Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries (A Subsidiary of Matador Infra B. V.)

Consolidated financial statements for the years ended December 31, 2018, 2017 and 2016, and Independent auditors' report dated February 19, 2019

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries (Subsidiary of Matador Infra B. V.)

Consolidated financial statements for the years ended December 31, 2018, 2017 and 2016 and independent auditors' report

Table of Contents	**Page**
Independent auditors' report	1
Consolidated statements of financial position	5
Consolidated statements of profit or loss and other comprehensive income	7
Consolidated statements of changes in stockholders' equity	9
Consolidated statements of cash flows	10
Notes to the consolidated financial statements	12

Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Av. López Mateos Nte. 2405
Piso 29
Colonia Italia Providencia
44648 Guadalajara, Jal.
México

Tel: +52 (33) 3669 0404
www.deloitte.com/mx

Independent auditors' report to the Board of Directors and Stockholders of Red de Carreteras de Occidente, S.A.B. de C.V.

Opinion

We have audited the consolidated financial statements of Red de Carreteras de Occidente, S.A.B. de C.V. and subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, as well as the notes to the consolidated financial statements including 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 Entity as of December 31, 2018, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code of Ethics), and we have fulfilled all other ethical responsibilities in accordance with the IESBA Code of Ethics and the IMCP Code of Ethics. We believe that the audit evidence we have obtained is enough and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 3.b to the consolidated financial statements which describes the translation of Mexico peso amounts into U.S. dollar amounts. The translation of the consolidated financial statements amounts into U.S. dollar and the translation of the consolidated financial statements into English have been made solely for the convenience of the readers. Our opinion is not modified in respect of this matter.

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 those matters. We have determined that the matters described below are the key audit matters to be reported in our report.

Deloitte se refiere a Deloitte Touche Tohmatsu Limited, sociedad privada de responsabilidad limitada en el Reino Unido, y a su red de firmas miembro, cada una de ellas como una entidad legal única e independiente. Conozca en www.deloitte.com/mx/conozcanos la descripción detallada de la estructura legal de Deloitte Touche Tohmatsu Limited y sus firmas miembro.

Major maintenance provision

The Entity recognizes a provision for maintenance costs of highways under concession as mentioned in Note 3.o and Note 11. The assumptions used by management mainly comprise the cost of major maintenance estimated by an external expert engaged by the Entity, inflation rates, the discount rate and judgments used by management to determine the provision. We considered that the calculation of the provision for major maintenance is a key audit matter because it involves significant judgments and estimates that have a material impact on the results of operations and on the financial position of the Entity. The Entity recognizes a provision equal to the amount of the present value of the projected major maintenance cost to be performed by type of repair and by stretch of highway. The Entity believes that the provision determined in this manner complies with the requirements of IAS 37 *Provisions and Contingent Liabilities and Assets* ("IAS 37") and IFRIC 12 *Service Concession Arrangements* ("IFRIC 12").

Our audit procedures included, among others:

We assessed the competence and independence of the experts used by the management to determine the estimated cost of maintenance, and with the assistance of an internal specialist from our firm, we evaluated the discount rates used and tested the completeness and accuracy of the information used in determining the provision. The results of our procedures indicate that the balance of the provision at the date of the financial statements is reasonably stated.

Long-Term Debt

As shown in the financial statements, the Entity's long-term debt represents 94% of total liabilities; the related loan agreements include various covenants that restrict the Entity's ability to incur additional debt, issue guarantees, sell current and long-term assets, and make distributions of excess cash. Due to the implications of a default, we identified noncompliance with long-term debt covenants as an audit risk given that such noncompliance could trigger the accelerated maturity of the long-term debt.

Our audit procedures included, among others:

We corroborated that the Entity complied with the positive and negative covenants stipulated in the contracts. The results of our tests indicate that, at the date of the financial statements, the Entity was in compliance with the long-term debt covenants.

Information other than the consolidated financial statements and auditors' report thereon

Management is responsible for the information different to the consolidated financial statements (Other information). Other information comprises the information that will be incorporated in the Annual Report that the Entity is obliged to prepare pursuant to Article 33 Fraction I, subsection b) of Title Four, First Chapter of the "Disposiciones de Carácter General Aplicables a las Emisoras y a otros Participantes del Mercado de Valores" (Stock Exchange Rules) in Mexico and the "Instructivo" accompanying those rules (collectively, the Regulations). The Annual Report is expected to be made available to us after the date of this auditors' report.

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

Deloitte.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other information 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 Annual Report, we will issue the declarations surrounding the reading of the annual report required by Article 33 Fraction I, subsection b) number 1.2. of the Regulations. If based on the work we have done, we conclude that there is a material misstatement in the Other information, we would have to report that fact.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's 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 does 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 performed 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 circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures by management.

Deloitte.

- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention 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 or auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

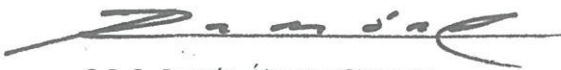
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and the 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 though 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.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Ramón Álvarez Cisneros

February 19, 2018

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries
(A Subsidiary of Matador Infra B.V.)
Consolidated statements of financial position
As of December 31, 2018, 2017 and 2016
(Thousands of Mexican pesos and thousands of U.S. dollars)

Assets	**Note**	**(Convenience translation, see Note 3b) 2018**	**2018**	**2017**	**2016**
Current assets:					
Cash and cash equivalents, current	5	U.S.$ 366,859	$ 7,220,857	$ 8,741,237	$ 6,678,792
Trade accounts receivable, net	6	7,379	145,232	109,973	774,180
Recoverable taxes		3,485	68,589	60,196	56,604
Interest receivable on derivative financial instruments		216	4,250	342	-
Financial assets arising from concessions – current portion	7	20,509	403,683	388,502	393,129
Other accounts receivable and prepaid expenses	6	8,302	163,405	189,566	114,763
Total current assets		406,750	8,006,016	9,489,816	8,017,468
Non-current assets:					
Long-term restricted cash	5	5,366	105,612	98,833	93,673
Financial assets arising from concessions – long-term portion	7	43,023	846,821	868,967	867,065
Intangible assets derived from concessions	8	2,145,626	42,232,140	42,900,029	43,047,021
Furniture and equipment and franchise rights – net	9	966	19,021	18,193	20,124
Machinery and equipment - net	9	336	6,615	9,031	6,559
Right-of-use assets, net	10	3,170	62,393	61,383	45,609
Derivative financial instruments	12	11,554	227,418	140,093	114,807
Deferred income tax assets	15	342,127	6,734,048	6,791,394	6,530,536
Other assets		329	6,481	5,869	4,408
Total non-current assets		2,552,497	50,240,549	50,893,792	50,729,802
Total assets		$ 2,959,247	$ 58,246,565	$ 60,383,608	$ 58,747,270

Liabilities and stockholders' equity

Current liabilities:					
Accounts payable to suppliers		$ 16,123	$ 317,349	$ 296,193	$ 285,266
Interest payable		42,446	835,461	878,430	868,418
Interest payable on derivative financial instruments		8	152	-	4,985
Other current liabilities		3,759	73,963	69,095	55,397
Provisions	11	15,209	299,351	462,989	746,898
Accounts payable to shareholders	19	-	4	4	3

(Continued)

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries
(A Subsidiary of Matador Infra B.V.)

Consolidated statements of financial position

As of December 31, 2018, 2017 and 2016
(Thousands of Mexican pesos and thousands of U.S. dollars)

	Note	(Convenience translation, see Note 3b) 2018	2018	2017	2016
Current portion of long-term debt	13	44,885	883,475	365,766	341,018
Short-term employee benefits	14	10,904	214,627	141,619	33,436
Provision for work executed, not yet approved		362	7,127	63,376	29,791
Taxes other than income tax		6,910	136,014	218,308	243,739
Income taxes payable	15	3,088	60,786	47,909	41,738
Total current liabilities		143,694	2,828,309	2,543,689	2,650,689
Non-current liabilities:					
Long-term debt	13	2,110,095	$ 41,532,798	$ 40,847,814	$ 37,846,802
Provisions for major maintenance	11	21,712	427,361	175,380	158,187
Long-term employee benefits	14	2,327	45,807	26,903	56,061
Post-employment benefits	14	187	3,674	3,270	2,632
Other long-term liabilities		1,708	33,615	33,300	21,777
Derivative financial instruments	12	31	604	19,494	63,734
Deferred income tax liability	15	7,967	156,805	184,164	194,677
Total non-current liabilities		2,144,027	42,200,664	41,290,325	38,343,870
Total liabilities		2,287,721	45,028,973	43,834,014	40,994,559
Contingencies	22				
Stockholders' equity	19				
Capital stock		673,527	13,256,968	18,258,968	21,408,968
Accumulated deficit		(10,048)	(197,770)	(1,790,486)	(3,685,110)
Other comprehensive income		8,047	158,394	81,112	28,853
Total stockholders' equity		671,526	13,217,592	16,549,594	17,752,711
Total stockholders' equity and liabilities		U.S.$ 2,959,247	$ 58,246,565	$ 60,383,608	$ 58,747,270

(Concluded)

See accompanying notes to consolidated financial statements.

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries
(A Subsidiary of Matador Infra B.V.)

Consolidated statements of profit or loss and other comprehensive income

For the years ended December 31, 2018, 2017 and 2016
(Thousands of Mexican pesos and thousands of U.S. dollars)

	Note	(Convenience translation, see Note 3b) 2018	2018	2017	2016
Revenues:	16				
Toll revenues		U.S.$ 379,147	$ 7,462,709	$ 6,639,551	$ 5,880,433
Shadow toll payments from the SCT		41,849	823,705	773,670	742,456
Availability payments from the SCT		21,822	429,517	409,520	406,614
Ancillary revenues from the use of rights of way and other related revenues		14,714	289,610	212,835	190,112
Construction revenues		31,725	624,446	614,658	496,204
Total revenues		489,257	9,629,987	8,650,234	7,715,819
Costs and expenses:	17				
Amortization of intangible assets derived from concessions	8	57,405	1,129,897	879,728	822,311
Operation and maintenance provisions		63,744	1,254,666	874,258	879,574
Toll collection costs		6,901	135,836	112,426	110,967
Construction costs		31,725	624,446	614,658	496,204
Cost of ancillary revenues from the use of right of way and other related revenues		7,110	139,949	119,324	107,531
General and administrative expenses		27,935	549,846	480,911	357,063
		194,820	3,834,640	3,081,305	2,773,650
Income before other income – net		294,437	5,795,347	5,568,929	4,942,169
Other income – net		1,573	30,965	29,646	39,149
Income from operations		296,010	5,826,312	5,598,575	4,981,318
Interest expense		(199,748)	(3,931,617)	(3,554,913)	(3,790,278)
Interest income		18,359	361,357	332,433	236,155
Adjustments to principal amount of UDI denominated debt		(21,893)	(430,917)	(550,457)	(269,118)
Net foreign exchange (loss) gain		-	(4)	(103)	160
		(203,282)	(4,001,181)	(3,773,040)	(3,823,081)
Income before income taxes		92,728	1,825,131	1,825,535	1,158,237
Income tax expense (benefit)	15	11,808	232,415	(69,090)	70,483
Net income for the period		80,920	1,592,716	1,894,625	1,087,754

(Continued)

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries
(A Subsidiary of Matador Infra B.V.)

Consolidated statements of profit or loss and other comprehensive income

For the years ended December 31, 2018, 2017 and 2016
(Thousands of Mexican pesos, unless otherwise stated, and thousands of U.S. dollars, except for per share amounts)

	Note	(Convenience translation, see Note 3b) 2018	2018	2017	2016
Other comprehensive income items:					
Items that will be reclassified subsequently to profit or loss:					
Valuation of derivative financial instruments		U.S.$ 6,314	$ 124,286	$ 30,540	$ 237,335
Deferred income taxes on derivative financial instruments		(1,894)	(37,286)	(9,217)	(23,233)
Reclassifications of derivative financial instrument to profit and loss		(727)	(14,316)	44,313	180,625
Deferred income taxes on derivative financial instrument amounts reclassified to profit and loss		218	4,295	(13,239)	(59,378)
		3,911	76,979	52,397	335,349
Items that not will be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation		15	303	(138)	545
Other comprehensive income items		3,926	77,282	52,259	335,894
Comprehensive income for the period		U.S.$ 84,846	$ 1,669,998	$ 1,946,884	$ 1,423,648
Basic and diluted earnings per common share	20	U.S.$ 0.003	$ 0.055	$ 0.066	$ 0.038

(Concluded)

See accompanying notes to consolidated financial statements.

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries
(A Subsidiary of Matador Infra B.V.)

Consolidated statements of changes in stockholders' equity

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

	Notes	Capital stock	Accumulated deficit	Other comprehensive income (loss)	Total stockholders' equity
Balance as of December 31, 2015		$ 22,128,968	$ (4,771,938)	$ (307,041)	$ 17,049,989
Adjustment from the adoption of IFRS 16		-	(924)	-	(924)
Adjusted balance as of December 31, 2015		22,128,968	(4,772,862)	(307,041)	17,049,065
Capital stock reduction	19	(720,000)	-	-	(720,000)
Dividends declared		-	(2)	-	(2)
Comprehensive income:		-	-	237,335	237,335
Valuation of derivative financial instruments		-	-	(23,233)	(23,233)
Deferred income taxes on derivative instruments		-	-	180,625	180,625
Reclassifications of financial derivative instruments to profit and loss		-	-	(59,378)	(59,378)
Deferred taxes on financial instruments reclassified to profit and loss		-	-	545	545
Net income for the period		-	1,087,754	-	1,087,754
		-	1,087,754	335,894	1,423,648
Balance as of December 31, 2016		21,408,968	(3,685,110)	28,853	17,752,711
Capital stock reduction	19	(3,150,000)	-	-	(3,150,000)
Dividends declared		-	(1)	-	(1)
Comprehensive income					
Valuation of derivative financial instruments		-	-	30,540	30,540
Deferred income taxes on derivative instruments		-	-	(9,217)	(9,217)
Reclassifications of financial derivative instruments to profit and loss		-	-	44,313	44,313
Deferred taxes on financial instruments reclassified to profit and loss		-	-	(13,239)	(13,239)
Remeasurement of defined benefit obligation		-	-	(138)	(138)
Net income for the period		-	1,894,625	-	1,894,625
		-	1,894,625	52,259	1,946,884
Balance as of December 31, 2017		18,258,968	(1,790,486)	81,112	16,549,594
Capital stock reduction	19	(5,002,000)	-	-	(5,002,000)
Comprehensive income:					
Valuation of derivative financial instruments		-	-	124,286	124,286
Deferred income taxes on derivative instruments		-	-	(37,286)	(37,286)
Reclassifications of financial derivative instruments to profit and loss		-	-	(14,316)	(14,316)
Deferred taxes on financial instruments reclassified to profit and loss		-	-	4,295	4,295
Remeasurement of defined benefit obligation		-	-	303	303
Net income for the period		-	1,592,716	-	1,592,716
		-	1,592,716	77,282	1,669,998
Balance as of December 31, 2018		$ 13,256,968	$ (197,770)	$ 158,394	$ 13,217,592

See accompanying notes to consolidated financial statements.

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries
(A Subsidiary of Matador Infra B.V.)

Consolidated statements of cash flows

For the years ended December 31, 2018, 2017 and 2016
(Thousands of Mexican pesos and thousands of U.S. dollars)

	(Convenience translation, see Note 3b) 2018	2018	2017	2016
Operating activities:				
Income before income taxes	U.S.$ 92,727	$ 1,825,131	$ 1,825,535	$ 1,158,234
Adjustments for:				
Depreciation and amortization	58,870	1,158,739	903,530	843,252
Interest expense	194,597	3,830,226	3,388,659	3,510,821
Reclassifications of derivative financial instrument to profit and loss	(727)	(14,315)	44,313	180,625
Amortization of commissions and debt issuance costs	5,879	115,707	121,941	98,834
Unrealized exchange (gain) loss	(4)	(77)	(76)	14
Adjustments to principal amounts of UDI denominated debt	21,893	430,917	550,457	269,118
	373,235	7,346,328	6,834,359	6,060,898
(Increase) decrease in:				
Trade accounts receivable	(1,791)	(35,259)	664,207	(364,276)
Recoverable taxes	(426)	(8,393)	(3,592)	1,444
Financial assets arising from concessions	354	6,965	2,725	(3,958)
Other accounts receivable and prepaid expenses	1,329	26,161	(74,803)	(13,970)
Other assets	(31)	(612)	(1,461)	(158)
Increase (decrease) in:				
Accounts payable to suppliers	1,079	21,231	11,003	(517)
Other current liabilities	105	2,062	7,500	7,134
Provisions	3,288	64,725	(266,716)	(231,629)
Taxes other than income tax	(2,872)	(56,520)	(37,185)	93,194
Income taxes paid	(12,616)	(248,316)	(206,813)	(177,113)
Employee benefits	4,670	91,912	79,025	11,106
Post-employment benefits	35	707	500	571
Net cash provided by operating activities	366,359	7,210,991	7,008,749	5,382,725
Investing activities:				
Acquisition of furniture and equipment	(196)	(3,849)	(1,095)	(5,875)
Acquisition of machinery and equipment	(492)	(9,682)	(11,597)	(6,122)
Intangible assets derived from concessions	(26,330)	(518,257)	(699,151)	(486,323)
Net cash used in investing activities	(27,018)	(531,788)	(711,843)	(498,320)

(Continued)

Red de Carreteras de Occidente, S.A.B. de C.V. and Subsidiaries
(A Subsidiary of Matador Infra B.V.)

Consolidated statements of cash flows

For the years ended December 31, 2018, 2017 and 2016
(Thousands of Mexican pesos and thousands of U.S. dollars)

	Note	(Convenience translation, see Note 3b) 2018	2018	2017	2016
Financing activities:					
Proceeds from long-term debt		U.S.$ 474,934	$ 9,348,087	$ 2,858,931	$ 695,473
Payments of debt		(435,802)	(8,577,848)	(341,018)	(564,349)
Interest paid		(195,393)	(3,845,895)	(3,374,960)	(3,208,734)
Payments of lease		(777)	(15,294)	(13,390)	(14,698)
Proceeds from (payments of) derivative financial instruments		727	14,316	(44,313)	(180,625)
Commissions and debt issuance costs paid		(5,800)	(114,170)	(164,551)	(53,371)
Capital stock reduction	19	(254,129)	(5,002,000)	(3,150,000)	(1,799,800)
Net cash used in financing activities		(416,240)	(8,192,804)	(4,229,301)	(5,126,103)
(Decrease) increase in cash and cash equivalents		(76,899)	(1,513,601)	2,067,605	(241,698)
Cash and cash equivalents at the beginning of year		449,124	8,840,070	6,772,465	7,014,163
Cash and cash equivalents at the end of year		U.S.$ 372,225	$ 7,326,469	$ 8,840,070	$ 6,772,465

(Concluded)

See accompanying notes to consolidated financial statements.

1. Nature of business and significant events of 2018:

Red de Carreteras de Occidente, S.A.B. de C.V. ("RCO") and subsidiaries' (collectively, the "Entity") main activity is to construct, operate, conserve and maintain the concessioned highways Maravatío-Zapotlanejo and Guadalajara-Aguascalientes-León and Tepic–San Blas (the "Concessioned Highways"), and the Querétaro-Irapuato and Irapuato-La Piedad highway sections under the service provision project agreements ("PPS").

On October 3, 2007, the Department of Communications and Transportation ("SCT") of the Federal Government granted a 30-year concession to the Entity (the "Concession Holder") to build, operate, conserve and maintain the Maravatío-Zapotlanejo and Guadalajara-Aguascalientes-León highways, with a total length of de 558.05 kilometers (as of such date), in the states of Michoacán, Jalisco, Guanajuato and Aguascalientes. The concession also included highway extension work. The investment in the Concessioned Highways will be recovered by collecting the tolls authorized by the SCT during the period agreed in the concession agreement, albeit with the right to annually adjust these tariffs according to the National Consumer Price Index (NCPI) or whenever the latter increases by 5% or more of the NCPI used with respect to the most recent adjustment in the rate. Toll income secures the Entity's long-term debt (see Note 13).

On June 26, 2014, the SCT amended the concession title granted to RCO in order to incorporate the construction, operation, conservation and maintenance of a toll-free segment of approximately 46 kilometers in length, commencing East of Jiquilpan, in the State of Michoacán, and ending at the Maravatío-Zapotlanejo toll road junction, in the state of Jalisco. Considering that the construction of the aforementioned segment constitutes an additional project that was not originally contemplated in the concession title, and in order to maintain the financial equilibrium of the concession, the aforementioned amendment also includes an extension to the original term of the concession of four years and six months, as well as a weighted average 2% adjustment in the tolls applicable to the total traffic on the concessioned Highways. The toll adjustment will be effective on January 2019.

Concesionaria de Vías Irapuato Querétaro, S.A. de C.V. ("COVIQSA"), a subsidiary of the Entity, operates, maintains, and conserves the Querétaro – Irapuato highway of approximately 93 kilometers in length, and Concesionaria Irapuato La Piedad, S.A. de C.V. ("CONIPSA"), a subsidiary of the Entity, operates, maintains, and conserves the Irapuato - La Piedad highway of approximately 73.52 kilometers in length (as of such date). Both concession terms are for a period of 20 years as of 2006 and 2005, respectively. Operation of the concessions is performed under the PPS scheme, as per the terms of the COVIQSA and CONIPSA concession agreements, which contemplate the recovery of investment through two types of revenues paid by the SCT: i) shadow toll payments; and ii) availability payments.

Concesionaria Tepic San Blas, S. de R.L. de C.V. ("COTESA"), a subsidiary of the Entity, operates, builds, and maintains the Tepic - San Blas highway with a length of 30.929 kilometers in the state of Nayarit for 30 years starting May 19, 2016. The investment will be recovered by collecting the tolls authorized by the SCT during the period agreed in the concession agreement, albeit with the right to annually adjust these tariffs according to the NCPI, or whenever the latter increases by 5% or more of the NCPI used with respect to the most recent adjustment in the rate.

The Entity is incorporated in Mexico and has its domicile at Av. Americas No.1592 4th floor, Colonia Country Club, C.P. 44610, Guadalajara, Jalisco.

Significant events of 2018:

a. ***Capital reduction***

By unanimous resolutions dated February 19, May 28, August 31 and November 23, 2018, the Entity's shareholders authorized reductions in the variable portion of its capital stock for the amounts of $2,600 million, $700 million, $650 million and $1,052 million, respectively, with the prior recommendation of the Board of Directors, which were paid during 2018.

b. ***Agreement to Acquire 100% of the shares of the Zamora-La Piedad highway concession holder***

On September 21, 2018, RCO signed a Purchase Agreement to acquire 100% of the shares issued by the company holding the concession to design, build, operate, utilize, conserve and maintain, for a period of 30 years, the "Zamora-La Piedad" toll road in the State of Michoacán. The acquisition of shares is subject to multiple suspensive conditions, including, the approval of the competent authorities.

c. ***Public Offer of Acquisition of Securitized Certificates with blackboard ID RCO 12***

On November 8, public takeover bids were launched for up to all the securitized certificates with blackboard ID RCO 12 and RCO 12U. On December 6, 2018, the period of such offers ended, resulting in the following:

(i) in relation to the RCO 12 offer, 15,946,799 of securitized certificates were repurchased for an amount of $1,594,680, as a result of which, 12,463,201 RCO 12 securitized certificates remained outstanding.

(ii) in relation to the RCO 12U offer, 10,702,951 of securitized certificates were repurchased for an amount equivalent to 1,070,295,100 investment units (UDIs) for $6,617,402. As a result of the foregoing, there remained 4,107,494 RCO 12U stock certificates in circulation.

On December 10, 2018, the proceeds of the issue of securitized certificates with blackboard ID RCO 18U for an amount equivalent to 1,341,055,700 UDIs for $8,304,996 were received. These resources were used to repurchase the RCO12 and RCO12U securitized certificates mentioned above, as well as to cover expenses related to the issuance of RCO18U securitized certificates.

2. Application of new and revised International Financial Reporting Standards and changes in accounting policies

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

In the current year, the Entity has applied several amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2018.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009, introduced new requirements to classification and measurement of financial assets. IFRS 9 was modified in October 2010 to include requirements to classification and measurement of financial liabilities and its impairment, and November 2013 to include new general requirements for hedge accounting. Other modifications to IFRS 9 were issued in July 2014, mainly to include: a) requirements of impairment of financial assets and b) limited modifications of requirements of classification and valuation to introduce the valuation category of "fair value through other comprehensive income" (FVTOCI) for certain simple debt instruments. Additionally, it has been adopted the improvements for *IFRS 7 Financial Instruments: Disclosures.*

The Entity has adopted IFRS 9 in accordance with the transition provisions contemplated in IFRS 9.

The main requirements of this new standard are:

- ***Classification and measurement of financial assets –*** All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost; debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL). The Entity may make the following irrevocable election / designation at initial recognition of a financial asset the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings. Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment.

- ***Classification and measurement of financial liabilities –*** A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

- ***Impairment of financial assets –*** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- ***General hedge accounting –*** The new general hedge accounting requirements retain the three types of hedge accounting of IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Entity's risk management activities have also been introduced.

The main effects in the consolidated financial statements due from the adoption of IFRS 9 determined by the Entity's management are the following:

- ***Classification and measurement of financial assets*** – The Entity has financial assets of debt in connection with the trusts where has the instruction to invest in gubernamental debt in short term, has been designated as amortized cost. Additionally, the Entity has financial assets for concessions, which are intended to be maintained under the business model whose purpose is to collect the contractual cash flows and such cash flows are exclusively capital and interest payments on the balance of the capital and, therefore, are valued at amortized cost.

The following table and accompanying notes explain the original measurement categories in accordance with IAS 39 and the new measurement categories in accordance with IFRS 9 for each class of financial assets of the Entity as of January 1, 2018.

	Measurement category		Carrying amount		
Financial assets	**Original category under IAS 39**	**New category under IFRS 9**	**IAS 39 31/12/2017**	**Adoption IFRS 9**	**IFRS 9 01/01/18**
Cash equivalents	Held to maturity	Amortized cost	$ 7,473,876	-	$ 7,473,876
Trade account receivables	Trade receivables	Amortized cost	109,973	-	109,973
Other trade receivables	Trade receivables	Amortized cost	17,226	-	17,226
Financial assets arising from concessions	Trade receivables	Amortized cost	1,257,469	-	1,257,469
Derivative financial instruments	FVTOCI	FVTPL	140,093	-	140,093

There was no effect on the accumulated results from the reconciliation of the financial assets presented in the statement of financial position from IAS 39 to IFRS 9 as of January 1, 2018.

- ***Classification and valuation of financial liabilities*** **–** The IFRS 9 adoption did not have a significant effect on the accounting policies of the Entity related to the classification and valuation of financial liabilities.

- ***Impairment of financial assets*** **–** Affects accounts receivable from Entity customers and financial assets by concession. For contract assets arising from IFRS 15 and trade accounts receivables, the Entity applies a simplified model of recognition of expected credit losses during the life of the asset, since these items do not have a significant financing component. The Entity's management determined that the adoption of the expected credit loss model had no effect on the Entity's consolidated financial statements.

- ***General hedge accounting*** **–** In accordance with the transition provisions of IFRS 9 for hedge accounting, the Entity applied the requirements of IFRS 9 for hedge accounting prospectively from the date of initial application on January 1, 2018. The Entity's hedge relations in effect as of January 1, 2018 also qualify for hedge accounting in accordance with IFRS 9 and, therefore, were considered as continuous hedging relationships. It was not necessary to rebalance any of the hedging relationships on January 1, 2018. As the critical terms of the hedging instruments coincide with those of their corresponding hedged items, all hedging relationships remain effective according to the requirements of evaluation on effectiveness of IFRS 9. The Entity has also not designated any hedging relationship under IFRS 9 that had not complied with hedge accounting criteria qualified in accordance with IAS 39. The adoption of IFRS 9 did not have an effect on the results and the Entity's financial position for the current year or for previous years.

The adoption of IFRS 9 did not have an impact on the Entity's consolidated cash flows, nor on basic and diluted earnings per ordinary share**.**

IFRS 15 ***Revenue from Contracts with Customers***

In May 2014, IFRS 15 was issued, which establishes a single integral model to be used by the entities in the accounting for income from contracts with customers, which came into effect on January 1, 2018. IFRS 15 Revenue from contracts with customers and the Amendments to IFRS 15 *Revenue from Contracts with Customers* (hereinafter referred to as IFRS 15) replace IAS 18 *Revenues*, IAS 11 *Construction Contracts* and several revenue interpretations.

The basic principle of IFRS 15 is that an entity must recognize the revenue representing the promised transfer of control of goods or services to customers for amounts that reflect the considerations that the entity expects to receive in exchange for such goods or services. Specifically, IFRS 15 introduced a five-step approach to revenue recognition.

Step 1: Identify the contract with a customer
Step 2: Identify performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes income when the obligation is satisfied, that is, when the 'control' of the underlying goods or services of the performance obligation has been transferred to the customer. In addition, guidelines have been included in IFRS 15 to address specific situations. In addition, the number of disclosures required is increased.

In April 2016, the IASB issued clarifications to IFRS 15 regarding the identification of performance obligations, considerations regarding “principal” versus “agent” as well as guidelines for the treatment of licenses.

According to management’s analysis of IFRS 15, the main revenues received by the Entity are the following:

• Granting the right to use a road to travel from one point to another in exchange for a toll fee.
• Maintaining road capacity available to the general public in toll-free sections.
• Providing areas within the right of way for the provision of complementary services.
• Selling food and beverages through franchises.

These revenues are characterized by being highly related to regulated service contracts in which performance obligations to customers are very specific and are consistent with the concepts for which revenues were recognized in previous years, and so no adjustments to the accounting for such operations were necessary.

The Entity’s management used the retrospective method for each reporting period presented for the transition and adoption of IFRS 15. Aside from providing greater disclosures about the Entity’s revenue transactions, the Entity’s management has determined that the application of IFRS 15 had no impact on the financial position and financial performance of the Entity.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

    (i) The original liability is derecognized;
    (ii) The equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
    (iii) Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments were adopted on January 1, 2018. The specific transition provisions were applied. The Entity's management determined that the application of the amendments did not have an impact on the Entity's consolidated financial statements since there are no conditions of irrevocability and non-irrevocability.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The Interpretation was adopted as of January 1, 2018. However, the Entity's management determined that it had no impact on its consolidated financial statements, since the transactions it carries out in foreign currency are immaterial.

b. ***New and revised IFRS in issue but not yet effective***

At the date of authorization of these financial statements, the Entity has not applied the following new and revised IFRS that have been issued but are not yet effective.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Annual Amendments to IFRS	*Annual improvements to IFRS 2015 – 2017 Cycle* [1]
Amendments to IAS 1 *Financial Statements Presentation* and IAS 8 *Accounting Policies Changes in Accounting Estimates and Errors*	*Definition of materiality*[3]
Amendments to IAS 19 *Employee Benefits*	*Plan Amendment, Curtailment or Settlement*[1]
IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
IFRIC 23 *Uncertainty over Income Tax Treatments*	*Establishes the accounting treatment in relation with uncertain tax positions*[1]

[1] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the Solely Payments Principal and Interest (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The Entity’s management do not anticipate that the application of the amendments in the future will have an impact on the Entity’s consolidated financial statements

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

The amendment to IAS 28 *Long-term Interests in Associates and Joint Ventures* clarifies that the entities will account for long-term investments in an associate or joint venture, to which the equity method is not applied, using IFRS 9, including its provisions on impairment.

Annual Improvements to IFRS 2015–2017 Cycle

The annual improvements include amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The amendments to IFRS 3 *Business Combinations* clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The amendments to IFRS 11 *Joint Arrangements* clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

The amendments to IAS 12 *Income Taxes* clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

The amendments to IAS 23 *Borrowing Costs* clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The Entity's management anticipate that the application of the amendments to IFRS 3, IFRS 11 and IAS 23 in the future will not have an impact on the Entity's consolidated financial statements because it has no participation in joint ventures and has no qualifying assets.

Regarding the amendments to IAS 12, the Entity's management are in the process of reviewing the effects, so to date it is not possible to provide a reasonable estimate of such effects.

Amendments to IAS 1 Financial Statements Presentation and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments contemplate a definition of the materiality for the financial statements stating that the information is material or material if its omission, inadequate expression or overshadowing could reasonably be expected to influence the decisions of the principal users of the financial statements of an Entity that inform.

The Entity's management estimates that these modifications will not have an impact on its consolidated financial statements.

Amendments to IAS 19 Employee Benefits

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

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

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

The Entity’s management does not anticipate that the application of the amendments in the future will have an impact on the Entity’s consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there are a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The Entity’s management anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

IFRIC 23 *Uncertainty over Income Tax Treatments*

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

- Determine whether uncertain tax positions are assessed separately or as an entity;
- Assume that a tax authority that has jurisdiction to examine the information submitted to it will do so and that it will have full knowledge of all the related information; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its tax position accounting consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its tax position accounting.

Additionally, the Entity must reevaluate its judgments and estimates if the facts and circumstances change.

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

The Entity’s management does not anticipate that the application of the amendments in the future will have an impact on the Entity’s consolidated financial statements.

c. **Early adoption of IFRS or IAS in the current year.**

In the current year, the Entity applied in advance the following IFRS, which becomes effective as of January 1, 2019.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 *Leases*, as well as related interpretations. The Entity has chosen the full retrospective application of IFRS 16, consequently, the Entity reformulated the comparative information of the previous years presented for comparative purposes. The Entity made use of the option included in the transition provisions to IFRS 16 to not reevaluate whether a contract is or contains a lease on the date of the initial adoption. Consequently, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases recognized or modified before January 1, 2016.

IFRS 16 changed the way in which the Entity accounts for leases previously classified as operating leases under IAS 17, which were outside the consolidated statement of financial position. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Entity chose to recognize a lease expense over a straight line as permitted by IFRS 16. The Entity's management identified that it has non-cancellable operating lease commitments, other than short-term and low-value assets, for which, in the initial application of IFRS 16, for all leases (except for those indicated above), the Entity:

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

The standard was applied in advance recording the accumulated effect as of January 1, 2018 resulting in a right-of-use asset of $34,409, a lease liability of $37,217 and a debit to equity of $2,808. For comparability purposes, the financial statements for the years 2017 and 2016 were restated.

Due to the immateriality of the effects due to the retrospective adoption of IFRS 16, the Entity's management did not include the consolidated statement of financial position at the beginning of the earliest year presented (January 1, 2016).

The amount of the adjustments for each item in the financial statements that had an effect due to the early adoption of IFRS 16 for the current year and previous years is shown below.

	2017	2016
Impact on net income for the period		
Increase on depreciation and amortization expense	$ 11,651	$ 10,941
Increase on interest expense	3,687	4,650
Decrease on general and administrative expenses	(14,294)	(13,827)
Decrease in net income	$ 1,044	$ 1,764

Impact on income per share

Basic and diluted earnings per share had no impact.

Impact on assets, liabilities and stockholders' equity as of January 1, 2016	Amount
Right-to-use assets	$ 15,945
Lease liabilities	16,869
Accumulated deficit	(924)
Net impact on total liabilities and stockholders' equity	$ 15,945

Impact net on assets, liabilities and equity as of December 31, 2016	
Right-to-use assets	$ 9,646
Lease liabilities	10,486
Accumulated deficit	(840)
Impact net on total liabilities and stockholders' equity	$ 9,646

Impact net on assets, liabilities and equity as of December 31, 2017	
Right-to-use assets	$ 8,818
Lease liabilities	9,862
Accumulated deficit	(1,044)
Net impact on total liabilities and stockholders' equity	$ 8,818

Additionally, the disclosures required by the new standard are shown in Note 10.

3. Significant accounting policies

a. ***Statement of compliance***

The consolidated financial statements have been prepared in accordance with IFRS issued by the IASB.

b. ***Convenience translation***

Solely for convenience of readers, Mexican peso amounts included in the consolidated financial statements as of December 31, 2018 and for the year then ended have been translated into U.S. dollar amounts at the rate of $19.6829 pesos per U.S. dollar as published by the Central Bank of Mexico. Such translation should not be construed as a representation that the Mexican peso amounts have been, could have been or could, in the future, be converted into U.S. dollars at such rate or any other rate.

c. ***Basis of preparation***

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in more detail in the accounting policies below.

Historical cost

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

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

d. ***Basis of consolidation of financial statements***

The consolidated financial statements include the financial statements of RCO and those of its subsidiaries over which it exercises control. Control is achieved when the Entity:

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

The Entity assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests.

Subsidiaries accounting policies are consistent with the Entity's accounting policies.

RCO's shareholding percentage in capital stock of its subsidiaries is shown below:

Subsidiary name	Ownership percentage	Activity
Prestadora de Servicios RCO, S. de R.L. de C.V. (Prestadora)	99.97%	Specialized services
RCO Carreteras, S. de R. L. de C. V. (RCA)	99.97%	Specialized services
Concesionaria de Vías de Irapuato Querétaro, S.A. de C.V.	100%	Concession under a PPS scheme
Concesionaria Irapuato La Piedad S.A. de C.V.	100%	Concession under a PPS scheme
Concesionaria Tepic San Blas, S. de R. L. de C. V.	100%	Concession to build, operate, exploit, conserve and maintain the Tepic-San Blas highway. (Since May 2016)

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

Changes in the Entity's ownership interests in existing subsidiaries

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

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

e. ***Monetary unit of the financial statements***

The 2018, 2017 and 2016 consolidated financial statements and notes include balances and transactions denominated in thousands of Mexican pesos.

f. ***Financial instruments***

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

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

g. ***Cash, cash equivalents and restricted cash***

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash, maturing within three months as of their acquisition date, which are subject to immaterial value change risks. Cash is stated at nominal value and cash equivalents are valued at fair value, or if they are financial instruments that the Entity expects to recover the contract cash flow, it is valued at its amortized cost or its nominal value if there is no explicit financing component; any fluctuations in value are recognized in profit or loss of the period. Cash equivalents are represented mainly by investments in treasury certificates or risk-free instruments. Cash and cash equivalents subject to restrictions or intended for a specific purpose are classified as restricted cash and presented separately under current or non-current assets as the case may be.

h. ***Financial assets***

i. Recognition, initial measurement and derecognition

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

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

ii. Initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs.

All income and expenses related to financial assets are recognized in income and are presented within financial costs, financial income or other financial items; except the impairment of accounts receivable from customers that is presented in expenses.

iii. Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Entity's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

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

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

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

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. Interest income is recognized in income and is included in the interest income line.

For financial assets that were not purchased or financial assets without credit-impaired on the date of initial recognition, interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset, except for financial assets that subsequently they have suffered credit-impaired; for these assets, interest income is recognized by applying the effective interest rate at the amortized cost of the financial asset. If in subsequent reporting periods, the credit risk in the on credit-impaired financial instrument improves so that the financial asset no longer has credit-impaired, interest income is recognized by applying the effective interest rate to the gross book value of the asset financial. For purchased financial assets or financial assets with credit impairment at the date of initial recognition, the Entity recognizes interest income by applying the effective interest rate adjusted for risk credit at the amortized cost of the financial asset upon initial recognition. The calculation is not made on the gross book value, even if the credit risk of the financial asset improves later, so that the financial asset is no longer credit-impaired.

Financial assets at fair value through other comprehensive income (FVOCI)

The Entity accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the financial asset.

Financial assets at FVTPL

Financial assets that are held within a business model different from "hold to collect" or "hold to collect and sell" are valued at FVTPL. In addition, regardless of the business model, financial assets whose contractual cash flows are not only capital and interest payments are accounted to FVTPL. Derivative financial instruments fall into this category, except those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

i. Impairment of financial assets

The Entity use more forward-looking information to recognize expected credit losses – the “expected credit loss (ECL) model”. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments.

For financial instruments at amortized cost, the Entity considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supported forecasts that affect the expected collectability of the future cash flows on the financial instrument

For purposes of the previous analysis, the Entity determines the ECL based on the following stages of credit risk:

“Stage 1” of credit risk. They are those instruments that since their initial recognition have not significantly increased their credit risk. For these instruments, the Entity determines the ECL relative only to the events of default expected during the next 12 months of the life of the instrument. Where applicable, the corresponding interest is determined on the value of the financial instrument without considering the ECL.

“Stage 2” of credit risk. They are those instruments that since their initial recognition have significantly increased their credit risk. For these instruments, the Entity determines the ECL relative to all the default events expected during the remaining life of the financial instrument. Where applicable, the corresponding interest is determined on the value of the financial instrument without considering the ECL.

“Stage 3” of credit risk. They are those instruments with objective evidence of impairment. For these instruments, the Entity determines the ECL relative to all the default events expected during the remaining life of the financial instrument. Where applicable, the corresponding interest is determined on the value of the net financial instrument of the ECL.

The ECL is determined by the difference between the estimated recovery value of the financial instrument and its book value, when this is greater. The recovery value is the present value of the cash flows that are expected to be recovered from the financial instrument.

The Entity applies the simplified model of IFRS 9 for the recognition of the EPCE of short-term financial instruments without an explicit financing component or when this is not significant, using a provision matrix. This consists of using your historical credit loss experience based on the number of due dates of accounts receivable. No cash flows are determined at present value.

i. ***Intangible assets and financial asset in concession***

The Entity applies, IFRIC 12 *Service Concession Arrangements*, issued by the IFRS Interpretations Committee. This interpretation establishes guidance regarding the accounting by private sector operators engaged in providing infrastructure assets and services to the public sector under concession agreement, requiring such assets to be classified as either financial or intangible assets or as a combination of both.

- A financial asset results when an operator constructs or makes improvements to the infrastructure, in which the operator has an unconditional right to receive a specific amount of cash or other financial assets during the term of the agreement.

- An intangible asset results when the operator constructs or makes improvements and does not have an unconditional right to receive a specific amount of consideration. In exchange for its construction services, the Entity receives a license to operate the resulting asset for a given period. The future cash flows generated by the asset vary based on the use of such asset.

In both a financial and intangible asset model, revenue and costs related to construction or improvements are recognized as construction income and costs during the construction phase.

The payment initially made to the SCT in exchange for the concession title was recognized as an intangible asset.

The intangible asset recognized in the consolidated financial position statement is amortized during the concession period, mentioned in the Note 1, using the unit-of-use method based on the traffic volume. The estimated useful life, the residual value and amortization method are reviewed at the end of each year, with the effect of any changes in estimates being accounted for on a prospective basis.

j. ***Furniture and equipment and franchise rights***

Expenses for furniture and equipment are recognized when the Entity has been transferred the benefits and risks attributable to them and are valued at acquisition cost (historical cost) less accumulated depreciation and any impairment loss.

Depreciation is recognized to write-off the cost of assets, less their residual value, using the straight-line method over their useful lives. The useful lives of these assets are estimated between 4 and 10 years.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Franchise rights are stated at cost less accumulated amortization and any impairment loss. The useful life is determined by the period of use and operation of the franchise asset.

A component of furniture and fixtures is canceled when it is sold or when no future economic benefits are expected to be obtained from continued use of the asset. The gain or loss arising from the sale or retirement of an item of furniture and fixtures results from the spread between the resources received for the sale and the book value of the asset and is recognized in results.

k. ***Machinery and equipment***

Expenditures for machinery and equipment are recognized when the benefits and risks attributable to them have been transferred to the Entity and are recorded at acquisition cost (historical cost), less accumulated depreciation and impairment loss.

Depreciation is recognized so as to write-off the cost of assets, less their residual value, using the straight-line method over their useful lives. The useful lives of assets are 6 years.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

A component of machinery and equipment is canceled when it is sold or when no future economic benefits are expected to be obtained from continued use of the asset. The gain or loss arising from the sale or retirement of an item of plant and equipment results from the spread between the resources received from the sale and the book value of the asset and is recognized in results.

l. ***Right-of-use assets***

The right-of-use assets is initially calculated at cost and subsequently valued at cost less accumulated depreciation and impairment losses and adjusted for any revaluation of the lease liability.

The lease liability is initially valued at the present value of the future lease payments that have not been paid as of that date and is subsequently adjusted for interest and lease payments, as well as the impact of changes in the lease, among others. This liability is presented in the consolidated statement of financial position within the balance of other accounts payable in the short and long term.

The Entity evaluates whether a contract contains a lease at the beginning of the contract.

Lease payments are divided into equity and interest that are presented as financing cash flows.

In leases with a term of 12 months or less without an option to purchase, as well as in contracts where the underlying assets have a low value, the lease payments are recorded as an expense in a straight line over the term of the lease.

m. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition or construction of qualifying assets (designated asset), which are assets that necessarily take a substantial period of time before they are available for their intended use, are added to the cost of those assets, until such time as the assets are available for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

n. ***Impairment of long-lived assets***

At the end of each reporting period, the Entity reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of the asset (or cash generating unit) is the higher of its fair value less the cost of selling it and it value in use. In determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the value of money over time and the specific risks of the asset for the year. which estimates of future cash flows have not been adjusted. This impairment analysis is prepared by an independent expert hired by the Entity's management. The value of use of these assets is determined by the discounted cash flow method, as the discount rate the applicable weighted cost of capital is used, whose cost component of capital is estimated through the “Capital Asset Pricing Model”.

If the recoverable amount of an asset is estimated to be less than it carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

o. ***Provisions, maintenance and repairs***

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

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

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

The Entity recognizes a provision for costs that are expected to be incurred that affect the results of the periods from the concessioner highways are available for use to the year in which maintenance and/or major repairs are carried out to cover maintenance and repair costs. This projection is recorded at net present value and is determined based on IAS 37 and IFRIC 12.

Provisions are classified as current or noncurrent based on the period of time estimated to meet the obligations covered.

p. ***Employee benefits***

Short-term employee benefits

These benefits are granted to the employees and are paid during the employment relationship within a period no longer than 12 months after the end of the year in which the benefit was granted; they include, among others, salaries and wages, compensated absences, vacation, holiday bonus, bonuses and the Statutory employee profit sharing (“PTU"). They are valued in proportion to the services provided, considering the current salaries and the liabilities are recognized as they accrue.

PTU is recorded in the results of the year in which it is incurred and presented under general and administrative expenses in the accompanying consolidated statements of profit (loss) and other comprehensive income (loss).

Long-term employee benefits

There are benefits that are granted to employees and are paid while the employment relationship is in effect, but after the 12 months following the end of the period in which such benefits were granted. Long-term employee benefits also include a provision for bonuses granted by the Entity, as discussed in Note 14. The provision is recognized when: 1) the Entity acquires an obligation as the result of past events, and 2) the amount payable can be reliably estimated. The time value of money with respect to this obligation is recognized when significant.

Post-employment employee benefits

There are benefits granted to employees with a valid employment relationship but are paid at the end or after the end of the employment relationship. The Entity grants seniority premiums to all its employees when they are separated and have 15 or more years working or to those who are dismissed regardless of the length of service in the Entity. These benefits consist in a single payment equivalent to twelve days of salary per year of service, valued at the employee's most recent salary without exceeding twice the current general minimum wage.

Seniority premium liability is determined using the Projected Unit Credit Method, with independent actuarial valuations determined at the end of each reporting period.

Actuarial losses and gains from the valuation of employee benefits are recorded immediately in the consolidated statement of financial position with a charge or credit to other comprehensive income and loss in the period in which they occur and will not be reclassified to results. Cost of past services is recorded in results in the period that a change to the employee benefits plan is generated.

Payments for the defined contribution plans are recorded in results when the employees render the services which entitle them to receive those contributions.

Termination benefits

A liability for termination benefits is recorded on the first of the following dates: when the Entity can no longer withdraw the offer for such benefits, and when the Entity recognizes the costs of a restructuring which is within the scope of IAS 37 and involves the payment of termination benefits.

Share-based payment arrangements

For cash-settled share-based payments for the executives of the Entity, a liability is recognized for the goods or services allocated, measured initially at the fair value of the liability and affecting results. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

q. ***Income taxes***

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

Current tax

Current income tax (“ISR”) is recognized in the results of the year in which is incurred.

Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized; a deferred tax liability is recognized for all cumulative temporary differences. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

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

r. ***Financial liabilities and equity instruments***

Classified as debt or equity:

Financial liabilities and equity instruments issued by the Entity are classified as debt or equity instruments in accordance with the economic substance of the contractual agreement.

Financial liabilities:

The financial liabilities of the entity are valued at their fair value and after the initial recognition at amortized cost, unless they are passed in the short term and an explicit financial problem is not taken into account, in which case it is valued at its value nominal or at the cost of the transaction The amortized cost of a financial liability is the initial amount.

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

Derecognition of financial liabilities:

The Entity derecognizes financial liabilities only when its obligations are discharged or cancelled or when they expire.

s. ***Derivatives financial instruments***

The Entity enters into a variety of financial derivatives to manage its exposure to interest rate risks, including interest rate swaps. Further details of financial derivatives are disclosed in Note 12.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset while a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting:

The Entity designates certain derivative financial instruments, mainly with respect to those that hedge interest rate risk, as hedging instruments, either as fair value hedges or as cash flow hedges.

To allow financial derivatives to be classified as hedges, there must be a hedge relationship between the derivative and a hedged item; changes in the fair value of financial derivatives must totally or partially offset the fair value or cash flow changes of a hedged item, for which purpose hedge effectiveness must be determined.

Hedge effectiveness is the extent to which changes in fair value or cash flows attributable to the risk of the hedged item are hedged by the derivative instrument.

The accounting for hedges results in offsetting the effects derived from changes in the fair value or cash flows of hedge instruments and the hedged item, in profit or loss of the period.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The coverage ratio is balanced.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Entity adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Note 12 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges:

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

Hedge accounting is interrupted prospectively when the hedging instrument expires, is sold, terminates, is exercised, when it no longer meets the criteria for accounting for hedges or when the Entity revokes the hedge designation for not being aligned to the Entity's management risk strategy. The adjustment to fair value of the book value of the hedged item generated by the hedged risk is amortized in results as of that date.

Cash flow hedges:

The effective portion of changes in the fair value of derivatives that qualify and are designated as cash flow hedges is recognized in other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in the consolidated statement of profit (loss) and other comprehensive income (loss) within interest expense.

Amounts previously recognized in the other comprehensive income and accumulated in stockholders' equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line item of the recognized hedged item.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity until the previously hedged item it is ultimately recognized in profit or loss.

The Entity assesses that the hedging relationships are balanced; if this is not the case, the coverage ratio is rebalanced, that is, the hedged item or hedging instrument is adjusted in order to achieve the highest possible degree of efficiency.

Embedded derivatives:

The Entity reviews all executed contracts to identify embedded derivatives which have to be separated from the host contract for purposes of their accounting valuation and recognition. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss. The initial fair value and fair value changes are recognized in the results of the period within the interest expense or income. As of December 31, 2018, 2017 and 2016 there are no embedded derivatives that must be separated from the host contract.

t. ***Revenues from ordinary activities***

Toll revenue recognition

The Entity's management recognizes the concession toll revenues when the vehicles make use of the toll roads and pay in cash or through an electronic means the respective fee in the payment places. In the case of shadow toll payments from the SCT, they are received directly from the SCT and are recorded at the time the vehicles make use of the highways

Recognition of availability payments from the SCT

When operating the PPS, COVIQSA and CONIPSA recognize availability payment revenues related to their unconditional right to receive availability payments for making the Irapuato – La Piedad and Querétaro – Irapuato highways available to users. These revenues are equivalent, in accordance with IFRIC 12, to the accrued interest on the financial asset from the concession recognized in the consolidated statement of financial position, at amortized cost, using the effective interest rate method.

Recognition of ancillary revenues from the use of right of way and other related revenues

On concessioned highways, ancillary revenues from the use of right of way are recognized, and in FARAC I and COTESA revenues derived from restaurants and convenience stores are recognized. The use of the right of way is marketed through roadside lease contracts.

Ancillary revenues from the use of right of way are those charged to tenants such as gas stations and convenience stores, as well as for the construction or passing of electrical installations and telecommunications, aqueducts and gas pipelines.

Recognition of construction revenues

In accordance with IFRIC 12, the Entity recognizes revenues and construction costs as the construction of the extension and rehabilitation works progresses to the concession infrastructure ("Percentage of completion"), when such works increase the capacity to generate future economic benefits.

Recognition model of revenue from ordinary activities

In order to carry out the appropriate recognition of revenue, the following five-step model is used.

- Identify the contract with a customer
- Identify performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

The following table shows the application of the five-step revenue recognition model by revenue type.

		Revenues				
	Five-step model	**Toll revenues**	**Shadow toll payments**	**Availability payments**	**Ancillary revenues from the use of rights of way and other related revenues**	**Construction revenues**
1	Identify the contract with a customer	Contract; toll payment voucher is issued	Concession contract	Concession contract	Contract/ proof of purchase of goods	Concession contract
2	Identify performance obligations (PO) in the contract	One PO = Grant right-of-use to highways	One PO = Grant right-of-use to highways	One PO = Maintain the availability of highways	One PO = Grant right of way / sale of goods	One PO = Construction of highway infrastructure

	Five-step model	Toll revenues	Shadow toll payments	Availability payments	Ancillary revenues from the use of rights of way and other related revenues	Construction revenues
			Revenues			
3	Determine the transaction price	Toll fee based on rates authorized by the SCT	Shadow payment for use established in the contract with the SCT	Availability payment for use established in the contract with the SCT	Costs related to the intangible asset by concession / Cost of the good plus a profit margin	Cost incurred in construction, approximates fair value
4	Allocate the transaction price to the performance obligations in the contract	The transaction price = price of the single PO	The transaction price = price of the single PO	The transaction price = price of the single PO	The transaction price = price of the single PO	The transaction price = price of the single PO
5	Recognize revenue when (or as) the entity satisfies a performance obligation	At a point in time = Use of the highways	At a point in time = Use of the highways	At a point in time = Use of the highways	At a point in time = Use of the right of way / Delivery of the good	Over time = Work in progress that is recognized throughout the construction period

u. ***Foreign currencies***

The Mexican peso is the functional currency of RCO and each of its subsidiaries. The transactions in currencies other than their functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates in effect at that date. Exchange fluctuations are recorded as a component of net foreign exchange (loss) income, net in the consolidated statements of profit (loss) and other comprehensive income (loss), except in those cases in which they can be capitalized.

v. ***Earnings per share***

Basic earnings per common share are calculated by dividing net income attributable to the controlling interest (non-controlling interest is no material) by the weighted average number of common shares outstanding during the year. Diluted earnings per share are determined on the assumption that the Entity’s commitments to issue or exchange its own shares are to be met.

w. ***Consolidated statement of profit or loss and other comprehensive income (loss)***

The Entity opted to present a single consolidated statement of profit or loss and comprehensive income (loss), combining the presentation of profit and loss, including an operating profit line item, and comprehensive income (loss) in the same statement.

Due to the different economic and business activities of the Entity, costs and expenses presented in the consolidated statements of profit or loss and other comprehensive income (loss) were classified according to their function. Accordingly, amortization of assets derived from the concessions, operation and maintenance provisions, toll collection costs, construction costs and general and administrative expenses were presented separately.

The toll collection costs do not include the amortization of intangible assets nor the costs of operation and maintenance of assets derived from the concession, because they are shown separately in the consolidated statement of profit and loss and other comprehensive income (loss).

x. ***Consolidated statement of cash flows***

The Entity presents the cash flow from operating activities using the indirect method, in which the profit is adjusted for the effects of transactions that do not require cash flows, including those associated with investing or financing activities.

The Entity classifies the total interest income (those related to financial assets by concession and those received from other financial assets) as operating activities and interest paid as financing activity.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following transactions are those in which management has exercised its professional judgment in applying accounting policies that may have a material effect on the amounts recorded in the consolidated financial statements:

– Management has determined, based on IFRIC 12 and the conditions established in the concession titles granted, the mechanism for the recovery of investment and operating expenses of the concessions through payments made for availability charges and the collection of other concepts from the SCT, and has recognized, as appropriate, an intangible asset for the variable revenue expected to be received and a financial asset for the payments that will be obtained directly from the SCT.

– Management has determined that it does not recognize a profit margin for extension and rehabilitation work. Accordingly, the amount of revenues recognized is equal to construction costs, given that the fair value of such revenues and costs are substantially similar.

– The estimate of future vehicle flow is a critical assumption which has a significant effect on the following assets and liabilities: amortization of intangible assets from the concession, calculation of impairment on intangible assets, determination of the provision for major maintenance and projections of future taxable income. The Entity makes this estimate with the assistance of an outside expert.

The significant estimates made in the accompanying consolidated financial statements which may result in changes to the carrying values of assets and liabilities as a result of changes in assumptions applied are as follows:

– The Entity has recoverable tax loss carryforwards for which it has assessed their recoverability and recognized a deferred income tax asset with respect to such amounts.

– The Entity values, at fair value, financial derivatives it has entered into to mitigate the risk of interest rate fluctuations. Financial derivatives which comply with the accounting criteria to be recognized as hedging instruments have been classified as cash flow hedges. Note 12 contains a description of the techniques and methodologies utilized to value derivative financial instruments.

– The Entity reviews the estimated useful life and amortization methods used for intangible assets derived from the concessions (described in Note 3.i) at the end of each reporting period. The effects of any modifications to estimates are recognized prospectively. Similarly, at the end of each reporting period, the Entity reviews the carrying values of its tangible and intangible assets to determine if any indications of impairment exist.

- Management prepares estimates to determine and recognize maintenance provisions for the Concessioned Highways, which affects results beginning with the commencement of operations of a highway; amounts are provisioned through the date the maintenance and/or repair work is performed (Note 11).

5. Cash, cash equivalents and restricted cash

For purposes of the consolidated statements of cash flows, cash and cash equivalents includes balances of cash on hand and in banks, as well as investments in money market instruments. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Cash	$ 1,428,313	$ 1,267,361	$ 831,033
Cash equivalents	5,792,544	7,473,876	5,847,759
	7,220,857	8,741,237	6,678,792
Long-term restricted cash	105,612	98,833	93,673
	$ 7,326,469	$ 8,840,070	$ 6,772,465

The Entity has established six management trusts to hold funds destined for specific purposes and whose nature represents in some cases in cash and in some other cash equivalents as follows:

(i) The first trust No. 300195 was established for the purpose of holding toll revenues and other revenues. The Entity utilizes the funds in trust mainly for the payment of debt as well as for other operating expenses of the Concessioned Highways. Amounts held in this trust as of December 31, 2018, 2017 and 2016 are $5,783,506, $7,234,704 and $5,630,856, respectively.

In order to comply with the twenty-eighth clause of the Concession Title, the Entity has also created a Conservation and Maintenance Fund, which must be equal to three days' annual expected gross revenue generated from the Concessioned Highways each year. At December 31, 2018, 2017 and 2016, the balances of this fund are $54,185, $48,202 and $42,139, respectively.

(ii) The second trust No. 300209 was established for the construction of expansion projects of the concessioned highways. Amounts held in this trust as of December 31, 2018, 2017 and 2016 are $1,428, $223,838 and $194,685, respectively.

(iii) The third trust No. 661 was established for the issuance of Long-Term Infrastructure Development Equity Certificates. Amounts held in this trust as of December 31, 2018, 2017 and 2016 are $7,352, $15,218 and $22,218, respectively.

(iv) The fourth irrevocable trust No. 32-6, established for the administration, source of payment and securities issuances related to the COVIQSA project, into which all shadow toll and availability payment revenues are received from the PPS project agreements and from which all operating and financial expenses and dividends, if applicable, are distributed. Amounts held in this trust as of December 31, 2018, 2017 and 2016 are $694,026, $689,756 and $344,845, respectively.

(v) The fifth irrevocable trust No. 31-8, established for the administration, source of payment and securities issuance related to the CONIPSA project, into which all shadow toll and availability payment revenues are received from the PPS project agreements and from which all operating and financial expenses and dividends, if applicable, are distributed. Amounts held in this trust as of December 31, 2018, 2017 and 2016 are $389,667, $412,248 and $182,004, respectively.

(vi) The sixth trust No.2792 established for the administration of resources derived from the exploitation of the COTESA project, in which all the toll revenues of the Concessioned Highway are received. Amounts held in this trust as of December 31, 2018, 2017 and 2016 are $22,304, $38,785 and $137,230, respectively.

Within this trust, according to obligations contracted in the concession title, the Entity created a fund of $5,000 for 2016 intended as a contingency fund for the right of way, whose balance as of December 31, 2016 was $5,124. At the end of the construction project, the resources from this fund were transferred to the Conservation and Maintenance fund in accordance with clause 25 of the concession title whereby this should be the higher of (i) the amount of $17,200 restated annually for inflation in accordance with the INPC as of the date on which this contribution is required; or (ii) the amount related to 6 (six) months of the maintenance and conservation costs plus value-added tax. As of December 31, 2018 and 2017, the amount of such fund is $10,336 and $18,080, respectively.

The trustee of trust No. 300195 and No. 300209 is HSBC México, S.A. Institución de Banca Múltipe, Grupo Financiero HSBC, Division Fiduciaria, and the trustee of trust No. 661 is CI Banco, S.A., Institución de Banca Múltiple, División Fiduciaria. In the case of COVIQSA and CONIPSA, Grupo Financiero Multiva, S.A. is the trustee of trust No. 32-6 and No. 31-8. In the case of COTESA, Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero is the trustee of trust No. 2792.

The long-term restricted cash account of $105,612, $98,833 and $93,673, at December 31, 2018, 2017 and 2016, respectively, are funds held with respect to COVIQSA and CONIPSA, primarily for cash reserves required to be established under the respective PPS and loan agreements and its Loans.

6. Trade accounts receivable, other accounts receivable and prepaid expenses

a. Accounts receivable at the end of the reporting period are as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Trade accounts receivable	$ 158,667	$ 121,413	$ 777,840
Expected credit losses	(13,435)	(11,440)	(3,660)
	$ 145,232	$ 109,973	$ 774,180

Accounts receivable from customers detailed above are valued at their amortized cost.

The electronic toll income is recorded as an account receivable that is passed on to FARAC I due to the electronic toll company grants credit to certain customers, the contract establishes that the toll collection company will be obliged to pay the revenue only when the final customer who pays electronically the toll service has paid.

The account receivable for use of right of way includes primarily companies dedicated to: i) sale of fuels and lubricants and ii) sale of advertising through spectacular ads, which have a credit term of at least 90 days.

The account receivable with the SCT from PPS agreements of COVIQSA and CONIPSA have a low credit risk, due to the SCT pays according to the current expenditure budget of the federal government.

There are no overdue balances from customers at December 31, 2018 and 2017; at December 31, 2016, trade accounts receivable is essentially composed of $665,147, of accounts receivable that COVIQSA and CONIPSA are owed from the SCT, as established by the respective agreements with the SCT.

Customer aging

	December 31, 2018	December 31, 2017	December 31, 2016
Current and overdue less than 90 days	$ 145,232	$ 109,973	$ 774,180
Overdue more than 90 days	13,435	11,440	3,660
Total	$ 158,667	$ 121,413	$ 777,840

Movements in expected credit losses are as follows:

	Total
Balance as of January 1, 2016	$ (2,744)
Applications, net	(916)
Balance as of December 31, 2016	(3,660)
Estimates, net	(7,780)
Balance as of December 31, 2017	(11,440)
Estimates, net	(1,995)
Balance as of December 31, 2018	$ (13,435)

b. Other accounts receivable and prepaid expenses consist of the following:

	December 31, 2018	December 31, 2017	December 31, 2016
Advances to suppliers	$ 74,761	$ 18,124	$ 21,085
Premiums paid in advance for insurance and bonds	63,642	67,961	27,194
Refundable VAT	-	86,255	49,566
Other accounts receivable	25,002	17,226	16,918
	$ 163,405	$ 189,566	$ 114,763

7. Financial asset arising from concession

The financial asset arising from concession comprising current and long-term portions corresponds to assets in accordance with the concession titles of COVIQSA and CONIPSA which grant the right to collect an availability payment from the SCT. The total current portion of the financial asset as of December 31, 2018, 2017 and 2016 is $403,683, $388,502 and $393,129, respectively, while the long-term asset as of December 31, 2018, 2017 and 2016 is $846,821, $868,967 and $867,065, respectively. The main features of each concession are detailed below:

a. Based on the characteristics of the concession agreement executed by COVIQSA to operate the Queretaro-Irapuato highway, the concession title has been classified as a combination of a financial asset, representing 25% of the total concession value and an intangible asset, representing 75% of the total concession value.

   Through the SCT, on June 21, 2006, the Federal Government granted a 20-year concession to operate, maintain and conserve a toll-free section of the Querétaro-Irapuato highway measuring approximately 93 kilometers in the Mexican states of Querétaro and Guanajuato, while also modernizing this highway section. Likewise, the concession included an exclusive right to execute a PPS agreement with the Federal Government to provide the required highway capacity. The total project value is $1.465 million, which includes $1.172 million for engineering, procurement and construction of the sections to be modernized and extended; the remainder is intended for financing, maintenance and operation during the modernization stage.

   The concession investment will be recovered through quarterly collections composed of: (1) an availability payment received from the SCT to maintain the concessioned highway available for use, and (2) a shadow toll payment received from the SCT based on the number of vehicles utilizing the concessioned highway based on an established tariff.

   The income generated by the availability payments and toll payments received from the SCT has been used to secure COVIQSA's long-term debt, with expiration in 2025. These funds are held in a trust, No. 32-6, as discussed in Note 5.

   As the concession and PPS agreement are related instruments, the PPS agreement will be terminated when the concession title expires, without affecting the rights and obligations of the parties to each agreement. The PPS model represents a way of contracting the services required by public federal administration entities, to enable them to fulfill a public mission through private investment to increase basic infrastructure and provide higher quality public services, among other objectives. Prior to July 21, 2006, COVIQSA delivered a signed notice to the SCT regarding commencement of operations and maintenance work. In addition, on July 31, 2006, COVIQSA delivered a signed notice concerning the commencement of modernization work on the existing highway.

   At the end of the concession period, the concessioned highway, rights-of-way, permanent facilities and any related infrastructure and improvements and auxiliary services rights will revert back to the Mexican Government at no cost and free from liens and encumbrances.

   The significant terms contained in the concession title agreement are as follows:

   - Through the SCT, COVIQSA must make a fixed annual payment, authorized by the Treasury Department, to the Federal Government, equal to 0.000001% of the sum of payments for shadow toll payments and availability payments received from the SCT (integrated payment) prior year payment, excluding value-added tax. This payment must be made on the final business day of January of each year during the 20-year concession period.

- COVIQSA may not assign the rights or obligations derived from the concession or the assets utilized in the operation, maintenance and modernization of the existing highway without the prior written authorization from the SCT. Under no circumstances would an assignment to a foreign government or state be authorized.

- Pursuant to the 14th clause of the concession title agreement, without the prior consent of the SCT, COVIQSA's stockholders may not provide shares representing COVIQSA's common stock as collateral; additionally, the concessionaire may not use the concession rights or the assets utilized for operation and maintenance of the highway as mortgage security nor attach liens or encumbrances to such assets.

- COVIQSA must create a conservation and maintenance fund for the concessioned highway, starting with an amount at least equal to the costs budgeted by the concessionaire for the first six months immediately preceding the PPS agreement. These funds must be maintained in trust No. 32-6, as discussed in Note 5.

Pursuant to an amendment to COVIQSA's PPS agreement, payments by the SCT are subject to a quarterly maximum cap of $192,459, based on December 31, 2011 prices and adjusted quarterly based on inflation.

At December 31, 2018, COVIQSA comply with those conditions mentioned before.

b. Based on the characteristics of the concession agreement executed by CONIPSA to operate the Irapuato – La Piedad highway, the concession has been classified as a combination of a financial asset, representing 88% of the total concession value, and an intangible asset, representing 12% of the total concession value.

Through the SCT, on September 12, 2005, the Federal Government awarded a 20-year concession and services agreement to modernize, operate, conserve and maintain the Irapuato - La Piedad toll-free highway in the states of Guanajuato and Michoacán, with a length of 74.32 kilometers, under a PPS structure. The original investment was approximately $735 million. The investment will be recovered through quarterly collections composed of: (1) an availability payment received from the SCT to maintain the concessioned highway available for use, and (2) a shadow toll payment received from the SCT based on the number of vehicles utilizing the concessioned highway based on an established tariff.

The income generated by the availability payments and shadow toll payments received from the SCT has been used to secure CONIPSA's long-term debt, which matures in November 2019. These funds are held in a trust, No. 31-8, as discussed in Note 5.

As the concession and PPS agreement are related instruments, the PPS agreement will be terminated when the concession title expires, without affecting the rights and obligations of the parties to each agreement. The PPS model represents a way of contracting the services required by public federal administration entities, to enable them to fulfill a public mission through private investment to increase basic infrastructure and provide higher quality public services, among other objectives.

On July 31, 2008, the SCT was officially notified of the completion of construction and the commencement of the highway's operation.

On April 13, 2009, CONIPSA executed an amendment agreement to the concession agreement, which effectively reduces the original highway length from 74.32 kilometers to 73.52 kilometers. The highway begins at the junction of the Querétaro – Irapuato and Irapuato - La Piedad highway and ends at kilometer 76+520, at the junction of the forthcoming La Piedad de Cabadas road in the states of Guanajuato and Michoacán. This reduction is also reflected in the amount paid to CONIPSA to maintain the concessioned highway available for use, which was reduced from $146 million to $143 million (nominal value).

At the end of the concession period, the concessioned highway, rights-of-way, permanent facilities and any related infrastructure and improvements and auxiliary services rights will revert to the Mexican Federal Government at no cost and free from liens and encumbrances.

The significant terms contained in the concession title agreement are as follows:

- Through the SCT, CONIPSA must make a fixed annual payment, authorized by the Treasury Department, to the Federal Government, equal to 0.000001% of the total prior year payment, excluding value-added tax. This payment must be made on the final business day of January of each year during the 20-year concession period, beginning with the second quarter of 2007.

- CONIPSA may not assign the rights or obligations derived from the concession or the assets utilized in the operation, maintenance and modernization of the existing highway without the prior written authorization from the SCT. Under no circumstances would an assignment to a foreign government or state be authorized.

- Pursuant to the 14th Clause of the Concession Agreement, without the prior consent of the SCT, CONIPSA's stockholders may not provide shares representing CONIPSA's common stock as collateral; additionally, the concessionaire may not use the concession rights or the assets utilized for operation and maintenance of the highway as mortgage security nor attach liens or encumbrances to such assets.

- CONIPSA must create a conservation and maintenance fund for the concessioned highway, starting with an amount at least equal to the costs budgeted by the concessionaire for the first six months immediately preceding the PPS agreement. These funds must be maintained in trust No. 31-8, as discussed in Note 5.

At December 31, 2018, CONIPSA complies with all conditions mentioned above.

8. Intangible assets derived from the concessions

The intangible asset related to the concession is as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Investment in concession	$ 52,383,646	$ 51,807,495	$ 51,151,080
Capitalized financing costs	203,380	203,380	203,380
	52,587,026	52,010,875	51,354,460
Accumulated amortization	(10,372,305)	(9,242,408)	(8,362,680)
	42,214,721	42,768,467	42,991,780
Advances to suppliers	17,419	131,562	55,241
	$ 42,232,140	$ 42,900,029	$ 43,047,021

	Investment in concession	Capitalized financing costs	Total
Acquisition cost:			
Balance as of January 1, 2016	$ 50,644,403	$ 203,380	$ 50,847,783
Additions	506,677	-	506,677
Balance as of December 31, 2016	51,151,080	203,380	51,354,460
Additions	656,415	-	656,415
Balance as of December 31, 2017	51,807,495	203,380	52,010,875
Additions	576,151	-	576,151
Balance as of December 31, 2018	$ 52,383,646	$ 203,380	$ 52,587,026

Accumulated amortization:	Investment in concession
Balance as of January 1, 2016	$ (7,540,369)
Amortization	(822,311)
Balance as of December 31, 2016	(8,362,680)
Amortization	(879,728)
Balance as of December 31, 2017	(9,242,408)
Amortization	(1,129,897)
Balance as of December 31, 2018	$ (10,372,305)

a. During the years ended December 31, 2018, 2017 and 2016, the Entity recorded construction service revenues and costs with respect to expansion or rehabilitation to the Concessioned Highways for $624,446, $614,658 and $496,204, respectively, and costs were also recorded for the same amounts in each of the periods.

b. The principal characteristics of the concession agreement are as follows:

As part of its economic policy, on October 3, 2007, the Mexican Federal Government, through the SCT, granted a concession agreement to RCO, to construct, operate, conserve and maintain, for a 30-year period, the Concessioned Highways (Maravatio-Zapotlanejo, Zapotlanejo-Lagos, León-Aguascalientes and Guadalajara-Zapotlanejo), with a total length of 558.05 kilometers (as of such date) in the states of Michoacán, Jalisco, Guanajuato and Aguascalientes; the concession agreement includes expansion work established in the concession agreement.

As mentioned in Note 1, on June 26, 2014, the SCT amended the Concession Title granted to RCO, in order to incorporate the construction, operation, conservation and maintenance of a toll-free segment of approximately 46 kilometers in length, commencing East of Jiquilpan, in the State of Michoacán, and ending at the Maravatío–Zapotlanejo toll road junction, in the State of Jalisco. Considering that the construction of the aforementioned segment constitutes an additional project which had not been originally contemplated in the Concession Title, and in order to maintain the financial equilibrium of the Concession, the aforementioned amendment also includes an extension to the original term of the Concession of four years and six months, as well as a weighted average 2% adjustment in the tolls applicable to the total traffic in the Concessioned Highways. Toll adjustment will be effective as of the conclusion of the segment's construction.

RCO's investment will be recovered through the collection of tolls established by the SCT over the term established in the concession agreement. The toll rates may be adjusted annually based on the NCPI or sooner in the event of an increase of 5% or more of the NCPI used with respect to the most recent adjustment in the rate. The toll road revenues secure certain long-term debt (see Note 13).

c. The principal requirements and conditions of the concession agreement of RCO are as follows:

Carry out the expansion works mentioned in the Concession agreement of RCO, which as of December 31, 2017, the following are still under construction: (a) Zacapu highway - junction of the Maravatío-Zapotlanejo highway with an approximate length of 8.67 kilometers in the state of Michoacán (b) the non-toll highway expanse with an approximate length of 46 kilometers beginning at Jiquilpan Michoacán and ending at the Maravatío – Zapotlanejo highway in the state of Jalisco.

The rights and obligations derived from the concession cannot be transferred by the concessionaire unless: (i) it has the prior written authorization of the SCT; (ii) it has complied with all its obligations derived from the concession agreement at the date of the authorization request; (iii) a period of not less than three years has elapsed since the commencement date of the concession; (iv) the assignee fulfills the requirements established in applicable laws and regulations for the granting of the concession; and (v) the Concessionaire and/or the assignee fulfills the provisions regarding concentration established in the Federal Antitrust Law.

Neither the concessionaire nor its stockholders may transfer or pledge their interests in the Entity, or the rights derived from the concession without the prior written authorization of the SCT.

The Entity made an initial payment equal to $44,051,000 to obtain the concession agreement, which forms part of the intangible asset.

The federal government retains the right to revoke the concession in accordance with the terms established in article 19 of the Mexican General Law on State Property. In the event this should occur, the government must establish the general basis applicable to settle any compensation payable to the concessionaire, bearing in mind the duly substantiated investment made, as well as the depreciation of equipment and other assets used directly for purposes of the concession.

On the termination date of the concession, the highways, including all assets permanently attached thereto, as well as the operating, conservation and maintenance rights and other ancillary services rights will revert to the Mexican government, in good condition, at no cost and free of any and all encumbrances.

As discussed in Note 3 n, the Entity performs annual impairment tests. At December 31, 2018, there is no indication of impairment losses involving the carrying value of intangible asset by concession.

The value in use of the highways has been determined using the discounted cash flow method. For this purpose, the weighted cost of capital estimated through the Capital Asset Pricing Model ("CAPM") is used as a discount rate.

The Entity must create and maintain a conservation fund to ensure compliance with the conservation and maintenance program, which must include a minimum amount equal to three days of the annual expected gross revenue with respect to the year in question. Such conservation fund must be used solely and exclusively for the conservation and maintenance of the highways.

The Entity will be obligated to pay consideration to the federal government each year equal to 0.5% of the gross toll rate revenues (excluding value-added tax), of the immediately prior year derived from the operation of the highways during the concession term. During 2018, 2017 and 2016, the consideration paid was $37,030, $32,962 and $29,403, respectively.

d. The principal characteristics of the concession agreement in COTESA are as follows:

On May 19, 2016, the Mexican Federal Government, through the SCT, granted a Concession agreement to COTESA, to build, operate, conserve and maintain for a 30-year period, the concessioned highways Tepic-San Blas, with a total length of 30.929 kilometers in the state of Nayarit, as well as the expansion works that are indicated in the concession title.

With respect to the concessioned highways, the recovery of the investment will be made through the collection of tolls established by the SCT over the term established in the concession agreement, having the right to adjust those tolls on an annual basis according to the NCPI or sooner in the event of an increase of 5% or more of the NCPI used with respect to the most recent adjustment in the rate.

e. The principal requirements and conditions of the concession agreement of COTESA are as follows:

The rights and obligations derived from the concession cannot not be transferred by the concessionaire unless: (i) it has prior written authorization of the SCT; (ii) it has complied with all its obligations derived from the concession agreement at the date of the authorization request; (ii) a period of not less than three years has elapsed since the commencement date of the concession; (iv) the assignee fulfills the requirements established in applicable laws and regulations for the granting of the concession; and (v) the Concessionaire and/or the assignee fulfills the provisions regarding concentration established in the Federal Antitrust Law.

Neither the concessionaire nor its stockholders may transfer or pledge their interests in the Entity, or the rights derived from the concession without the prior written authorization of the SCT.

The Entity made an initial payment equal to $10,059 to obtain the concession agreement, which forms part of the intangible asset.

On the termination date of the concession, the highways, including all assets permanently attached thereto, as well as the operating, conservation and maintenance rights and other ancillary services rights will revert to the Mexican government, in good condition, at no cost and free of any and all encumbrances.

The Entity must create and maintain a conservation fund to ensure compliance with the conservation and maintenance program, which must include a minimum amount equal to i) $17,200 updated annually or, ii) the amount corresponding to 6 months of maintenance and conservation costs including value-added tax (VAT) according to the program of periodic maintenance and maintenance of the highway. Such conservation fund must be used solely and exclusively for the conservation and maintenance of the highways.

The Entity will be obligated to pay consideration to the federal government each year equal to 0.5% of the gross toll rate revenues (excluding value-added tax), of the immediately prior year derived from the operation of the highways during the concession term. For the year ended December 31, 2018 and 2017, the consideration was $6,639 and $4,254, respectively.

The intangible asset related to the concession includes the corresponding portion of CONIPSA and COVIQSA, of which the principal requirements are described in Note 7. At December 31, 2018, there is no indication of impairment losses involving the carrying value of concession assets. The value in use of the highways has been determined using the discounted cash flow method. For this purpose, the weighted cost of capital estimated through the CAPM is used as a discount rate.

9. Franchise rights, furniture and machinery and equipment

a. Franchise rights correspond to the consideration payments to Subway International, B.V., Papa John's Eum, S. de R.L. de C.V., Operadora Cuarto de Kilo, S. de R.L. de C.V. (since September 15, 2017), Black Coffee Galerías de Jalisco, S. de R.L. de C.V (since December 21, 2018) and YF Yogurts, S. de R.L. de C.V. (until July 26, 2017) to operate restaurants and yogurt establishments located on the concessioned highways and are as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Acquisition cost	$ 3,724	$ 2,946	$ 2,548
Accumulated amortization	(2,862)	(2,248)	(1,423)
	$ 862	$ 698	$ 1,125

b. Furniture and equipment consist of the following:

	December 31, 2018	December 31, 2017	December 31, 2016
Acquisition cost:			
Computer equipment	$ 155	$ 155	$ 155
Furniture and fixtures	33,376	30,044	29,087
Vehicles	65	65	65
	33,596	30,264	29,307
Accumulated depreciation	(15,437)	(12,769)	(10,308)
	$ 18,159	$ 17,495	$ 18,999

c. Machinery and equipment consist of the following:

	December 31, 2018	December 31, 2017	December 31, 2016
Acquisition cost	$ 17,112	$ 16,268	$ 11,443
Accumulated depreciation	(10,497)	(7,237)	(4,884)
	$ 6,615	$ 9,031	$ 6,559

d. Useful lives

The useful lives of assets are as follows:

Franchise rights	5 years
Computer equipment	4 years
Furniture and fixtures	10 years
Vehicles	4 years
Machinery and equipment	6 years

10. Rights-of-use assets, net

The Entity maintains leases, which are shown below classified by class of underlying asset:

	December 31, 2018	December 31, 2017	December 31, 2016
Acquisition cost:			
Offices	$ 29,889	$ 22,773	$ 14,678
Vehicles and construction equipment	61,635	61,195	44,246
Computer equipment	6,142	2,820	4,857
	97,666	86,788	63,781
Accumulated depreciation	(35,273)	(25,405)	(18,172)
	$ 62,393	$ 61,383	$ 45,609

	Property	Vehicles and construction equipment	Computer equipment	Total
December 31, 2018				
Depreciation charge	$ 4,833	$ 3,821	$ 1,214	$ 9,868
Interest expense on lease liabilities	1,969	3,531	405	5,905
Total cash outflow for leases	6,705	6,961	1,628	15,294
December 31, 2017				
Depreciation charge	$ 3,373	$ 2,336	$ 1,524	$ 7,233
Interest expense on lease liabilities	2,208	5,091	206	7,505
Total cash outflow for leases	4,738	6,917	1,735	13,390
December 31, 2016				
Depreciation charge	$ 3,806	$ 2,086	$ 2,038	$ 7,930
Interest expense on lease liabilities	2,929	1,990	475	5,394
Total cash outflow for leases	5,283	7,006	2,409	14,698

The lease liabilities as of December 31, 2018, 2017 and 2016 are $56,923, $55,434 and $38,312, respectively.

11. Provisions

As of and for the years ended December 31, 2018, 2017 and 2016, the composition and changes of the most significant items of provisions are as follows:

	December 31, 2017	Used	Write- off	Additions	December 31, 2018
Provision for:					
Major maintenance ST(1)	$ 458,989	$ (917,093)	$ -	$ 757,455	$ 299,351
Major maintenance LT(1)	175,380	-	-	251,981(2)	427,361
Other	4,000	-	(4,000)	-	-
	$ 638,369	$ (917,093)	$ (4,000)	$ 1,009,436	$ 726,712

	December 31, 2016	Used	Write- off	Additions	December 31, 2017
Provision for:					
Major maintenance ST(1)	$ 742,898	$ (883,857)	$ -	$ 599,948	$ 458,989
Major maintenance LT(1)	158,187	-	-	17,193 (2)	175,380
Other	4,000	-	-	-	4,000
	$ 905,085	$ (883,857)	$ -	$ 617,141	$ 638,369

	January 1, 2016	Used	Write- off	Additions	December 31, 2016
Provision for:					
Major maintenance ST(1)	$ 778,827	$ (879,009)	$ -	$ 843,080	$ 742,898
Major maintenance LT(1)	69,243	-	(127,398)	216,342 (2)	158,187
Other	4,000	-	-	-	4,000
	$ 852,070	$ (879,009)	$ (127,398)	$ 1,059,422	$ 905,085

(1) At December 31, 2018, 2017 and 2016, this provision includes finance costs of $23,618, $ -, and $284,644, respectively, representing the unwinding of discount of the provision initially recognized to record the liability at its present value.

(2) Amount includes long-term to short-term provision reclassifications done during the period.

12. Financial derivatives

The Entity uses swaps to set interest rates from variable rates to fixed rates.

The following table shows the financial instruments that the Entity has entered into to hedge interest rate fluctuations through interest rate swaps:

	Date		Rate				
Hedge	Contracting	Maturity	Received	Paid	December 31, 2018	December 31, 2017	December 31, 2016
$ 4,169,987	Oct. 07 Mar. 08 Mar. 17	Oct. 18 Dec. 21 Sep. 28	TIIE *28 d(1)	8.37%	$ 110,858	$ 11,838	$ (63,734)
$ 1,498,167	Sep. 15	Feb. 25	TIIE *28 d(1)	6.11%	100,656	93,457	98,238
$ 227,527	Feb. 16	Aug. 24	TIIE *28 d(1)	5.78%	15,300	15,304	16,569
					$ 226,814	$ 120,599	$ 51,073

(1) As of December 31, 2018, 2017 and 2016, the 28-day TIIE rate is 8.5956%, 7.6241% and 6.1066%, respectively.

- Variable rate to fixed rate:

During the concession, RCO has contracted several swaps which change the financing profile from a variable rate to a weighted average fixed rate of 8.3700%; the combined amount of the swaps was $4,872,699 at the contract date.

In September 2015, COVIQSA entered into two swaps that change the profile from a variable rate to a fixed rate of 6.1100%; the amount of the swaps was $1,751,218 at the contract date.

In February 2016, CONIPSA entered into two swaps that changed the profile from variable rate to a fixed rate of 5.7800%; the amount of the swaps was $262,424 at the contract date.

The Entity considers that of the total amount recognized with respect to financial derivatives of $35,704, $(17,951) will be reclassified to profit or loss during 2019.

As of December 31, 2018, 2017 and 2016 there are no ineffective portions that should be recognized in the results of the period.

13. Long-term debt

Long-term debt consists of the following:

	December 31, 2018	December 31, 2017	December 31, 2016
Line of credit for up to $500,000, contracted by RCO, payable quarterly beginning on December 10, 2015, bearing interest at the TIIE rate plus 350 basis points.	$ -	$ 117,647	$ 235,294
Securitized certificates of RCO of 1,481,044,500 UDIs maturing in 2032, bearing interest payable biannually at a fixed interest rate of 5.2500%.	2,557,585	8,789,334	8,238,877
Securitized certificates of RCO of $2,841,000 maturing in 2027, bearing interest payable biannually at a fixed interest rate of 9.0000%.	1,246,320	2,841,000	2,841,000
Senior debt instruments issued by RCO of $7,500,000 maturing in 2028, bearing interest payable biannually at a fixed rate of 9.0000%.	7,500,000	7,500,000	7,500,000
Securitized certificates of RCO for $4,400,000 due in 2030, bearing interest payable biannually interest at fixed rate of 9.0500%.	4,400,000	4,400,000	4,400,000
Credit line contracted by RCO up to $11,135,561 original maturing in 2032, extended the maturity to 2037 on December 21, 2017, Tranche A for $4,990,000 bearing interest at fixed rate of 10.1000% and Tranche B for $2,145,561 bearing interest at the TIIE rate plus 325 basis points through October 2016, 375 basis points through October 2018 and bearing interest at the fixed rate of 10.1000% through 2032. On December 21, 2017, tranche C of the credit line was contracted for up to $4 million, of which $2 million was exercised, and such amount earns a fixed interest rate of 10.7100%.	9,315,561	9,135,561	7,135,561

	December 31, 2018	December 31, 2017	December 31, 2016
Credit line contracted by RCO up to $4,596,000 due in 2029, bearing interest payable biannually at a fixed rate of 9.5270%.	4,596,000	4,596,000	4,596,000
Unsecured loan issued by RCO up to $1 million due in seven years, bears monthly interest at the TIIE rate plus 2.7500%. On November 9, 2016, RCO agreed to amend the loan agreement with Santander, obtaining additional proceeds of $650,000 and extending the maturity date of the original December 10, 2021 to September 10, 2028 (1). After such amendment, Banco Santander (México), S. A., Institución de Banca Múltiple Grupo Financiero Santander México ("Santander"), became creditor of $600,000, to Banco Interacciones, S. A., Institución de Banca Múltiple Grupo Financiero Interacciones ("Interacciones"), the latter acting as creditor.	1,650,000	1,501,018	1,047,850
Unsecured loan contracted by RCO for up to $2 million with a term of 11 years, accruing monthly interest at 2.750 basis points above the TIIE rate (1).	1,119,872	405,762	-
Secured loan issued by CONIPSA for up to the amount of $580,000 to modernize and extend the Irapuato - La Piedad highway section, with maturity in November 2019, bearing interest at a rate equal to the 91-day TIIE plus a spread (2). This loan is secured by the Entity's shares in CONIPSA.	203,408	227,527	249,297
Secured loan issued by COVIQSA for up to the amount of $1,048,782, with maturity in 2025, bearing interest at a fixed rate of 8.0800% payable on quarterly basis. This loan is secured by the Entity's shares in COVIQSA.	813,331	897,233	972,745
Secured loan issued by COVIQSA for up to the amount of $1,751,217, with maturity in 2025, bearing interest at the TIIE rate plus a spread (3). This loan is secured by the Entity's shares in COVIQSA.	1,358,069	1,498,167	1,624,255
Securitized certificates of RCO of 1,341,055,699 UDIs maturing in 2040, bearing interest payable biannually at a fixed interest rate of 6%.	8,350,259	-	-
Total debt	43,110,405	41,909,249	38,840,879
Less: current portion	883,475	365,766	341,018
Long-term debt	42,226,930	41,543,483	38,499,861
Commissions and debt issuance costs	(2,042,274)	(1,928,104)	(1,735,791)
Accumulated amortization of commissions and debt issuance costs	1,348,142	1,232,435	1,082,732
Total	$ 41,532,798	$ 40,847,814	$ 37,846,802

(1) The applicable spread is 2.7500% from the date of sign of the contract through November 9, 2018, 3.5000% from November 10, 2018 through November 9, 2021, 3.7500% from November 10, 2021 through November 9, 2025 and 4.0000% from November 10, 2025 through the maturity date.

(2) The applicable spread is 1.9500% from the date of sign of the contract through August 27, 2018, 2.1000% from August 27, 2018 through August 27, 2020, 2.3500% from August 27, 2020 through August 27, 2023 and 2.5500% from August 27, 2023 through the maturity date.

(3) The applicable spread is 1.950% from the date of the sign of the contract through May 27, 2018, 2.1000% from May 27, 2018 through May 27, 2021, 2.3500% from May 27, 2021 through May 27, 2024 and 2.5500% from May 27, 2024 through the maturity date.

The TIIE rate defined by the Bank of Mexico at December 31, 2018, 2017 and 2016 was 8.5956%, 7.6241% and 6.1066%, respectively.

Reconciliation of obligations derived from financing activities:

	Long-term debt	Interest payable	Derivative financial instruments, net	Interest payable on derivative financial instruments, net	Lease liabilities
Balances, January 1, 2016	$ 37,742,116	$ 853,558	$ 358,259	$ 13,613	$ 15,563
Changes that represent cash flows-					
Loans obtained	695,473	-	-	-	
Payments	(564,349)	(3,208,734)	-	(180,625)	(14,698)
Commissions and debt issuance costs	(53,371)	-	-	-	
Changes that do not represent cash flows-					
Lease contracts obtained	$ -	$ -	$ -	$ -	$ 32,053
Interest expense	-	3,223,594	-	-	5,394
Valuation effects of derivative financial instruments	-	-	(409,332)	171,997	-
Adjustments to principal amounts of UDI denominated debt	269,118	-	-	-	-
Accumulated amortization of commissions and debt issuance costs	98,833	-	-	-	-
Balances, December 31, 2016	38,187,820	868,418	(51,073)	4,985	38,312
Changes that represent cash flows-					
Loans obtained	2,858,931	-	-	-	-
Payments	(341,018)	(3,374,960)	-	(44,313)	(13,390)
Commissions and debt issuance costs	(164,551)	-	-	-	-

	Long-term debt	Interest payable	Derivative financial instruments, net	Interest payable on derivative financial instruments, net	Lease liabilities
Changes that do not represent cash flows-					
Lease contracts obtained					23,007
Interest expense	-	3,384,972	-	-	7,505
Valuation effects of derivative financial instruments	-	-	(69,526)	38,986	-
Adjustments to principal amounts of UDI denominated debt	550,457	-	-	-	-
Accumulated amortization of commissions and debt issuance	121,941	-	-	-	-
Balances, December 31, 2017	41,213,580	878,430	(120,599)	(342)	55,434
Changes that represent cash flows-					
Loans obtained	9,348,088	-	-	-	
Payments	(8,577,848)	(3,845,894)	-	14,316	(15,294)
Commissions and debt issuance costs	(114,170)	-	-	-	-
Changes that do not represent cash flows-					
Lease contracts obtained					10,878
Interest expense	-	3,802,925	-	-	5, 905
Valuation effect of derivative financial instruments	-	-	(106,215)	(18,072)	
Adjustments to principal amounts of UDI denominated debt	430,917	-	-	-	-
Accumulated amortization of commissions and expenses	115,706	-	-	-	-
Balances, December 31, 2018	$ 42,416,273	$ 835,461	$ (226,814)	$ (4,098)	$ 56,923

The aforementioned loan agreements contain various covenants that restrict the Entity’s ability to incur additional indebtedness, issue guarantees, sell fixed and other non-current assets and make capital distributions of excess cash.

The Entity is only permitted to make distributions of excess cash if i) the rate of service coverage historic debt (twelve months before the date of distribution) is equal to or greater than 1.25 to 1.00, ii) projections demonstrate reasonable coverage rate projected debt service (twelve months after the date of distribution) is equal to or greater than 1.25 to 1.00 and iii) has not occurred or continue any default event.

The covenants also require compliance with certain financial ratios. More specifically, with respect to COVIQSA and CONIPSA, such entities maintain long-term restricted cash accounts as disclosed in Note 5. Additionally, they are required to maintain a debt service coverage ratio of 1.2 and have restrictions for making capital distributions. Undistributed earnings of COVIQSA and CONIPSA as of December 31, 2018, 2017 and 2016 were $1,686,994, $1,608,406 and $1,452,282, respectively.

For the years ended December 31, 2018, 2017 and 2016, the Entity was in compliance with such covenants.

The scheduled maturity of long-term debt as of December 31, 2018, taking into consideration the extended terms discussed above, without considering commissions and debt issuance costs, is as follows:

2019	$ 883,475
2020	1,315,031
2021	1,559,599
2022	1,774,634
2023	2,230,989
2024 and thereafter	35,346,677
	$ 43,110,405

Interest payable based on debt maturity is as follows:

2019	$ 3,622,669
2020	3,718,151
2021	3,584,358
2022	3,448,853
2023	3,266,452
2024 and thereafter	21,950,490
	$ 39,590,973

14. Employee benefits

a. The Entity grants eligible executives an annual performance bonus equivalent to between 2 and 12 months' salary, according to the performance parameters established by the Entity and the specific function involved. As of December 31, 2018, 2017 and 2016, the liabilities for this item are $18,367, $20,910 and $22,274, respectively, and are presented in the consolidated statement of financial position as short-term employee benefits. The related expense was $18,723, $16,135 and $4,702 in 2018, 2017 and 2016, respectively.

b. The Entity must pay its employees a seniority bonus. The net cost of these obligations for the years ended December 31, 2018, 2017 and 2016 is $851, $707 and $755, respectively. Other disclosures required under accounting provisions are not considered material.

c. Up to April 15, 2016 the Entity granted key directors: (1) a deferred performance bonus of up to 24 months' base salary, whose formula took into account the Entity's performance parameters and the specific function involved; the deferred performance bonus was awarded in five years and (2) if certain target returns on capital invested were fulfilled, the key directors were entitled to certain distributions, awarded in periods of between 5 and 10 years.

d. On April 15, 2016, the Entity modified the pension plan for its key directors to convert it into a share-based benefits plan that is realizable in cash. As of December 31, 2018, 2017 and 2016, the compensation plan is determined as follows:

Type of agreement	Appreciation rights units	Appreciation rights units	Appreciation rights units
Grant date	March 13, 2018	February 10, 2017	February 26, 2016
Units	30,000,000	30,000,000	45,000,000
Reference value at grant date	$2.1835	$2.00	$1.783
Term	3 years	3 years	3 years
Conditions of grant	Awarded in equal annual parts with reference value of the share	Awarded in equal annual parts with reference value of the share	Awarded in equal annual parts with reference value of the shares

Type of agreement	Deferred compensation units	Deferred compensation units	Deferred compensation units
Grant date	March 13, 2018	February 10, 2017	February 26, 2016
Units	4,766,243	5,017,220	6,340,154
Reference value at grant date	$1.977	$1.977	$1.783
Term	3 years	3 years	3 years
Conditions of grant	Awarded in equal annual parts with reference value of the share	Awarded in equal annual parts with reference value of the share	Awarded in equal annual parts with reference value of the share

Type of agreement	Rights equivalent to distributions	Rights equivalent to distributions	Rights equivalent to distributions
Grant date	March 13, 2018	February 10, 2017	February 26, 2016
Units	34,766,243	5,017,220	6,340,154
Reference value at grant date	N/A	N/A	N/A
Term	3 years	3 years	3 years
Grant conditions	Awarded in equal annual parts in relation to the dividends or capital reductions	Awarded in equal annual parts in relation to the dividends or capital reductions	Awarded in equal annual parts in relation to the dividends or capital reductions

On March 13, 2018, the Corporate Practices Committee of the Entity approved granting additional rights equivalent to distributions, retroactively to the years 2017 and 2016, for 30,000,000 and 45,000,000 units, respectively.

As of December 31, 2018, 2017 and 2016, the liability recorded for the compensation plan is $216,101, $127,540 and $52,766, respectively, and the related expense in 2018, 2017 and 2016 was $88,561, $74,774 and $17,243, respectively.

e. The Entity grants Level 2 key directors a deferred performance bonus equivalent to between 6 and 12 months' base salary, whose formula takes into account the Entity's performance parameters and the specific function involved. The deferred performance bonus is awarded in three years. As of December 31, 2018, 2017 and 2016, the related liabilities are $8,702, $6,678 and $6,075 respectively, and are presented in the consolidated statement of financial position as Employee benefits. The expense for this item was $4,783, $3,538 and $3,200 in 2018, 2017 and 2016, respectively.

15. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2018, 2017 and 2016 was 30% and will continue to 30% and thereafter. The rate of current income is 30%.

a. Income tax (benefit) expense for the years ended December 31, 2018, 2017 and 2016 are as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
ISR:			
Current	$ 235,419	$ 224,738	$ 205,935
Deferred ISR benefit	(3,004)	(293,828)	(135,452)
Total income tax expense (benefit) in profit and loss	$ 232,415	$ (69,090)	$ 70,483

b. The reconciliation of the statutory and effective ISR rates expressed as a percentage of gain or loss before income tax (benefit) is:

December 31, 2018	Amount	Tax	%
Income before income tax	$ 1,825,131	$ 547,539	30
Changes to current tax:			
Non-deductible	242,947	72,884	3.9
Annual inflation adjustment	1,725,980	517,794	28.3
Other temporary items	(3,009,333)	(902,798)	(49.4)
	(1,040,406)	(312,120)	(17.2)
Current Tax	784,725	235,419	12.8
Changes to deferred tax:			
Other temporary items	3,009,333	902,800	49.4
Inflation effects	(3,011,237)	(903,371)	(49.4)
Others	(8,110)	(2,433)	(0.1)
Deferred tax	(10,014)	(3,004)	(0.1)
Income tax	$ 774,711	$ 232,415	12.7

December 31, 2017	Amount	Tax	%
Income before income tax	$ 1,825,535	$ 547,661	30
Changes to current tax:			
Non-deductible	19,870	5,961	0.3
Annual inflation adjustment	2,237,042	671,112	36.7
Other temporary items	(3,333,323)	(999,996)	(54.7)
	(1,076,411)	(322,923)	(17.7)
Current Tax	749,124	224,738	12.3
Changes to deferred tax:			
Other temporary items	3,334,364	1,000,309	54.7
Inflation effects	(4,326,144)	(1,297,843)	(71)
Others	12,355	3,706	0.2
Deferred tax	(979,425)	(293,828)	(16.1)
Income tax benefit	$ (230,301)	$ (69,090)	(3.8)

December 31, 2016		Amount		Tax	%
Income before income tax	$	1,158,237	$	347,471	30.0
Changes to current tax:					
Non-deductible		20,976		6,293	0.5
Annual inflation adjustment		1,107,137		332,141	28.7
Other temporary items		(1,599,903)		(479,970)	(41.4)
		(471,790)		(141,536)	(12.2)
Current Tax		686,447		205,935	17.8
Changes to deferred tax:					
Other temporary items		1,600,740		480,221	41.4
Inflation effects		(2,185,952)		(655,786)	(56.6)
Others		133,705		40,113	3.5
Deferred tax		(451,507)		(135,452)	(11.7)
Income tax	$	234,940	$	70,483	6.1

c. Deferred income tax assets are comprised of the following:

		December 31, 2018		December 31, 2017		December 31, 2016
Assets:						
Furniture and equipment	$	25	$	114	$	-
Intangible assets derived from the concessions		3,404,185		3,025,092		2,380,910
Accrued liabilities and provisions		321,220		257,395		314,994
		3,725,430		3,282,601		2,695,904
Liabilities:						
Furniture and equipment	$	-	$	-	$	(340)
Derivative financial instruments		(69,319)		(36,897)		(15,298)
Commissions and debt issuance costs		(192,493)		(208,701)		(195,918)
Prepaid expenses and advances to suppliers		(57,257)		(35,177)		(25,177)
Financial assets arising from concessions		(375,151)		(377,241)		(378,058)
		(694,220)		(658,016)		(614,791)
Net deferred income tax asset from temporary differences		3,031,210		2,624,585		2,081,113
Tax loss carryforwards		3,546,034		3,982,645		4,254,746
Net deferred income tax asset	$	6,577,244	$	6,607,230	$	6,335,859

The realization of deferred tax assets depends on the future generation of taxable income during the period in which the temporary differences will be deductible. Management considers the reversal of deferred tax liabilities and projections of future taxable income to make its assessment of the realization of deferred tax assets. Based on the results obtained in previous years, in future profit projections and that the maturity for the main deferred tax assets equals the term of the concession, Management considers that the deferred tax assets will be realized.

As of December 31, 2018, a deferred tax liability of $502,115, related to the investment in subsidiaries has not been recognized, for the following reasons:

- The group has control over the time in which the time difference can be reversed.
- It is unlikely that the temporary difference will be reversed in the near future.

d. Reconciliation of the movements of the period in the deferred taxes balances:

2018	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Furniture and equipment	$ 114	$ (89)	$ -	$ 25
Intangible assets derived from concessions	3,025,092	379,093	-	3,404,185
Derivative financial instruments	(36,897)	569	(32,991)	(69,319)
Accrued liabilities and provisions	257,395	63,825	-	321,220
Commissions and debt issuance costs	(208,701)	16,208	-	(192,493)
Prepaid expenses and advances to suppliers	(35,177)	(22,081)	-	(57,258)
Financial assets arising from concessions	(377,241)	2,090	-	(375,151)
	2,624,585	439,615	(32,991)	3,031,209
Tax loss carryforwards	3,982,645	(436,611)	-	3,546,034
	$ 6,607,230	$ 3,004	$ (32,991)	$ 6,577,243

2017	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Furniture and equipment	$ (340)	$ 454	$ -	$ 114
Intangible assets derived from concessions	2,380,910	644,182	-	3,025,092
Derivative financial instruments	(15,298)	858	(22,457)	(36,897)
Accrued liabilities and provisions	314,994	(57,599)	-	257,395
Commissions and debt issuance costs	(195,918)	(12,783)	-	(208,701)
Prepaid expenses and advances to suppliers	(25,177)	(10,000)	-	(35,177)
Financial assets arising from concessions	(378,058)	817	-	(377,241)
	2,081,113	565,929	(22,457)	2,624,585
Tax loss carryforwards	4,254,746	(272,101)	-	3,982,645
	$ 6,335,859	$ 293,828	$ (22,457)	$ 6,607,230

2016	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Furniture and equipment	$ 233	$ (573)	$ -	$ (340)
Intangible assets derived from concessions	2,248,072	132,838	-	2,380,910
Derivative financial instruments	107,478	(40,165)	(82,611)	(15,298)
Accrued liabilities and provisions	295,692	19,302	-	314,994
Commissions and debt issuance costs	(209,445)	13,527	-	(195,918)
Prepaid expenses and advances to suppliers	(20,656)	(4,521)	-	(25,177)
Financial assets arising from concessions	(376,871)	(1,187)	-	(378,058)
	2,044,503	119,221	(82,611)	2,081,113
Tax loss carryforwards	4,238,515	16,231	-	4,254,746
	$ 6,283,018	$ 135,452	$ (82,611)	$ 6,335,859

e. In accordance with rule I.3.3.2.4 of the omnibus tax ruling of January 22, 2017, taxpayers engaged in the operation of a concession granted by the federal government may utilize their tax losses until they are fully utilized, or the concession expires or the Entity is liquidated, whichever occurs first. As of December 31, 2018, the amount of the tax loss carryforward benefits (restated for the effects of inflation as permitted by Mexican Income Tax Law) is $11,820,112.

16. Revenue from ordinary activities

The ordinary income of the Entity is toll revenues, shadow toll payments from the SCT, availability payments from the SCT, ancillary revenues from the use of rights of way and other related revenues and construction revenues are mainly related to the provision of highways operation services, use of right-of-way, own roadside services such as restaurants and convenience stores, the Entity presents financial information based on operating segments that are regularly reviewed by the Board of Directors.

December 31, 2018

Segments	Toll revenues	Shadow toll payments from the SCT	Availability payments from the SCT	Ancillary revenues from the use of rights of way and other related revenues	Construction revenues	Total
FARAC I	$ 7,405,426	$ -	$ -	$ 280,497	$ 555,848	$ 8,241,771
COVIQSA	-	760,649	206,585	7,310	-	974,544
CONIPSA	-	63,056	222,932	305	-	286,293
COTESA	57,283	-	-	1,498	68,598	127,379
Total	$ 7,462,709	$ 823,705	$ 429,517	$ 289,610	$ 624,446	$ 9,629,987

Revenue recognition calendar of:

	Toll revenues	Shadow toll payments from the SCT	Availability payments from the SCT	Ancillary revenues from the use of rights of way and other related revenues	Construction revenues	Total
Goods and services transferred immediately	$ 7,462,709	$ 823,705	$	$ 289,610	$	$ 8,576,024
Effective interest rate method	-		429,517	-	-	429,517
Construction revenues from percentage of completion	-	-	-	-	624,446	624,446
Total	$ 7,462,709	$ 823,705	$ 429,517	$ 289,610	$ 624,446	$ 9,629,987

December 31, 2017

Segments	Toll revenues	Shadow toll payments from the SCT	Availability payments from the SCT	Ancillary revenues from the use of rights of way and other related revenues	Construction revenues	Total
FARAC I	$ 6,591,874	$ -	$ -	$ 212,265	$ 434,119	$ 7,238,258
COVIQSA	-	712,646	195,634	26	-	908,306
CONIPSA	-	61,024	213,886	544	-	275,454
COTESA	47,677	-	-	-	180,539	228,216
Total	$ 6,639,551	$ 773,670	$ 409,520	$ 212,835	$ 614,658	$ 8,650,234

Revenue recognition calendar of:

	Toll revenues	Shadow toll payments from the SCT	Availability payments from the SCT	Ancillary revenues from the use of rights of way and other related revenues	Construction revenues	Total
Goods and services transferred immediately	$ 6,639,551	$ 773,670		$ 212,835	$ -	$ 7,626,056
Effective interest rate method	-	-	409,520	-	-	409,520
Construction revenues from percentage of completion	-	-	-	-	614,658	614,658
Total	$ 6,639,551	$ 773,670	$ 409,520	$ 212,835	$ 614,658	$ 8,650,234

Segments	Toll revenues	Shadow toll payments from the SCT	Availability payments from the SCT	Ancillary revenues from the use of rights of way and other related revenues	Construction revenues	Total
			December 31, 2016			
FARAC I	$ 5,880,433	$ -	$ -	$ 188,145	$ 495,931	$ 6,564,509
COVIQSA	-	686,841	192,843	968	-	880,652
CONIPSA	-	55,615	213,771	999	-	270,385
COTESA	-	-	-	-	273	273
Total	$ 5,880,433	$ 742,456	$ 406,614	$ 190,112	$ 496,204	$ 7,715,819

Revenue recognition calendar of:

	Toll revenues	Shadow toll payments from the SCT	Availability payments from the SCT	Ancillary revenues from the use of rights of way and other related revenues	Construction revenues	Total
Goods and services transferred immediately	$ 5,880,433	$ 742,456	$ -	$ 190,112	$ -	$ 6,813,001
Effective interest rate method	-	-	406,614		-	406,614
Construction revenues from percentage of completion	-	-	-	-	496,204	496,204
Total	$ 5,880,433	$ 742,456	$ 406,614	$ 190,112	$ 496,204	$ 7,715,819

17. Costs and expenses by nature

Total costs and expenses classified by nature are as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Amortization of assets derived from the concessions	$ 1,129,897	$ 879,728	$ 822,311
Major maintenance expenditures	985,818	617,141	647,380
Minor maintenance expenditures	51,987	47,719	47,784
Operating costs	108,583	100,851	71,453
Other	108,278	108,547	112,957
Operation and maintenance provisions	1,254,666	874,258	879,574
Insurance and bonds	87,420	70,563	76,795
Payment to Federal Government	43,669	37,217	29,403
Other	4,747	4,646	4,769
Toll collection costs	135,836	112,426	110,967
Construction costs	624,446	614,658	496,204

	December 31, 2018	December 31, 2017	December 31, 2016
Cost of ancillary revenues from the use of right of way and other related	139,949	119,324	107,531
Salaries	406,174	341,196	249,561
Consultants	51,394	52,076	46,835
Other	92,278	87,639	60,667
General and administrative expenses	549,846	480,911	357,063
	$ 3,834,640	$ 3,081,305	$ 2,773,650

18. Risk management

a. ***Significant accounting policies***

Details of significant accounting policies (including recognition criteria, bases of valuation and revenue and expense recognition) for each type of financial asset, financial liability and equity instrument are detailed in Note 3.

b. ***Financial instrument categories and risk management policies***

The main financial instrument categories are as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Financial assets			
Cash and cash equivalents	$ 7,220,857	$ 8,741,237	$ 6,678,792
Long-term restricted cash	105,612	98,833	93,673
Trade accounts receivable	145,232	109,973	774,180
Other accounts receivable	25,002	17,226	16,918
Financial assets arising from concessions	1,250,504	1,257,469	1,260,194
Derivative financial instruments	227,418	140,093	114,807
Interest receivable on derivative financial instruments	4,250	342	-
Financial liabilities			
Accounts payable to suppliers	$ 317,349	$ 296,193	$ 285,266
Interest payable	835,461	878,430	868,418
Interest payable on derivative financial instruments	152	-	4,985
Other current liabilities	73,963	69,095	55,397
Accounts payable to shareholders	4	4	3
Long-term debt	42,416,273	41,213,580	38,187,820
Other long-term liabilities	33,616	33,300	21,777
Derivative financial instruments	604	19,494	63,734

The Entity's financial assets and liabilities are exposed to different economic risks including (i) financial market risks (traffic, foreign currency and prices), (ii) interest rates risk (iii) credit risks, and (iv) liquidity risks.

The Entity seeks to minimize the potential negative effects of the above risks on its financial performance by implementing different strategies. It utilizes financial derivatives to hedge against its exposure to financial risks derived from the transactions recognized in the consolidated statements of financial position (recognized assets and liabilities). The Entity does not hedge against other types of exposure because it considers potential risks to have an insignificant effect on its operations of the entity.

The Entity only enters into financial derivatives as hedges to reduce the financial exposure of its liabilities. The financial derivatives entered into for this purpose can be designated for accounting purposes as hedges or for trading purposes without affecting their primary objective of mitigating the risks to which the Entity's is exposed through its projects.

The Entity's internal control policy establishes that the authorization to issue loans and assume the respective project risks requires the prior joint analysis of the finance, legal and management areas. This analysis also evaluates the use of financial derivatives to hedge against financial risks. As an internal control policy, once this analysis has been concluded.

When evaluating the use of financial derivatives to hedge against financial risks, the Entity analyzes the sensitivity of pertinent variables at different potential levels so as to define the economic efficiency of each alternative proposed for hedging the measured risk. This process is then matched with the obligations and/or conditions of each alternative to define the most appropriate solution. Furthermore, the Entity performs effectiveness tests with the support of an expert appraiser to determine the treatment applicable to each derivative financial instrument.

In the case of interest rate hedges, instruments are contracted in order to fix maximum financial costs to support the viability of the projects or to link them to the allowed rate increases.

Many of the counterparties of financial derivatives that hedge the Entity’s debt are the same financial institutions that issue the related debt (or their affiliates).

c. ***Market risk***

The Entity's activities primarily expose it to financial risks derived from highway traffic and their maintenance cost.

Revenues of the Entity are directly related to the operation of the Concessioned highways, any government action that had a negative effect on the Concession, a recession in the regions where it operates, a natural disaster or any other event that could affect traffic level on highways operated, could have a material adverse effect on the financial position and operating results of the Entity. Additionally, the interference of the moving in the tolls related from social movements could adversely affect the income of the highways in operation.

On the other hand, the revenues from toll collection by the Entity are regulated according to the increase in inflation. The Concession Title allows RCO increase annually levels of tolls according to inflation, or earlier if cumulative inflation is equal or higher than 5.0% over the last tariff increase. However, also inflation is a variable key in the cost structure of the financing that RCO has agreed and considerable inflation could affect the financial results of RCO.

The Entity is exposed to the risk in prices, mainly of the maintenance cost of the highways which may have an adverse material effect on the financial position and operating results of the Entity.

Regarding foreign exchange risk, the Entity considers its exposure to be insignificant due to the few transactions and balances denominated in foreign currency. The Entity contracts its financings in the same currency as the source of payment. In case the exposure to this risk becomes significant in a particular period, it will be managed within the parameters of the approved policies.

d. ***Interest rate risk management***

The Entity is mainly exposed to interest rate risks because it has entered into debt at variable rates. The Entity manages this risk by maintaining an adequate combination of variable-rate loans and interest rate swap and options contracts. The Entity's hedging activities are regularly monitored so that they align with interest rates identified as risk in order to implement the most effective hedging strategies.

In order to mitigate the risk of interest rate fluctuations, the Entity utilizes interest swaps to fix variable rates (see Note 12).

The interest rate swaps entered into by the Entity change variable interest rate profiles to fixed profiles. The Entity performs a stress analysis to determine the most appropriate combination of fixed payments and those linked to inflation, while considering that concessions generally allow the Entity to increase toll rates based on inflation and demand elasticity. A TIIE rate increase / (decrease) of 100 basis point is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates of the loan liabilities obtained by the Entity and would result in decrease of stockholders' equity of $(104,360) and $98,288, respectively. The effect on the net loss of the year would be insignificant because the instruments that expose the Entity to these risks are protected by highly effective cash flow hedges.

The carrying value of the Entity's financial derivatives as of December 31, 2018, 2017 and 2016 is a net of $226,814, $120,599 and $51,073, respectively, and the debt to $43,110,405, $41,909,249 and $38,840,879, respectively.

e. ***Credit risk management***

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss for the Entity. The Entity's main credit risk primarily involves cash and cash equivalents and, to a lesser extent, its accounts receivable from its customers, including its financial concession assets. In the case of the accounts receivable and financial assets of COVIQSA and CONIPSA, as the main customer is the SCT, despite the level of concentration, the credit risk is deemed to be insignificant. FARAC I do not have significant clients, so there is no concentration. With regards to cash and cash equivalents, the Entity maintains a policy of only performing transactions with institutions with an acknowledged reputation and high credit rating. The main funds are held in trusts. The Entity's maximum credit risk exposure as of December 31, 2018 is approximately $8,747,207. Notes 5, 6 and 7 describe the main financial assets subject to credit risks.

The Entity applies the IFRS 9 simplified model of recognizing lifetime expected credit losses throughout life for all trade receivables, using the provision matrix approach, as these items do not have a significant financing component.

Trade receivables are written off when there is no reasonable expectation of recovery.

	Trade receivables days past due		
	Current	**More than 90 days**	**Total**
December 31, 2018			
Expected credit loss rate	0%	100%	
Gross carrying amount	$ 145,232	$ 13,435	$ 158,667
Lifetime expected credit loss	-	13,435	13,435
December 31, 2017			
Expected credit loss rate	0%	100%	
Gross carrying amount	$ 109,973	$ 11,440	$ 121,413
Lifetime expected credit loss	-	11,440	11,440

	Trade receivables days past due		
	Current	More than 90 days	Total
December 31, 2016			
Expected credit loss rate	0%	100%	
Gross carrying amount	$ 774,180	$ 3,660	$ 777,840
Lifetime expected credit loss	-	3,660	3,660

f. ***Liquidity risk management***

The Entity manages its liquidity risk by maintaining adequate reserves of cash and bank credit lines available, and consistently monitoring its projected and actual cash flows. Long-term debt maturities are presented in Note 13. The Entity maintains funds in trusts to cover certain of its contractual obligations; these funds are used for debt repayment, as well as highway maintenance and extension costs, among other purposes. The Entity also has lines of credit under its bank loans, as discussed in Note 13. The following table shows the amounts of bank credit lines that the Entity has at its disposal to reduce liquidity risk:

Bank credit lines	December 31, 2018	December 31, 2017	December 31, 2016
Amounts exercised	$ 43,435,725	$ 41,909,249	$ 38,840,879
Amounts not exercised	2,700,128	3,743,200	602,200
	$ 46,135,853	$ 45,652,449	$ 39,443,079

The liquidity risk associated with cash and cash equivalents and long-term restricted cash of the Entity, as of December 31, 2018 amounts to $7,326,469.

The following table details the remaining contractual maturities of the Entity's financial liabilities, based on repayment periods. The tables have been designed based on the discounted cash flows of the financial assets using the nearest date on which the Entity must make the payments. The tables include both the cash flows for interest and principal. As long as the interest is variable-rate, the undiscounted amount is derived from the interest rate curves at the end of the reporting period. Contractual maturity is based on the nearest date on which the Entity must make the payment:

December 31, 2018	Less than 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Accounts payable to suppliers	$ 317,349	$ -	$ -	$ 317,349
Interest payable	3,280,498	11,970,001	16,071,424	31,321,923
Other current liabilities	152	-	-	152
Interest payable on derivative financial instruments	73,963	33,615		107,578
Long-term debt (1)	883,475	6,880,253	35,346,677	43,110,405
Derivative financial instruments	690,720	2,082,301	1,120,501	3,893,522
Total	$ 5,246,157	$ 20,966,170	$ 52,538,602	$ 78,750,929

December 31, 2017	Less than 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Accounts payable to suppliers	$ 296,193	$ -	$ -	$ 296,193
Interest payable	3,563,741	13,603,642	18,027,884	35,195,267
Other current liabilities	69,095	33,303	-	102,398
Long-term debt (1)	365,766	7,634,815	33,908,668	41,909,249
Derivative financial instruments	899,017	1,895,327	1,182,283	3,976,627
Total	$ 5,193,812	$ 23,167,087	$ 53,118,835	$ 81,479,734

December 31, 2016	Less than 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Accounts payable to suppliers	$ 285,266	$ -	$ -	$ 285,266
Interest payable	3,071,233	12,234,934	12,921,894	28,228,061
Interest payable on derivative financial instruments	4,985	-	-	4,985
Other current liabilities	55,397	21,780	-	77,177
Long-term debt (1)	341,018	6,531,140	31,968,721	38,840,879
Derivative financial instruments	520,207	886,957	581,426	1,988,590
Total	$ 4,278,106	$ 196,74,811	$ 45,472,041	$ 69,424,958

(1) Amount does not include commissions and debt issuance costs.

g. ***Fair value of financial instruments***

The fair value of the Swap interest rates and debt entered into by the Entity is determined according to the present value of future cash flows. The fair value of each derivative is calculated based on its fixed rate and market curve at that date so as to determine variable cash flows, while applying an appropriate discount rate to estimate the present value. The Entity also utilizes recognized information sources such as interest rate curves.

All the Entity's derivatives are classified as Level 2 of the fair value hierarchy established by IFRS 13 *Fair value measurement*. Level 2 fair value measurements are based on information other than the quoted prices included within Level 1 (fair value measurements derived from quoted prices (unadjusted) on active markets for identical assets and liabilities), which can be observed for assets or liabilities, whether directly (e.g. prices) or indirectly (e.g. derived from prices).

Except with respect to long-term debt, the Entity's management considers that the carrying values of its financial assets and liabilities recognized in the consolidated financial statements at amortized cost approximate their fair values:

	December 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
maintained at amortized cost:				
Cash and cash equivalents	$ 7,220,857	$ 7,220,857	$ 8,741,237	$ 8,741,237
Trade accounts receivable	145,232	145,232	109,973	109,973
Other accounts receivable and prepaid expenses	25,002	25,002	17,226	17,226
Financial assets arising from concessions	1,250,504	1,250,504	1,257,469	1,257,469
Long-term restricted cash	105,612	105,612	98,833	98,833
Derivative financial instruments	227,418	227,418	140,093	140,093
Interest receivable on derivative financial instruments	4,250	4,250	342	342
Financial liabilities:				
Accounts payable to suppliers	$ 317,349	$ 317,349	$ 296,193	$ 296,193
Interest payable	835,461	835,461	878,430	878,430
Interest payable on derivative financial instruments	152	152	-	-
Other current liabilities	73,963	73,963	69,095	69,095
Accounts payable to shareholders	4	4	4	4
Long-term debt	42,416,273	41,422,455	41,213,580	42,037,012
Other long-term liabilities	33,616	32,303	33,303	36,411
Derivative financial instruments	604	604	19,494	19,494

	December 31, 2016	
	Carrying value	Fair value
Financial assets		
maintained at amortized cost:		
Cash and cash equivalents	$ 6,678,792	$ 6,678,792
Trade accounts receivable	774,180	774,180
Other accounts receivable and prepaid expenses	16,918	16,918
Financial assets arising from concessions	1,260,194	1,260,194
Long-term restricted cash	93,673	93,673
Interest payable on derivative financial instruments	114,807	114,807
Financial liabilities:		
Accounts payable to suppliers	$ 285,266	$ 285,266
Interest payable	868,418	868,418
Interest payable on derivative financial instruments	4,985	4,985
Other current liabilities	55,397	55,397
Accounts payable to shareholders	3	3
Long-term debt	38,187,820	38,299,456
Other long-term liabilities	21,780	21,813
Derivative financial instruments	63,734	63,734

The Entity engages experts to value and recognize financial instruments at their fair value.

19. Stockholders' equity

a. Common stock at par value is as follows:

As of December 31, 2018:

	Number of shares	Amount
Fixed capital		
Series A	55,393	$ 50
Variable capital		
Series A	20,105,331,110	9,942,676
Series B	8,609,634,800	3,314,242
Total	28,715,021,303	$ 13,256,968

As of December 31, 2017:

	Number of shares	Amount
Fixed capital		
Series A	55,393	$ 50
Variable capital		
Series A	20,105,331,110	13,729,858
Series B	8,609,634,800	4,529,060
Total	28,715,021,303	$ 18,258,968

As of December 31, 2016:

	Number of shares	Amount
Fixed capital		
Series A	55,393	$ 50
Variable capital		
Series A	20,105,331,110	15,935,391
Series B	8,609,634,800	5,473,527
Total	28,715,021,303	$ 21,408,968

Series A shares refer to fixed capital without right of withdrawal and Series B shares refer to variable capital; all the shares are common, nominative, at no par value and are fully subscribed and paid in.

b. During 2018, a Unanimous Resolution of stockholders approved reductions in variable common stock payable in proportion to the amount contributed by each of the stockholders, as follows:

Meeting date	Amount
February 19, 2018	$ 2,600,000
May 28, 2018	700,000
August 31, 2018	650,000
November 23, 2018	1,052,000
	$ 5,002,000

On March 18, 2018, June 18, 2018, September 18, 2018 and December 31, 2018, payments related to such capital reductions were made for $2,422,000, $700,000, $650,000 and $1,230,000, respectively, which were paid proportionally to all the shareholders of RCO and, in the case of the Series B shares, through S. D. Indeval, Institution for the Deposit of Securities (Indeval).

c. During 2017, a Unanimous Resolution of stockholders approved reductions in variable common stock payable in proportion to the amount contributed by each of the stockholders, as follows:

Meeting Date	Amount
May 23, 2017	$ 1,200,000
August 23, 2017	950,000
November 22, 2017	1,000,000
	$ 3,150,000

On June 9, 2017, June 12, 2017, September 11, 2017, September 15, 2017, and December 21, 2017, payments related to such capital reductions were made for $359,797, $840,203, $772,047, $177,953 and $1,000,000, respectively, which were paid proportionally to all the shareholders of RCO and, in the case of the Series B shares, through S. D. Indeval, Institution for the Deposit of Securities (Indeval).

d. At a stockholders' variable capital Ordinary General Meeting held on August 23, 2016, RCO shareholders approved a reduction in the variable part of their capital of $300,000 payable in proportion to the amount contributed by each of the shareholders. Said reduction was paid on September 19, 2016 in a proportional manner to all the shareholders of RCO and, in the case of Series "B" shares, through Indeval.

e. At the Annual General meeting held on February 25, 2016, shareholders of RCO approved a reduction in the variable portion of its capital stock for the amount of $420,000 through unanimous resolutions payable in proportion to the amount contributed by each of the shareholders which were paid on March 10, 2016 in a proportional manner to all the shareholders of RCO and, in the case of Series "B" shares, through Indeval.

f. Stockholders' equity, except restated taxable paid-in capital and tax retained earnings, will be subject to income tax at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

The common stock reductions made during 2018, 2017 and 2016 were not subject to ISR.

g. Administration of capital management - The Entity manages its capital to ensure that it will continue as a going concern, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. Entity management reviews the capital structure when presenting its financial projections to the Board of Directors and stockholders as part of the business plan. When performing its review, the Board of Directors considers the cost of equity and its associated risks.

h. At December 31, 2018, 2017 and 2016, the tax value of the contributed capital account balance is $26,461,619, $32,511,833 and $33,225,125, respectively.

20. Earnings per share

The net profit attributable to the controlling interest (the amount is similar to that of consolidated net income, given that the non-controlling interest is irrelevant) and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Consolidated net income for the period	$ 1,592,720	$ 1,894,625	$ 1,087,751
Weighted average number of ordinary shares for the purposes of basic earnings per share	28,715,021,303	28,715,021,303	28,715,021,303
Weighted average number of ordinary shares for the purposes of diluted earnings per share	28,715,021,303	28,715,021,303	28,715,021,303

21. Segment information

The Entity's activities are primarily related to building, operating, conserving and maintaining concessioned highways considering their locations, regulators and conditions of Concession agreements, among others. Therefore, based on results of operations, for which there is available financial information, and which are reviewed regularly by the Board of Directors, who determine the resources that will be allocated to each segment and evaluate their performance, the segments, in accordance with IFRS 8, are as follows:

- FARAC I, is the concession granted to RCO under the Concession Title of RCO, which was adjudicated as of October 3, 2007, said Concession Title, grants the right and obligation to build, operate, operate and conserve (i) Zapotlanejo-Guadalajara, (ii) Maravatío-Zapotlanejo, (iii) Zapotlanejo-Lagos and, (iv) León-Aguascalientes members of the package for a period of 30 years as from the date of award of the agreement same. Also, within the RCO Concession Title, the obligation to build and maintain the Expansion Works is integrated. The FARAC I segment integrates RCO, Prestadora and RCA.

- CONIPSA: is responsible for operating, conserving and maintaining, for a period of 20 years from 2005, the stretch of federal toll-free highway starting at the junction of the Querétaro-Irapuato highway and the Irapuato-La Piedad highway, and ends at kilometer 76 +520, at the junction with the bypass of Cabadas La Piedad, in the state of Guanajuato and Michoacán. The stretch of highway under CONIPSA´s concession is part of a highway corridor from east to west, linking together various cities located in the Bajío region in central Mexico, and the west of Guadalajara and eastern Mexico City.

- COVIQSA: is responsible for operating, conserving and maintaining, for a period of 20 years from 2006, the 93 kilometer stretch of federal toll-free highway located in the states of Querétaro and Guanajuato. This stretch of highway corridor is an important part of the Bajío region, from east to west that connects the cities of Querétaro and Irapuato, and gives way to large number of carriers that do business in the city of Querétaro, Irapuato and La Piedad, plus regions such as northern León, southern Morelia, western Guadalajara and eastern Mexico City.

- COTESA: the concessionaire responsible for operating, conserving and maintaining, for a period of 30 (thirty) years counted from May 19, 2016, the Tepic - San Blas highway which starts at the El Trapicho junction located in the kilometers 6 + 600 of the federal highway Mex-015D Tepic-Villa Union and ends on the federal highway Mex-015 Santa Cruz- San Blas, in the kilometers 8 + 060 with a total length of 30.929 kilometers located in the State of Nayarit.

These reporting segments, are presented for the years ended December 31, 2018, 2017 and 2016, except for COTESA because was in construction period at the close of 2016 and began operations during 2017:

December 31, 2018

	FARAC I	COVIQSA	CONIPSA	COTESA	Eliminations and others	Total
Total revenues	$ 8,333,016	$ 974,543	$ 286,294	$ 129,049	$ (92,915)	$ 9,629,987
Income from operations	5,140,175	654,402	38,509	15,838	(22,612)	5,826,312
Net income	1,512,635	540,005	36,648	16,884	(513,456)	1,592,716
Total liabilities	44,518,409	2,867,836	407,175	18,965	(2,783,412)	45,028,973

December 31, 2017

	FARAC I	COVIQSA	CONIPSA	COTESA	Eliminations and others	Total
Total revenues	$ 7,313,148	$ 908,824	$ 274,937	$ 228,767	$ (75,442)	$ 8,650,234
Income from operations	4,825,411	589,359	187,910	16,286	(20,391)	5,598,575
Net income	1,736,502	490,285	145,583	16,694	(494,439)	1,894,625
Total liabilities	43,125,746	3,033,655	392,163	26,039	(2,743,589)	43,834,014

December 31, 2016

	FARAC I	COVIQSA	CONIPSA	Eliminations and others	Total
Total revenues	$ 6,616,456	$ 880,652	$ 270,386	$ (51,675)	$ 7,715,819
Income from operations	4,171,362	672,632	158,588	(21,264)	4,981,318
Net income	1,007,736	473,195	97,097	(490,274)	1,087,754
Total liabilities	39,884,059	3,292,098	414,515	(2,596,113)	40,994,559

22. Noncash transactions

For the years ended December 31, 2018, 2017 and 2016, the Entity recognized construction revenues of $624,446, $614,658 and $496,204, respectively, which are not reflected in the consolidated statements of cash flows.

23. Contingencies

The Entity is not aware of and has not been notified of any judicial, administrative or arbitral proceedings of which it is a party, nor does it have any pending legal proceedings, other than those that form part of the normal course of business. Likewise, ordinary civil suits and appeal trials related to access to the Concessioned Highways are in process.

In the opinion of the Entity the trials that are in process as of December 31, 2018 are not susceptible either individually or jointly to an adverse effect on its business, operations, results, cash flow or financial situation.

24. Authorization for issuance of financial statements

On February 19, 2019, the issuance of these consolidated financial statements was authorized by Demetrio Javier Sodi Cortés, CEO and Jorge Parra Palacios, CFO of Red de Carreteras de Occidente, S.A.B. de C.V. These consolidated financial statements are subject to approval by the stockholders' meeting, which may decide to amend them, as established in the General Companies Law.

* * * * * *