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, 2017, 2016, and 2015, and Independent auditors' report dated February 20, 2018

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

Consolidated financial statements for the years ended December 31, 2017, 2016 and 2015 and independent auditors' report

Table of Contents **Page**

Independent auditors' report	1
Consolidated statements of financial position	6
Consolidated statements of profit or loss and other comprehensive income (loss)	8
Consolidated statements of changes in stockholders' equity	10
Consolidated statements of cash flows	11
Notes to the consolidated financial statements	13

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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, 2017, 2016 and 2015, and the consolidated statements of profit or loss and other comprehensive income (loss), 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, 2017, 2016 and 2015, 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 sufficient 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.

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<u>*Assets derived from concessions*</u>

The Entity recognize a financial asset and an intangible asset for the concessions granted by the Department of Communications and Transportation in accordance with International Financial Reporting Interpretation No. 12 - *Service Concession Agreements* ("IFRIC 12") as mentioned in Note 3.i, 7 and 8. As of December 31, 2017, the financial assets represent 4% and the 2% of total current-assets and non-current assets, respectively, and intangible assets represent 84% of total non-current assets and 71% of total assets.

As explained in Note 3.i, the Entity amortizes the intangible asset during the period of the concession through the unit-of-use method based on traffic volume, as estimated by an independent transport expert engaged by the management of the Entity.

According to International Accounting Standard 36 - *Impairment of Assets* ("IAS 36"), the Entity's management performs impairment testing of the intangible asset. This impairment analysis is prepared by an independent expert engaged by management of the entity and is prepared using the discounted cash flow model. The determination of whether the carrying amount of the intangible asset is recoverable requires management to make significant estimates regarding future cash flows, discount rates and traffic volume.

We consider that the impairment analysis of the assets related to the Entity concessions is a key audit matter because it involves significant judgments and estimates that have a material impact on the results of operations and the financial position on the Entity.

Our audit procedures included, among others:

With the assistance of our firm's internal specialists, we analyzed the assumptions used in the impairment model, specifically including the cash flow projections and discount rates used. We have also tested the completeness and accuracy of the impairment model and we assessed the competences and independence of the experts used by Entity's management. The results of our tests indicate that the assumptions used by management are reasonable and that as of December 31, 2017, an impairment adjustment is not required.

<u>*Major maintenance provision*</u>

The Entity recognizes a provision for maintenance costs of highways under concession as mentioned in Note 3.n and Note 10. 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. Furthermore, during the period, management reviewed the procedures for its determination, and from January 1, 2017 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 better with the requirements of IAS 37 *Provisions and Contingent Liabilities and Assets* ("IAS 37") and IFRIC 12 *Agreements for Service Concessions* ("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. Our tests also included the assessment of the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Error Correction* ("IAS 8"), regarding the Entity's conclusion to account for this change in accounting estimate on a prospective basis. The results of our procedures indicate that the balance of the provision at the date of the financial statements is reasonably stated.

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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 any default, we identified non-compliance with long-term debt covenants as an audit risk given that such non-compliance 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.

Deferred income tax

In accordance with International Accounting Standard 12 - *Income Taxes* ("IAS 12"), in the determination of deferred income taxes, the Entity estimates the probability of generating sufficient taxable income in future periods to utilize the deferred assets generated by tax losses and intangible assets.

Our audit procedures included, among others:

We analyzed the reasonableness of assumptions used by management to determine the recoverability of tax losses and deferred tax assets. The results of our testing indicate that the balance of deferred tax assets recognized by the Entity is reasonably stated.

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.

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.

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Responsibilities of management and those responsible for the government of the entity in relation to 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.

- 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.

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- 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, 20, 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, 2017, 2016 and 2015
(Thousands of Mexican pesos and thousands of U.S. dollars)

Assets	Note	(Convenience translation, see Note 3b) 2017	2017	2016	2015
Current assets:					
Cash and cash equivalents, current	5	U.S.$ 442,922	$ 8,741,237	$ 6,678,792	$ 6,923,061
Trade accounts receivable, net	6	5,572	109,973	774,180	409,904
Recoverable taxes		3,050	60,196	56,604	58,048
Interest receivable on derivative financial instruments		17	342		-
Financial assets arising from concessions – current portion	7	19,686	388,502	393,129	407,540
Other accounts receivable and prepaid expenses	6	9,605	189,566	114,763	100,793
Total current assets		480,852	9,489,816	8,017,468	7,899,346
Non-current assets:					
Long-term restricted cash	5	5,008	98,833	93,673	91,102
Financial assets arising from concessions – long-term portion	7	44,031	868,967	867,065	848,696
Intangible assets derived from concessions	8	2,173,761	42,900,029	43,047,021	43,392,680
Furniture and equipment and franchise rights – net	9	922	18,193	20,124	22,152
Machinery and equipment - net	9	1,824	36,005	26,577	23,067
Derivative financial instruments	11	7,099	140,093	114,807	-
Deferred income tax asset	14	344,122	6,791,394	6,530,536	6,283,018
Other assets		297	5,869	4,408	4,250
Total non-current assets		2,577,064	50,859,383	50,704,211	50,664,965
Total assets		U.S.$ 3,057,916	$ 60,349,199	$ 58,721,679	$ 58,564,311

Liabilities and stockholders' equity

	Note	(Convenience translation, see Note 3b) 2017	2017	2016	2015
Current liabilities:					
Accounts payable to suppliers		U.S.$ 15,008	$ 296,193	$ 285,266	$ 285,768
Interest payable		44,510	878,430	868,418	853,558
Interest payable on derivative financial instruments		-	-	4,985	13,613
Other current liabilities		2,791	55,082	44,790	42,227
Provisions	10	23,460	462,989	746,898	782,827
Accounts payable to shareholders	17	-	4	3	1,079,800

(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, 2017, 2016 and 2015
(Thousands of Mexican pesos and thousands of U.S. dollars)

	Note	(Convenience translation, see Note 3b) 2017	2017	2016	2015
Current portion of long-term debt	12	18,534	365,766	341,018	338,047
Short-term employee benefits	13	7,176	141,619	33,436	70,639
Provision for work executed, not yet approved		3,211	63,376	29,791	39,462
Taxes other than income tax		11,062	218,308	243,739	163,462
Income taxes payable	14	2,428	47,909	41,738	-
Total current liabilities		128,180	2,529,676	2,640,082	3,669,403
Non-current liabilities:					
Long-term debt	12	2,069,773	40,847,814	37,846,802	37,404,069
Provisions for major maintenance	10	8,887	175,380	158,187	69,243
Long-term employee benefits	13	1,363	26,903	56,061	7,752
Post-employment benefits	13	166	3,270	2,632	2,606
Other long-term liabilities		512	10,096	5,029	2,990
Derivative financial instruments	11	988	19,494	63,734	358,259
Deferred income tax liability	14	9,331	184,164	194,677	-
Total non-current liabilities		2,091,020	41,267,121	38,327,122	37,844,919
Total liabilities		2,219,200	43,796,797	40,967,204	41,514,322
Contingencies and commitments	21 and 22				
Stockholders' equity	17				
Capital stock		925,188	18,258,968	21,408,968	22,128,968
Accumulated deficit		(90,582)	(1,787,678)	(3,683,346)	(4,771,938)
Other comprehensive income (loss)		4,110	81,112	28,853	(307,041)
Total stockholders' equity		838,716	16,552,402	17,754,475	17,049,989
Total stockholders' equity and liabilities		U.S.$ 3,057,916	$ 60,349,199	$ 58,721,679	$ 58,564,311

(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 (loss)

For the years ended December 31, 2017, 2016 and 2015
(Thousands of Mexican pesos and thousands of U.S. dollars)

	Note	(Convenience translation, see Note 3b) 2017	2017	2016	2015
Revenues:					
Toll revenues		U.S.$ 336,429	$ 6,639,551	$ 5,880,433	$ 5,124,705
Shadow toll payments from the SCT		39,202	773,670	742,456	703,918
Availability payments from the SCT		20,751	409,520	406,614	409,677
Ancillary revenues from the use of rights of way and other related revenues		10,784	212,835	190,112	104,330
Construction revenues		31,145	614,658	496,204	346,097
Total revenues		438,311	8,650,234	7,715,819	6,688,727
Costs and expenses:	15				
Amortization of intangible assets derived from concessions	8	44,576	879,728	822,311	781,113
Operation and maintenance provisions		44,299	874,258	879,574	674,322
Toll collection costs		5,697	112,426	110,967	110,617
Construction costs		31,145	614,658	496,204	346,097
Cost of ancillary revenues from the use of right of way and other related revenues		6,046	119,324	107,531	33,202
General and administrative expenses		24,502	483,554	358,805	371,599
		156,265	3,083,948	2,775,392	2,316,950
Income before other income – net		282,046	5,566,286	4,940,427	4,371,777
Other income – net		1,502	29,646	39,149	34,635
Income from operations		283,548	5,595,932	4,979,576	4,406,412
Interest expense		(179,943)	(3,551,226)	(3,787,696)	(3,388,279)
Interest income		16,845	332,433	236,155	184,222
Adjustments to principal amount of UDI denominated debt		(27,892)	(550,457)	(269,118)	(164,110)
Net foreign exchange (loss) gain		(5)	(103)	160	(237)
		(190,995)	(3,769,353)	(3,820,499)	(3,368,404)
Income before income taxes		92,553	1,826,579	1,159,077	1,038,008
Income tax (benefit) expense	14	(3,500)	(69,090)	70,483	37,831
Net income for the period		96,053	1,895,669	1,088,594	1,000,177

(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 (loss)

For the years ended December 31, 2017, 2016 and 2015
(Thousands of Mexican pesos, unless otherwise stated, and thousands of U.S. dollars, except for per share amounts)

	Note	(Convenience translation, see Note 3b) 2017	2017	2016	2015
Other comprehensive income items:					
Items that will be reclassified subsequently to profit or loss:					
Valuation of derivative financial instruments		U.S.$ 1,547	$ 30,540	$ 237,335	$ (136,004)
Deferred income taxes on derivative financial instruments		(467)	(9,217)	(23,233)	8,666
Reclassifications of derivative financial instrument to profit and loss		2,246	44,313	180,625	(44,223)
Deferred income taxes on derivative financial instrument amounts reclassified to profit and loss		(671)	(13,239)	(59,378)	(58,010)
		2,655	52,397	335,349	(229,571)
Items that not will be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation		(7)	(138)	545	-
Other comprehensive income (loss) items		2,648	52,259	335,894	(229,571)
Comprehensive income for the period		U.S.$ 98,701	$ 1,947,928	$ 1,424,488	$ 770,606
Basic and diluted earnings per common share	18	U.S.$ 0.003	$ 0.066	$ 0.038	$ 0.035

(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, 2017, 2016 and 2015
(Thousands of Mexican pesos)

	Note	Capital stock	Accumulated deficit	Other comprehensive Income (loss)	Total stockholders' equity
Balance as of January 1, 2015		$ 25,938,768	$ (5,772,115)	$ (77,470)	$ 20,089,183
Capital stock reduction	17	(3,809,800)	-	-	(3,809,800)
Comprehensive income:					
Valuation of derivative financial instruments		-	-	(136,004)	(136,004)
Deferred income taxes on derivative instruments		-	-	8,666	8,666
Reclassifications of financial derivative instruments to profit and loss		-	-	(44,223)	(44,223)
Deferred taxes on financial instruments reclassified to profit and loss		-	-	(58,010)	(58,010)
Net income for the period		-	1,000,177	-	1,000,177
		-	1,000,177	(229,571)	770,606
Balance as of December 31, 2015		22,128,968	(4,771,938)	(307,041)	17,049,989
Capital stock reduction		(720,000)	-	-	(720,000)
Dividends declared	17	-	(2)	-	(2)
Comprehensive income					
Valuation of derivative financial instruments		-	-	237,335	237,335
Deferred income taxes on derivative instruments		-	-	(23,233)	(23,233)
Reclassifications of financial derivative instruments to profit and loss		-	-	180,625	180,625
Deferred taxes on financial instruments reclassified to profit and loss		-	-	(59,378)	(59,378)
Remeasurement of defined benefit obligation		-	-	545	545
Net income for the period		-	1,088,594	-	1,088,594
		-	1,088,594	335,894	1,424,488
Balance as of December 31, 2016		21,408,968	(3,683,346)	28,853	17,754,475
Capital stock reduction	17	(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		-	1,895,669	-	1,895,669
		-	1,895,669	52,259	1,947,928
Balance as of December 31, 2017		$ 18,258,968	$ (1,787,678)	$ 81,112	$ 16,552,402

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, 2017, 2016 and 2015
(Thousands of Mexican pesos and thousands of U.S. dollars)

	(Convenience translation, see Note 3b) 2017	2017	2016	2015
Operating activities:				
Income before income taxes	U.S.$ 92,553	$ 1,826,579	$ 1,159,077	$ 1,038,008
Adjustments for:				
Depreciation and amortization	45,192	891,879	835,984	786,751
Interest expense	171,518	3,384,972	3,508,238	3,331,871
Reclassifications of derivative financial instrument to profit and loss	2,245	44,313	180,625	166,505
Valuation effects of derivative financial instruments	-	-	-	(210,645)
Amortization of commissions and debt issuance costs	6,179	121,941	98,834	100,548
Unrealized exchange loss (gain)	(4)	(76)	14	7
Adjustments to principal amounts of UDI denominated debt	27,892	550,457	269,118	164,110
	345,575	6,820,065	6,051,890	5,377,155
(Increase) decrease in:				
Trade accounts receivable	33,656	664,207	(364,276)	12,501
Recoverable taxes	(182)	(3,592)	1,444	548
Financial assets arising from concessions	138	2,725	(3,958)	89,471
Other accounts receivable and prepaid expenses	(3,790)	(74,803)	(13,970)	(20,749)
Other assets	(74)	(1,461)	(158)	(503)
Increase (decrease) in:				
Accounts payable to suppliers	558	11,003	(517)	4,164
Other current liabilities	778	15,359	4,602	1,204
Provisions	(13,515)	(266,716)	(231,629)	(216,014)
Taxes other than income tax	(1,884)	(37,183)	93,194	546
Income taxes paid	(10,479)	(206,813)	(177,113)	(232,511)
Employee benefits	4,004	79,024	11,106	(54,314)
Post-employment benefits	25	500	571	229
Net cash provided by operating activities	354,810	7,002,315	5,371,186	4,961,727
Investing activities:				
Acquisition of machinery, furniture and equipment	(996)	(19,648)	(15,155)	(21,211)
Intangible assets derived from concessions	(35,426)	(699,151)	(486,323)	(447,129)
Net cash used in investing activities	(36,422)	(718,799)	(501,478)	(468,340)

(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, 2017, 2016 and 2015
(Thousands of Mexican pesos and thousands of U.S. dollars)

	(Convenience translation, see Note 3b) 2017	2017	2016	2015
Financing activities:				
Proceeds from long-term debt	U.S.$ 144,863	$ 2,858,931	$ 695,473	$ 3,323,773
Payments of debt	(17,280)	(341,018)	(564,349)	(1,268,130)
Interest paid	(171,010)	(3,374,960)	(3,208,734)	(2,901,642)
Payments of derivative financial instruments	(2,245)	(44,313)	(180,625)	(166,319)
Commissions and debt issuance costs paid	(8,338)	(164,551)	(53,371)	(51,250)
Capital stock reduction	(159,612)	(3,150,000)	(1,799,800)	(2,730,000)
Net cash used in financing activities	(213,622)	(4,215,911)	(5,111,406)	(3,793,568)
Increase in cash and cash equivalents	104,766	2,067,605	(241,698)	699,819
Cash and cash equivalents at the beginning of period	343,164	6,772,465	7,014,163	6,314,344
Cash and cash equivalents at the end of period	U.S.$ 447,930	$ 8,840,070	$ 6,772,465	$ 7,014,163

(Concluded)

See accompanying notes to consolidated financial statements.

1. Nature of business and significant events of 2017:

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 12).

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 were 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 when construction on the segment is concluded, which is expected to conclude on April 2018.

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, 2017. 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. Américas No.1592 4th floor, Colonia Country Club, C.P.44610, Guadalajara, Jalisco.

Significant events of 2017:

a. ***COTESA***

On February 22, 2017, the SCT authorized the partial startup of operations for the Tepic – San Blas highway concessioned to COTESA in the state of Nayarit, and on October 13, 2017, granted final authorization for the start of operations.

b. ***Capital reduction***

By unanimous resolutions dated May 23, August 23 and November 22, 2017, the Entity’s shareholders authorized reductions in the variable portion of its capital stock for the amounts of $1,200 million, $950 million and $1,000 million, respectively, with the prior recommendation of the Board of Directors, which were paid during 2017.

c. ***Loan refinancing***

On December 21, 2017, RCO entered into a credit extension and amendment agreement to the loan contract signed with Banco Nacional de Obras y Servicios Públicos, S. N. C., which increased the credit line by $4,000 million, of which as of December 31, 2017, $2,000 million had been exercised, while also extending the original maturity from 2032 to 2037.

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 (“IFRSs” or “IAS”) that are mandatorily effective for the year 2017***

In 2017, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period beginning on or after January 1, 2017.

Amendments to IAS 7 Disclosure Initiative

The Entity has applied these amendments for the first time in the year 2017. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Entity’s liabilities arising from financing activities consist of borrowings and stock certificates (Note 12). A reconciliation between the opening and closing balances of these items is provided in Note 12.

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

The Entity has applied these amendments for the first time in 2017. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

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

Annual Improvements to IFRSs 2014-2016 Cycle

The Entity has applied the amendments to IFRS 12, IFRS 1 and IAS 28 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The Entity exercised the option that allows it to adopt early in 2017 the amendments to IFRS 1 and IAS 28.

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

The amendments to IAS 28 clarify that the option for a venture capital organization and other similar entities to value the investments in associated companies and joint businesses at fair value through profit or loss and other comprehensive income (loss) is available separately for each associated company or joint business and the option should be applied in the initial registration of the associated company or joint business. With regard to the option for an entity other than an investment entity (IE) to maintain the valuation at fair value for its associated companies and joint businesses which are IE when they recognize the equity method, the amendments make a similar clarification that this option is available for each associated IE or joint business IE. The amendments are applied retrospectively.

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

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

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and measurement of share-based payments[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty Over Income Tax Treatments[2]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[2]

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after a date to be determined.

IFRS 9 *Financial Instruments*

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

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 should be initially measured at fair value and subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- Regarding financial liabilities, the general rule is recognize them at amortized cost, while allowing for optional designation at fair value through profit or loss; IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Entity's financial assets and financial liabilities as at December 31, 2017 on the basis of the facts and circumstances that exist at that date, management has assessed that there will be no significant impact on the consolidated financial statements due to the adoption of IFRS 9.

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

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

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

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

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

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

The Entity will use the retrospective method for each reporting period presented for the transition and adoption of IFRS 15. Apart from providing more extensive disclosures on the Entity's revenue transactions, management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Entity.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees.

IFRS 16 was issued in January 2016 and will supersede the lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payment that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among the others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented both as financing cash flows.

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

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

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated. The Entity has decided to adopt this standard in advance as of January 1, 2018, with the retrospective application option.

Based on the facts and circumstances existing as of December 31, 2017, management has evaluated the impact of IFRS 16 on its consolidated financial statements and has identified noncancelable lease commitments, for which reason this standard requires that in the transition process:

- A right-of-use asset must be recorded, valued at cost less accumulated depreciation and impairment losses.

- A lease liability must be recorded, which is valued initially at the present value of the lease payments which have not been paid as of that date and is subsequently adjusted for interest and lease payments, and for the impact of changes to the lease, among others.

- The accumulated depreciation of the right-of-use asset and the interest expense accrued on the lease agreements, must be recorded.

Currently, IAS 17 only requires that certain disclosures be made in relation to commitments for operating leases (see Note 22).

The Entity estimates that the cumulative effects as of January 1, 2018 would result in a right-of-use asset of $34,409, a lease liability of $37,217 and a debit to equity for $2,808. Management believes that none of the practical expedients permitted in the transition process will be applied.

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

The amendments clarify the following:

1. 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.
2. 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.
3. 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 are effective for annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. Specific transition provisions apply. Management does not anticipate that the application of the amendments in the future will have a significant impact on the Entity's consolidated financial statements.

Amendments to IFRS 10 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 is 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. These amendments have no impact on the Entity's consolidated financial statements because the Entity has no investments in associates or joint ventures.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The Entity does not expect impacts to its consolidated financial statements as a result of these amendments, as it does not have investment properties.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

The Entity does not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements since the transactions carried out in foreign currency are immaterial.

IFRIC 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty about the treatment in accordance with IAS 12. Specifically, it considers:

- Whether the tax treatments should be considered collectively.
- Assumptions for taxation authorities' examinations.
- Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- Effect of changes in facts and circumstances.

Management is currently in the process of reviewing the potential impacts that will be derived from the adoption of this interpretation, and accordingly, to date, is unable to provide a reasonable estimate of the impact.

Annual Improvements to IFRSs 2015 - 2017 Cycle

The annual improvements include amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

The amendments to IFRS 3 clarify that when an entity obtains control over a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (or distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.

Amendments to IAS 23 clarify that if an any specific borrowing remains out-standing 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.

Management estimates that application of the amendments to IFRS 3, IFRS 11 and IAS 23 will not have any impact on its consolidated financial statements because it does not hold interests in joint businesses and does not have any classifiable assets.

Regarding the amendments to IAS 12, management is currently in the process of evaluating the potential impacts that will result from the adoption of this standard, and accordingly, to date, is unable to provide a reasonable estimate of the impact.

c. ***Change in estimate of the provision for major maintenance***

Management performed a detailed analysis of the costs of major maintenance which were expected to occur from the start of its operations until the date on which they were disbursed, and in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Error* (IAS 8), concluded that it is appropriate to make prospective changes in the corresponding estimate. Up to December 31, 2016, the Entity recognized a provision for the projection of the global cost of major maintenance and net present value of the average cost of the next five years. From January 1, 2017, the Entity recognizes a provision for the projection of the net present value of the cost of major maintenance to be performed by type of repair and by stretch of highway. The Entity believes that the provision determined on this basis better reflects the objectives of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37") and of IFRIC 12, *Concession Arrangements* ("IFRIC 12").

The effect of the change in this estimate generated a reduction in the amount of the provision for major maintenance of $7,709, with the same effect in results in the consolidated financial statements as of December 31, 2017; the amount of the effect in future periods is not disclosed because estimating it is impracticable.

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, 2017 and for the year then ended have been translated into U.S. dollar amounts at the rate of $19.7354 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.

i. Historical cost

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

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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 full on 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 IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

The 2017, 2016 and 2015 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; 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***

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

In addition to cash and cash equivalents, the main financial assets of the Entity are classified as receivables which are measured at amortized cost using the effective interest method. Accounts receivable are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. Accounts receivable include clients, financial assets from concession and other receivables.

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. 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) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of fair value through profit or loss.

For accounts receivable the Entity recognized an allowance of impairment losses due to the possibility of customer default, a legal or financial contingency affecting the customer. Or in case of outstanding balances aged more than 90 days. This estimate is recorded based on the Entity's policy for the determination of such amount and is reviewed and updated, as necessary, at each reporting date. The Director of Administration and finance and the General Counsel of the Entity shall authorize the record in the results of this estimates.

For financial assets recorded at amortized cost, the amount of the loss from impairment recognized is the spread between the book value of the asset and the present value of the future cash flows recoverable, discounted at the original effective interest rate of the financial asset.

For financial assets that are accounted for at cost, the amount of the loss from impairment is calculated as the spread between the book value of the asset and the present value of the estimated future cash flows, discounted at the current market rate of return of a similar financial asset. Such loss from impairment will not be reversed in subsequent periods.

For financial assets valued at amortized cost, if in a subsequent period the amount of the loss from impairment decreases and this reduction can be matched objectively with an event that occurred after recognition of the impairment, the previously recognized loss from impairment it is reversed in results until the point where the book value of the asset at the date the impairment was reversed does not exceed the amortized cost that it would have had if the impairment had not been recognized.

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

The Entity applies Interpretation No.12, "Service Concession Arrangements" ("IFRIC 12"), 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. Based on IFRIC 12:

- 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***

Furniture and equipment are recorded at acquisition 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 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***

Machinery and equipment are recorded at acquisition 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. ***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.

m. ***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 is the higher of fair value less costs to sell and value in use. In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. This impairment analysis is prepared by an independent expert hired by the Entity management.

If the recoverable amount of an asset is estimated to be less than its 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.

n. ***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 concessioned 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.

o. ***Employee benefits***

Short-term employee benefits

Direct benefits to employees are calculated, and a liability is recognized, based on the services provided, considering the employees' current salaries. Direct employee benefits include mainly compensated absences, such as vacation and vacation bonus.

Statutory employee profit sharing ("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

Long-term employee benefits also include a provision for bonuses granted by the Entity, as discussed in Note 13. 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

The Entity grants seniority premiums to all its employees at the end of the work relationship for those employees with 15 or more years' service or who are dismissed regardless of their time with the Entity. The benefits consist of a single payment equal to 12 days' salary for each year of service based on the employee's most recent salary, but without exceeding twice the current minimum wage.

Seniority premium is determined using the Projected Unit Credit Method, with 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.

p. ***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.

q. ***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:

Financial liabilities are classified as at fair value through profit and loss when the financial liability is either held for trading or it is designated as at fair value through profit and loss or as "other financial liabilities". The Entity has not otherwise designated any financial liabilities as at fair value through profit and loss.

Other financial liabilities:

The amortized cost of a financial liability is the initial amount of the liability recognized less the cumulative amortization of the liability using the effective interest rate method to account for difference between the initial amount of the liability and the amount due upon maturity.

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.

r. ***Financial derivatives***

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 11.

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.

Note 11 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 discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

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.

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, 2017, 2016 and 2015 there are no embedded derivatives that must be separated from the host contract.

s. ***Toll revenue recognition***

The management of the Entity recognizes toll revenues when vehicles utilize the highway and pay the respective toll in cash or electronically. In the case of toll service revenues, they are received directly from the SCT and are recorded at the time the vehicles use the toll roads. In both cases, income from services is recognized at the moment in which the following conditions are met:

- Revenues can be reliably measured;
- It is probable that the Entity will receive the economic benefits associated with the transaction; and
- The service has been provided and
- Any related costs have been or will be incurred and can be reliably measured.

t. ***Recognition of revenues and construction costs derived from extension and rehabilitation projects***

In accordance with IFRIC 12, the Entity recognizes revenues and construction costs when extension and rehabilitation projects related to the concession infrastructure are carried out and whenever these extension or rehabilitation works increase the capacity of the concession assets to generate future economic benefits.

u. ***Recognition of availability payment***

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.

v. ***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.

w. ***Earnings per share***

Basic earnings per common share are calculated by dividing net income attributable to the controlling interest 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.

x. ***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).

y. ***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 11 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 10).

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, 2017	December 31, 2016	December 31, 2015
Cash	$ 1,267,361	$ 831,033	$ 768,708
Cash equivalents	7,473,876	5,847,759	6,154,353
	8,741,237	6,678,792	6,923,061
Long-term restricted cash	98,833	93,673	91,102
	$ 8,840,070	$ 6,772,465	$ 7,014,163

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, 2017, 2016 and 2015 are $7,234,704, $5,630,856 and $5,802,920, 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, 2017, 2016 and 2015, the balances of this fund are $48,202, $42,139 and $37,405, respectively, which is included within cash equivalents above.

(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, 2017, 2016 and 2015 are $223,838, $194,685 and $326,656, 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, 2017, 2016 and 2015 are $15,218, $22,218 and $$24,776, 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, 2017, 2016 and 2015 are $689,756, $344,845 and $$491,844, 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, 2017, 2016 and 2015 are $412,248, $182,044 and $224,595, 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, 2017 and 2016 are $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, 2017 the amount of such fund is $18,080.

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. In the case of COTESA, Banco Invex, S.A. Institución de Banca Múltiple Invex Grupo Financiero is the trustee.

The long-term restricted cash account of $98,833, $93,673 and $91,102, at December 31, 2017, 2016 and 2015, 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, 2017	December 31, 2016	December 31, 2015
Trade accounts receivable	$ 121,413	$ 777,840	$ 412,648
Allowance for doubtful accounts	(11,440)	(3,660)	(2,744)
	$ 109,973	$ 774,180	$ 409,904

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

Accounts receivable from customers include overdue amounts at the end of each reporting period and for which the Entity has recognized an estimated allowance for doubtful accounts due to the possibility of customer default, a legal or financial contingency affecting the customer or in case of outstanding balances aged more than 90 days. This estimate is recorded in the moment of the determination of such amount and is reviewed and updated, as necessary, at each reporting date. At December 31, 2017, 2016 and 2015, all accounts receivable that are overdue by 90-plus-days accounts receivable are covered by the allowance for doubtful accounts.

There are no overdue balances from customers at December 31, 2017; at December 31, 2016 and 2015, trade accounts receivable is essentially composed of $665,147 and $320,910, respectively, 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, 2017	December 31, 2016	December 31, 2015
Current and overdue less than 90 days	$ 109,973	$ 774,180	$ 409,904
Overdue more than 90 days	11,440	3,660	2,744
Total	$ 121,413	$ 777,840	$ 412,648

Movements in the allowance for doubtful accounts receivable are as follows:

	Total
Balance as of January 1, 2015	$ (2,936)
Applications, net	192
Balance as of December 31, 2015	(2,744)
Estimates, net	(916)
Balance as of December 31, 2016	(3,660)
Estimates, net	(7,780)
Balance as of December 31, 2017	$ (11,440)

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

	December 31, 2017	December 31, 2016	December 31, 2015
Advances to suppliers	$ 18,124	$ 21,085	$ 34,785
Premiums paid in advance for insurance and bonds	67,961	27,194	34,037
Refundable VAT	86,255	49,566	16,231
Other accounts receivable	17,226	16,918	15,740
	$ 189,566	$ 114,763	$ 100,793

7. Financial asset arising from concession

The financial asset arising from concession comprising current and long-term portion 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, 2017, 2016 and 2015 is $388,502, $393,129 and $407,540, respectively, while the long-term asset as of December 31, 2017, 2016 and 2015 is $868,967, $867,065 and $848,696, 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, 2017, 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, 2017, CONIPSA complies with all conditions mentioned above.

8. Intangible assets derived from the concessions

a. The intangible asset related to the concession is as follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Investment in concession	$ 51,807,495	$ 51,151,080	$ 50,644,403
Capitalized financing costs	203,380	203,380	203,380
	52,010,875	51,354,460	50,847,783
Accumulated amortization	(9,242,408)	(8,362,680)	(7,540,369)
	42,768,467	42,991,780	43,307,414
Advances to suppliers	131,562	55,241	85,266
	$ 42,900,029	$ 43,047,021	$ 43,392,680

	Investment in concession	Capitalized financing costs	Total
Acquisition cost:			
Balance as of January 1, 2015	$ 50,224,582	$ 203,380	$ 50,427,962
Additions	419,821	-	419,821
Balance as of December 31, 2015	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

Accumulated amortization:	Investment in concession
Balance as of January 1, 2015	$ (6,759,255)
Amortization	(781,114)
Balance as of December 31, 2015	(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)

b. During the years ended December 31, 2017, 2016 and 2015, the Entity recorded construction service revenues and costs with respect to expansion or rehabilitation to the Concessioned Highways for $614,658, $496,204 and $346,097, respectively, and costs were also recorded for the same amounts, in each of the periods.

c. 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 12).

d. 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.m, the Entity performs annual impairment tests. At December 31, 2017, there is no indication of impairment losses involving the carrying value of intangible asset by concession.

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 2017, 2016 and 2015, the consideration paid was $32,962, $29,403 and $25,635 respectively.

e. 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.

f. 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. As of December 31, 2017, the highway granted to COTESA is under construction stage. For the year ended December 31, 2017, the consideration was $4,254.

g. 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, 2017, there is no indication of impairment losses involving the carrying value of concession assets.

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. (as of September 15, 2017) 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, 2017	December 31, 2016	December 31, 2015
Acquisition cost	$ 2,946	$ 2,548	$ 1,710
Accumulated amortization	(2,248)	(1,423)	(819)
	$ 698	$ 1,125	$ 891

b. Furniture and equipment consist of the following:

	December 31, 2017	December 31, 2016	December 31, 2015
Acquisition cost:			
Computer equipment	$ 155	$ 155	$ 154
Furniture and fixtures	30,033	29,087	23,792
Vehicles	65	65	65
	30,253	29,307	24,011
Accumulated depreciation	(12,758)	(10,308)	(2,750)
	$ 17,495	$ 18,999	$ 21,261

c. Machinery and equipment consist of the following:

	December 31, 2017	December 31, 2016	December 31, 2015
Acquisition cost	$ 56,996	$ 38,692	$ 29,682
Accumulated depreciation	(20,991)	(12,115)	(6,615)
	$ 36,005	$ 26,577	$ 23,067

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. Provisions

As of and for the years ended December 31, 2017, 2016 and 2015, the composition and changes of the most significant items of provisions are as follows:

	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

	December 31, 2015	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

	January 1, 2015	Used	Write- off	Additions	December 31, 2015
Provision for:					
Major maintenance ST(1)	$ 586,301	$ (628,200)	$ -	$ 820,726	$ 778,827
Major maintenance LT(1)	224,750	-	-	(155,507) (2)	69,243
Other	4,000	-	-	-	4,000
	$ 815,051	$ (628,200)	$ -	$ 665,219	$ 852,070

(1) At December 31, 2017, 2016 and 2015, this provision includes finance costs of $ - , $284,644, and $253,033, 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.

11. 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, 2017	December 31, 2016	December 31, 2015
$4,169,987	Oct. 07 Mar. 08 Mar. 17	Oct. 18 Dec. 21 Sep. 28	TIIE *28 d(1)	8.37%	$ 11,838	$ (63,734)	$ (336,205)
$1,498,167	Sep. 15	Feb. 25	TIIE *28 d(1)	6.11%	93,457	98,238	(22,054)
$ 227,527	Feb. 16	Aug. 24	TIIE *28 d(1)	5.78%	15,304	16,569	-
					$ 120,599	$ 51,073	$ (358,259)

(1) As of December 31, 2017, 2016 and 2015, the 28-day TIIE rate is 7.6241%, 6.1066% and 3.5475%, 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 $35,857, $(11,129) will be reclassified to profit or loss during 2018.

As of December 31, 2017, 2016 and 2015 there are no ineffective portions that should be recognized in the results of the period.

12. Long-term debt

Long-term debt consists of the following:

	December 31, 2017	December 31, 2016	December 31, 2015
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	$ 352,941
Securitized certificates of RCO of 1,481,044,500 UDIs maturing in 2032, bearing monthly interest at a fixed interest rate of 5.2500%.	8,789,334	8,238,877	7,969,760
Securitized certificates of RCO of $2,841,000 maturing in 2027 bearing monthly interest at a fixed interest rate of 9.0000%.	2,841,000	2,841,000	2,841,000
Senior debt instruments issued by RCO of $7,500,000 maturing in 2028, bearing interest payable semi-annually 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, bears 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%.	9,135,561	7,135,561	7,135,561
Credit line contracted by RCO up to $4,596,000 due in 2029, bears interest 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.	1,501,018	1,047,850	619,176

	December 31, 2017	December 31, 2016	December 31, 2015
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).	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.	227,527	249,297	266,800
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.	897,233	972,745	1,033,575
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.	1,498,167	1,624,255	1,725,825
Total Debt	41,909,249	38,840,879	38,440,638
Less: current portion	365,766	341,018	338,047
Long-term debt	41,543,483	38,499,861	38,102,591
Commissions and debt issuance costs	(1,928,104)	(1,735,791)	(1,710,182)
Accumulated amortization of commissions and debt issuance costs	1,232,435	1,082,732	1,011,660
Total	$ 40,847,814	$ 37,846,802	$ 37,404,069

(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 date of maturity.

The TIIE rate defined by the Bank of Mexico at December 31, 2017, 2016 and 2015 was 7.6241%, 6.1066% and 3.5475%, respectively.

Reconciliation of obligations derived from financing activities:

	Long-term debt	Interest payable	Derivative financial instruments, net	Interest payable on derivative financial instruments, net
Balances, January 1, 2015	$ 35,473,067	$ 676,362	$ 393,753	$ 8,351
Changes that represent cash flows-				
Loans obtained	3,323,773	-	-	-
Payments	(1,268,130)	(2,901,642)	-	(166,319)
Commissions and debt issuance costs	(51,250)	-	-	-
Changes that do not represent cash flows-				
Interest expense	-	3,078,838	-	-
Valuation effects of derivative financial instruments	-	-	(35,494)	171,581
Adjustments to principal amounts of UDI denominated debt	164,110	-	-	-
Accumulated amortization of commissions and debt issuance costs	100,546	-	-	-
Balances, December 31, 2015	37,742,116	853,558	358,259	13,613
Changes that represent cash flows-				
Loans obtained	695,473	-	-	-
Payments	(564,349)	(3,208,734)	-	(180,625)
Commissions and debt issuance costs	(53,371)	-	-	-
Changes that do not represent cash flows-				
Interest expense	-	3,223,594	-	-
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	98,833	-	-	-
Balances, December 31, 2016	38,187,820	868,418	(51,073)	4,985
Changes that represent cash flows-				
Loans obtained	2,858,931	-	-	-
Payments	(341,018)	(3,374,960)	-	(44,313)
Commissions and debt issuance costs	(164,551)	-	-	
Changes that do not represent cash flows-				
Interest expense	-	3,384,972	-	-
Valuation effect of derivative financial instruments	-	-	(69,526)	38,986
Adjustments to principal amounts of UDI denominated debt	550,457	-		
Accumulated amortization of commissions and expenses	121,941	-	-	-
Balances, December 31, 2017	$ 41,213,580	$ 878,430	$ (120,599)	$ (342)

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, 2017, 2016 and 2015 were $1,608,406, $1,452,282 and $1,342,427, respectively.

For the years ended December 31, 2017, 2016 and 2015, the Entity was in compliance with such covenants.

The scheduled maturity of long-term debt as of December 31, 2017, taking into consideration the extended terms discussed above, without considering commissions and debt issuance costs, is as follows:

2018	$ 365,766
2019	1,352,936
2020	1,816,266
2021	2,076,321
2022	2,389,292
2023	3,020,671
2024 and thereafter	30,887,997
	$ 41,909,249

Interest payable based on debt maturity is as follows:

2018	$ 3,563,741
2019	3,602,803
2020	3,494,955
2021	3,338,757
2022	3,167,127
2023	2,955,272
2024 and thereafter	15,072,612
	$ 35,195,267

13. 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, 2017, 2016 and 2015, the liabilities for this item are $20,910, $22,274 and $18,184, respectively, and are presented in the consolidated statement of financial position as short-term employee benefits. The related expense was $16,135, $4,702 and $6,642 in 2017, 2016 and 2015, respectively.

b. The Entity must pay its employees a seniority bonus. The net cost of these obligations for the years ended December 31, 2017, 2016 and 2015 is $707, $755 and $229, 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 five and 10 years.

As of December 31, 2015, the recorded liability for deferred bonuses and distribution was $52,472 and is presented in the consolidated statement of financial position as Employee benefits. The expense for the deferred bonus and distributions of returns was $75,616 in 2015.

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, 2017 and 2016, the compensation plan is determined as follows:

Type of agreement	**Appreciation rights units**	**Appreciation rights units**	**Appreciation rights units**
Grant date	February 10, 2017	February 26, 2016	February 28, 2015
Units	30,000,000	45,000,000	20,000,000 and 80,0000
Reference value at grant date	$2.00, respectively	$1.783	$1.748 and $2.00, respectively
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	February 10, 2017	February 26, 2016	February 28, 2015
Units	5,017,220	6,340,154	28,291,484
Reference value at grant date	$1.977	$1.783	$1.748
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
Grant date	February 10, 2017	February 26, 2016	February 28, 2015
Units	5,017,220	6,340,154	28,291,484
Reference value at grant date	N/A	N/A	N/A
Term	3 years	3 years	3 years

Type of agreement	Rights equivalent to distributions	Rights equivalent to distributions	Right equivalent to distributions
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

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

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, 2017, 2016 and 2015, the related liabilities are $6,678, $6,075 and $5,765 respectively, and are presented in the consolidated statement of financial position as Employee benefits. The expense for this item was $3,538, $3,200, and $5,279 in 2017, 2016 and 2015, respectively.

14. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2016 and 2015 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, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
ISR:			
Current	$ 224,738	$ 205,935	$ 200,151
Deferred ISR benefit	(293,828)	(135,452)	(162,320)
Total income tax (benefit) expense in profit and loss	$ (69,090)	$ 70,483	$ 37,831

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, 2017	Amount	Tax	%
Income before income taxes	$ 1,826,579	$ 547,974	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	(3,334,364)	(1,000,309)	(54.6)
	(1,077,452)	(323,236)	(17.6)
Current Tax	749,127	224,738	12.4

December 31, 2017	Amount	Tax	%
Changes to deferred tax:			
Other temporary items	3,334,364	1,000,309	54.6
Inflation effects	(4,326,144)	(1,297,843)	(71)
Others	12,355	3,706	0.2
Deferred tax	(979,425)	(293,828)	(16.2)
Income taxes	$ (230,298)	$ (69,090)	(3.8)

December 31, 2016	Amount	Tax	%
Income before income taxes	$ 1,159,077	$ 347,723	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	(1,600,740)	(480,222)	(41.4)
	(472,627)	(141,788)	(12.2)
Current Tax	686,450	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 taxes	$ 234,943	$ 70,483	6.1

December 31, 2015	Amount	Tax	%
Loss before income taxes	$ 1,038,008	$ 311,402	30.0
Changes to current tax:			
Non deductible	14,200	4,260	0.4
Annual inflation adjustment	694,532	208,360	20.0
Other temporary items	(1,079,570)	(323,871)	(31.2)
	(370,838)	(111,251)	(10.8)
Current Tax	667,170	200,151	19.2
Changes to deferred tax:			
Other temporary items	1,079,570	323,871	31.2
Inflation effects	(1,388,181)	(416,454)	(40.1)
Others	(210,728)	(63,218)	(6.1)
Restructure of financial derivative operations	(21,727)	(6,519)	(0.6)
Deferred tax	(541,066)	(162,320)	(15.6)
Income taxes	$ 126,104	$ 37,831	3.6

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

	December 31, 2017	December 31, 2016	December 31, 2015
Assets:			
Furniture and equipment	$ 114	$ -	$ 233
Intangible assets derived from the concessions	3,025,092	2,380,910	2,248,072
Derivative financial instruments	-	-	107,478
Accrued liabilities and provisions	257,395	314,994	295,692
	3,282,601	2,695,904	2,651,475
Liabilities:			
Furniture and equipment	-	(340)	-
Derivative financial instruments	(36,897)	(15,298)	-
Commissions and debt issuance costs	(208,701)	(195,918)	(209,445)
Prepaid expenses and advances to suppliers	(35,177)	(25,177)	(20,656)
Financial assets arising from concessions	(377,241)	(378,058)	(376,871)
	(658,016)	(614,791)	(606,972)
Net deferred income tax asset from temporary differences	2,624,585	2,081,113	2,044,503
Tax loss carryforwards	3,982,645	4,254,746	4,238,515
Net deferred income tax asset	$ 6,607,230	$ 6,335,859	$ 6,283,018

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, 2017, a deferred tax liability of $332,075, 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 balances deferred taxes balances

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

2015	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Furniture and equipment	$ 162	$ 71	$ -	$ 233
Intangible assets derived from concessions	2,273,728	(25,656)	-	2,248,072
Derivative financial instruments	156,822	-	(49,344)	107,478
Accrued liabilities and provisions	299,323	(3,631)	-	295,692
Commissions and debt issuance costs	(224,345)	14,900	-	(209,445)
Prepaid expenses and advances to suppliers	(20,163)	(493)	-	(20,656)
Financial assets arising from concessions	(403,712)	26,841	-	(376,871)
	2,081,815	12,032	(49,344)	2,044,503
Tax loss carryforwards	4,088,227	150,288	-	4,238,515
	$ 6,170,042	$ 162,320	$ (49,344)	$ 6,283,018

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, 2017, the amount of the tax loss carryforward benefits (restated for the effects of inflation as permitted by Mexican Income Tax Law) is $13,275,484.

15. Costs and expenses by nature

Total costs and expenses classified by nature are as follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Amortization of assets derived from the concessions	$ 879,728	$ 822,311	$ 781,113
Major maintenance expenditures	617,141	647,380	412,186
Minor maintenance expenditures	47,719	47,784	45,662
Operating costs	100,851	71,453	137,089
Other	108,547	112,957	79,385
Operation and maintenance provisions	874,258	879,574	674,322
Insurance and bonds	70,563	76,795	79,378
Payment to Federal Government	37,217	29,403	25,635
Other	4,646	4,769	5,604
Toll collection costs	112,426	110,967	110,617
Construction costs	614,658	496,204	346,097
Cost of ancillary revenues from the use of right of way and other related	119,324	107,531	33,202
Salaries	341,196	249,561	281,333
Consultants	52,076	46,835	38,776
Other	90,282	62,409	51,490
General and administrative expenses	483,554	358,805	371,599
	$ 3,083,948	$ 2,775,392	$ 2,316,950

16. 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, 2017	December 31, 2016	December 31, 2015
Financial assets			
Cash and cash equivalents	$ 8,741,237	$ 6,678,792	$ 6,923,061
Long-term restricted cash	98,833	93,673	91,102
Trade accounts receivable	109,973	774,180	409,904
Other accounts receivable	17,226	16,918	15,740
Financial assets arising from concessions	1,257,469	1,260,194	1,256,236
Derivative financial instruments	140,093	114,807	-
Interest receivable on derivative financial instruments	342	-	-
Financial liabilities			
Accounts payable to suppliers	296,193	285,266	285,768
Interest payable	878,430	868,418	853,558
Interest payable on derivative financial instruments	-	4,985	13,613
Other current liabilities	55,082	44,790	42,227
Accounts payable to shareholders	4	3	1,079,800
Long-term debt	41,213,580	38,187,820	37,742,116
Other long-term liabilities	10,096	5,029	2,990
Derivative financial instruments	19,494	63,734	358,259

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.

The Entity considers that its exposure to exchange rate risk is insignificant due to the low number of transactions and balances denominated in foreign currency. The Entity enters into financing in the same currency as the payment source. However, if its exposure to this risk becomes significant during a given period, it is managed within approved policy parameters.

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 11).

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 an increase / (decrease) of stockholders' equity of $115,455 and $(121,969), 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, 2017, 2016 and 2015 is a net of $120,599, $51,073 and $(358,259), respectively, and the debt to $41,909,249, $38,840,879 and $38,440,638.

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. 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, 2017, 2016 and 2015 is approximately $10,207,512, $ 8,806,839 and $ 8,680,303, respectively. Notes 5, 6 and 7 describe the main financial assets subject to credit risks.

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 12. 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 12. The following table shows the amounts of bank credit lines that the Entity has at its disposal to reduce liquidity risk:

	December 31 2017	December 31 2016	December 31 2015
Bank credit lines			
Amounts exercised	$ 41,909,249	$ 38,840,879	$ 38,440,638
Amounts not exercised	3,743,200	602,200	397,200
	$ 45,652,449	$ 39,443,079	$ 38,837,838

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 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	55,086	10,096	-	65,182
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	$ 5,179,803	$ 23,143,880	$ 53,118,835	$ 81,442,518

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	44,790	5,029	-	49,819
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	$ 4,267,499	$ 19,658,060	$ 45,472,041	$ 69,397,600

December, 31 2015	Less than 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Accounts payable to suppliers	$ 285,768	$ -	$ -	$ 285,768
Interest payable	2,955,713	11,913,790	15,179,852	30,049,355
Interest payable on derivative financial instruments	13,613	-	-	13,613
Other current liabilities	1,122,027	2,990	-	1,125,017
Long-term debt (1)	338,047	4,895,239	33,207,352	38,440,638
Derivative financial instruments	415,368	943,929	20,085	1,379,382
Total	$ 5,130,536	$ 17,755,948	$ 48,407,289	$ 71,293,773

(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, "Financial Instruments – Disclosure". 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, 2017		December 31, 2016	
	Carrying value	**Fair Value**	**Carrying value**	**Fair Value**
Financial assets maintained at amortized cost:				
Cash and cash equivalents	$ 8,741,237	$ 8,741,237	$ 6,678,792	$ 6,678,792
Trade accounts receivable	109,973	109,973	774,180	774,180
Other accounts receivable and prepaid expenses	17,226	17,226	16,918	16,918
Financial assets arising from concessions	1,257,469	1,257,469	1,260,194	1,260,194
Long-term restricted cash	98,833	98,833	93,673	93,673
Derivative financial instruments	140,093	140,093	114,807	114,807
Interest receivable on derivative financial instruments	342	342	-	-
Financial liabilities:				
Accounts payable to suppliers	$ 296,193	$ 296,193	$ 285,266	$ 285,266
Interest payable	878,430	878,430	868,418	868,418
Interest payable on derivative financial instruments	-	-	4,985	4,985
Other current liabilities	55,082	55,082	44,790	44,790
Accounts payable to shareholders	4	4	3	3
Long-term debt	41,213,580	42,037,012	38,187,820	38,299,456
Other long-term liabilities	10,096	13,207	5,029	5,065
Derivative financial instruments	19,494	19,494	63,734	63,734

	December 31, 2015	
	Carrying value	**Fair Value**
Financial assets maintained at amortized cost:		
Cash and cash equivalents	$ 66,293,061	$ 66,293,061
Trade accounts receivable	409,904	409,904
Other accounts receivable and prepaid expenses	15,740	15,740
Financial assets arising from concessions	1,256,236	1,256,236
Long-term restricted cash	91,102	91,102
Financial liabilities:		
Accounts payable to suppliers	285,768	285,768
Interest payable	853,558	853,558
Interest payable on derivative financial instruments	13,613	13,613
Other current liabilities	42,227	42,227
Accounts payable to shareholders	1,079,800	1,079,800
Long-Term debt	37,742,116	38,972,178
Other long-term liabilities	2,990	2,367
Derivative financial instruments	358,259	358,259

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

17. Stockholders' equity

a. Common stock at par value is as follows:

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

As of December 31, 2015:

	Number of Shares	Amount
Fixed capital		
Series A	55,393	$ 50
Variable capital		
Series A	20,105,331,110	16,439,513
Series B	8,609,634,800	5,689,405
Total	28,715,021,303	$ 22,128,968

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 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).

c. 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.

d. 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.

e. At the Stockholders´ Ordinary General Meeting mentioned below, the stockholders approved reductions in the variable portion of common stock to be paid in proportion to the value of the contribution of capital stock by each shareholder, as follows:

Stockholders' meeting date		Amount
February 9, 2015	$	1,350,000
May 12, 2015		2,208,000
November 26, 2015		251,800
	$	3,809,800

On March 10, 2015, June 10, 2015, December 10, 2015 and March 10, 2016, payments related to these capital reductions by $1,230,000, $300,000, $1,200,000 and $1,079,800 respectively were paid, which were paid proportionally to all RCO shareholders 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 2017, 2016 and 2015 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, 2017, 2016 and 2015, the tax value of the contributed capital account balance is $32,511,833, $33,225,125 and $37,736,625, respectively.

18. 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, 2017	December 31, 2016	December 31, 2015
Consolidated net income for the period	$ 1,895,669	$ 1,088,594	$ 1,000,177
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

19. 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 4, 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, 2017, 2016 and 2015, except for COTESA because is in construction period at the close of 2016 and began operations during 2017:

	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	4,822,950	589,257	187,830	16,286	(20,391)	5,595,932
Net income	1,737,289	490,521	145,604	16,694	(494,439)	1,895,669
Total liabilities	43,093,406	3,029,871	391,067	26,039	(2,743,586)	43,796,797

	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	4,169,780	672,543	158,519	(21,266)	4,979,576
Net income	1,008,251	473,465	97,155	(490,277)	1,088,594
Total liabilities	39,862,765	3,287,531	413,018	(2,596,110)	40,967,204

	December 31, 2015				
	FARAC I	**COVIQSA**	**CONIPSA**	**Eliminations and others**	**Total**
Total revenues	$ 5,633,647	$ 862,666	$ 254,146	$ (61,732)	$ 6,688,727
Income from operations	3,663,451	603,895	158,457	(19,391)	4,406,412
Net income	966,466	397,678	93,027	(456,994)	1,000,177
Total liabilities	40,588,718	3,336,098	418,745	(2,829,239)	41,514,322

20. Noncash transactions

a. For the years ended December 31, 2017, 2016 and 2015, the Entity recognized construction revenues of $614,658, $496,204 and $346,097, respectively, which are not reflected in the consolidated statements of cash flows.

b. During 2015 a capital reduction of $3,809,800 was approved, of which only $2,730,000 was paid in that year, with the balance settled in 2016.

21. 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 Highways are in process.

In the opinion of the Entity the trials that are in process as of December 31, 2017 are not susceptible either individually or jointly to an adverse effect on its business, operations, results, cash flow or financial situation.

22. Commitment

During 2014, COVIQSA and CONIPSA executed an operating lease agreement for their current offices located in Insurgentes Avenue No. 2010, Colonia Playa Azul in Irapuato, Guanajuato C.P. 36555 these leases were originally concluded for a mandatory term of five years, however in January 2018 they were renewed agreeing a new expiration to September 2025 and establish monthly rental payments of $23, which may be increased by the NCPI. Rental expense was a $410, $398 and $396, for the years ended December 31, 2017, 2016 and 2015, respectively.

On February 17, 2017, RCO entered into an operating lease agreement for the offices where it is located; the lease agreement is for a five-year for the lessor and one year for RCO with annual renewal option and establishes monthly payments of $199 updated with the NCPI. Rental expense was $2,451, $1,984 and $2,105, for the years ended December 31, 2016, 2015 and 2014, respectively.

23. Subsequent events

On January 16, 2018, RCO signed an amendment agreement of the Unsecured Loan Contract entered into with Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa, dated August 5, 2014, for $4,596,000, as described in Note 12. As of such agreement, interest is accrued at the fixed rate of 10.3500% and the date of maturity has been extended to August 10, 2034.

At Ordinary General Shareholders Meeting held on February 19, 2018, RCO's shareholders approved a reduction in the variable part of the Entity's capital stock of $2,600,000, payable in proportion to the amount contributed by each of the shareholders.

24. Authorization for issuance of financial statements

On February 20, 2018, the issuance of these consolidated financial statements was authorized by Demetrio Javier Sodi, 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.

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