires recognition of an asset (the right to use the leased goods) and a financial liability to pay rent. The only exceptions are short-term leases and those whose value is immaterial.

Accounting for lessors will have no significant changes.

Impact

The standard will mainly affect accounting of the Group's operating leases. At the date of this report, the Group has non-cancelable operating lease commitments totaling $243,244 (Note 16). However, the Group has yet to determine the extent to which these commitments will result in recognition of an asset or liability for future payments, and how this will affect profits and the classification of the Group's cash flows.

Some commitments can be covered by the short term or immaterial-value exception, and some commitments might pertain to agreements that do not qualify as leasing under IFRS 16.

To the issue date of the financial statements the Group still in the process for evaluating the impact.

Date for mandatory application / Date of adoption by the Group

This rule is mandatory for periods beginning on or after January 01, 2019. In this phase, the Group does not intend to adopt the standard prior to its effective date.

Amendments to IAS 7 "Statement of cash flows"

Nature of change

Amendments to IAS 7 requires that an entity disclosures all the information that will allow the users to understand all the changes in liabilities arising from financing activities.

Impact

The detailed information related to changes in the liabilities arising from financing activities it is as follows:

Net debt (liabilities arising from financing activities)

Bank loans payable within 1 year	($131,833)
Banks loans payable after 1 year	(3,926,777)
Accounts payable with related parties within 1 year	(350,624)
Accounts payable with related parties after 1 year	(603,608)
Net debt at December 31, 2017	**($5,012,842)**

	Accounts payables with related parties within 1 year	Loan payable with related parties after 1 year	Bank loans payables within 1 year	Bank loans payable after 1 year	Total
Net debt at January 1, 2017	($137,043)	($701,778)	($1,567,631)	($2,064,572)	($4,471,024)
Interest accrued	(31,924)	(54,940)	(258,674)	-	(345,538)
Cash flow – Principal paid	125,886	-	1,504,308	-	1,630,194
Cash flow – Interest paid	-	-	250,272	-	250,272
Cash flow – Obtained loans	-	-	-	(1,862,205)	(1,862,205)
Exchange rate adjustment	-	-	(60,108)	-	(60,108)
Account payable increase	-	(154,433)	-	-	(154,433)
Transfer to short term	(307,543)	307,543	-	-	-
Net debt at December 31, 2017	**($350,624)**	**($603,608)**	**($131,833)**	**($3,926,777)**	**($5,012,842)**

There are no other standards yet to take effect or still expected to have a significant impact on the entity in the reporting periods, either current or future, and in foreseeable future transactions.

2.2 Consolidation

a) Subsidiary companies

Subsidiaries are all entities over which the Group has control. The Group is considered to control an entity when it is exposed, or has rights to variable yields due to its involvement in the entity and has the capacity to affect such yields via its power over the entity. When the interest of the Company in its subsidiaries is less than 100%, the interest attributed to external stockholders is reflected as the non-controlling interest.

Subsidiaries consolidate from the date on which the Group assumes control over them and cease to consolidate when said control is lost. The Group consolidates four companies in which it holds a 51% interest, which gives it control over those companies.

The Group uses the purchase method of accounting to record business acquisitions. The consideration paid in the acquisition of a subsidiary is determined based on the fair value of the net assets transferred, the liabilities assumed and the capital issued by the Group. The consideration paid for the acquisition also includes the fair value of contingent accounts receivable or payable as part of the agreement. Acquisition-related costs are recorded as expenses as they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially valued at their fair value at the acquisition date. The Group recognizes its non-controlling interest in the acquired entity at its fair value either at the acquisition date or at the proportionate value of identifiable net assets of the acquired entity.

If the business combination is shown in stages, the book value of the purchaser's prior interest in the acquired entity at the acquisition date subject to fair value at the acquisition date, and any difference in income is recognized.

The excess of the consideration transferred, the non-controlling interest in the acquired entity and the fair value of any previous interest (where applicable) of the Group in the entity acquired (where applicable) over the fair value of the net identifiable assets of the acquired entity is recorded as goodwill. If said comparison results in an advantageous purchase, as in the case of a purchase at bargain price, the difference recognized directly in the statement of income.

Any contingent consideration payable by the Group recognized at fair value at the date of acquisition. Subsequent changes in the fair value of the contingent consideration recognized as an asset or liability recognized as per IAS 39, either in income or in comprehensive income. A contingent consideration that is reclassified, as equity requires no adjustment and its subsequent settlement is record under equity.

Transactions, balances and unrealized gains or losses resulting from operations between Group companies have been eliminated. When necessary, the accounting policies applied by the subsidiaries have been modified to ensure their consistency with the accounting policies adopted by the Group.

The most important entities included in the consolidated financial statements are listed below. All companies are S. A. de C. V., except Liderazgo Empresarial en Tecnologías de la Información, Servicios Especiales Turandot and Werther Administración Integral; all three are subsidiaries S. A. P. I. de C. V.):

Company	Shareholding % At December 31 2017	2016	Business purpose
Mega Cable	99.99	99.99	Holding company and leasing of infrastructure to subsidiaries.
Telefonía por Cable	99.99	99.99	Operations in the Sinaloa, Sonora, Occidente, Centro, Golfo, Chiapas, Comarca, Estado de México, León, Los Cabos cable systems, among others.
MCM Holding (MCM)	99.99	99.99	Local telephone services in Mexico City, Guadalajara and Monterrey.
Liderazgo Empresarial en Tecnologías de la Información (Ho1a)	51.00	51.00	Holding company this company and its subsidiaries are engaged in the installation, purchase and sale of communications services in Mexico City, Guadalajara, Monterrey and Cancun.
Productora y Comercializadora de Televisión (PCTV)	81.98	81.98	The purchase and sale of domestic and international television signals, the sale of ads and advertising space on television, and the production and coproduction of programs.
Myc Red	51.00	51.00	Operations in the Sahuayo and Jiquilpan, Michoacán cable systems.
TV Cable del Golfo	99.99	99.99	Technical personnel service
Servicios Técnicos de Visión por Cable	99.99	99.99	Technical personnel service
Mega Ventas	99.99	99.99	Sales personnel service
Servicios de Administración y Operación	99.00	99.00	Administrative personnel services
Tele Asesores	99.00	99.00	Administrative personnel services
Entretenimiento Satelital	95.00	95.00	Operating of the "video rola" channel
Servicios Especiales Turandot	78.00	96.69	Leasing of equipment and infrastructure for providing telephone services.
Werther Administración Integral	85.42	96.69	Leasing of equipment and infrastructure for providing telephone services.
Corporativo de Comunicación y Redes de GDL	51.00	51.00	Leasing of equipment and infrastructure for providing cable, internet and telephone services
Servicio y Equipo en Telefonía, Internet y Televisión	51.00	51.00	Holds the rights of subscribers of the Michoacán and Zacatecas systems, among others.

b) Changes in interest in subsidiaries without the loss of control

The Group recognizes transactions with non-controlling shareholders as transactions between Group shareholders. When a non-controlling interest is acquired, the difference between any price paid and the interest acquired in the subsidiary, measured at book value, is recorded in stockholders' equity. The profits or losses from disposal of equity in a subsidiary not implying the loss of control by the Group are also recorded as stockholders' equity.

c) Disposal of subsidiaries

When the Group loses control of an entity, any interest in said entity is measured at fair value, and the effect is recorded in income. Subsequently, the fair value is considered the initial book value for the purpose of recognizing the interest retained as an associate, joint business or financial asset. Additionally, the amounts previously recognized in other comprehensive income in relation to that entity are canceled as though the Group had directly disposed of the respective assets or liabilities. This implies that the amounts previously applied to other comprehensive income are reclassified to income for the period.

d) Joint agreements

The Group has applied IFRS 11 to all its joint agreements. Under IFRS 11, investments in joint agreements are classified either as a joint operation or as a joint business, depending on the contractual rights and obligations of each investor. The Group has evaluated the nature of its joint agreements and has determined that they qualify as joint businesses. Joint businesses are accounted for by the equity method.

Under the equity method, the interest in joint businesses is initially recorded at cost and is subsequently adjusted to recognize the Group's interest in losses and gains subsequent to the acquisition, as well as movements in other comprehensive income. When the Group's interest in the losses of a joint business equal or exceed its interest in the joint business (which includes any long-term interest that in substance forms part of the Group's net investment in the joint business), the Group recognizes no further losses, unless it has incurred obligations or has made payments on behalf of the joint business.

Unrealized gains from transactions carried out between companies of the Group and their joint businesses are eliminated in proportion to the Group's interest in the joint business. Unrealized losses are also eliminated, unless the respective transaction provides evidence of impairment in the transferred assets. The accounting policies of the joint businesses have been modified to the extent necessary to ensure consistency with the policies adopted by the Group.

The Group, as well as Televisa and Telefónica, jointly invested in Grupo de Comunicaciones de Alta Capacidad, S.A.P.I. de C. V. (GTAC), to participate in the invitation to bids of the Federal Electricity Commission for the use and accessory use of a pair of dark optic fiber lines. See Note 24.

2.3 Financial information by segments

Operating segments are classified from the point of view of the information presented internally to the highest decision-making authority (Board of Directors) comprised of the CEO and other Directors (based at the Guadalajara facilities), responsible for assigning resources and ensuring the performance of the operating segments.

These segments are managed independently, due to the fact that the services provided and the markets they serve are different. Their activities are conducted through different subsidiary companies. See Note 25.

2.4 Foreign currency transactions and balances

Operations in foreign currency are converted to the functional currency at the exchange rates in effect at transaction date, or at the exchange rate in effect at valuation date when items are repriced. Gains and losses from exchange fluctuations resulting from the liquidation of those operations or from conversion of monetary assets and liabilities expressed in foreign currency at the exchange rates in effect at the year-end close are recognized in the consolidated statement of income. Exchange gains and losses are recorded under financial income/expenses.

The functional and the recording currency

In light of the fact that the posting, functional and reporting currency of the Company and its subsidiaries are the entire Mexican peso, no conversion was required.

2.5 Cash and cash equivalents

In the consolidated statement of cash flow, cash and cash equivalents include available cash, demand bank deposits, and other highly liquid short-term investments maturing at three months or sooner. In the (consolidated) statement of financial position, bank overdrafts are shown as loans under current liabilities. Short-term investments are made through banking institutions, which consist of low-risk, moderate-yield government debt instruments such as Treasury Certificates(CETES). At December 31, 2017 and 2016, these investments mature at 28 and 90 days. See Note 5.

2.6 Advance payments:

Advance payments represent disbursements (rights) made by the Group, in which the benefits and risks inherent in the goods to be acquired or in the services to be received have not yet been transferred. Prepayments are recorded at cost and are shown in the statement of financial position in the "Accounts receivable, net" line item. See Note 6.

2.7 Accounts receivable:

Accounts receivable represent collection rights owed by customers, arising from services rendered by the Group in the normal course of operations. If recovery of accounts receivable is expected in a year or less, said accounts are classified as current assets; otherwise, they are shown as non-current assets.

Accounts receivable are initially recognized at fair value and subsequently measured at their amortized cost, using the effective interest rate method, less the impairment reserve, if applicable. An impairment reserve is recognized when there is evidence that the Group will be unable to collect the total amount as per the original terms of the service agreement. The amount of the impairment reserve is the difference between the recognized book value and the estimated amount to be recovered. See Note 6.

2.8 Financial assets

2.8.1 Classification

All the Group's financial assets are classified as loans and accounts receivable. Management classifies its financial assets in those categories at the time of initial recording, considering the purpose for which they were acquired.

Loans and accounts receivable are non-derivative financial assets allowing for fixed or determinable payments, which are not quoted in an active market. They are shown as current assets, except for those maturing in over 12 months as from the closing date of the period reported, which are classified as non-current assets. Loans and accounts receivable are shown in the following captions of the statement of financial position: "In cash and cash equivalents" (Note 2.5), "Accounts receivable, net" (Note 2.7) and "Related parties" (Note 24).

2.8.2 Recognition and measurement

The purchase and sale of financial assets is recorded on the negotiation date, which is the date on which the Group agrees to purchase or sell the asset. Financial assets are initially recognized at their fair value, plus related transaction costs. Financial assets are canceled when the right to receive the respective cash flows expires or is transferred and the Group has substantially transferred all the risks and benefits inherent in ownership. Loans and accounts receivable are subsequently recognized at amortized cost using the effective interest rate method.

2.9 Compensation of financial instruments

Financial assets and liabilities are offset and the net amount is shown in the statement of financial position when the right to offset amounts recognized is legally binding and there is the intention to settle them on net bases or to realize the asset and pay the liability simultaneously. The legally required right should not be contingent upon future events and must be executable in the regular course of business operations, and in the event of noncompliance, insolvency or bankruptcy of the group or the counterparty.

2.10 Impairment of financial assets valued at amortized cost.

At the end of every reporting year, the Group determines whether or not there is objective evidence of impairment of each financial asset or group of financial assets. An impairment loss is recognized only if there is objective evidence of impairment resulting from one or more events occurring after initial recognition of the asset (a "loss event") and provided the loss event or events have an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment can include signs that debtors or a group of debtors are/is experiencing significant financial difficulties, lack of payment or delays in payment of interest, the likelihood of filing for bankruptcy, as well when the observable data indicate there is a measurable decrease in estimated future cash flows, such as changes in delays or economic conditions related to the lack of payment.

As for loans and receivables, the loss is measured as the difference between the book value of the assets and the present value of estimated future cash flows(excluding future loan losses not yet incurred), discounted at the original effective interest rate of the financial asset. The book value of the asset is decreased and the loss is recognized in the consolidated statement of income. If a loan or investment held to maturity is subject to a variable interest rate, the discount rate to measure any impairment loss is the current effective interest rate determined contractually. The Group can measure impairment based on the fair value of a financial instrument using its observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized (such as an improvement in the borrower's credit quality), the reversal of the previously recognized impairment loss is recorded in the consolidated statement of income.

2.11 Inventories

Inventories are mainly comprised of consumable operating materials and certain spare parts used to ensure proper maintenance of the cable signal system (network) in the normal course of operations. The most important spare parts and permanent maintenance equipment the Group expects to use over more than one period and which can only be used in connection with a fixed asset component are recognized as part of property, networks and equipment.

Inventory is recorded at the lower of their acquisition cost and net realization value. The cost is determined by the average cost method. The net realization value is the selling price estimated in the normal course of operations, less the corresponding variable selling costs. See Note 7.

2.12 Property, networks and equipment:

Property, networks and equipment are stated at historical costs less depreciation. Historical cost includes expenses directly attributable to the acquisition of those items. See Note 9.

Costs related to an item incurred subsequent to initial recognition are capitalized as part of said item or a separate item, as applicable, only when they are likely to generate future economic benefits for the Group and the cost can be measured reliably. It should be mentioned that the Group builds some of its cable system networks and installations;internal costs, such as labor costs in construction projects and directly related redistribution and adaptation expenses for the asset to be at a place and in the necessary operating conditions are capitalized, provided they generate future economic benefits.

The book value of replaced components is canceled. Maintenance and repair expenses related to daily property, system and equipment servicing are recognized in the consolidated statement of income in the period in which they are incurred.

The land is not depreciated. Depreciation of all other property, systems and equipment is determined systematically by the straightline method on the value of assets, which are applied to the cost of assets, without including their residual value and considering their useful lives estimated by management, as follows:

Description of Asset	Depreciation rate 31-dec-17	Depreciation rate 31-dec-16	Estimated useful life 31-dec-17	Estimated useful life 31-dec-16
Land	N/A	N/A	-	-
Buildings	2.5%	2.5%	40	40
Network and technical equipment for signal distribution				
Networks:	6.64%	6.64%	15	15
Converters	10.00%	10.00%	10	10
Equipment	6.65%	6.65%	15	15
Cable modems	10.00%	10.00%	10	10
Laboratory equipment	7.11%	7.11%	14	14
Office furniture and equipment	5.67%	5.67%	18	18
Computer equipment	12.50%	12.50%	8	8
Transportation equipment	11.11%	11.11%	9	9
Leasehold improvements	5.67%	5.67%	18	18
Telecommunications equipment	5.67%	5.67%	18	18
Other				
Tools and equipment	8.33%	8.33%	12	12

At December 31, 2017 and 2016, there are no significant components requiring depreciation on a separate basis.

Leasehold improvements are depreciated over the term of the respective operating lease agreements. The residual values, the useful lives and the operating methods of the assets are reviewed and adjusted, when necessary, at the close of each period.

The value of property, networks and equipment is reviewed when there are signs of impairment in the value of said assets. When the recovery value, which is the greater between the selling price and the value in use (the present value of future cash flows) is below the net book value, the difference is recognized as an impairment loss. In the years ended at December 31, 2017 and 2016, there was no indication of impairment. See Note 2.14.

2.13 Intangible assets

a) Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the consideration transferred in excess of the Group's interest in the net fair value of the acquired entity's net identifiable assets, liabilities and contingent liabilities of the acquired entity and the fair value of the non-controlling interest in the acquired entity.

Goodwill relating to the acquisition of a subsidiary is shown in intangible assets and is recorded at cost, less accumulated impairment losses, which are not reversed.

In order to test impairment, the goodwill acquired in a business combination is assigned to each of the cash generating units (CGU) or groups of cash generating units expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is assigned represents the lowest level within the entity at which goodwill is controlled for internal management purposes. Goodwill is controlled at the operating segment level.

Goodwill impairment is tested annually or more frequently if events or changes in circumstances indicate possible impairment. The book value of goodwill is compared to the recoverable figure, which is the higher of value in use and fair value, minus cost of sales Any impairment is recorded immediately as an expense and is not subsequently reserved.

At December 31, 2017 and 2016, no impairment losses were recognized in goodwill. See Note 10.

b) Customer base

Intangible assets acquired in a business combination are usually recognized at fair value at the date of acquisition. The principal intangibles recorded on acquisitions is the subscriber portfolio, which according to the study conducted (fair value), has a useful life of approximately four years. Amortized by the straight-line method. See Note 11.

c) Trademarks and patents

Trademarks and patents acquired individually are recognized at historical cost. Trademarks and patents acquired through business combinations are recognized at fair value at the acquisition date. Trademarks and patents have an indefinite useful life and are recorded at cost, less their accumulated amortization. Amortization is calculated by the straight-line method to distribute the cost of trademarks and patents based on the estimated useful lives of 20 years.

2.14 Impairment of non-financial assets

Assets with an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment.

Assets subject to amortization are tested for impairment when events or circumstances arise indicating that their book value might not be recovered.

Impairment losses are the amount by which the book value of assets exceeds their recovery value. The recovery value of assets is the greater of the fair value of the asset less costs incurred for sale and value in use. For impairment testing purposes, assets are grouped at the lowest levels at which they generate identifiable cash flows (cash-generating units).

2.15 Suppliers and other accounts payable

Trade payables are obligations to pay for goods or services acquired from suppliers in the normal course of the Group's operations. When they are expected to be paid within a year or less from the closing date, they are shown as current liabilities. Otherwise, they are shown as non-current liabilities.

Accounts payable are initially recognized at fair value and subsequently re-measured at amortized cost, using the effective interest rate method.

2.16 Loans

Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently recorded at amortized cost. Any differences between the amounts received (net of transaction costs) and the settlement value are recognized in the consolidated statement of income during the term of the loan, using the effective interest method.

Fees for keeping current credit lines open are capitalized as advance payments for services for obtaining liquidity and are amortized during the period in which the agreement is in effect.

Refinancing

When changes occur in loan agreements, it is determined whether those changes are substantial enough to result in cancellation of the loan and recognition of a new one or whether the changes are not substantial and are accounted for as a renegotiation of the original loan. Depending on whether the loan is canceled or renegotiated, the treatment is different.

Costs incurred for commissions at the outset and commissions generated from refinancing and debt renegotiations are recorded prospectively if it is considered that the original instrument is not canceled, and instead, it is considered that only the conditions for flows agreed at the outset of the negotiation have changed.

2.17 Provisions

Provisions are recognized when the Group has a legal obligation, present or assumed, as a result of past events, when the use of cash flows will probably be required to settle the obligation and when the amount can be reliably estimated. At December 31, 2017 and 2016, there are no provisions.

2.18 Current and deferred taxes on income

The expense for taxes on income comprises incurred and deferred taxes. The tax is recognized in the statement of income, except to the extent that it relates to items recognized directly in other comprehensive income or in stockholders' equity. In that case, the tax is also recognized in other comprehensive income items or directly in stockholders' equity, respectively. The tax on income incurred in the year is shown as a short-term liability net of advance payments made during the year.

The current charge for taxes on income is calculated based on the tax laws in force or partially approved at the date of the consolidated statement of financial position. Management periodically evaluates the position taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company subsequently recognizes the necessary provisions based on the amounts it expects to pay to the tax authorities

Deferred income tax is determined based on the full-scope method of assets-and-liabilities, on temporary differences arising between the tax bases of assets and liabilities and their carrying value.

However, deferred taxes on profits arising from initial recognition of an asset or liability in a transaction not corresponding to a combination of businesses that affects neither the book nor the tax profit or loss at the time of the transaction, are not recorded, and neither are they recorded if they arise from initial recognition of goodwill. Deferred taxes on profits is determined using tax rates and laws enacted or substantially enacted by the date of the statement of financial position that are expected to apply when the deferred taxes on income asset is realized or the deferred taxes on income liability is settled. See Note 19.

Deferred taxes on income assets are recognized only to the extent future taxable profits are likely to be available, against which the temporary liability differences can be utilized.

Deferred taxes on income are generated on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the possibility of the reversal of the temporary difference is controlled by the Company and the temporary difference is not likely to reverse in the near future.

Deferred taxes on income assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes on income assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is the intention to settle the balances on a net basis.

2.19 Employee benefits

a) Seniority premium

Group companies have established a plan in conformity with the requirements set forth in the Federal Labor Law (FLL) in respect of which, Group companies with personnel are required to pay their employees a seniority premium upon termination of employment after 15 years of service.

The liability or asset recognized in the consolidated statement of financial position concerning the seniority premium is classified as defined benefits and represents the present value of the obligation for the defined benefit at the date of the consolidated statement of financial position. Obligations for defined benefits are calculated annually by independent actuaries using the projected unit cost method. The present value of defined benefit obligations is determined by discounting estimated future cash flows using interest rates for government bonds denominated in the currency in which the benefits will be paid, and that have maturity terms approximating the terms of the related pension obligation.

Remediation arising from experience adjustments and changes in actuarial assumptions are charged or credited to stockholders' equity in other comprehensive income in the period in which they arise.

Past service costs are immediately applied to income, unless the changes in the pension plan are subject to the employee continuing in service for a determined period of time (the period giving rise to the right).

a) Defined benefit plans

A benefit plan is defined as the pension benefit to be received by an employee upon retirement, which usually depends on one or more factors, such as age, years of service and compensation.

The liability or asset recognized in the consolidated statement of financial position with respect to defined benefit plans is the present value of the defined benefit obligation at the date of the consolidated statement of financial position. Obligations for defined benefits are calculated annually by independent actuaries using the projected unit cost method. The present value of definedbenefit obligations is determined by discounting estimated future cash flows using discount rates denominated in the currency in which the benefits are to be paid and which mature in approximately the same terms as the pension liability.

Actuarial profits and losses arising from adjustments and changes in actuarial assumptions are recorded directly in stockholders' equity in other comprehensive income items in the period in which they arise.

The Company determines net financial expense (income) by applying the discount rate to the net defined benefit liability (asset).

Past service costs are recorded immediately in the statement of income.

b) Pension Plan

Defined contribution plan:

The subsidiary Teleasesores, S. A. de C. V. has a defined contribution plan where the Company pays in fixed contributions to a separate fund. The Company has no legal or assumed obligations to pay additional contributions if the fund fails to maintain sufficient assets with which to pay all employees the benefits related to the service in current and past periods. Contributions are recorded as employee benefit expenses on the date on which the contribution must be made.

d) Employees' statutory profit sharing and bonuses

The Company recognizes a liability and an expense for bonuses and profit sharing based on a formula that considers taxable income after certain adjustments. The Group recognizes a provision when it is contractually bound or when there is a past practice that gives rise to an assumed obligation.da.

2.20 Capital stock

The capital stock, the net premium on the placement of shares, the legal reserve and retained earnings are presented at historical value.

Common shares are classified as equity.

Incremental costs directly attributable to issuance of new shares or options are shown in stockholders' equity as a deduction of the amount received, net of taxes.

a) Net premium on the placement of shares

The net premium on the placement of shares is the difference (excess) between the payment on the subscription of shares and the par value of those shares.

b) The legal reserve

According to the Corporations Law, a minimum of 5% of net earnings for the period must be set aside until it reaches 20% of stockholders' equity. The legal reserve can be capitalized, but must not be distributed unless the Group is dissolved, and must be made up if it shrinks for any reason.

c) The reserve for repurchase of shares

When any of the Group companies purchases Company shares (repurchased shares), the consideration paid, including costs directly attributable to said acquisition (net of taxes) is recognized as a decrease in the Group's stockholders' equity until such time as the shares are canceled or reissued. When said share are reissued, the consideration received, including incremental costs directly attributable to the transaction (net of taxes), is recognized in the Group's stockholders' equity.

d) Option to buy associated companies

Once the Group had acquired 51% of the shares of 2 of their subsidiaries companies (Servicio y Equipo en Telefonía, Internet y Televisión, S.A. de C.V. and Corporativo de Comunicación Redes de GDL, S.A. de C.V.), a purchase option was established where minority shareholders are entitled to sell their shareholding at fair market value in a term of ten years. At December 31, 2017 and 2016 this option those not have intrinsic value.

2.21 Leases

Leasing, in which a significant portion of the risks and benefits pertaining to ownership are retained by the lessor, is classified as operating leasing. Payments made under operating leasing (net of any incentive received from the lessor) are charged to the statement of income by the straight line method over the leasing period. At December 31, 2017 and 2016, the Group's operating leases correspond to commercial space used to provide the service, as well as to the rights to use the pole line (cabling) owned by the Federal Electricity Commission.

Property, network and equipment leases under which all the risks and rewards of ownership are substantially transferred to the Group are classified as financial leases. Financial leases are capitalized at the outset of the lease at the lower of the fair value of the leased property and the present value of minimum lease payments.

Each lease payment is applied to the liability, and the financial charge is recognized. Contract-related lease obligations, net of financial costs, are included in other long-term accounts payable. Financial-cost-related interest is charged to the consolidated statement of income over the lease period, in such a way that a constant interest rate applies to the balance of the liability for each of the periods. Property, plant and equipment acquired through financial leases is depreciated in the the useful life of the asset.

At December 31, 2017 and 2016, the Group's financial leasing mainly corresponds to the use of the optic fiber network on which payments are made to GTAC, a related party. See Note 16, point b.

2.22 Loan costs

General and specific loan costs that are attributable to the acquisition, construction or production of qualifying assets for which an extended period is required to be put into the conditions required for their use or sale are capitalized as part of the cost of those assets until they are substantially ready for use or sale (12 months). Interest earned on temporary investments of the specific loan funds for the acquisition of qualifying assets is deducted from the eligible costs to be capitalized.

The remaining costs of the loans are recognized when incurred or accrued in the income statement.

2.23 Revenue recognition

Income arising from the rendering of services in the normal course of Group operations is recognized at fair value of the consideration received or receivable. Income is shown net of rebates and discounts, after eliminating sales between Group companies. The Group recognizes revenue when it can be reliably measured, when future economic benefits are likely to flow to the entity, and when specific criteria have been met for each of the Group's activities, as described below: The Group determines its estimations based on accumulated experience, taking into account the type of customer, the type of operation and the specific terms of each contract.

Cable television signal services

The cable television signal service is mainly represented by monthly lease payments, as well as by installation fees, pay-per-view and other related charges. Monthly rent for the service and pay-per-view are recognized as book income at the month-end closing, once the service has been provided and the risks and benefits have been transferred to the customer, which is when the television signal is transmitted and the commitment assumed by the group with the costumers is met. Other related service are recognized as income once the customer has expressed satisfaction with the services received.

Internet services

Internet service is mainly represented by monthly rents, as well as by installation fees and other related charges. Monthly rent for the service is recognized as book income at the month-end closing, once the service has been provided and the risks and benefits have been transferred to the customer, which is when the Internet signal is transmitted to the customer. Installation and other related service charges are recognized as income once the customer has expressed satisfaction with the services received.

Digital telephone service

Telephone service income is represented by monthly rent for this service, measured based on the number of calls. Monthly rent for local calls is recognized as book income at every month-end closing, once the service has been rendered and the risks and rewards have been transferred to the customer. The excess in local calls is recognized when the calls are made. Long distance calls are recognized monthly on the basis of the length of each call.

Internet and digital and mobile telephone services are invoiced in advance on a monthly basis and recognized as income for the period in which the service is rendered.

Income from the sale of communications systems is recorded in income when the income and benefits arising from the systems have been transferred to the purchaser and no significant control over those systems is retained.

Interconnections

Income on interconnections arising from use of the Group's infrastructure obtained from other operators to complete calls is recognized together with long-distance or excess calls originating with other operators and ending in the telephone network.

Installation and reconnection in cable, internet and telephone subscribers.

The Group recognizes income per main installation and subscribers based on the period in which the services it is provided. The initial revenue, no refundable, for installation and activation, are recognized once the activation for the new subscriber is done. The reconnection and reactivation revenue are recognized in the year in which the reactivation is made.

Service income

Income from installation services (delivery and installation of equipment) is recorded as services are rendered and: a) income arising from and costs incurred in rendering the services are determined -reliably, and b) the Company is likely to receive the economic benefits associated with the rendering of services.

Income from fixed-price service contracts is recorded by the percentage of completion method. Income is recorded on the basis of services rendered in relation to overall services rendered.

Sale of goods

The group realizes sales of equipment goods. The selling price for the goods it is determined with an agreed fixed-price between the parties.

Interest

Interest income is recorded using the effective interest rate method. Interest income is mainly derived from loans to related parties and is applied to income for the period by the effective interest method. When a loan or account receivable is impaired, its book value is adjusted at its recovery value, which is determined by discounting the estimated future cash flow at the instrument's original effective interest rate. Interest income from an impaired loan or account receivable is recorded using the original effective interest rate.

Deferred revenue

The amounts owed or in favor from clients, related to long-term projects in process, are recognized as current assets and liabilities, as it may apply, without compensating the balances between these accounts. These accounts include the collections made, the costs incurred and the profits and losses recognized.

2.24 Earnings per share

Net earnings per share are calculated by dividing the net profit for the year attributable to the con-trolling interest by the weighted average of shares outstanding during the year. At December 31, 2017 and 2016, there are no components of diluted earnings; therefore, the profit per diluted share is neither calculated nor disclosed, as that is the same figure as the profit per share. See Note 18.

2.25 Dividends declared

Dividends paid to Group shareholders are recorded in the consolidated financial statements as a liability for the period in which they are approved by the stockholders of the Group.

Note 3 - Financial risk management:

3.1 Financial risk factors

Group operations expose it to a number of financial risks, such as market risk (including exchange rate risk, interest rate risk and price risk), credit risk and settlement risk. The purpose of the Group's risk management plan is to minimize the potential negative effects arising from the unpredictable nature of the markets on the Group's financial performance.

The Group's financial risk management is handled by the CFO, as per policies approved by the Board of Directors. The Group identifies, evaluates and hedges financial risk in close cooperation with its operating units. The Board of Directors has approved general written policies with respect to financial risk management, as well as policies addressing specific risks, such as exchange risks, interest rate risks, the use of hedge derivative financial instruments and of non-derivative financial instruments and investment of treasury surpluses.

3.1.1. Market Risk

Market risk is exposure to an adverse change in the value of financial instruments resulting from market factors, including changes in interest rates, the exchange rate and inflation rates.

The Group is exposed to market risks resulting from changes in inflation, exchange and interest rates. Risk management activities are monitored by the Management Committee and reported to the Executive Committee.

i) Exchange risk

The Group's entire revenue is received from the local market and is transacted in Mexican pesos, which means that its operations are not exposed to the risk of operating with foreign currencies. The exchange risk arises from financial activities, mainly from exposure to movements in the exchange rate of the Mexican peso against the US dollar, due to operations with programmers and suppliers stated in US dollars.

Management has established a policy requiring the Group's companies to manage the exchange risk in respect of the functional currency. Group companies must hedge their exposure to exchange risks through the Group's Treasury. The exchange risk arises when future commercial and financing transactions and the assets and liabilities recognized are entered into in a currency other than the entity's functional currency. At December 31,2017 and 2016, the Group had contracted no hedging instruments against exchange risks.

Based on its risk management policies, the Group keeps a marketable securities account in dollars, which is intended to hedge its advance cash flows for the following 12 months (mainly associated with bank liabilities and suppliers), to minimize the exchange risk.

However, the Group is conducting the following activities to lower the foreign exchange risk:

Negotiations with suppliers to "pesofy" inputs. Last year, the Group took on the task of negotiating with suppliers to pesofy contracts as much as possible, as a result of which, some programmers have adjusted their rates now in pesos for all to have a greater business certainty in terms of cost and for them to ensure that their channels continue to be included in the programming. As a result, the Group cut exposure of 12% or 13% of operating expenditures to 5% or 6% percent.

As for CAPEX, agreements were reached with the financial arm of a strategic supplier of technology to convert the amounts of purchases for up to $20 million dollars to pesos, payable in 4 quarters with preferential financial costs. In addition, the equipment purchased from a supplier of subscriber equipment was pesofied, involving annual amounts estimated at $22.5 million dollars.

If at December 31, 2017, the currency had been revalued /devalued 10% in respect to the U.S. dollar, the other variables would have remained constant, income for the year after taxes would have been decrease by $51.7 million ($17.8 in 2016), mainly as a result of the gains / losses on conversion of bank loans and accounts payable to suppliers denominated in U.S. dollars.

ii) Price risk

The Group is not exposed to price risks associated with the costs of the services it provides, as they are not subject to market indexes. In addition, prices of production materials acquired for providing the service in 2017 and 2016 showed no significant changes.

iii) Cash flow risk related to interest rates

For the Group, the interest rate risk arises from its long-term loans. Loans at variable rates expose the Group to the interest rate risk on cash flows, which is partially offset with cash held at variable rates.

The Group analyzes its exposure to interest rate risk dynamically. A number of different situations are simulated, taking into account positions in respect to financing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on the profit or loss arising from a defined movement in interest rates. In each simulation, the same defined movement is used in interest rates for all currencies. These simulations are conducted only in the case of obligations that represent the main interest-generating positions.

Based on the simulations performed, the after-tax impact on income of a 1% movement would generate a maximum increase of $2,627 ($2,627 in 2017) or a decrease of $1,876 ($1,876 in 2016), respectively. Simulations are prepared on a quarterly basis to verify that the maximum potential loss is within the limit established by Management.

At December 31, 2017, the Group's total loans are at variable rates.

3.1.2. Credit risk

The credit risk is managed at the Group level, including the credit risk for accounts receivable; however, each company is responsible for conducting a credit risk analysis of each of its customers prior to offering payment terms, delivery terms and other conditions.

The credit risk is associated with cash and cash equivalents, deposits in banks and financial entities, as well as credit exposure associated with customers, which includes outstanding balances of accounts receivable and agreed-upon transactions.

With respect to banks and financial institutions, only institutions with a solid operating history and an excellent reputation in the market are accepted. As for the portfolio, the credit risk is limited, as amounts recoverable refer to monthly rent for services rendered and the fact that there is no significant portfolio concentration due to the large number of subscribers that comprise it. On an independent basis, the portfolio area evaluates customer's credit standing, taking into account financial position (personal bank statements, credit cards, etc.), past experience and other factors.

Credit limits are established according to the limits set by the Board of Directors, based on the historical information available on the behavior of the portfolio and on certain internal and/or external ratings, if applicable. Use of the credit limits is monitored periodically.

Credit limits were not exceeded during the reporting period and Management does not expect the Group to incur in any loss, given its performance.

Lastly, the maximum exposure to credit risk is limited to the book value of each of the accounts receivable, as shown in the following table: Consequently, the Group has no significant credit risk concentration.

Credit standing of financial assets	December 31	
	2017	2016
Accounts receivable		
Group 1	$755,405	$1,659,335
Group 2	108,569	57,674
Total accounts receivable from customers	**$863,974**	**$ 1,717,009**

	December 31	
	2017	2016
Related parties		
Group 1	$-	$ -
Group 2	1,027,123	1,006,900
Total related parties	**$1,027,123**	**$1,006,900**
Group 1 - New customers - existing customers/related parties (under six months).		
Group 2 - Existing customers/related parties (over six months) with some defaults in the past.		

	December 31	
	2017	2016
Cash in banks and bank deposits Current:		
AAA	$3,167,661	$1,148,139

3.1.3. Liquidity risk

The cash flow projection is conducted at the Group's operating entities and the information is concentrated by the office of the Group's Finance Director. The Group's Finance Director's Office supervises the updating of projections of liquidity requirements to ensure there is sufficient cash to meet its operating needs and permanently maintain sufficient margin in credit lines not yet drawn down, to avoid the Company defaulting on the credit limits or covenants for any credit line. Said projections consider financing plans through debt, compliance with covenants, compliance with financial ratios based on internal financial information and if applicable, regulatory requirements.

Cash surpluses held by the Group and surplus balances over the amount required for working capital are transferred to the Group's Treasury, which invests cash surpluses in term deposits and marketable securities, and selects instruments with appropriate maturities or of sufficient liquidity to provide sufficient margins.

Any surpluses can be invested in expanding the cash generating facilities, with authorization from the Board of Directors.

The following table contains an analysis of the Company's financial liabilities classified based on the period between the date of the consolidated statement of financial position and the maturity date (including unearned interest).

The table was prepared on a cash flow basis without discounting, from the first date on which the Group will be required to pay.

At December 31, 2017	Less than 1 year	From 1 to 2 years	From 2 to 5 years
Bank loans	$131,833	$126,479	$3,800,298
Interest on documents payable	292,444	163,873	
Suppliers	1,561,165		
Related parties	350,624	368,164	235,444
Related-party interest		43,085	161,121
Other accounts payable	877,088		
	$3,213,154	$701,601	$4,196,863

At December 31, 2016	Less than 1 year	From 1 to 2 years	From 2 to 5 years
Documents payable	$5,613	$5,901	$
Bank loans	1,567,631	81,816	1,982,756
Interest on documents payable	103,161	162,514	
Suppliers	1,917,052		
Related parties	137,043	570,695	131,083
Related-party interest		18,729	208,296
Other accounts payable	656,911		
	$ 4,387,411	$ 839,655	$2,322,135

The analysis of maturity is applied only to financial instruments and is therefore not included in the entity's non-financial liabilities, such as tax liabilities.

3.2. Capital risk management

The Group's purpose in managing capital risk is to safeguard its ability to continue in operation as a going concern, provide the stockholders' with a return and other interested parties with benefits and maintain an optimal capital structure in order to reduce its cost.

In order to maintain or adjust the capital structure, the Group can vary the amount of dividends payable to the stockholders, conduct a capital stock reduction, issue new shares or sell assets and reduce its debt.

Like other entities in the industry, the Group monitors its capital structure based on the financial ratio for leveraging.

That may shoe is calculated by dividing overall liabilities by overall capital as shown in the consolidated statement of financial position.

In 2016, Group strategy, which remained unchanged since 2015, was to keep the leveraging ratio within the range of 0 to 3.00.

The credit rating in respect of the Group's ability to comply with its financial obligations has been maintained throughout the period. The leveraging ratio at December 31, 2017 and 2016 is as follows:

		At December 31	
	Note	2017	2016
Total liabilities	13	$10,197,684	$9,398,252
Total stockholders' equity		25,780,545	23,177,163
Ratio (See Note 13)		0.40	0.41

3.3. Estimation of fair value

The different levels of financial instruments have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Assets and liabilities measured at fair value within this hierarchy are related parties receivable and payable and bank loans (level 2).

Information other than quotation prices included in level 1 that can be confirmed for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices) (level 2).

- Information on the asset or liability not based on data that can be confirmed in active markets (unobservable information) (level 3).

The fair value of financial instruments negotiated in active markets is based on prices quoted in the markets at the date of the consolidated statement of financial position. A market is considered active if there are quoted prices that are normally available in a stock exchange, negotiators, brokers, industry groups, price services or of a regulating agency, and those prices represent real and recurring transactions in the market on a free-competition basis. The market price used for the financial assets held by the Group is the current bid price. Those instruments are included in level 1.

The fair value of financial instruments not traded in an active market is determined with valuation methods. These valuation techniques maximize the use of observable market information in cases in which it is available and places the least possible reliance on the entity's specific estimates.

If all relevant variables for establishing the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more relevant variables is/are not based on observable market information, the instrument is included in level 3.

Specific financial instrument valuation techniques include:

- Quoted market prices or quotations of traders of similar instruments.
- Other techniques, such as a discounted cash flow analysis, are used to determine the fair value of other financial instruments.

Assets and liabilities valued at amortized cost at December 31, 2017 and 2016 closely resemble fair value because their realization period is less than a year, except for those shown as long term, described in Notes 12, 13 and 24.

The book value of accounts receivable (customers), other accounts receivable, suppliers and other accounts payable is similar to fair value, as it would be the short-term amount payable.

Note 4 - Critical accounting estimates and judgments:

Estimates and judgments used are reviewed on a regular basis and are based on historical experience and other factors, including expectation of future events considered reasonable in the circumstances.

4.1.Critical accounting estimates and judgments

The Group makes estimates and judgments in respect of the future. The resulting accounting estimations are rarely the same as actual results. Estimates and assumptions indicating a significant risk of a material adjustment to the values of assets and liabilities within the following year are as follows:

Accounting judgments

4.1.1. Government concessions

The above mentioned services are rendered via free concessions granted by the competent authorities in the regions mentioned in Note 25.3, mostly in a term of 30 years; which at the end of term it will be consolidated into a unique concession.

In January 2016, MEGA CABLE was granted a sole concession title, which considers national coverage, for a 30 year period, enabling the Group to provide any type of technically feasible telecommunications service that its infrastructure will allow for (with the exception of those requiring the use of a radio-electronic spectrum) anywhere in Mexico. Said model establishes the corresponding obligations, such as: registering the services to be provided; information related to passive and active infrastructure, broadcasting media and rights of way; coverage programs, investment, quality and coverage commitments; non-discrimination; establishing and publishing a Code of Commercial Practices; not broadcasting information that affects the healthy development in programing for children and adolescents, providing information to the IFT and allowing for verification at facilities; filing audited financial statements.

Any concessions having expired prior to January 2016 have been renewed. The entities holding concessions are: Mega Cable, Megacable Comunicaciones de México, Servicio y Equipo en Telefonía, Internet y TV and Myc Red. For accounting purposes, the Group has determined that those concessions do not fall within the scope of IFRIC 12, "Service concession arrangements" because, among other aspects, the Government is regulating the rates and there is no residual value to be returned to the government

At December 31, 2017, the Group's concessions' terms are as follows:

Year		Number of concessions at:	
Starting	Expiring	30 years	10 years
2013	2023		5
2014	2024		5
1995	2025	18	
1996	2026	32	
1997	2027	3	
1998	2028	21	
1999	2029	2	
2000	2030	16	
2007	2037	4	
2008	2038	8	
2009	2039	3	
2010	2040	2	
2011	2041	3	
2013	2043	6	
2014	2044	4	
2016	2046	2	

The main characteristics of the concessions granted prior to 2016 and still in force are:

a. General

- Purpose and services: The licensee is required to install, operate and exploit the Network and provide the services specified in the concession.
- The services must be rendered through affiliates or subsidiaries, provided it can be demonstrated to the satisfaction of the authorities that said companies meet all financial, legal and technical requirements for providing the services.
- The subscription or sale of shares: a list of its main stockholders and respective shareholding percentages must be presented to the SCT by April 30 each year.
- A technical and legal representative must be appointed.

b. Provisions applicable to the services

- Quality of the services: refers to the rendering of the services on an on going and efficient basis.
- Measurement and quality control equipment: the licensee must make every effort to ensure the measuring accuracy and reliability of the equipment.
- Code of commercial practices: the licensee must prepare a description of the services to be provided and the methodology for billing and applying the respective rates.
- Emergency services: the licensee must submit an action plan to prevent the interruption of the services in the event of acts of God or force majeure.

- Network modernization: the licensee must keep the network up to date by ensuring that the most recent technological advances are implemented.

c. Verification of informationn

- Information: the licensee is required to deliver its company's audited financial statements within 150 calendar days following the close of the respective period.
- Information on network installation: The licensee must report quarterly on progress made on the installation of the network.
- Accounting information: the licensee is required to provide accounting information per service, region, function and the components of its network.

d. Commitments

- For the first three or five years, the licensee agrees to use its own infrastructure to install each of the stages of the coverage program indicated in the concession title.
- Term for service startup: the licensee must begin rendering the service referred to in the concession no later than 365 calendar days following the date on which the concession is issued; an extension is available for half of that period.

At December 31, 2017 and 2016, the Group has complied with all of the commitments disclosed and all the regulatory aspects which is subject.

e. Renewal

- As from January 2016, all concession titles that expire will be adhered to the aforementioned sole concession title, and the related services will continue to be provided. The term of the sole concession is 30 years as from the date on which it is grated and is renewable as per the provisions of article 113 of the Federal Telecommunications and Radio Broadcasting Law, which indicates the concessions allowed for public telecommunications networks and can be extended for terms equal to those originally established. In order for a concession term to be extended, the concessionaire must have complied with all the conditions set down in the concession to be extended, must request the extension before the beginning of the last fifth portion of the concession, and must accept the new conditions established by the Authorities in accordance with this Law and other applicable provisions. The IFT must resolve all pertinent matters within a term of 180 calendar days.

f. Guarantees

- In January and June of each year, the licensee must provide the Federal Treasury with guarantees to ensure compliance with the obligations contracted under each concession. Said guarantees must be provided in the form of a bond contracted with a bonding company by the Department of Finance for the equivalent of 4,000 days of minimum wage in effect in the Federal District for the year under guarantee. The guarantee must be renewed annually on the basis of National Consumer Price Index (NCPI) factors.

The renewal of any of the Group's concessions would have a significant adverse effect on its financial dealings and on operating results, which would be directly reflected in operating income and costs, and possibly require a reserve for impairment of assets that have ceased to generated cash flows.

4.1.2 Consolidation of entities in which the Group has an interest of more than 51%

Management considers that the Group exercises control with 51% of the voting shares. The Company is the majority stockholder with 51% of the shares, while other stockholders individually hold no more than 40% of the capital. There is no history of stockholders forming a group in order to exercise their vote jointly. The overall non-controlled interest for the period is $172,669.

The determining factors establishing said control have to do with the power exercised over the subsidiaries, the right to variable yields and a combination of those two factors, which results in that capacity to exercise that power in order to influence the yields arising from those investments. The Group exercises power over its subsidiaries, as it holds rights empowering it to direct relevant operations, that is to say, operations significantly affecting the yields.

That power arises from voting rights stemming from shareholding in each of its investments, which is 51% in all cases. In all cases, the remaining shareholding is divided among a number of stockholders.it is important to mention that there are no contractual agreements establishing strategic alliances of any kind among the remaining stockholders with voting rights, and there is no precedent of that type of agreement.

The interest held by the Group in each of its subsidiaries expose it, and entitled it to receive variable yields from its involvement in those companies, as well as decision-making rights directly influencing those yields. There are no legal barriers of any kind preventing the Group's rights from being exercised. On the contrary, there are practical mechanisms established making it possible to exercise those rights whenever company management sees fit.

The Board of Directors is mostly comprised of Group members and the remaining stockholders, for a 50% interest in that body. Likewise, the Group appoints the Chairman of the Board and the Treasurer. However, at stockholders' meetings, it continues to hold a majority of the votes (51%), which puts it in a position to decide on relevant operations of the subsidiaries without the need for the consent of the other parties. Decisions made at a stockholders' meeting are definitive and require no additional or subsequent approval of the Board of Directors, provided the percentage of interest remains unchanged.

Relevant totals of assets, liabilities and income consolidated by these subsidiaries are detailed in Note 8.

Accounting estimates:

4.1.3. Impairment of estimated goodwill

The Group conducts an annual assessment to determine whether goodwill has been impaired, as per the accounting policy described in Note 2.14. The amounts recoverable from cash generating units (CGU) have been determined on the basis of a value-in-use computation. These calculations require the use of estimates (Note 10).

In 2017 and 2016, none of the CGUs showed signs of impairment and the most sensitive variables in the calculations are the discount rate and the gross operating margin. If the estimated cost of capital used to determine the before-tax discount rate for calculating the value in use had been 10% above the figure estimated, it would have originated impairment of goodwill amounting to $1,065,950.

4.1.4. Taxes on income

The Group is subject to taxes on income. Significant judgments must be made to recognize taxes on income currently payable and deferred. There are many operations and calculations for which determination of the exact tax figure is uncertain. In case that an tax audit process started, the Group will record a liability for matters arising from tax audits it considers likely to result in the determination of tax in addition to the amount originally incurred., in case that the final result of these processes differs from the liability estimated, said differences are recognized in currently payable and/or deferred taxes on income for the period.

Based on the simulations performed, the impact of a 5% movement on income after taxes would generate a maximum increase or decrease of $63,526 in 2017 ($35,853 in 2016). Simulations are run periodically to verify that the maximum potential loss is within the limit established by Management.

Determination of the final tax could be uncertain due to the complexity of certain transactions and the judgment required to handle them. When the final result of these situations differs from the amounts initially recorded, the differences impact the current or deferred income tax asset and liability in the period in which that fact is determined. At the 2017 and 2016 year-end closing, the Group has no significant uncertain tax positions.

4.1.5. Estimation for impairment of accounts receivable

La metodología que aplica el Grupo para determinar el saldo de esta estimación se describe en la Nota 2.10.

Si al 31 de diciembre de 2017 y 2016, la estimación de cuentas por deterioro de cuentas por cobrar se hubiera modificado con un 10% mayor y/o menor que los estimados por la Administración, el Grupo habría incrementado y/o disminuido dicha estimación con un importe $15,320 y $27,738, respectivamente, y los resultados de operación se hubieran visto afectados y/o beneficiados por el mismo importe.

4.1.6. The estimated useful life and residual values of property, networks and equipment

The Company estimates the useful life of its properties, networks and equipment in order to determine depreciation expense to be recorded during any reporting period. The useful life of an asset is calculated when the asset is acquired, based on past experience with similar assets, considering expected technological changes or changes of any other nature. If technological changes occur more quickly than expected or in a different manner than expected, the useful lives assigned to those assets might need to be shortened. This would make it necessary to recognize a greater depreciation and amortization expense in future periods. On the other hand, that type of technological change could result in recognition of a charge for impairment to reflect the drop in value of the assets. The Company reviews assets on an annual basis in order to determine whether they show signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered throughout the remaining lifetime of the assets. If there are signs of impairment, the Company conducts a study to determine the value and use of those assets. At December 31, 2017 and 2016, there were no signs of impairment.

4.1.7.Pension plan benefits

The present value of pension plan obligations depends on a number of factors determined on the basis of actuarial studies using certain assumptions. The assumptions used in determining the net cost (income) of/from pensions include the discount rate. Any changes in these assumptions impact the carrying value of pension plan obligations.

At December 31, 2017 and 2016, the Group used the zero coupon government bond curve of 7.50 % and 7.75%, respectively, as a reference for the discount rate

If the discount rate used at December 31, 2017 and 2016 had differed by 1% from that estimated by Management, the book value of pension plan obligations would have approximated $17,151 and $24,435, respectively.

Other factors used to estimate pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

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Note 5 - Cash and cash equivalents:

Cash and cash equivalents are described as follows:

	December 31,	
	2017	2016
Cash on hand and in banks	$2,483,288	$869,967
Highly liquid investments	684,373	278,172
Total	**$3,167,661**	**$1,148,139**

At December 31, 2017 and 2016, the Group had no cash and cash equivalents subject to availability restrictions.

Note 6 - Accounts receivable - Net:

Accounts receivable are comprised as follows:

	December 31,	
	2017	2016
Clients	$1,017,177	$1,994,391
Sundry debtors	272,588	176,015
Advance payments (see Note 2.6)	298,249	183,075
	1,588,014	2,353,481
Allowance for doubtful accounts receivable from costumers	(153,203)	(277,382)
Net total	**$1,434,811**	**$2,076,099**

At December 31, 2017 and 2016, accounts receivable are generally fully in compliance with contractual terms.

December 31, 2016 it is included an account receivable for $565,369 (thousands) with Federal Electricity Commission, which was totally collected during 2017.

Past-due but not impaired accounts receivable are related to a number of independent customers with no recent history of default. The aging analysis of accounts receivable balances is as follows:

	December 31, 2017	2016
90 to 120 days	$42,531	$97,637
120 to 150 days	66,038	49,901
Total	**$108,569**	**147,538**

The book value of the Group's accounts receivable and other accounts receivable are mainly denominated in Mexican pesos.

Impaired accounts receivable correspond to customers facing an unexpected difficult economic situation or whose credit history has shown default. Estimates show that only a small portion of these accounts receivable will be recovered. Aging of those accounts receivable is as follows:

	December 31, 2017	2016
Total (over 180 days)	$153,203	$277,382

The movement of the impairment reserve for trade receivables is as follows:

	December 31, 2017	2016
Balance at beginning of year	**$277,382**	**$207,426**
Increase	57,274	90,137
Applications	(181,453)	(20,181)
Ending balance for the year	**$153,203**	**$277,382**

The increase in the estimation for doubtful accounts is included in operating expenses under "selling expenses" in the comprehensive statement of income (Note 20). Amounts charged to the provision are usually written off when there are no expectations of recovery of additional cash.

Other items of accounts receivable and other accounts receivable are not impaired.

Maximum exposure to credit risk at the reporting date is the book value of each type of account receivable mentioned. The Group requests no collateral guarantee.

The book value of customers and other accounts receivable denominated in dollars are as follows:

	December 31, 2017	2016
US dollar (thousands)	$3,894	$ 53,218

Note 7 - Inventories:

Inventories are analyzed as follows:

	December 31, 2017	2016
Operating materials and equipment	$344,050	$404,181
Advances to suppliers	82,910	128,859
	$426,960	**$533,040**

The cost of inventories recognized as expenses and included in "cost of services" totals $537,948 in 2017 ($771,951 in 2016).

Note 8 - Investment in shares of joint businesses and affiliate company:

The investment in shares of joint businesses and associated companies is comprised of the following companies:

Company	Interest December 31, 2017	2016	Business purpose
Grupo de Telecomunicaciones de Alta Capacidad S.A.P.I. de C.V. (negocio conjunto) (1)	33.33%	33.33%	Holds license to operate the dark fiber owned by the Federal Electricity Commission
Altán Redes, S. A. P. I. de C. V. (2)	3.92%	4.01%	Desing, installation, operation maintenance of shared network

(1) The capital stock of the following joint business consists only of ordinary shares, held directly by the Group. Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. (GTAC) obtained an leasing contract for 20 years (through tender) for a couple optic fiber lines held by the federal electricity commission and a concession to operate an telecommunication network in Mexico expiring in 2030.

(2) Affiliated company in which the Group made an investment of $126,890 as of July 25, 2017 of the variable capital representing 484,723 Series "B" shares and $ 20,596 as of December 5, 2016 of the variable capital representing 401,000 Series "B" shares.

The nature of the investment in joint businesses at December 31, 2017 and 2016.

Name of the entity	Place of business/ country of incorporation	% of interest	Nature of the relationship	Method of measurement
Grupo de Telecomunicaciones de Alta Capacidad, S. A. P. I. de C. V.	Cd. de México	33.33%	Trunk capacity supplier equity	Equity method
Altán Redes, S. A. P. I. de C. V.	Cd. de México	3.92%	Operator of the project to build the shared network	Historical cost

Condensed statement of financial position

	Grupo de Telecomunicaciones de Alta Capacidad S.A.P.I. de C.V. December 31, 2017	2016
Current		
Cash and cash equivalents	$140,741	$293,009
Other current assets	469,457	358,728
Total current assets	610,198	651,737
Other current liabilities (including accounts payable)	175,116	297,301
Total current liabilities	175,116	297,301
Long-term		
Assets	2,350,284	2,481,551
Other liabilities - Total liabilities	2,733,512	2,556,552
Net assets (liabilities)	($383,228)	($75,001)
Condensed statement of comprehensive income:		
Income	$254,275	$209,748
Depreciation and amortization	(3,249)	(7,480)
Expenses	(261,113)	(232,145)
Financial revenue	58,248	66,405
Financial expenses	(234,207)	(186,012)

	Grupo de Telecomunicaciones de Alta Capacidad S.A.P.I. de C.V. December 31, 2017	2016
Result of continuous operations	(186,046)	(149,484)
Taxes on income	-	-
Total comprehensive income	($186,046)	($149,484)
Dividends received	-	-

At December 31, 2017 and 2016, the result of recording the Group's joint business losses was that its investment was valued at zero. Unrecognized losses on its interest in GTAC at December 31, 2017 and 2016 totaled $61,395 and $49,330, respectively, and unrecognized accrued losses totaled $238,987 and $176,978 at December 31, 2017 and 2016 respectively.

Required disclosures for IFRS 12 corresponding to the proportional results in accordance to the investment made in Altan Redes, S.A.P.I. de C.V. is shown as follows:

	Altán Redes S.A.P.I. de C.V. December 31, 2017	2016
Net loss of the period	$54,968	$352
Net loss after income tax	$50,521	$352
Other comprehensive items	$11,282	-
Comprehensive loss for the year	$38,970	$352

The principal subsidiaries with a 51% shareholding

The Group has the following subsidiaries (all S.A. de C. V., except Liderazgo Empresarial en Tecnologías de la Información, S. A.P. I. de C.V.) at December 31, 2017 and 2016.

Name	Place of business	Type of business	Percentage of ordinary shares held by the holders (%) 2017 and 2016	Percentage of ordinary shares held by the Group (%) 2017 and 2016	Percentage of ordinary shares held by the non controlling portion (%) 2017 and 2016	Percentage of preferential shares held by the Group (%)
Myc Red	Michoacán	Cable system operator	51%	51%	49%	-
Servicio y Equipo en Telefonía Internet y Televisión	Michoacán	Cable system operator	51%	51%	49%	-

Name	Place of business	Nature of business	Percentage of ordinary shares held by the holders (%) 2017 and 2016	Percentage of ordinary shares held by the Group (%) 2017 and 2016	Percentage of ordinary shares held by the non controlling portion (%) 2017 and 2016	Percentage of preferential shares held by the Group (%)
Corporativo de Comunicación y Redes de GDL	Michoacán	Leasing of fixed assets	51%	51%	49%	-
Liderazgo Empresarial en Tecnologías de la Información	Guadalajara	Telephony installation and communication service	51%	51%	49%	-

All subsidiary companies are included in the consolidation. The percentage of voting rights in the subsidiary companies held directly by the holding company is the same as the percentage of ordinary shares held.

Management considers that the Group holds control with 51% of the voting shares. The Company is the majority stockholder with 51% of the shares, while other stockholders individually hold no more than 40% of the capital.

There is no history of stockholders forming a group in order to exercise their votes jointly. The overall non-controlling interest in 2017 and 2016 is $172,669 and $272,810, respectively.

Following is condensed financial information for each subsidiary with non-controlled interest that is material for the Group.

Condensed statement of financial position

	Myc Red, S. A. de C.V. For the year ended December 31,		Servicio y Equipo en Telefonía, Internet y Televisión, S.A. de C.V. For the year ended December 31,	
	2017	2016	2017	2016
Short term				
Assets	$5,873	$5,596	$104,481	$114,304
Liabilities	(5,479)	(9,431)	(560,580)	(586,980)
Total net short-term liabilities	394	(3,835)	(456,099)	(472,676)
Long-term				
Assets	41,093	38,165	530,402	424,921
Liabilities	-	-	-	-
Total long-term net assets	41,093	38,165	530,402	424,921
Assets, net	**$41,487**	**$34,330**	**$74,303**	**($47,755)**

	Corporativo de Comunicación Redes de GDL, S. A. de C.V. For the year ended December 31,		Liderazgo Empresarial en Tecnologías de la Información, S.A.P.I. de C.V. For the year ended December 31,	
	2017	2016	2017	2016
Short term				
Assets	$727,181	$650,512	$449,407	$1,353,246
Liabilities	(428)	(443)	(396,620)	(473,020)
Total net short-term liabilities	726,753	650,069	52,787	880,226
Long-term				
Assets	339,757	365,520	319,516	326,774
Liabilities	(78,626)	(83,109)	(272,063)	(977,751)
Total long-term net assets	261,131	282,411	47,453	(650,977)
Assets, net	**$987,884**	**$932,480**	**$100,240**	**$229,249**

Condensed statement of comprehensive income:

	Myc Red, S. A. de C.V. For the year ended December 31,		Servicio y Equipo en Telefonía, Internet y Televisión, S.A. de C.V. For the year ended December 31,	
	2017	2016	2017	2016
Income	$62,693	$57,664	$725,703	$ 664,032
Profit (loss) before taxes	7,100	3,385	173,749	94,362
Taxes on income (expense)	57	(1,240)	(52,515)	107,617
Total comprehensive income	**$7,157**	**$2,145**	**$121,234**	**$201,979**

	Corporativo de Comunicación Redes de GDL, S. A. de C.V. For the year ended December 31, 2017	2016	Liderazgo Empresarial en Tecnología de la Información, S.A.P.I. de C.V. For the year ended December 31, 2017	2016
Income	$46,023	$106,000	$791,197	$1,495,215
Profit (loss) before taxes	51,037	125,714	105,525	$115,422
Taxes on income (expense)	4,367	(20,078)	(37,719)	(20,377)
Total comprehensive income	**$55,404**	**$105,636**	**$67,806**	**$95,045**

Condensed statement of cash flow

	Myc Red, S. A. de C.V. For the year ended December 31, 2017	2016	Servicio y Equipo en Telefonía, Internet y Televisión, S.A. de C.V. For the year ended December 31, 2017	2016
Cash flows from operating activities				
Interest paid	$378	$262	$27,141	$18,202
Taxes on income paid	-	-	(30,082)	(32,578)
Net cash arising from operating activities	7,364	4,937	144,636	168,802
Net cash used in investment activities	(7,434)	(5,511)	(138,426)	(126,673)
Net cash used in investment activities	-	-	-	(29,551)
Net increases (decreases) in cash and cash equivalents	(70)	(574)	6,210	12,578
Cash and cash equivalents at beginning of year	1,534	2,108	32,003	19,425
Cash and cash equivalents at end of year	$1,464	$1,534	$38,213	$32,003

	Corporativo de Comunicación Redes de GDL, S. A. de C.V. For the year ended December 31, 2017	2016	Liderazgo Empresarial en Tecnologías de la Información, S.A.P.I. de C.V. For the year ended December 31, 2017	2016
Cash flows from operating activities				
Interest paid	$-	$-	$16,929	$54,464
Taxes on income paid	(450)	-	(16,412)	(2,235)
Net cash arising from operating activities	10,033	1,219	892,769	278,432
Net cash used in investment activities	21,455	241	(46,119)	(175,934)
Net cash used in financing activities			(911,545)	(111,347)
Net increases (decreases) in cash and cash equivalents	31,488	1,460	(64,895)	(8,849)
Cash and cash equivalents at beginning of year	113,150	111,690	86,093	94,942
Cash and cash equivalents at end of year	$144,638	$113,150	$21,198	$86,093

The above figures are prior to intercompany eliminations.

At December 31, 2017 and 2016, none of these subsidiaries had any contingent commitments or liabilities that could affect the figures.

Note 9 - Property, networks and equipment:

a. Property, networks and equipment are comprised as follows:

At December 31, 2017	Land	Buildings	Network and tech. equip. for signal distribution	Computer equipment furniture and office equipment	Transportation equipment	Leasehold improvements	Communications equipment	Tools equipments	Total
Net opening book balance	**$104,819**	**$102,590**	**$20,279,441**	**$333,628**	**$428,345**	**$96,138**	**$124,365**	**$302,160**	**$21,771,486**
Additions Leasing Financial (Note 16)			275,701						275,701
Additions	1,605	5,230	3,045,066	112,883	109,937	42,918	138	1,491,147	4,808,924
Disposals			(58,301)	(2,908)	(36,279)	(4,343)	-		(101,831)
Transfers			269,615	1,492				(271,107)	-
Depreciation charge		(5,650)	(2,163,676)	(135,991)	(20,477)	(27,874)	(3,353)	(18,563)	(2,375,585)
Net closing book balance	**$106,424**	**$102,170**	**$21,647,846**	**$309,104**	**$481,526**	**$106,840**	**$121,150**	**$1,503,636**	**$24,378,696**
Cost	$106,424	$164,040	$35,089,121	$1,231,176	$771,853	$365,863	$150,293	$1,836,149	$39,714,919
Accumulated depreciation	-	(61,870)	(13,441,275)	(922,072)	(290,327)	(259,024)	(29,143)	(332,512)	(15,336,223)
Net book value	**$106,424**	**$102,170**	**$21,647,846**	**$309,104**	**$481,526**	**$106,840**	**$121,150**	**$1,503,636**	**$24,378,696**

At December 31, 2016	Land	Buildings	Network and tech. equip. for signal distribution	Computer equipment furniture and office equipment	Transportation equipment	Leasehold improvements	Communications equipment	Tools equipments	Total
Net opening book balance	**$104,664**	**$110,828**	**$14,890,612**	**$354,153**	**$394,387**	**$82,768**	**$27,054**	**$1,685,365**	**$17,649,831**
Additions Leasing Financial (Note 16)			190,376						190,376
Additions	155		6,980,532	81,519	127,900	35,271	1,239	1,039,981	8,266,597
Disposals			(2,210,780)	(12,558)	(40,900)			(6,886)	(2,271,124)
Transfers			2,276,138	276			108,108	(2,384,522)	-
Depreciation charge		(8,238)	(1,847,437)	(89,762)	(53,042)	(21,901)	(12,036)	(31,778)	(2,064,194)
Net closing book balance	**$104,819**	**$102,590**	**$20,279,441**	**$333,628**	**$428,345**	**$96,138**	**$124,365**	**$302,160**	**$21,771,486**
Cost	$104,819	$158,810	$31,630,258	$1,119,710	$698,195	$327,287	$150,155	$616,108	$34,805,342
Accumulated depreciation	-	(56,220)	(11,350,817)	(786,082)	(269,850)	(231,149)	(25,790)	(313,948)	(13,033,856)
Net book value	**$104,819**	**$102,590**	**$20,279,441**	**$333,628**	**$428,345**	**$96,138**	**$124,365**	**$302,160**	**$21,771,486**

b. Depreciation expense for the periods ended December 31, 2017 totaled $2,375,585 ($2,064,247 in 2016), of which $2,019,422 ($1,864,027 in 2016) was recorded in cost of services and a $356,163 complement ($200,220 in 2016) was recorded under selling and administration expenses.

c. Financial leasing included and related to the components of property, networks and equipment is as follows (see Note 16):

	At December 31, 2017	2016
Network and technical equipment for the distribution of signals, net	$1,209,431	$1,031,382

Note 10 - Goodwill:

Goodwill is comprised as follows:

	Acotel (1)	TCO (2)	IMATEL	IRA	SIGETEL	Others (3)	Total
Balances at December 31, 2017							
Initial net balance	$2,296,815	$381,098	$331,811	$240,378	$54,893	$1,073,402	$4,378,397
Ending net balance	$2,296,815	$381,098	$331,811	$240,378	$54,893	$1,073,402	$4,378,397
Cost	$2,296,815	$381,098	$331,811	$240,378	$54,893	$1,073,402	$4,378,397
Accumulated Impairment	-	-	-	-	-	-	-
Net book value	**$2,296,815**	**$381,098**	**$331,811**	**$240,378**	**$54,893**	**$1,073,402**	**$4,378,397**
Balances at December 31, 2016							
Initial net balance	$2,296,815	$381,098	$331,811	$240,378	$54,893	$1,073,402	$4,378,397
Ending net balance	$2,296,815	$381,098	$331,811	$240,378	$54,893	$1,073,402	$4,378,397
Cost	$2,296,815	$381,098	$331,811	$240,378	$54,893	$1,073,402	$4,378,397
Accumulated Impairment	-	-	-	-	-	-	-
Net book value	**$2,296,815**	**$381,098**	**$331,811**	**$240,378**	**$54,893**	**$1,073,402**	**$4,378,397**

(1) On August 7, 2007, the Group signed a purchase agreement for the $2,813,082 ($256 million US dollar) acquisition of 100% of the capital stock of Acotel, S. A. de C. V. and subsidiaries, a company engaged in cable operations. With that transaction, the Group acquired, among other assets, the market to operate in 28 towns in six states in Mexico.

(2) On November 21, 2007, the Group signed a share purchase agreement to acquire 51% of the capital stock of Tele Cable Centro Occidente, S. A. de C. V. (TCO) for $453,320 ($39.2 million U.S. dollars). That company is engaged in operating cable and Internet services in Morelia, Pátzcuaro and other minor neighboring locations.

(3) In August 2013, the Group signed a contract for the acquisition of 51% interest in Liderazgo Empresarial en Tecnologías de la Información, S. A.P. I. de C.V. and Fidelizar S.A. de C.V. amounting ng to $1,190 ($89.4 million US dollars). With those acquisitions, The Group has strengthened its position in the business and corporate markets and in the public sector by widening the range of telecommunications and data solutions and the handling of information (Metrocarrier) in Mexico City, Guadalajara, Monterey and Cancun.

Goodwill impairment testing:

Management reviews business performance based on geography and type of business. The Mexican states where the Group operates have been determined. The Group provides cable, telephone and Internet service in all geographic areas for the mass market (Cable, Telephone and Internet) and business (Metrocarrier). Goodwill is analyzed by management at the geographic zone level. Following is a summary of the allocation of goodwill to each geographic segment:

At December 31, 2017	Beginning balance	Additions	Ending balance
North	$134,645	$-	$134,645
West	265,569	-	265,569
Pacific	429,492	-	429,492
Southeast	693,805	-	693,805
TCO	318,640	-	318,640
Bajío	1,004,865	-	1,004,865
Center	1,242,204	-	1,242,204
The Gulf	86,511	-	86,511
Metrocarriers	102,666	-	102,666
Total	**$4,378,397**	**-**	**$4,378,397**

At December 31, 2016	Beginning balance	Additions	Ending balance
North	$95,006	$-	$95,006
West	315,478	-	315,478
Pacific	417,625	-	417,625
Southeast	224,452	-	224,452
TCO	318,640	-	318,640
Bajío	1,001,963	-	1,001,963
Center	1,810,829	-	1,810,829
The Gulf	93,331	-	93,331
Metrocarriers	101,073	-	101,073
Total	**$4,378,397**	**-**	**$4,378,397**

The recovery amount of all the Cash Generating Units (CGU) is determined on the basis of calculations of value in use. These calculations use before-tax cash flow projections based on financial budgets approved by Management, covering a five-year period. Cash flows exceeding the five-year term are extrapolated using the following estimated growth rates: Growth rates do not exceed the average long-term growth rate for the telecommunications business in which the CGUs operate. .

The recovery value of each CGU are as follows:

	Amount
North	$6,358,355
West	16,438,267
Pacific	20,759,702
Southeast	12,240,837
TCO	4,617,933
Bajío	12,666,568
Center	9,244,045
The Gulf	8,784,186
Metrocarriers	4,825,584

The key assumptions used in calculating the value in use for 2017 are as follows (global, as they include all segments):

	Gross margin	Growth rate	Discount rate
North	47.6%	12.2%	12.13%
West	43.3%	10.9%	12.13%
Pacific	48.7%	10.2%	12.13%
Southeast	48.7%	11.4%	12.13%
TCO	51.2%	10.6%	12.13%
Bajío	46.8%	10.6%	12.13%
Center	47.1%	12.2%	12.13%
The Gulf	52.2%	10.7%	12.13%
Metrocarriers	27.8%	5.0%	12.13%

The key assumptions used in calculating the value in use for 2016 are as follows (global, as they include all segments):

	Gross margin	Growth rate	Discount rate
North	44.8%	8.1%	11.54%
West	43.9%	6.7%	11.54%
Pacific	48.5%	6.3%	11.54%
Southeast	48.5%	8.2%	11.54%
TCO	47.2%	8.3%	11.54%
Bajío	43.9%	8.4%	11.54%
Center	44.6%	8.8%	11.54%
The Gulf	48.2%	4.9%	11.54%
Metrocarriers	12.8%	2.9%	11.54%

These assumptions have been used in the analysis of each CGU within the operating segment.

Management determined the budgeted gross margins based on past results and its expectations of market development. Weighted average growth rates used are consistent with the projections contained in industry reports. The discount rates used are pretax and reflect the specific risks related to relevant operating segments.

The sales volume is the average annual weighted growth rate for the forecast five-year period. It is based on past performance and Management expectations for market development.

The sales volume is the average annual weighted growth rate for the forecast five-year period. It is based on actual industry trends and includes long-term inflation forecasts for each territory.

Note 11 - Other intangible assets, net:

Intangible assets are comprised as follows:

	December 31, 2017	December 31, 2016
With a defined lifetime:		
Customer base (1)	$1,762,084	$1,775,323
Accumulated amortization	(1,621,789)	(1,535,632)
	140,295	239,691
With a defined lifetime (2):		
Licenses and software, net	7,500	2,729
Brands and patents, net	13,020	19,536
With a defined lifetime (3):		
Commissions	163,866	96,375
Total	**$324,681**	**$358,331**

(1) Corresponds to the cost of acquiring portfolio/ subscribers with a useful life of four years. Movements in the net client base are as follows:

Customer base, net: At January 1, 2016	$29,286
Additions (i)	239,856
Amortization	(29,451)
At December 31, 2016	$239,691
Additions (ii)	14,133
Disposal subscribers basis	(27,372)
Amortization	(86,157)
At December 31, 2017	**$140,295**

(i) In 2016, the subsidiary Telefonia por Cable acquired intangible assets worth $239,856.

The Group has obtained a number of concessions granted at no charge by the Federal Government to install and operate a public telecommunications network; however, because they were granted free of charge, they were not recognized for accounting purposes. For further details, see Note 1.

(ii) In 2017, the subsidiary Telefonia por Cable acquired intangible assets worth $14,133.

The Group has obtained a number of concessions granted at no charge by the Federal Government to install and operate a public telecommunications network; however, because they were granted free of charge, they were not recognized for accounting purposes. For further details, see Note 1.

(2) Refers to the trademark registration for "Video Rola música para tu ojos" and its design, at the Mexican Institute of Industrial Property (renewable in accordance with applicable provisions), which applies to video entertainment and the production of same, discs, cassettes and videos included in this classification. Amortized at the annual rate of 5%.

Brands and patents

At January 1, 2016	$ 26,052
Disposals, net	(6,516)
At December 31, 2016	$19,536
Disposals, net	(6,516)
At December 31, 2017	**$13,020**

(3) Refers to commissions of sales of contracts for the acquisition of new net subscribers (minus unsubscribes) and which will be amortized over the useful life of such subscribers (3 years).

Brands and patents	
At January 1, 2017	$96,375
Additions, net	100,048
Disposals, net	(32,557)
At December 31, 2017	**$163,866**

Amortization is calculated by the straight-line method, taking into account the estimated lifetime of assets (4 years). At December 31, 2017 and 2016, cost of services recorded was $86,157 and $29,451, respectively.

Note 12 - Financial instruments by category:

a) Per category

	December 31, 2017 Loans and accounts receivable
Assets according to statement of financial position	
Accounts receivable, net, excluding of advance payments	$ 1,136,562
Related parties	1,027,123
Cash and cash equivalents	3,167,661
Total	**$5,331,346**
	Amortization cost for financial liabilities
Liabilities according to statement of financial position	
Bank loans	$4,058,610
Suppliers	1,561,165
Related parties	954,232
Other accounts payable excluding non-financial liabilities	573,555
Total	**$7,147,562**

	December 31, 2016 Loans and accounts receivable
Assets according to statement of financial position	
Accounts receivable, net, excluding of advance payments	$ 1,893,024
Related parties	1,006,900
Cash and cash equivalents	1,148,139
Total	**$ 4,048,063**
	Amortization cost for financial liabilities
Liabilities according to statement of financial position	
Bank loans	$3,632,203
Suppliers	1,917,052
Related parties	838,821
Notes payable	11,515
Other accounts payable excluding non-financial liabilities	687,156
Total	**7,086,747**

Note 13 - Bank loans:

Bank loans are comprised as follows:

	December 31, 2017	2016
Plain loan of $2,100,000 (nominal) maturing on July 31, 2016, and was renewed on July 20, 2016, for $2,000,000 (nominal) and its new maturity is July 29, 2019, subject to monthly interest at the TIIE rate plus a margin of 0.50% upon maturity (1).	$1,991,931	$1,982,628
Plain loan of $1,700,000 (nominal) maturing on May 12, 2017, with maturity date as July 29, 2019, subject to monthly interest at the TIIE rate plus a margin of 0.30% upon maturity (2).	$1,699,891	
Plain loan for $884,388 (USD$103 million) from Santander, subject to 1.8% annual interest plus TIIE, maturing on February 14, and March 6, 2017 both. The effective rate determined at December 31, 2017 and 2016 were 3.1% and 2.6%, respectively.		884,388
A $58,000,000 loan from Banamex payable on July 30, 2017, subject to 1.6% annual interest plus TIIE plus an applicable margin. The effective rates determined for the period in which was valid in 2017 and 2016 were 1.20% and 1.22%, respectively.		9,694

	December 31, 2017	December 31, 2016
A $40,000 (nominal) from Banamex, maturing on July 30, 2017, subject to monthly interest at the TIIE rate plus a margin of 0.49% at maturity. The effective rates determined for the period in which was valid in 2017 and 2016 were 1.40% and 1.31%, respectively.		6,700
A $3,500,000 loan from Banamex payable on December 11, 2018, subject to 1.7% annual interest plus TIIE plus an applicable margin of 0.70%. The effective rate determined at December 31, 2017 and 2016 were 1.31% and 1.04%, respectively.	1,166	2,341
Unsecured revolving loan of $619,920 (USD $30 million) from Banco Santander contracted on November 8, 2016, subject to 0.84% annual interest. Settled in January 2017. The effective rate determined for the period in which, was valid in 2017 and 2016 were 0.84% and 0.07%, respectively.		619,920
Loan available in a lump sum with Banco Banamex, S.A. for a maximum amount of $90,000, contracted on March 9, 2016, expiring on March 9, 2020, at the interbank interest rate (TIIE) plus an applicable margin of 0.75%. The effective rate determined at December 31, 2017 and 2016 were 1.43% and 0.89%.	50,625	73,392
Loan available in a lump sum with Banco Banamex, S.A. for a maximum amount of $33,800, contracted on March 9, 2016, expiring on December 09, 2019, at the interbank interest rate (TIIE) plus an applicable margin of 0.75%. The effective rate at December 31, 2017 and 2016 were 1.42% and 0.90%.	18,027	27,145
Loan available in a lump sum with Banco Banamex, S.A. for a maximum amount of $3,470, contracted on March 9, 2016, expiring on Saturday, March 09, 2019, at the interbank interest rate (TIIE) plus an applicable margin of 0.70%. The effective rate at December 31, 2017 and 2016 were 1.38% and 0.88%.	1,446	2,613
Credit line of up to the total principal of $8,080 contracted with Banco Banamex S.A. on January 22, 2016, expiring on January 22, 2021, at the Libor, plus an applicable margin of 1.8%. The effective rate at December 31, 2017 and 2016 were 1.35% and 1.39%	5,901	8,080
Contract for a $30,000 loan from Scotiabank Inverlat, S. A, for the acquisition of assets on May 22, 2015 for $10,406 (first drawdown). A second $14,060 drawdown was made on this loan on July 28, 2015, and a $5,533 third on January 29, 2016. All drawdowns become due on May 22, 2018, at a monthly TIIE, plus 2.50 base points. The effective rate determined at December 31, 2017 and 2016 were 1.79% and 1.37%.	4,501	15,302

	December 31, 2017	December 31, 2016
Credit at disposal in unique exhibition with Santander S.A. for $190,000 as maximum amount to become due on December 19, 2020, at a 0.40% rate + TIIE, plus 2.50 base points. The effective rate determined at December 31, 2017 was 1.23%	190,000	
Plain loan for a $45,000,000 from Scotiabank Inverlat, S.A, for the acquisition of assets on April 11, 2017. Which the first drawdown was on April 11, 2017 for $20,000. A second $5,000 drawdown was made on this loan on May 17, 2017, and a $20,000 third on July 11, 2017 with a 60 months period and all drawdowns become due on April 11, 2022, at a monthly TIIE, plus 2 base points. The effective rate determined at December 31, 2017 was 1.79% and due date April 2022.	39,986	
Revolving credit with Santander S.A. for $12,000 as maximum at a 2.3750 base points + TIIE rate at December 31, 2017.	41	
Revolving credit with Santander S.A. for $20,000 as maximum at a 2.3750 base points + TIIE rate at December 31, 2017, with a due date on April,2018.	95	
Credit at disposal in unique exhibition with Santander S.A. for $55,000 as maximum amount to become due on November 2020, at a 0.70% rate + TIIE, plus 2.50 base points. The effective rate determined at December 31, 2017 was 2.13%	55,000	
Total bank loans	**4,058,610**	**3,632,203**
Less:		
Short-term portion of long-term bank loans	(131,833)	(1,567,631)
Bank loans maturing at a term of over one year.	**3,926,777**	**$2,064,572**

(1) On July 31, 2016, Mega Cable (an accredited subsidiary) and Telefonía por Cable S.A. de C.V. (obliged jointly) as well as Megacable Holdings, S.A.B. de C.V. (obliged jointly)) Servicios Especiales Turandot y Werther Administración Integral, both SAPI de C.V. subsidiaries (joint obligors), renewed the loan agreements with Banco Nacional de México, S.A. (Banamex) for $800,000, BBVA Bancomer, S.A. for $800,000 and Scotianbank Inverlat, S.A. for $300,000, as creditors, and Banamex acting as administrative agent. Matures on July 29, 2019.

(2) On May 12, 2017, Mega Cable (an accredited subsidiary) and Telefonía por Cable S.A. de C.V. (obliged jointly) as well as Megacable Holdings, S.A.B. de C.V. (obliged jointly)) Servicios Especiales Turandot y Werther Administración Integral, both SAPI de C.V. subsidiaries (joint obligors), obtained an agreements with Banco Nacional de México, S.A. (Banamex) for $850,000 and Scotianbank Inverlat, S.A. for $850,000, as creditors, and Banamex acting as administrative agent. Matures on July 31, 2019.

In relation with the most significant loans of $2,000,000 and $1,700,000 as December 31,2017 and $2,000,000 (nominal) as December 31,2016 mentioned above, the Group determined an effective interest rate in 2017 of 7.48% and 7.55% and 2016 of 4.83%, respectively, based on which it recorded the financial cost of said loan; in addition, the fair value at those dates, amounting to $3,657,098 and $2,000,762, respectively, were determined using the market rate discount rate TIIE +0.50 for the $2,000,000 loan and TIIE +0.30 for the $1,700,000 loan, and its classify as level 2 in the fair value hierarchy.

Current loan agreements established different positive and negative covenants for Mega Cable and its subsidiaries, including limitations on: (a) mergers or consolidation with any third party; (b) selling, transferring or leasing assets, except for cash; (c) certain investments; (d) amounts of borrowings; (e) certain payments of dividends or capital stock distributions by Megacable Holdings or its subsidiaries, or the purchase, redemption or other acquisition of capital stock of any of its subsidiaries; (f) hedge agreements, unless intended to mitigate certain risks or acquire benefits and (g) changes in accounting; the loan also requires Megacable Holdings and subsidiaries to comply with certain financial rates, including a consolidated leverage rate no higher than 3.00 and a consolidated interest hedge rate of over 3.50.

At December 31, 2017 and 2016, the Company has complied with all its obligations.

Exposure of the Group's loans to changes in interest rates and to contractual dates is as follows:

	2017	2016
Less than 6 months	$39,945	$10,802
From 6 to 12 months	91,888	1,556,829
From more than a year to five years	3,926,777	2,064,572
	$4,058,610	$3,632,203

The book value and fair value of long-term loans are as follows:

	Book value		Fair value	
	2017	2016	2017	2016
Borrowings	$3,926,777	$2,064,572	$3,957,055	$2,000,762

Except for the most significant loans of $2,000,000 and $1,700,000, the fair value of other short-term loans approximate book value, as the discount value is not significant.

Fair values are based on discounted cash flows using the rate calculated by management and are on level 2 in the hierarchy of fair value.

The book value of the Group's loans is denominated in pesos, except for the following:

	2017	2016
US dollar (thousands)	$24,898	$ 79,873

Note 14 - Other accounts payable:

	December 31,	
	2017	2016
Benefits payable	$79,493	$76,197
Sundry creditors (1)	797,595	580,714
Employees'Statutory Profit Sharing	25,041	30,245
Total	**$902,129**	**$687,156**

(1) Includes deferred revenue for $208,706 and $115,695 as December 31 2017 and 2016 respectively.

Note 15 - Employee benefits:

The value of benefit obligations acquired is as shown below:

	December 31,	
	2017	2016
Seniority premium	$140,959	$125,158
Retirement benefits	77,969	78,857
	$218,928	**$204,015**

The net cost for the period for the years ended December 31, 2017 and 2016 is as follows:

	December 31,	
	2017	2016
Seniority premium	$15,801	$10,343
Retirement benefits	(888)	189
	$14,913	**$10,532**

a) Seniority premium

The economic hypotheses used in nominal and real terms were as follows:

	December 31, 2017	2016
Discount rate	7.50%	7.75%
Inflation rate	3.50%	3.50%
Salary increase rate	4.50%	4.50%

The net cost for the period is as follows:

	December 31, 2017	2016
Labor cost	$11,779	$12,312
Actuarial losses (gains)	5,848	(9,149)
Reduction and anticipated payments	(10,753)	-
Financial cost	8,927	7,180
Net cost for the period	**$15,801**	**$10,343**

The amount shown as a liability in the consolidated statement of financial position is comprised as follows:

	December 31, 2017	2016
Defined benefit obligations	$140,959	$125,158
Plan assets	-	-
Liability in the consolidated statement of financial position	$140,959	$125,158

Defined benefit obligation movements were as follows:

	2017	2016
Beginning balance for the year	$125,158	$114,814
Labor cost	11,779	12,312
Financial cost	8,927	7,180
Remediation:		
Reduction and anticipated payments	(10,753)	
(Profits) losses for experience	5,848	(9,148)
Ending balance at December 31	**$140,959**	**$125,158**

b) Retirement benefits

The economic hypotheses used in nominal and real terms were as follows:

	December 31, 2017	2016
Discount rate	7.50%	7.75%
Inflation rate	3.50%	3.50%
Salary increase rate	4.50%	4.50%

The net cost for the period is as follows:

	December 31, 2017	2016
Labor cost	$1,534	$1,565
Improvements or modifications to the plan	(4,289)	(3,041)
Financial cost	1,867	1,665
Net cost for the period	**$888**	**$189**

The amount shown as a liability in the consolidated statement of financial position is comprised as follows:

	December 31, 2017	2016
Obligations for defined benefits	$77,969	$78,857
Plan assets	-	-
Liabilities in the consolidated statement of financial position	$77,969	$78,857

Defined benefit obligation movements were as follows:

	2017	2016
Beginning balance at January 1	$78,857	$78,668
Labor cost	1,534	1,565
Financial cost	1,867	1,665
Remediations:		
Experience losses (profits)	(4,289)	(3,041)
Ending balance at December 31	**$77,969**	**$78,857**

The sensitivity analysis of the principal assumptions for defined benefit obligations were as follows:

	Impact on defined benefit obligation	
	Change in assumption	Change in obligation
Discount rate	1%	Reduced by 4.2%
Discount rate	1%	Increases by 4%

The weighted average of the duration of the defined benefit obligation is 7.4 years.

c) Pension Plan

As concerns the pension plan, management has implemented an annual ten-year contributions plan. Those contributions are handled through the Sura Investment Management México investment account. Annual contributions made during the 2017 and 2016 periods were $9,809 and $9,966, respectively.

According to the plan, all employees are eligible if they: are employees with an individual contract for an indefinite period, our executive level employees with three years or more of pensionable service at the date of plan in implementation, remain with the company for a minimum of five years following the date of plan implementation, determine the percentage of savings to be placed in the long-term savings vehicle, and designate contingent beneficiaries for the delivery of benefits. The pensionable service period is considered in complete years and months of uninterrupted service from the date of hiring to the date of retirement, death or declaration of total or permanent incapacity. The date of retirement is the first day of the month immediately following the date on which the employee turns 65. The defined contribution must be a minimum of the equivalent of 1% of the defined salary. The company will make contributions in the same amount as the employee. According to the plan, provided the committee issues authorization, an employee may request early retirement (at 60) or continue to work after the age of 65.

Note 16 - Leases:

a) Operating leases

The Company has entered into a number of agreements for straight leasing of the buildings that house some of its offices and warehouses. The terms stipulated in said contracts fluctuate from one to five years and the minimum amounts payable are adjusted applying factors derived from the National Consumer Price Index. Minimum future payments for each of the five following years are summarized as follows:

	December 31, 2017	2016
Up to 1 year	$76,256	$121,646
More than a year to 5 years	166,988	205,261
	$243,244	**$326,907**

The amount charged to income for straight leasing (property) totaled 436,370 in 2017 and $399,263 in 2016.

Leasing expense is recorded by the straight-line method in the period in which the leasing contract is in effect

b) Financial leasing

On June 30, 2011, the subsidiary Mega Cable, S.A. de C.V. (MEGA) signed a high-capacity telecommunications service agreement with Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. (GTAC) to which the Department of Communications and Transport issued a number of 20-year concessions in 2010 through the Federal Electricity Commission (CFE) to install, operate and to exploit an public telecommunications network, to provide transmission service, signal transmission to concessionaries of public telecommunications network, which has a validity of 20 years and can be wholly or partially renewed.

Those concessions cover the Pacific, Center and Gulf areas of Mexico. Mega will be making advance annual payments of $41,400 from July 2013 to 2029 for use of the trunk capacity up to the year 2029, in order for GTAC to be able to provide maintenance and repair services to the public network.

Future minimum payments are summarized as follows:

	December 31, 2017	December 31, 2016
Up to 1 year	$173,286	$150,769
More than a year to 5 years	529,326	531,555
Over 5 years	308,795	238,450
	$1,011,407	**$920,774**

Following is the reconciliation of payments

	December 31, 2017	December 31, 2016
Total financial leases		
At January 1	$920,774	$883,207
Increases	216,519	190,376
Payments	(125,886)	(152,809)
At December 31	**$1,011,407**	**$920,774**

Note 17 - Stockholders' equity:

a. The paid-in capital stock and number of shares are as follows:

	Series "A" shares Variable	Series "A" shares Amount
Capital stock at December 31, 2017 and 2016	1,721,355,673	$910,244

Shares representing the Company's capital stock, issued and outstanding, are entirely paid in; they have no par value.

At December 31, 2017 and 2016, 1,721,355,673 shares were on circulation. Series A shares have voting rights only at ordinary stockholders' meetings and hold preference in the distribution of Company profits.

Following is the reconciliation of outstanding shares at the beginning and end of the year:

2017	Ordinary shares	Preferential shares
At January 1	1,717,316,609	-
Share movements during the year, net sales (i)	2,984,358	
At December 31	1,720,300,967	
Share held in treasury	1,054,706	
At December 31	1,721,355,673	-

2016	Ordinary shares	Preferential shares
At January 1	1,719,022,751	-
Share movements during the year, net purchases (i)	(1,706,142)	
At December 31	1,717,316,609	
Share held in treasury	4,039,064	
At December 31	1,721,355,673	-

At December 31, 2017 and 2016, the Company holds 1,054,706 and 4,039,064 shares issued, respectively (treasury shares).

In the periods ended on December 31, 2017 and 2016, no share issuance, placement or registration expenses were incurred.

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Repurchase of shares

Ordinary Participation certificates (CPOs from Spanish) are nominative securities representing the -provisional right over the returns and other benefits or goods held in an irrevocable trust, issued by the Group to be quoted on the Mexican Stock Exchange. One CPO is equivalent to two series "A" shares .

i. In the period ended on December 31, 2017, the company purchased 527,353 Ordinary Participation Certificates (CPOs), equivalent to 1,054,706 shares of the variable portion of series "A" shares for $37,998.

In the period ended December 31, 2017, the Company sold 2,019,532 CPOs, equivalent to 4,039,064 shares pertaining to the variable portion of series "A" shares; the selling price was $148,942.

Because of the operations mentioned in the last two paragraphs, generate a net sell effect of 1,492,179 CPOs, equivalent to 2,984,358 to shares pertaining to the variable portion of series shares. These operations represented 17% of total shares, resulting in a net movement of $110,944.

ii. In the period ended on December 31, 2016, the company purchased 2,019,532 Ordinary Participation Certificates (CPOs), equivalent to 4,039,064 shares of the variable portion of series "A" shares for $147,532.

In the period ended December 31, 2017, the Company sold 1,166,461 CPOs, equivalent to 2,332,922 shares pertaining to the variable portion of series "A" shares; the selling price was $83,480.

Because of the operations mentioned in the last two paragraphs, generate a net purchase effect of 853,071 CPOs, equivalent to 1,706,142 to shares pertaining to the variable portion of series shares. These operations represented.10% of total shares, resulting in a net movement of $64,052.

Dividends

At the Ordinary Stockholders' Meetings held in 2017, the company´s stockholders agreed to decree dividends for a net total of $1,390,958 cash payable. The dividend per share was $0.81 per series "A" share and $1.62 per CPO series (which are the equivalent of two series "A" shares).

At the Ordinary Stockholders' Meetings held in 2017, the company´s stockholders from the subsidiary Liderazgo Empresarial en Tecnologias de la Información, S.A.P.I. de C.V. and Entrenimiento Satelital S.A. de C.V. agreed to decree dividends for a net total of $92,579 and $2,903 respectively corresponding to the non-controlling shareholders.

At the Ordinary Stockholders' Meetings held in 2016, the company´s stockholders agreed to decree dividends for a net total of $1,169,177 cash payable. The dividend per share was $0.68 per series "A" share and $1.36 per CPO series (which are the equivalent of two series "A" shares).

b) The balances of the stockholders' equity tax accounts for the issuer (Megacable Holdings) are:

	December 31, 2017	December 31, 2016
Capital contributions account (CUCA)	$4,579,789	$ 4,289,397
The after-tax earnings account (CUFIN)	173,825	153,852
Total	**$4,753,614**	**$ 4,443,249**

c) Tax provisions related to stockholders' equity:

The profit for the year is subject to the legal provision requiring that at least 5% of the profit be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock.

In October 2013, Congress approved issuance of a new Income Tax (IT) Law, which came into force on January 1, 2014, that Law establishes that for the period 2014, after-tax earnings must be determined in the terms of the Income Tax Law in effect in the tax period in question, imposes an additional 10% tax on profits or dividends distributed to parties resident abroad and Mexican individuals.

In the event of a capital reduction, any excess of stockholders' equity over capital contributions, the latter restated in accordance with the provisions of the Income Tax Law, is accorded the same tax treatment as dividends.

Note 18 - Earnings per share:

Net earnings per share is calculated by dividing the net profit for the year by the weighted average of shares outstanding during the year, excluding common shares acquired by the company and held as treasury shares.

	At December 31, 2017	At December 31, 2016
Net profit of the controlling interest	$3,806,209	$3,864,524
Weighted average of the shares	1,717,531	1,719,876
Profit per ordinary share (pesos)	$2.22	$2.25
Profit per CPO (1)	4.47	4.49

(1) One CPO corresponds to two series "A" ordinary shares

Note 19 - Taxes on income:

Income tax:

The Income Tax Law that went into effect on January 1, 2014 establishes that the income tax rate applicable for 2014 and subsequent periods is 30% on taxable profit.

The 2014 Tax Reform for investors in Real Estate Companies (SIBRAS from Spanish) makes it likely that income taxes will have to be paid on the profit arising from contributions to those entities. At December 31, 2017 and 2016, the company shows a $841,396 and $606,829 short-term liability expected to give rise to payment of said tax in 2018.

1.Taxes on income are comprised as follows:

	At December 31, 2017	2016
IT incurred	($1,067,966)	($597,247)
Deferred IT	(202,557)	(79,808)
Total	**($1,270,523)**	**($677,055)**

2.Following is a reconciliation of the rate incurred and the effective consolidated income tax rate:

	At December 31, 2017	2016
Income before taxes on profits	$5,243,553	$4,796,531
Rate incurred	30%	30%
IT at the current legal rate	1,573,065	1,438,959
Plus (less) effect on IT of the following items:		
Annual adjustment for inflation	28,896	11,457
Cancellation provision (1)		(135,840)
Non-deductible items	30,411	29,943
Use of reserved tax losses	-	(28,230)
Financial leasing of infrastructure	(361,849)	(639,234)
	$1,270,523	$677,055
Effective rate	24%	14%

(1) Provision made in 2011 to cover possible contingency in the Single Rate Business Tax, contingency expired at of December 31, 2016.

3. The deferred income tax balance is composed as follows:

	December 31, 2017	2016
Deferred income tax asset		
Unamortized tax losses	$74,733	$63,351
Properties, networks and equipment, net	79,705	50,770
Intangible assets	348,163	346,744
Bad debt reserve	64,913	100,577
Labor obligations	57,575	31,723
Provisions	148,195	170,611
	$773,284	$763,776

	December 31, 2017	2016
Deferred income tax liability		
Property, networks and equipment, net	($2,191,351)	($2,061,734)
Inventories	(106,740)	(49,654)
Other	-	(1,756)
	($2,298,091)	($2,113,144)
Total deferred taxes on incomes	**($1,524,807)**	**($1,349,368)**

4. Following is an analysis of deferred tax assets and liabilities:

	At December 31 2017	2016
Deferred tax asset:		
Deferred tax asset recoverable after 12 months	($61,491)	$22,416
Deferred tax asset recoverable within 12 months	106,271	128,878
	44,780	151,294
Deferred tax liability:		
Deferred tax asset to be recovered after 12 months	279,423	(49,471)
Deferred tax liability to be recovered within 12 months	(1,849,010)	(1,451,191)
	(1,569,587)	(1,500,662)
Deferred tax liability, net	**($1,524,807)**	**($1,349,368)**

5. Movements in deferred income tax assets and liabilities during the year were as follows:

Deferred income tax asset:	Intangible assets	Unamortized tax losses	Property networks and equipment	Reserve for doubtful accounts	Labor and other obligations	Total
At January 1, 2016	$63,919	$73,063	$389,400	$84,280	$212,517	$823,179
Charged (credited) to the statement of income	(13,149)	(9,712)	(42,656)	16,297	(10,183)	(59,403)
At December 31, 2016	50,770	63,351	346,744	100,577	202,334	763,776
Charged (credited) to the statement of income	28,935	11,382	1,418	(35,663)	3,437	9,509
At December 31, 2017	$79,705	$74,733	$348,162	$64,914	$205,771	773,285

Deferred IT liability	Property networks and equipment net	Inventory and others	Total
At January 1, 2016	($1,909,371)	($183,367)	($2,092,738)
Charged (credited) to the statement of income	(152,363)	131,957	(20,406)
At December 31, 2016	(2,061,734)	($51,410)	($2,113,144)
Charged to the statement of income	(129,617)	(55,331)	(184,948)
At December 31, 2017	($2,191,351)	($106,741)	($2,298,092)

6. At December 31, 2017 and 2016, the Group had accrued consolidated tax losses amounting to $312,824 and $259,119, respectively. The right to amortize those losses against future consolidated -profits expires as follows:

Year in which the loss was generated	December 31, 2016 Restated figure	Year of expiration
2008	$12,623	2018
2009	40,337	2019
2010	5,149	2020
2011	4,614	2021
2012	8,585	2022
2013	2,301	2023
2014	24,557	2024
2015	29,510	2025
2016	73,471	2026
2017	111,677	2027
	$ 312,824	

Year in which the loss was generated	December 31, 2016 Restated figure	Year of expiration
2008	$ 64,251	2018
2009	42,766	2019
2010	4,968	2020
2011	3,513	2021
2012	8,304	2022
2013	2,203	2023
2014	34,167	2024
2015	27,799	2025
2016	71,148	2026
	$ 259,119	

At December 31, 2017 and 2016, no tax losses were recognized, as there was no certainty of the recoverability of $46,768 and $47,947, respectively.

Note 20 - Costs and expenses classified by type:

Cost of service, sales and administration are analyzed as follows:

	At December 31, 2017	2016
Cost of services:		
Programming	$2,009,328	$2,173,641
Depreciation	2,019,422	1,864,027
Electric intake connections	780,703	1,464,450
Labor - technical personnel	931,448	843,025
Advertising and promotion	344,218	371,910
Linkages	318,844	279,834
Amortization	86,157	29,451
Sources of power	241,868	190,607
External work	125,989	106,485
Call traffic	40,166	44,756
Other minor	51,203	24,787
Total cost of service	**$6,949,346**	**$7,392,973**
Selling expenses		
Labor and benefits	$2,372,518	$2,224,747
Maintenance and conservation expenses	577,932	520,817
Leasing	417,632	382,119
Depreciation	330,136	185,589
Sales commissions	221,166	176,444
Electrical power	134,692	100,151
Travel expenses	67,466	69,248
Preparation and delivery of statements of account	75,313	66,347
Stationery and office supplies	54,579	53,355
Transfer of securities	56,355	54,905
Insurance	97,864	62,524
Bad debt reserve	57,274	90,137
Security and hygiene	31,026	26,923
Security services	26,021	23,979
Telephones	20,725	22,122
Freight	30,707	27,950

	At December 31, 2017	2016
Non-deductible items	30,856	99,811
Training and recruiting	24,695	21,065
Duties and licenses	14,092	21,283
Recovery of equipment	22,829	21,137
Fees	12,224	8,284
Conventions	3,987	9,183
Other expenses	35,147	18,824
Total selling expenses	**$4,715,236**	**$4,286,944**
Administration expenses		
Labor and benefits	$187,042	$201,898
Advisory services	119,885	145,230
Bank commissions	69,517	68,988
Leasing	18,738	17,144
Depreciation	26,027	14,631
Security and hygiene	2,446	2,123
Total administration expenses	**$423,655**	**$450,014**
Cost of services, selling and administration expenses:		
Programming	$2,009,328	$2,173,641
Labor and benefits (1)	3,491,008	3,269,670
Depreciation	2,375,585	2,064,247
Electric intake connections	780,703	1,464,450
Maintenance and conservation expenses	577,932	520,817
Amortization	86,157	29,451
Leasing	436,370	399,263
Advertising and promotion	344,218	371,910
Linkages	318,844	279,834

	At December 31, 2017	2016
Electrical power	241,868	190,607
Sales commissions	221,166	176,444
Advisory services	119,885	145,230
External work	125,989	106,485
Electrical power	134,692	100,151
Travel expenses	67,466	69,248
Bank commissions	69,517	68,988
Preparation and delivery of statements of account	75,313	66,347
Stationery and office supplies	54,579	53,355
Transfer of securities	56,355	54,905
Call traffic	40,166	44,756
Insurance	97,864	62,524
Bad debt reserve	57,274	90,137
Security and hygiene	33,472	29,045
Security services	26,021	23,979
Telephones	20,725	21,122
Non-deductible items	30,856	99,811
Training and recruiting	24,695	21,065
Duties and licenses	14,092	21,283
Fees	12,224	8,284
Recovery of equipment	22,829	21,137
Freight	30,707	27,950
Conventions	3,987	9,183
Other expenses	86,350	44,612
Total	**$12,088,237**	**$12,129,931**

(1) Following is a breakdown of personnel compensation and benefits:

	At December 31, 2017	2016
Wages, benefits and bonuses	$2,162,085	$2,018,150
Taxes and duties	631,702	591,305
Commissions	680,579	633,710
Employees' statutory profit sharing	16,642	26,505
	$3,491,008	**$3,269,670**

Note 21 - Analysis of other income - Net:

	At December 31, 2017	2016
Other income		
Cancellation of provisions	$604	$13,812
Petty cash surpluses	2,077	3,355
Restatement of taxes	2,360	697
Supplier rebates	-	2,463
Other minor expenses	99,222	43,193
Total other income	**104,263**	**63,520**
Other expenses:		
Fixed asset sales	8,608	12,053
Total other income, net	**$95,655**	**$51,467**

Note 22 - Financial income and expenses

	At December 31, 2017	2016
Interest expenses:		
- Interest on bank loans	($258,675)	($135,258)
- Interest on related parties loans	(86,854)	(52,340)
-Exchange loss	-	(177,899)
Financial expenses	(345,529)	(365,497)
Financial income		
- Interest income on short-term bank deposits	173,840	185,723
- Interest income on loans to related parties (Note 24)	86,854	52,344
Exchange profit	82,875	-
Financial income	343,569	238,067
Total	**($1,960)**	**($127,430)**

Note 23 - Commitments and Contingencies:

1. Commitments

1.1. Concessions

In accordance with the terms and conditions of the concessions, the subsidiary companies holding concession titles granted by the SCT to operate the services must comply with certain obligations.

Failure to comply with said obligations could lead to sanctions. In addition, the Group's concessions are subject to rescission for different reasons, including interruption of the service, failure to comply with the obligations or conditions established in the concession titles, the assignment or transfer of concession rights in contravention of the law.

Under any of those assumptions, the concession could be canceled without the need for the government to pay Mega Cable, S.A. de C.V. any kind of compensation. If the IFT revokes any of the Group's concessions, it would be unable to operate in the area covered by the concession or to obtain new concessions to operate in that or any other area for a period of five years.

Rescission of any of the Company's concessions would have a significant adverse effect on its activities, financial position and operating income.

1.2. Contractual

The Group has obligations guaranteed by Mega Cable and some of its subsidiaries,owing to loan agreements with financial entities.

Said loan includes clauses prohibiting the Group from conducting activities such as selling fixed assets and merging with third parties (except with previous notification of and approval from the financial entity). Additionally, the loan agreement requires compliance with certain financial ratios.

At December 31, 2017 and 2016, the Group had complied with all of its contractual commitments.

2. Contingencies

In the event of an audit by the Tax Administration, `the authorities could encounter discrepancies in the criteria applied by the Group in determining its taxes. The Tax Authorities have reported no inconsistencies with the taxes determined and paid by the Group, except for the following instance:

At the date of issuance of these financial statements, notifications have been received from the General Major Taxpayer Office (SAT) containing tax assessments totaling $4,172,391 payable by the subsidiaries Telefonía por Cable, S. A. de C. V. and Mega Cable, S. A. de C. V. covering income tax, and $292,907 corresponding to excise tax (IEPS from Spanish), surcharges and fines for the 2008, 2009 and 2011 tax periods. However, Group Management and its attorneys have stated that there is every likelihood of a judge handing down a favorable resolution in the event the matter has to be settled in court.

Note 24 - Related parties:

a) The main balances with related parties are shown below::

Entity	Type of relationship	Item	December 31, 2017	2016
Long-term accounts receivable:				
Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C. V. (GTAC)(1)	Joint business	Loan made	$960,834	$990,195
Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C. V. (GTAC)(2)	Joint business	Advances	66,289	16,705
Total			**$1,027,123**	**$1,006,900**
Accounts payable by:				
Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C. V. (GTAC)(3)	Joint business	Lease granted	$954,232	$838,821
Less short-term accounts payable			(350,624)	(137,043)
Total long-term accounts payable			**$603,608**	**$701,778**

(1) The long-term account receivable at December 31, 2017 and 2016 pertains to a loan made to the associate GTAC with a credit line of up to $688,217. The loan matures on December 31, 2021 and is subject to monthly interest at the 28-day interbank rate plus 2 percentage points. The effective income tax rate for 2017 and 2016 is 9.04% and 6.33%, respectively. At December 31, 2017 and 2016, the fair value of the account receivable is $953,945 and $961,986, respectively and it is located on level 2 of fair value.

(2) The account receivable at December 31, 2017 and 2016 corresponds to advances for network (fiber optics) maintenance provided by the Group to its joint business GTAC.

(3) The account payable at December 31, 2017 and 2016 corresponds to the capacity agreement signed on August 1, 2012 with GTAC for telecommunications services. That agreement specifies that over the next 18 years, the Group will make annual payments of $41,400, increasing annually on the basis of the National Consumer Price Index (NCPI). It also establishes that payments for years 10 and 18 may be made in advance. That account payable also corresponds to financial leasing additions acquired by a subsidiary of the Group, which are paid over 10 years, as per present value. There is compliance with the requirements specified in IAS 17 in order to qualify as financial leasing. See Note 16, point b.

The implicit annual interest rate determined for the payments to be made by the Group is the lesser of the TIIE plus 1.22 and 6%. At December 31, 2017 and 2016, the average interest rate was 6.00% and 4.64%, respectively.

Fair value of the account payable at December 31, 2017 and 2016 is $1,074,803 and $970,456, respectively, based on discounted cash flows using the rate calculated by management and are on level 2 in the hierarchy of fair value.

b) The following operations were conducted during the year:

Entity	Type of relationship	Item	December 31, 2017	2016
Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. (GTAC)	Joint business	Interest income	$86,854	$52,344
Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. (GTAC)	Joint business	Interest expense	$86,854	$52,340
Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. (GTAC)	Joint business	Maintenance	$71,913	$ 69,905

Goods are acquired from the joint business in regular commercial terms and conditions.

c) Key personnel compensation

Key personnel include the directors and members of the Executive Committee. Compensation paid or payable to these executives for their services is as follows:

	December 31, 2017	2016
Short-term benefits	$52,088	$51,887
Termination benefits	4,733	5,587
	$56,821	**$57,474**

d) Loans to related parties

	December 31, 2017	2016
Total loans to related parties (1):		
At January 1	$990,195	$621,213
Loans made in the year	216,519	316,638
Loan payments collected	(189,834)	-
Interest collected	(156,797)	-
Interest charged	100,751	52,344
At December 31	**$960,834**	**$990,195**
(1) See point a).1) above.		

For the years ended December 31, 2017 and 2016, there are no outstanding balances on loans made to key management personnel.

Note 25 – Financial information by operating segment:

The CEO is the maximum decision-making authority as concerns Group operations. Consequently, management has determined the operating segments to be reported based on internal management reports reviewed by the Board of Directors when making strategic business decisions.

The CEO analyzes the business from a geographic and product perspective. At December 31, 2017 and 2016, there were no changes arising from this analysis.

The CEO assesses the performance of the operating segments based on the operating profit. The result of interest earned and lost is not assigned to the segments, since that is the responsibility of the treasury, which manages the Group liquidity.

Information by business segment is reported on the basis of the information used by the Operations Committee in making strategic and operating decisions. An operating segment is defined as a component of an entity on which there is separate financial information which is evaluated on a regular basis. The income of Group segments is as follows:

Cable

Includes the operation of cable television systems in several states of Mexico and derives revenues primarily from basic and premium services. This segment also includes installation fees from cable subscribers, pay-per-view fees and local and national advertising sales.

Internet

Includes high-speed Internet services provided to residential and commercial customers.

Telephony

Although the Telephony segment does not comply with the quantitative limits established under IFRS 8 for separate reporting, management has done so because it considers that potential growth of this segment means it will contribute significantly to Group revenue in the future. Telephony receives its revenue from fixed digital telephony of the Internet protocol and from services rendered to residential and commercial customers.

Business

Consists of the Metrocarrier, MCM, Ho1a and PCTV units, focused on different segments of connectivity outfitting, administrative services and content.

Other segments

Represents segments individually amounting less than 10% of the consolidated total. Others includes the production of TV programs and broadcasting, distribution services from multiple points and channels (MMDS), virtual private network and other network services.

Corporate costs are distributed among the different business segments.

IFRS 8 requires disclosure of assets and liabilities pertaining to one segment, if measurement is regularly provided to the decision-making body; however, with respect to the Group, the Operations Committee evaluates only the performance of the operating segments based on an analysis of income, operating profit and assets, but not of each segment's liabilities.

Income reported by the Group represents income obtained from external customers, as no intersegment sales are conducted.

25.1. Income and results per segment:

December 31, 2017	Cable	Internet	Telephony	Business	Other (*)	Total Consolidated
Income	$7,458,498	5,146,963	1,647,161	$2,814,493	$170,980	**$17,238,095**
Costs and expenses	5,230,281	3,609,314	1,155,074	1,973,667	119,901	**12,088,237**
Profit before other income	2,228,217	1,537,649	492,087	840,826	51,079	**5,149,858**
Other income	86,975	1,959	(246)	953	6,014	**95,655**
Operating profit	2,315,192	1,539,608	491,841	841,779	57,093	**5,245,513**
Financing costs, exchange fluctuation						**(1,960)**
Taxes on income						**(1,270,523)**
Consolidated net income						**3,973,030**

December 31, 2016	Cable	Internet	Telephony	Business	Other (*)	Total Consolidated
Income	$ 7,836,103	$ 4,466,662	$ 1,484,936	$ 3,084,911	$ 129,814	**$17,002,426**
Costs and expenses	5,603,825	3,189,025	1,060,187	2,202,508	74,386	**12,129,931**
Profit before other income	2,232,278	1,277,637	424,749	882,403	55,428	**4,872,495**
Other income	38,245	204	144	9,708	3,166	**51,467**
Operating profit	2,270,523	1,277,841	424,893	892,111	58,594	**4,923,962**
Financing costs, exchange fluctuation						**(127,430)**
Taxes on income						**(677,055)**
Consolidated net income						**4,119,477**

(*) The "Other" segment is mainly comprised of income from advertising, metrocarrier, megacanal, etc.

Presentation by the segments disclosed above is the same as that used by management in its periodic review processes of the Company's performance.

Taxes and financing costs are handled at the Group level and not within each of the segments reported. As a result, said information is not shown distributed in each of the segments reported. Operating income is the key performance indicator for management, which is reported monthly to the Board of Directors.

25.2 Other information by segments:

December 31, 2017	Cable	Internet	Digital Telephony	Business	Other (*)	Total Consolidated
Property, networks and equipment per segment	$16,988,089	$5,323,189	$684,910	$1,118,116	$264,390	**$24,378,694**
Acquisitions for the year of property, networks and equipment	$2,634,116	$1,763,889	$34,148	$410,782	$139,859	**$4,982,794**
Depreciation and amortization of fixed assets	$1,655,407	$518,719	$66,741	$108,955	$25,763	**$2,375,585**

December 31, 2016	Cable	Internet	Digital Telephony	Business	Other (*)	Total Consolidated
Property, networks and equipment per segment	$16,484,057	$3,456,184	$655,945	$1,043,824	$131,476	**$21,771,486**
Acquisitions for the year of property, networks and equipment	$ 4,589,109	$ 514,958	$ 280,362	$ 392,528	$ 408,892	**$6,185,849**
Depreciation and amortization of fixed assets	$1,704,892	$130,064	$17,262	$206,966	$5,010	**$2,064,194**

Some of the fixed assets included in the cable segment are also used in other segments, such as Internet and telephone; however, the cost of said assets is assigned only to cable.

25.3 Information by geographic location:

a. Analysis of net income by geographic location:

State	Total service income At December 31, 2017	2016
Jalisco	$2,181,951	$2,038,583
Sonora	1,780,468	1,713,828
Sinaloa	1,472,885	1,436,045
Veracruz	1,276,208	1,281,358
Puebla	1,369,749	1,282,717
Michoacán	1,224,791	1,136,080
Guanajuato	1,303,760	1,201,109
Estado de México	1,291,531	1,145,564
Durango y Coahuila	957,208	887,363
Ciudad de México	1,688,972	2,410,480
Querétaro	714,295	592,343
Nayarit	348,556	349,889
Chiapas	401,777	392,066
Baja California Sur	244,446	233,418
Oaxaca	197,631	190,738
Colima	195,401	175,833
Zacatecas	200,386	178,155
Morelos	84,446	80,498
Guerrero	70,984	57,396
Chihuahua	33,744	42,800
Nuevo Leon	65,795	47,764
Quintana Roo	94,010	84,864
Hidalgo	21,513	21,426
Tabasco	4,923	5,739
San Luis Potosí	4,357	4,928
Others	8,308	11,442
Total consolidated	**$17,238,095**	**$17,002,426**

Estado	Total property networks and equipment December 31, 2017	2016	Adquisitions of property, networks and equipment December 31, 2017	2016
Jalisco	$6,806,161	$ 6,503,523	$2,151,127	$ 985,063
Sonora	2,154,104	1,909,498	288,493	562,642
Sinaloa	1,731,389	1,539,362	265,482	511,732
Puebla	2,204,943	1,923,952	360,285	968,065
Veracruz	1,775,181	1,579,806	243,944	407,445
Estado de México / CDMX	1,992,062	1,566,120	432,118	499,128
Guanajuato	1,724,745	1,491,132	293,043	535,069
Durango y Coahuila	1,331,872	1,168,407	221,745	387,456
Michoacán	1,108,684	979,506	198,765	382,923
Querétaro	1,119,195	951,690	186,640	403,978
Chiapas	584,644	517,729	81,161	140,290
Colima	290,452	271,368	28,949	65,207
Baja California Sur	339,583	306,382	43,333	58,941
Oaxaca	290,927	277,909	22,276	43,091
Nayarit	310,072	250,395	69,539	61,516
Zacatecas	252,230	208,779	48,473	92,304
Guerrero	136,365	124,059	15,754	25,277
Morelos	91,350	81,953	12,026	12,228
Chihuahua	92,768	87,295	9,207	27,989
Other minor	41,967	32,621	10,434	15,505
Total consolidated	**$24,378,694**	**$21,771,486**	**$4,982,794**	**$6,185,849**

b. Analysis of income from services provided to external customers per product:

	December 31, 2017	December 31, 2016
Cable segment		
Cable Basic	$3,321,146	$3,558,666
Cable Lifeline	2,107,521	2,184,081
Cable Premier	1,809,508	1,805,290
Other services	220,323	288,066
Total cable segment	**$7,458,498**	**$ 7,836,103**
Internet segment		
High-speed residential Internet	$4,649,096	$4,077,067
High-speed commercial Internet	497,867	389,595
Total Internet segment	**$5,146,963**	**$ 4,466,662**
Digital telephony segment		
Residential telephony	1,485,659	$ 1,333,926
Commercial telephony	161,502	151,010
Total digital telephony segment	**$1,647,161**	**$ 1,484,936**
Business segment		
Metrocarrier	$942,169	$ 654,754
MCM	838,737	722,949
Ho1a	734,677	1,419,331
PCTV	298,910	287,877
Other	170,980	129,814
Total business segment and others	**$2,985,473**	**$ 3,214,725**
Total consolidated	**$17,238,095**	**$ 17,002,426**

Nota 26 - Authorization to issue consolidated financial statements:

Issuance of the consolidated financial statements and the notes thereto was authorized by Lic. Enrique Yamuni Robles (CEO) and C.P. Luis Antonio Zetter Zermeño (CFO) on April 24, 2018 for approval by the Audit Committee and the Board of Directors.These financial statements will be submitted at a Shareholders' Meeting for approval.