

An aerial photograph of a highway interchange in a rural, hilly area. A tall, orange and white lattice tower stands on a grassy embankment. Large, white, 3D-style text is overlaid on the image. The background shows rolling green hills, fields, and a winding road.

**P R O F I T A B L E**

**G R O W T H**

**telesites**

2018 ANNUAL REPORT



Telesites incorporated 719 sites into its portfolio and added 341 additional rents from co-locations. The expansion of new towers was due both to improve geographic coverage and increase capacity in some towers in both urban and rural areas. With more towers in our portfolio, we can continue improving our margins, thanks to our cost structure and our ability to co-locate more clients.

## ABOUT THE COMPANY

Telesites is a Mexican company that builds, installs, maintains, operates and sells various types of passive telecommunications infrastructure—towers and support structures, physical spaces and other non-electronic elements. With more than 16,000 towers spread across the nine regions in Mexico as well as Costa Rica, Telesites is the largest tower operator in Mexico, and the second largest in Latin America.

Faced with a steadily growing demand for voice and data services and rapidly evolving telecommunications technology, cellular telephony carriers must continuously expand the infrastructure used for providing their services. This means a strong growth potential for Telesites going forward.

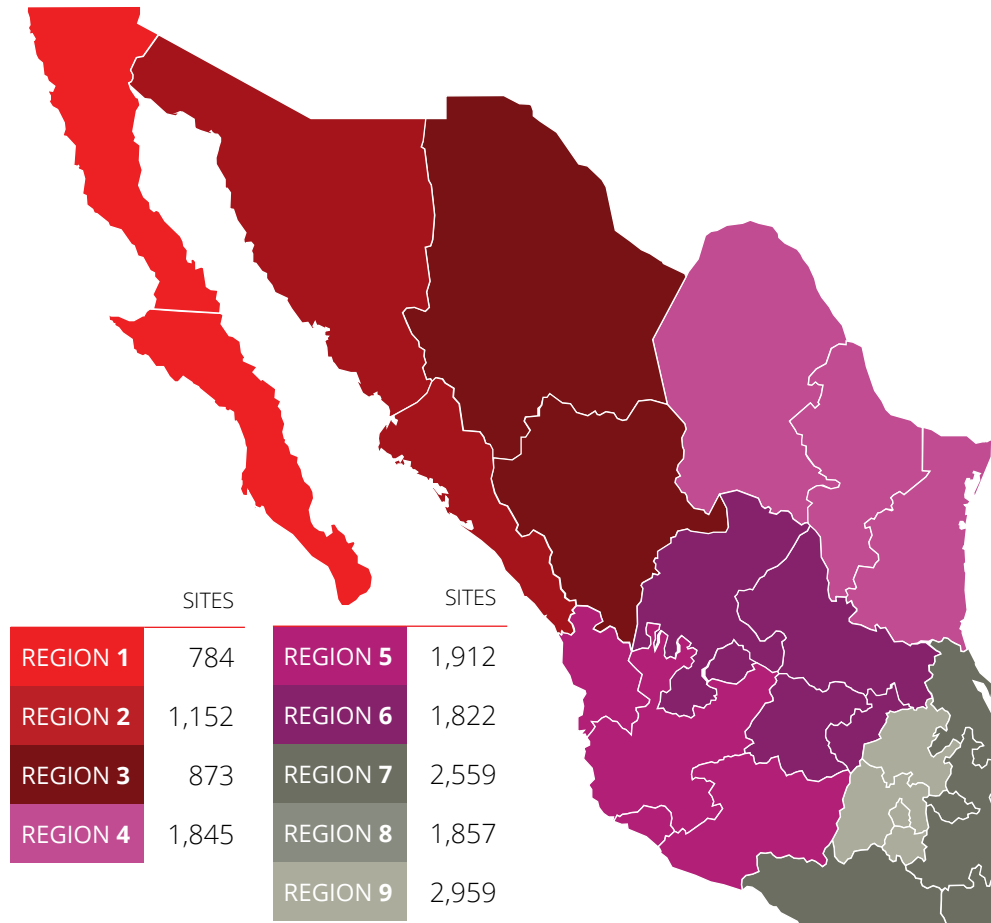
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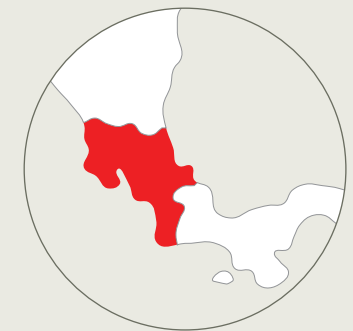
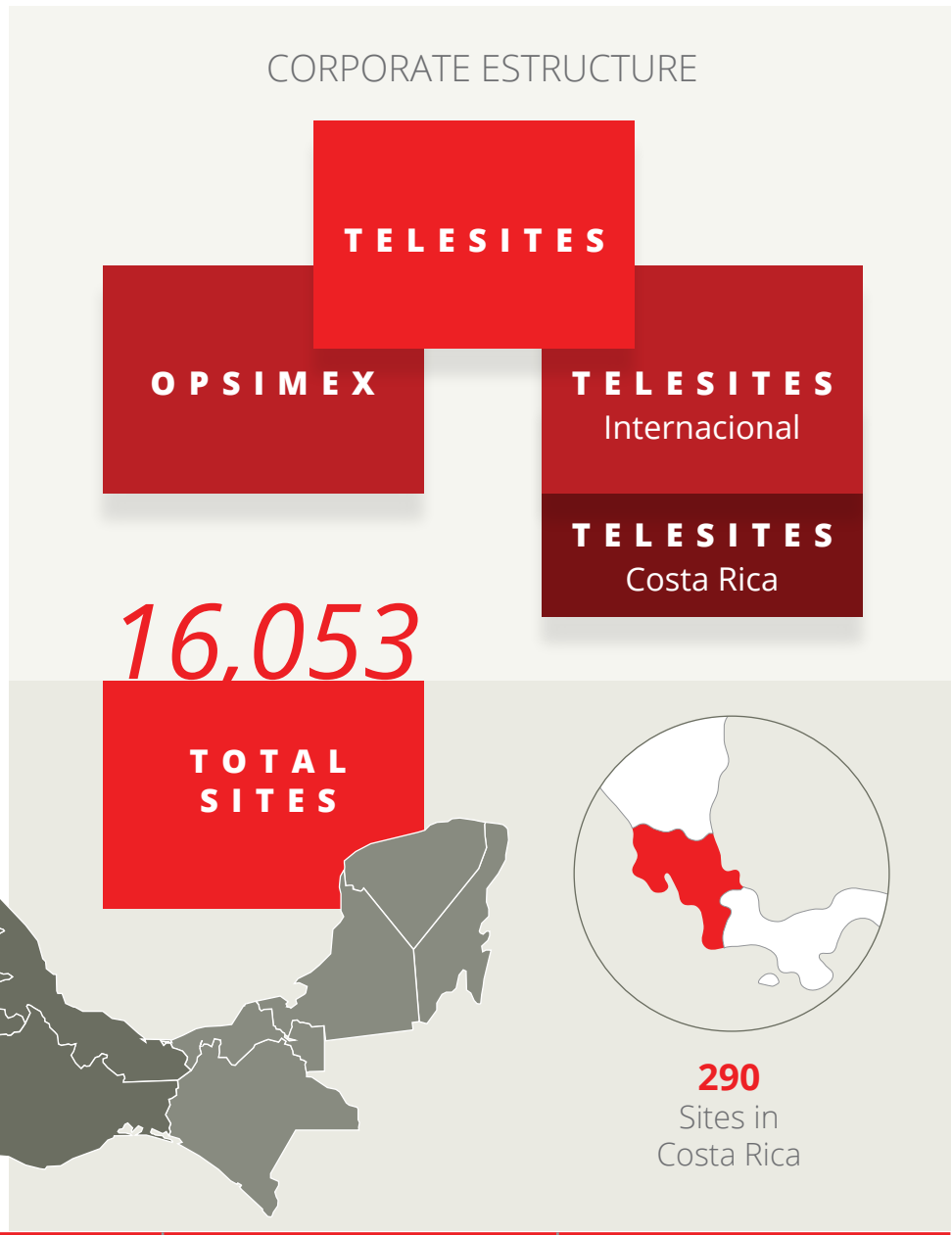


# TELESITES

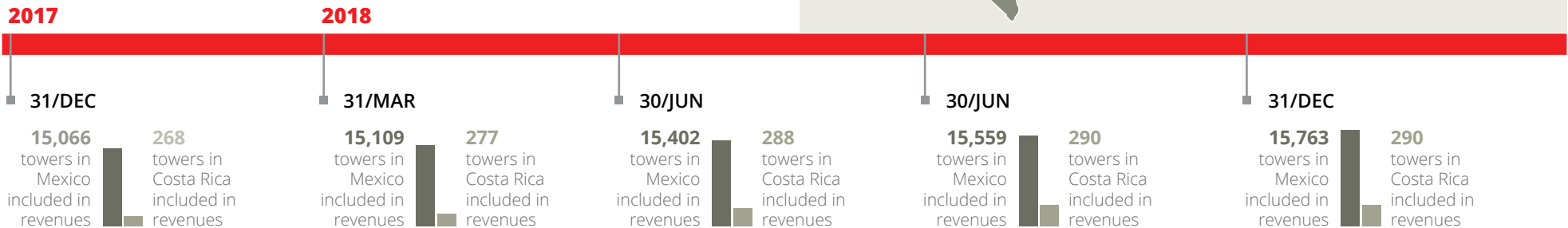
## AT A GLANCE



Total sites in Mexico: **15,763**



**290**  
Sites in Costa Rica



EBITDA grew **21.3%**  
in the year, reaching  
a margin of **62.5%**



# TO OUR **SHAREHOLDERS**

Mexico City, April 24, 2019  
To the General Shareholders'  
Meeting and Board of Directors  
**TELESITES, S.A.B. de C.V.**

In accordance with article 44 section XI of the Mexican Securities Market Act, in correlation with article 172 of the General Business Corporations Law, and in my capacity as Chief Executive Officer of Telesites, S.A.B. de C.V. (the "Company" or "Telesites"), I am pleased to present this report on the Company's operations during the fiscal year ended December 31, 2018.

## **ECONOMIC OVERVIEW**

In 2018, the global economic climate benefited from U.S. economic expansion, despite higher interest rates and trade tensions with China arising from the mutual imposition of international trade tariffs, part of their respective negotiation strategies.

The U.S. economy grew by 2.9% in 2018, supported by a tax reform that cut the corporate tax rate to 21% from 35%, spurring company profits and promoting non-residential investment, which grew 7.0% during the year. Domestic demand continued to rise, and durable goods consumption expanded by 5.7%. In response, the Federal Reserve continued its monetary policy normalization, raising the

benchmark rate to 2.50%, from 1.50% at the close of 2017. At the start of 2019, however, it took a more cautious stance, signaling that the pace of normalization would be slower going forward.

In Mexico, Gross Domestic Product grew 2.0%, supported by the tertiary sector, led particularly by retail, telecommunications and the financial industry, which outperformed the rest of the economy, making up for the continuing weakness of the secondary sector, evident in the reduction of the oil production platform to 1.7 million barrels a day.

Mexican peso went from 19.66 per dollar at the close of 2017 to 19.65 at the close of 2018, but was rather volatile during the year, reaching highs of 20.96. The renegotiation of the USMCA concluded at the end of the year, easing some of the uncertainty that had prevailed since the last U.S. election. The new terms are expected to be approved by each Congresses in 2019. The existence of this agreement, particularly given U.S. trade conflicts with other countries, strengthen Mexico's appeal as a site for industry and exports to the north of the continent.

#### 2018 OPERATING AND FINANCIAL DATA

Portfolio at the beginning of 2018	15,334
New Sites generating revenues	719
Portfolio at the end of 2018	16,053
Tenancy Ratio	1.142
Total revenues (million pesos)	6,760
Tower revenues (million pesos)	4,534
Land revenues (million pesos)	2,070
Other revenues (million pesos)	156
EBITDA (million pesos)	4,227
EBITDA margin	62.5%

Inflation in Mexico was 4.83% in 2018, down from 6.77% the year before, a reduction attributed primarily to lower gasoline price hikes during the year.

The trade balance presented a deficit of USD 13.70 billion, 2.74 billion more than the year before. The oil trade balance was a deficit of USD 23.19 billion, which is 4.88 billion higher than in 2017, while the non-oil surplus increased by 26.7% and closed the year at USD 9.48 billion, driven by a 9.1% growth in manufacturing exports.

The new presidential administration has made austerity, transparency, and prudent management of public finances its priorities. Its core focus is fight-

ing corruption, crime and poverty, which it sees as the main obstacles for creating more and better jobs, and to Mexico's economic growth potential.

To achieve the proposed annual expansion rate of 4.0%, more investment is needed; the Ministry of Finance has said public investment must be increased from only 2.6% of GDP in 2018 to at least 5.0%, and private-sector investment must be more than 20% of GDP.

#### REPORT ON THE COMPANY'S OPERATING AND FINANCIAL RESULTS

The following are some remarks on the key figures reported in our financial statements for the end of 2018, which are attached to this report, including the opinion of the Independent Auditor.

Telesites started out 2018 with a portfolio of 15,334 revenue-generating sites. During the year it added 697 new sites in Mexico and 22 new sites in Costa Rica, ending the year with 16,053 sites in total, a portfolio growth of 4.69% compared to the previous year.

During the year 2018, 221 co-locations were added to the revenue stream (excluding Telcel).

The company reported total revenues of 6.7 billion pesos, a 15.5% year-to-year growth. EBITDA was up 21.3%, while our EBITDA margin improved to 62.5% on the strength of investments in previous periods, as well as 1.3 billion pesos invested in 2018 in the construction of towers in Mexico and Costa Rica.

In response to our clients' needs, Telesites expects to accelerate construction of new sites in 2019 amid increasing demand for greater coverage and capacity in telecommunication networks, which will translate into higher profitability. With this, we see further expansion ahead, in which Telesites will continue to broaden its margins through organic growth in the regions where it is present, as well as an increase in the number of co-locations.

Our company maintains its strategic focus on growing the business, sustained by clients' demand for new sites, as well as the potential for co-locations,

which rises with the addition of every new site to our portfolio. Additionally, Telesites remains alert to new growth opportunities, while ensuring optimum use of its resources at all times. To this end we work tirelessly to strengthen relations with clients, suppliers and employees, all of which are pillars for our solid growth.

**FELLOW SHAREHOLDERS:**

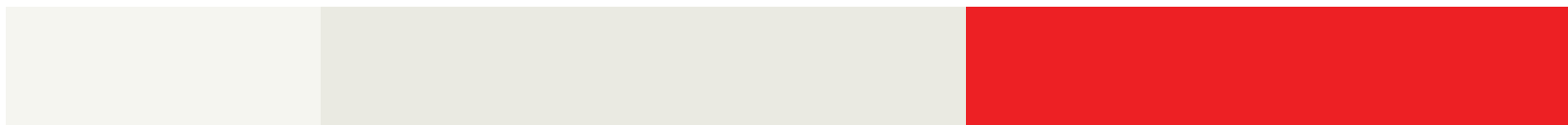
I am grateful for the trust you have placed in us, and I reiterate the commitment of the entire team that makes up Telesites to continue improving the performance of this company's activities.

SINCERELY

**GERARDO KURI KAUFMANN**

*CHIEF EXECUTIVE OFFICER*

Telesites, S.A.B. de C.V.







## ORGANIC GROWTH

4.7%

**GROWTH IN THE  
PORTFOLIO OF  
NEW TOWERS  
GENERATING  
REVENUES (697  
NEW TOWERS IN  
MEXICO AND 22  
IN COSTA RICA)**

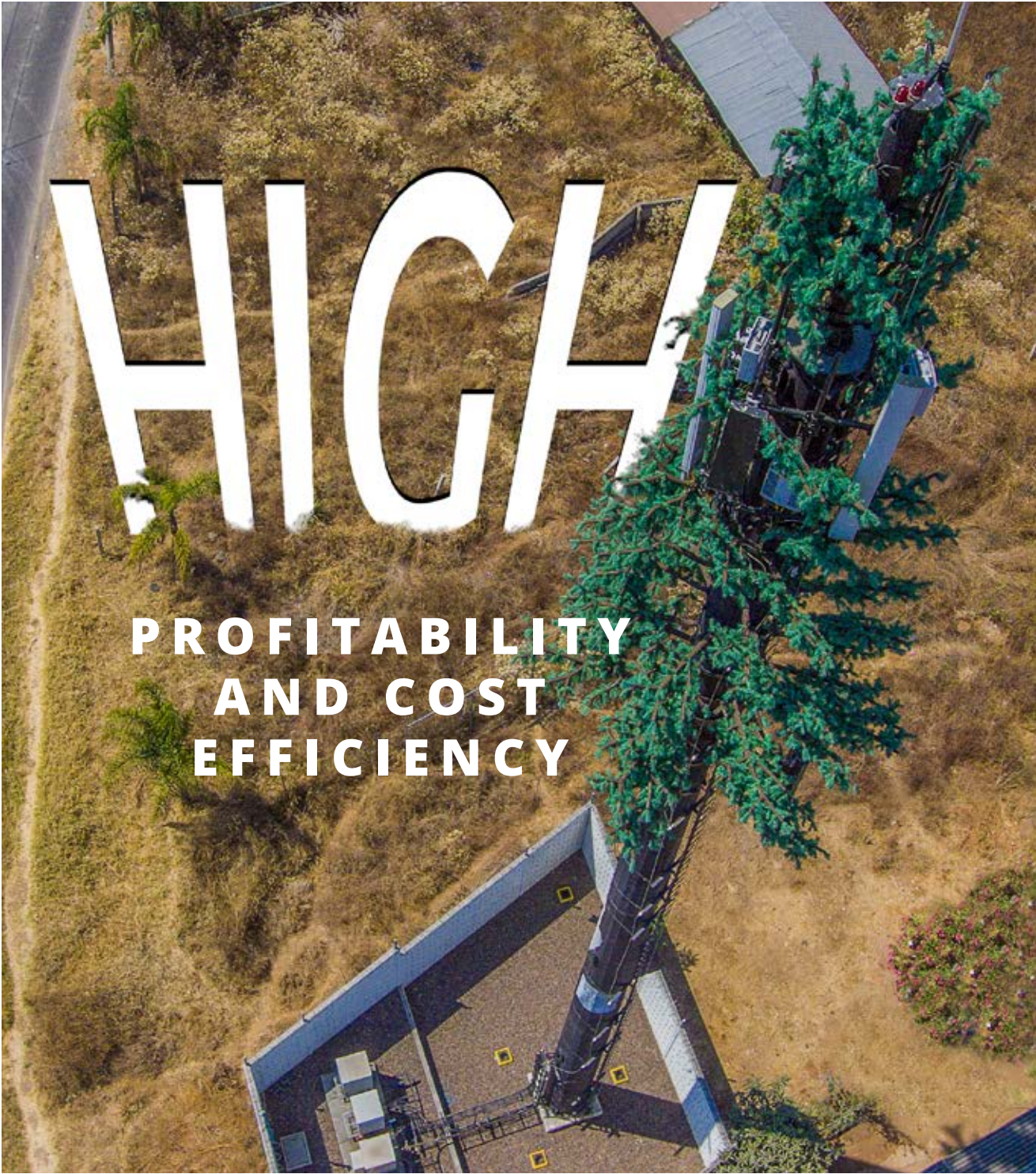


Telesites continues to report outstanding results from its Build to Suit (BTS) program, integrating 719 new sites into its revenues in 2018.

The company's central focus is creating an infrastructure network robust enough to meet its clients' expansion needs, while remaining at the top of its field in service levels and quality in both delivery and access.

Mexico lags far behind its Latin American peers in terms of number of towers proportional to the number of subscribers. In other countries, Chile for example, has more than twice as many towers per subscriber than Mexico, and some developed countries have as many as six times that ratio. Telesites has focused its efforts on narrowing the gap, by building to suit at large scale throughout Mexican territory, which is how it has become one of the fastest-growing companies in the region.





**PROFITABILITY  
AND COST  
EFFICIENCY**

**21.3% 1.142**

**EBITDA  
GROWTH**  
2017 vs 2018

**TENANCY  
RATIO**



Since its spinoff, Telesites has focused its efforts on keeping profitability levels high and obtaining a minimum return on investment in each new site. This has enabled us to steadily expand our margins, supported by the cost structure, which is around 85% fixed.





# 93%

**MOBILE  
PENETRATION  
IN MEXICO, VS.  
~120% IN LATIN  
AMERICA**

Source: IFT and Tower  
Xchange, March 2019

In this competitive market, our clients demand constant improvement, and Telesites has remained at the head of the industry with a multi-disciplinary team that continually innovates in the design of its sites, lowering investment and maintenance costs for Telesites and creating more efficient structures for our clients. Additionally, our team is always improving methodologies in processes such as hot-dip galvanization, assembly and construction, which enables us to run for longer periods between corrective maintenance.

**DESIGN**

# INNOVATION



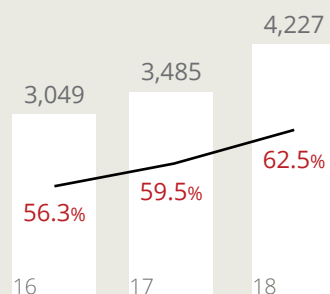
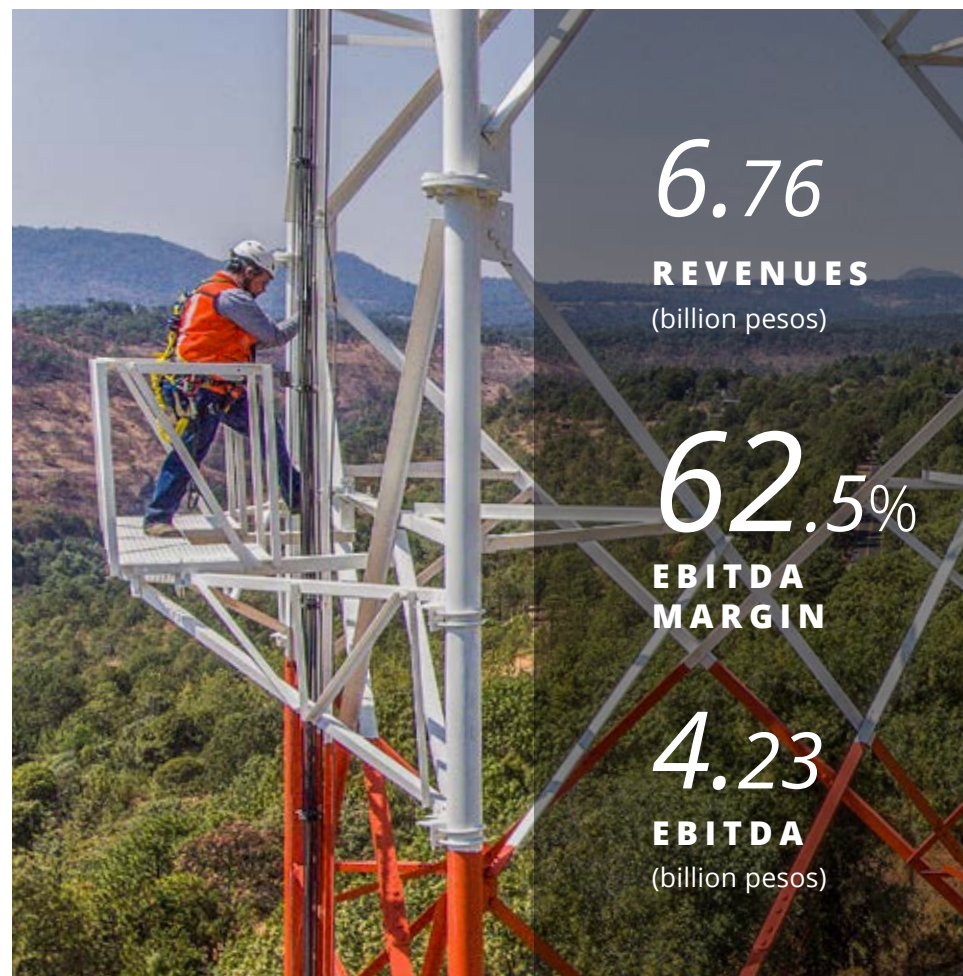
# OPERATING

## SUMMARY

### RESULTS

Revenues totaled 6.76 billion pesos in 2018, 4.53 billion of which, or 67.1%, came from tower rental. Land rent was a passthrough and totaled 2.07 billion pesos.

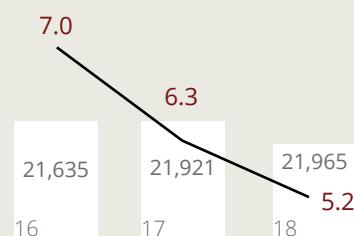
Telesites generated 4.23 billion in EBITDA during the year, for a margin of 62.5%. At the end of the year, the company reported debt of 22.93 billion pesos, and cash of 966.9 million pesos, which meant a net debt position of 21.96 billion pesos. The net debt/EBITDA leverage ratio was 5.2x.



### EBITDA

(million pesos)

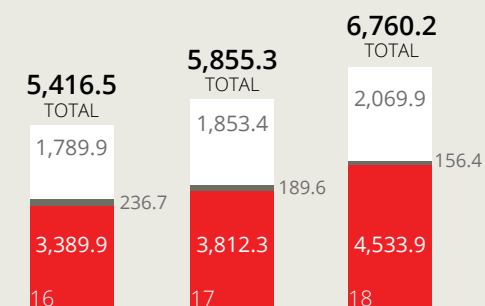
— EBITDA margin



### DEBT

— Leverage

■ Net debt  
(billion pesos)



### REVENUES

(million pesos)

■ Tower rent  
■ Land rent  
■ Other revenues



# CORPORATE

## GOVERNANCE

### BOARD OF DIRECTORS

The management of our Company is entrusted to a Board of Directors, which is comprised of a total of six (6) directors without designating substitutes. According to our bylaws, the Board of Directors should be comprised by at least five and no more than twenty-one directors and up to the same number of substitutes. Directors do not need to be shareholders, although most directors and their substitutes should be Mexican and must be appointed by the Mexican shareholders.

The appointment or reelection of the directors and their substitutes is carried out during the annual general shareholders' meeting. According to the Mexican Securities Market Law (hereinafter "LMV"), the shareholders' meetings should qualify the independence of the directors; however, the Mexican Banking and Securities Commission (hereinafter "CNBV") may object to this qualification. According to our bylaws and the LMV, at least 25% of the directors should be independent but currently your percentage is nearly 50% of independent directors, overcoming this the percentage required by the le-

gal provisions. In order of the Board of Directors may be to mise validly a meeting, most of its members should be present.

Our bylaws also provide that board members should be appointed to occupy their position for one year. However, according to the General Law on Commercial Corporations (hereinafter "LGSM"), board members will remain in office for up to thirty (30) days after their appointment has ended when their substitutes have not been designated or those who have been designated have not taken office. In certain cases provided by the LMV, the Board of Directors should appoint provisional directors and the shareholders' meeting may ratify these appointments or designate the corresponding substitutes.

The list below indicates the name of the current members of the Board of Directors of TELESITES, their position, their experience in the business, including other experiences as board members, their appointments were ratified for the period from April 2019 to April 2020, during the annual general shareholders' meeting celebrated on April 24, 2019.

NAME	POSITION	TYPE OF DIRECTOR	YEARS AS BROAD MEMBER	GENDER	GENDER %
Juan Rodríguez Torres	Chairman	Independent	3 years	Male	At the moment the Board of Directors is composed of 100% male members.
Gerardo Kuri Kaufmann	Director	Non-Independent	3 years	Male	
Daniel Goñi Díaz	Director	Independent	3 years	Male	
Daniel Díaz Díaz	Director	Non Independent	3 years	Male	
Víctor Adrián Pandal González	Director	Non-Independent	3 years	Male	
Luis Ramos Lignan	Director	Independent	3 years	Male	

Verónica Ramírez Villela and Eriván Urióstegui Hernández serve as Secretary and Assistant Secretary of the Board of Directors of TELESITES, but she is not a member of the governance board. By having the participation of a woman since the constitution of the Company we consider that we promote inclusion without distinction of gender in the composition of our government bodies, in addition. And furthermore women's involvement in various areas of the Company has been growing. At present, 34% of our employees are women and 66% are men, so we will continue to work for an equitable gender balance both within this company and in society at large.

The board members and senior officers of the Company are not related by blood or by marriage.

The Company does not maintain pension, retirement or other such plans for members of the Board of Directors, senior executives or other parties that may be considered related to the Company.

### **AUDIT AND CORPORATE PRACTICE COMMITTEE**

The LMV provides that it is mandatory for companies to have an audit committee, which must be comprised by at least three independent members appointed by the Board of Directors (except in the cases of companies controlled by a person or business group holding 50% or more of the capital stock, in which case most of the members of the Audit and Corporate Practice Committee should be independent). The Audit Committee (along with the Board of Directors, who have additional obligations) substitute the statutory auditor that was previously required according to LGSM.

The general information of the board members of the Company is included below:

The following persons (all of them are independent directors as provided by the LMV) comprise the Audit and Corporate Practice Committee of the Company:

NAME	POSITION	TYPE OF DIRECTOR
Luis Ramos Lignan	Chairman	Independent
Juan Rodríguez Torres	Member	Independent
Daniel Goñi Díaz	Member	Independent

All of the members of the Audit and Corporate Practice Committee have an extensive experience and a vast professional trajectory as businessmen, public servants or within the private sector. Many of them are or have been board members in various companies within the financial or bursatil sector in addition to having served in the Federal Administration and decentralized agencies.



# BOARD OF DIRECTORS

## **JUAN RODRÍGUEZ TORRES**

Mr. Rodríguez received a bachelor's degree in Civil Engineering and has a master's degree in Operation Planning and Research from the Universidad Nacional Autónoma de México. He is 79 years old. He is a board member of Procorp, S.A. de C.V., Sociedad de Inversión de Capitales, Grupo Sanborns, S.A.B. de C.V., Elementia, S.A. de C.V. and President of its Audit Committee, he is a board member of Minera Frisco, S.A.B. de C.V. and President of its Audit Committee. He also serves as a consultant board member of Grupo Financiero Banamex. Mr. Rodríguez is also on the board of directors of the following Spanish companies: Fomento de Construcciones y Contratas, S.A. and member of their committees, board member of Cementos Portland Valderrivas, S.A. and their committees, non-executive President of the real-estate group, REALIA Business, S.A. He is a founder of several companies dedicated to the real-estate group and shoe business.

## **DANIEL DÍAZ DÍAZ**

Mr. Díaz received a bachelor's degree in Civil Engineer from the Universidad Nacional Autónoma de México. He is 85 years old. In public sector, he served the office of Undersecretary of Infrastructure and Secretary of the Ministry of Communications and Transportation. From 1990 to 1997, he was a member of the governance board of the Universidad Nacional Autónoma de México. Mr.

Díaz was the Director of the Instituto Mexicano del Transporte from 2000 to 2001, he served as the Director of the Caminos y Puentes Federales de Ingresos y Servicios Conexos and from 2003 to 2005, he served as an advisor in infrastructure projects for Fundación del Centro Histórico de la Ciudad de México, A.C. and nowadays he is a board member of Carso Infraestructura y Construcción, S.A. de C.V. and Impulsora del Desarrollo y el Empleo en América Latina, S.A.B. de C.V.

## **LUIS RAMOS LIGNAN**

Mr. Ramos received a bachelor's degree in Civil Engineer and has a master's degree in Hydraulics from the Universidad Nacional Autónoma de México. He is 79 years old. Mr. Ramos has served as President of the following companies: Colegio de Ingenieros Civiles de México, A.C., of the Cámara Nacional de Empresas de Consultoría, A.C., of the Asociación de Ingenieros y Arquitectos de México, A.C., of the Instituto Mexicano de Auditoría Técnica, A.C., of the Comité Técnico del Fideicomiso Fondo para el Financiamiento de Estudios para Proyectos de Infraestructura. He is currently Director and General Director of Ingeniería y Procesamiento Electrónico, S.A. de C.V.

## **DANIEL GOÑI DÍAZ**

He received a bachelor's degree in Laws from the National Autonomous University of Mexico. He is 67 years old. He is the public Notary num-

ber 80 of the State of México and has served as Secretary, Vice President and President of the Cruz Roja Nacional on several occasions. Moreover, he has also served as the Civil Commissioner of the Comisión Estatal Electoral del Estado de México.

## **VÍCTOR ADRIÁN PANDAL GONZÁLEZ**

Mr. Pandal received a bachelor's degree in Business Administration from the Universidad Iberoamericana and has a master's degree from Universidad de Boston. He is 45 years old. From April 2002 to December 2018, he served as independent consultant and the founder and member of the HAN Capital Fondo de Inversión de Bienes Raíces.

## **GERARDO KURI KAUFMANN**

Mr. Kuri received a bachelor's degree in Industrial Engineer from the Universidad Anáhuac. He is 35 years old. From 2008 to 2010, Mr. Kuri has served as Director of purchasing of Carso Infraestructura y Construcción, S.A. de C.V. and until the month of April 2016, he served as General Director and currently he is a board member of this as well as all subsidiary companies. Additionally, he serves on the board of directors of Minera Frisco, S.A.B. de C.V., Elementia, S.A.B. de C.V., Fomento de Construcciones y Contratas, S.A., Realia Business, S.A., Cementos Portland Valderrivas, S.A. and Carso Infraestructura y Construcción, S.A. de C.V.

# REPORT OF THE AUDIT AND CORPORATE PRACTICES COMMITTEE

Mexico City, April 3, 2019

TO THE BOARD OF DIRECTORS  
OF TELESITES, S.A.B. DE C.V.

In accordance with article 43, sections I and II of the Mexican Securities Market Law, and pursuant to the recommendations contained in the Code of Best Corporate Practices published by Mexican Business Coordinating Council on behalf of the Audit and Corporate Practices Committee of Telesites, S.A.B. de C.V. (the "Company" or "Telesites"), we hereby present to you our report on the activities carried out by this corporate committee in discharging its duties during the fiscal year ended December 31, 2018.

One of the basic responsibilities of Company management is to issue financial statements that have been prepared on the basis of applicable financial reporting standards. These financial statements should reflect in a clear, sufficient and appropriate manner the operations of the Company and the corporations it controls. Furthermore, Company management is charged with introducing appropriate internal control and internal audit systems, and appropriately and promptly disclosing any material information for the investing public as provided for by law. For its part, as an auxiliary body of the Board of

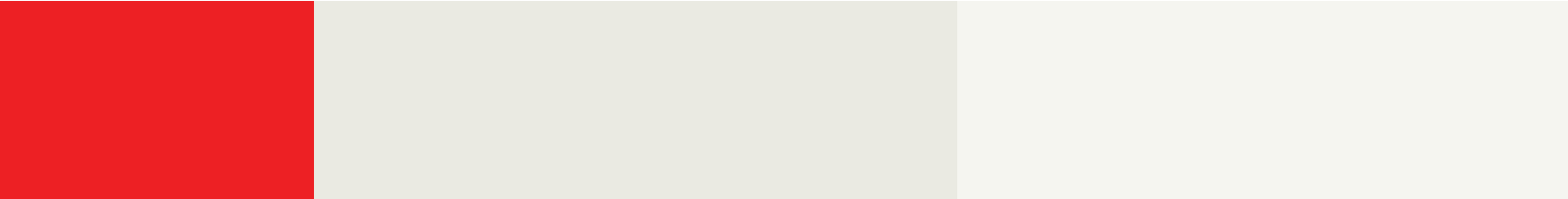
Directors, the Audit and Corporate Practices Committee is responsible for overseeing the management, direction and execution of the Company's businesses and those of the corporations it controls, and for verifying the Company's compliance with various operating and internal control procedures.

Accordingly, the Company's Audit and Corporate Practices Committee has reviewed the consolidated financial statements with figures as of December 31, 2018, and the opinion of the Company's Independent External Auditors regarding that information.

In fulfillment of its primary audit responsibilities, the Committee carried out the following activities:


- a) In regular meetings of this corporate body, we were informed of transactions carried out by the Company and the companies it controls in the pursuit of their respective corporate purposes, and the expected results of those projects.
- b) We evaluated the performance of Despacho Mancera, S.C., a member of Ernst & Young Global Limited (hereinafter "Mancera"), and found it to be acceptable and, accordingly, we recommended





that the Board of Directors ratify its hiring as Independent External Auditor, to review the financial statements and prepare the corresponding auditors' opinion of the Company and the corporations it controls for fiscal year 2018. To do so, we verified the appropriate preparation and presentation of the interim financial information for the Company, corroborating whether it was clear, precise and in compliance with international financial reporting standards.

- c)** Before hiring Mancera as Independent External Auditor, we ascertained that this firm: (i) had the personal and professional qualifications and the independence stipulated by laws and provisions in order to provide these services; and (ii) would present its statement on compliance with quality control standards corresponding to the fiscal year audited. We also reviewed the terms of the auditors' responsibilities.
- d)** We approved the fees paid to the Independent External Auditor as well as the program for issuing its opinion on the financial statements for fiscal year 2018.
- e)** Effective communications were maintained with the Independent External Auditor, on which basis we are able to report that the quality of the audit report as well as the communiqués and interim reports were consistent with the applicable laws and regulations on the provision of its services.
- f)** There weren't relevant cases of non-compliance with the operating or accounting guidelines or policies of the Company or its subsidiaries as of December 31, 2018. Therefore, it was not necessary to apply any preventive or corrective actions in the Company.
- g)** The Company required services other than those of the external audit by the Independent External Auditor during the fiscal year. Those services were acquired following an analysis of their suitability in terms of the applicable legal provisions considering the independence of the Independent External Auditor.
- h)** We reviewed the financial statements for the Company and its subsidiaries as of December 31, 2018, the Independent External Auditor's report, and the accounting policies used in preparing the financial statements, and verified that all necessary information was disclosed in keeping with current regulations. After having discussed their content with the persons responsible for preparing them, and having heard the comments of the Independent External Auditor, who is responsible for providing an opinion on the reasonableness of the financial statements and the extent to which they conform to financial reporting standards, we recommended that the Company's Board of Directors approve those statements for presentation to the ordinary annual shareholders' meeting of the



Company, because we believe they reasonably reflect the Company's financial situation as of the date indicated.

- i)** There were no modifications and/or authorizations regarding the accounting policies of the Company or its subsidiaries for fiscal year 2018. Note, however, that beginning in fiscal year 2019 the company will be adopting the new IFRS 16 - Leases, using the modified retrospective approach.
- j)** We followed up on implementation of the Company's policies and processes regarding risk management, internal control and auditing, as well as the status of the internal control system. Furthermore, the Committee was informed of various non-relevant deficiencies or discrepancies detected by the internal audit area, and in this respect the Company management also informed us of the measures taken to correct them. It should be noted that we detected no relevant breaches of the internal control policies established by the Company.
- k)** We approved the work program of the internal auditor for fiscal year 2018 and followed up on and verified that it was observed.
- l)** We supported the Board of Directors in preparing the reports referred to in article 28, section IV of the LMV.
- m)** We reviewed and recommended that the Board of Directors approve the transactions carried out by the Company under the terms mentioned in article 28 of the Securities Market Law, particularly with regard to transactions with related parties, ascertaining that these were carried out at market values and on the basis of the corresponding transfer price studies. We also saw to it that these transactions were reviewed by the Company's Independent External Auditor, as indicated in the corresponding note to transactions with related parties in the report on the consolidated financial statements of the Company with data as of December 31, 2018.
- n)** We followed up on the resolutions of the shareholders' meeting and the board of Directors.

Additionally, and in fulfillment of its primary Corporate Practices duties, the Committee carried out the following activities:

- a)** Evaluated the performance of key executives of the Company and its subsidiaries.
- b)** Reviewed and followed up on Telesites' transactions with related parties and those of the corporations it controls, which were carried out during the ordinary course of business and under market conditions.
- c)** Analyzed the process of hiring and compensation of Company employees, including its key executives, including the compensation of Board Members.
- d)** Based on the analysis of the Company's results and the interviews held with key executives, we found its performance during the fiscal year to have been satisfactory.
- e)** No requests were received relating to the dispensations mentioned in article 28, section III, point f) of the LMV.
- f)** Continued the supervision of the Company's corporate and legal situation, verifying that it remained in compliance with the applicable laws and regulations.

No observations were received from shareholders, board members, key executives, employees or third parties regarding accounting practices, internal con-

trols or issues relating to internal or external audits of the Company, nor were there any reports of actions or situations deemed irregular in its administration or which may have had an adverse effect on the Company's financial situation.

We have reviewed the consolidated financial statements of the Company for the fiscal year ended December 31, 2018, and the opinion of the Company's Independent External Auditor, finding that they were prepared in accordance with accounting policies, procedures and practices consistent with financial reporting standards, and we agree with the content of that opinion as we believe they reasonably reflect the financial position of the Company as of December 31, 2018. We believe the management, direction and execution of the Company's businesses during fiscal year 2018, was carried out appropriately by Company management.

We make the foregoing statement for the purpose of complying with the obligations entrusted to this corporate body and provided for in the LMV, and with any other duty that has been or is entrusted to us by the Company's Board of Directors, further noting that in the preparation of this report we took into account the opinion of key executives of Telesites.

**Luis Ramos Lignan**

*Chairman of the Audit and  
Corporate Practices Committee*

**TELESITES, S.A.B. de C.V.**





# CONSOLIDATED

## FINANCIAL STATEMENTS

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- 24** Consolidated statements of comprehensive income
- 25** Consolidated statements of changes in equity
- 26** Consolidated statements of cash flows
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# REPORT OF INDEPENDENT AUDITORS

## To the Shareholders of Telesites, S.A.B. de C.V. and subsidiaries

### Opinion

We have audited the accompanying consolidated financial statements of Telesites, S.A.B. de C.V. and subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Telesites, S.A.B. de C.V. and subsidiaries as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are described in the "Auditor's Responsibilities for the Audit of the consolidated financial statements section" of our report. We are independent from the Company in accordance with the international Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to air audit of the consolidated financial statements in Mexico according with the "Codigo de Etica Profesional del Instituto Mexicano de Contadores Públicos ("IMCP Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

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

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### 1. Property and Equipment

#### Description of key audit matter

We considered the passive infrastructure under property and equipment as a key audit matter because the valuation of these assets requires the use of assumptions that involve calculations that are subjective and complex, since they require that we seek assistance from specialists of the Company's management and audit specialists to carry out our audit procedures.

#### How we addressed key audit matter

We evaluated the assumptions used to measure and recognize property and equipment on the basis of a fair value review that we performed in accordance with International Accounting Standard (IAS) 16 and IFRS 13. For this review, we considered and evaluated the reconciliation of the beginning and ending balances of property and equipment. Based on audit samples, we analyzed the increases reflected in property and equipment accounts by reviewing and comparing significant items to their respective support documentation. We tested asset depreciation by verifying the mathematical calculations underlying the depreciation and we carried out substantive analytical procedures as well. To determine the existence of potential indicators of impairment, we sought assistance from specialists and we assessed the Company's presentation and disclosure of passive infrastructure in accordance with IFRS.

Notes 2.h and 7 to the accompanying consolidated financial statements, include disclosures regarding the Company's construction and property and equipment.

## 2. Current and deferred income tax

### Description of key audit matter

We considered current and deferred income tax a key audit matter due to the significant degree of subjectivity inherent in the preparation of tax calculation by the Company. We moreover considered current and deferred income tax due to the diversity of interpretations of Mexican tax laws and due to the fact that differences in interpretations of the tax laws could give rise to contingencies for the Company, which could ultimately affect the recoverability of its deferred tax assets. The Company's income tax matters should be handled by personal specialized technical skills in taxes.

### How we addressed key audit matter

We compared the book amounts considered in the calculation of current and deferred taxes against the Company's audited amounts at the same date. We assessed the financial projections that support the Company's decisions regarding the recognition of deferred tax assets based on their recoverability. We sought assistance from our tax specialists to perform the required tax audit procedures. We analyzed the reconciliation of the Company's effective income tax rate and we test significant items. We also evaluated the Company's presentation and disclosure of current and deferred income tax in accordance with the applicable accounting requirements.

Note 2.p to the accompanying consolidated financial statements, includes disclosures regarding the Company's policies in respect of current and deferred income tax and respect of deferred tax assets.

## 3. Long-term debt

### Description of key audit matter

We considered the Company's long-term debt as a key audit matter due to the high level of professional judgement required for the valuation of these financial liabilities, which are measured at amortized cost, and since they require that we seek assistance from specialists of the Company's management and our specialists to carry out our audit procedures.

### How we addressed key audit matter

We evaluated management's calculation of the Company's debt. We also applied analytical testing to interest accrued on the debt and we compared the results of this testing to the reconciliation of the Company's interest payable. We analyzed the determination of the market values of the debt and the calculation of accrued interest and we assessed these amounts for consistency with the terms and conditions of the respective loan agreements. We compared the book balances of the debt with the balances reported in the balance confirmations received from the financial institutions with which the Company contracted the debt. We evaluated the Company's risk from fluctuations in the interest rates of the debt. We received assistance from our risk specialist to value the Company's debt recognized at amortized cost. We also evaluated the Company's presentation and disclosure of its structured notes in accordance with IFRS.

Note 2.e to the accompanying consolidated financial statements, includes disclosures related to this matter.

## 4. Asset retirement obligation

### Description of key audit matter

We considered the Company's asset retirement obligation a key audit matter due to high professional judgement required to calculate this obligation and because it requires the use of assumptions that involve estimates that are subjective and complex, since they require that we seek assistance from specialists of the Company's management and audit specialists to carry out our audit procedures.

### How we addressed key audit matter

We reviewed the Company's calculation of its asset retirement obligation and we verified the correct valuation of the principal components of the provision in accordance with IAS 37. Using audit samples, we reviewed the Company's lease agreements to verify the term of each asset retirement obligation. We also received assistance from a valuation specialist to verify the reasonableness of the provision and we assessed the correct presentation and disclosure of the Company's asset retirement obligation in accordance with IFRS.

Note 2.m to the accompanying consolidated financial statements, includes disclosures related to the Company's asset retirement obligation.



## 5. Revenue Recognition

### Description of key audit matter

We considered revenue recognition a key audit matter due to the importance of this area for users of the Company's financial statements and due to the importance of having audit evidence regarding revenue recognition in accordance to IFRS 15, as well as to fact that revenue recognition encompasses a number of audit considerations, including the measurement, recognition, disclosure of revenue and tax aspects relating to the taxability of the Company's revenue.

### How we addressed key audit matter

As part of our audit we verified the Company's correct revenue recognition in accordance with IFRS 15 on the basis of substantive tests, which included verifying the existence of support documentation for a sample of significant items selected in accordance with ISA, the execution of analytical procedures that included variance analyses, cut-off test to verify recognition of revenue in the correct period, a review of revenue calculations, and a review of the Company's current lease agreements.

Note 2.c to the accompanying consolidated financial statements, includes disclosures regarding the Company's revenue recognition policies.

### Other information

Management is responsible for the other information. The other information comprises the information included in the annual report filed with the Comisión Nacional Bancaria y de Valores ("CNBV"), but does not include the consolidated financial statements and our auditor's report thereon. We expect to obtain the other information after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when we have access to it 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 and consider the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and to issue a statement on the Annual Report required by the CNBV, that contains a description of the matter.

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

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

In preparing the consolidated financial statements, Management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is José Andrés Marín Valverde.

Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version into English for convenience purposes only.

Mancera, S.C.

A Member Practice of Ernst & Young Global Limited

**José Andrés Marín Valverde**

Mexico City  
3 april, 2019

# CONSOLIDATED STATEMENTS OF **FINANCIAL POSITION**

(Amounts in thousands of Mexican pesos)

	As at 31 December	
	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 4)	Ps. 966,953	Ps. 561,477
Accounts receivable	92,424	43,591
Related parties (Note 6)	22,567	61,812
Recoverable taxes	58,780	29,823
Other current assets (Note 5)	79,273	120,067
Total current assets	1,219,997	816,770
Non-current assets:		
Licenses and software, net	17,374	16,295
Property and equipment, net (Note 7)	43,990,029	43,605,054
Deferred tax assets (Note 16)	35,326	35,698
Other non-current assets (Note 5)	177,664	160,192
Total assets	Ps. 45,440,390	Ps. 44,634,009
<b>Liabilities and equity</b>		
Current liabilities:		
Short-term debt and interest (Note 9)	Ps. -	Ps. 463,258
Interest payable on short-term debt (Note 9)	-	1,137
Interest payable on long-term debt (Note 9)	507,430	492,321
Accounts payable and accrued liabilities (Note 14)	327,504	442,568
Taxes and contributions payable	150,193	290,429
Related parties (Note 6)	66,594	75,504
Employee benefits (Note 13)	8,449	5,738
Total current liabilities	1,060,170	1,770,955
Non-current liabilities:		
Long-term debt (Note 9)	22,931,755	22,018,851
Deferred tax liabilities (Note 16)	10,122,488	10,264,347
Retirement benefits (Note 12)	5,648	4,452
Asset retirement obligation (Note 8)	894,094	860,112
Total liabilities	35,014,155	34,918,717
Equity (Note 15):		
Share capital	35,000	35,000
Other components of equity	(16,228,640)	(16,228,640)
Surplus from revaluation of assets	23,059,404	23,434,710
Components of other comprehensive income	864	981
Retained earnings	3,656,818	3,160,733
Net loss for the year	(97,211)	(687,492)
Total equity	3,559,607	2,473,241
Total liabilities and equity	Ps. 45,440,390	Ps. 44,634,009

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



# CONSOLIDATED STATEMENTS OF **COMPREHENSIVE INCOME**

(Amounts in thousands of Mexican pesos)

	2018	As of December 31	2017
<b>Operating revenue:</b>			
Infrastructure rent	Ps. 6,603,822	Ps.	5,665,715
Revenue from alteration services	114,542		132,677
Other income (Note 2t)	41,823		56,905
	<b>6,760,187</b>		<b>5,855,297</b>
<b>Operating costs and expenses:</b>			
Depreciation and amortization (Note 7)	2,124,184		2,042,366
Leases (Note 11)	2,019,925		1,863,678
Alteration service costs	108,814		123,851
Operating expenses	401,642		362,356
Other expenses	2,796		20,093
	<b>4,657,361</b>		<b>4,412,344</b>
Operating income	<b>2,102,826</b>		<b>1,442,953</b>
<b>Net financing cost:</b>			
Accrued interest income	47,391		22,238
Accrued interest expense	(1,591,543)		(1,525,335)
Foreign exchange loss, net	(394,980)		(479,301)
	<b>(1,939,132)</b>		<b>(1,982,398)</b>
Income (loss) before income tax	<b>163,694</b>		<b>(539,445)</b>
Income tax (Note 16)	(260,905)		(148,047)
Net loss for the year	<b>Ps. (97,211)</b>	Ps.	<b>(687,492)</b>
<b>Components of other comprehensive loss:</b>			
Revaluation surplus, net of taxes	Ps. (375,306)	Ps.	(426,962)
Retirement benefits, net of taxes	(254)		206
Foreign currency translation effect	137		159
Total other comprehensive loss	<b>(375,423)</b>		<b>(426,597)</b>
Comprehensive loss for the year	<b>Ps. (472,634)</b>	Ps.	<b>(1,114,089)</b>
Weighted average number of outstanding shares (thousands of shares)	<b>3,300,000</b>		<b>3,300,000</b>
Net loss per share attributable to equity holders of the parent	<b>Ps. (0.03)</b>	Ps.	<b>(0.21)</b>

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

# CONSOLIDATED STATEMENTS OF **CHANGES IN EQUITY**

For the Years Ended 31 December 2018 and 2017

(Amounts in thousands of Mexican pesos)

(Note 15)

	Share capital	Other components of equity	Retained earnings			Other comprehensive income				Total equity
			Legal reserve	Unapplied income	Total	Effect of labor obligations	Foreign currency translation reserve	Revaluation surplus	Comprehensive (loss)/income	
Balance as at 31 December 2016	Ps. 35,000	Ps. (16,228,640)	Ps. 3,359	Ps. 2,008,016	Ps. 2,011,375	Ps. (86)	Ps. 702	Ps. 23,861,672	Ps. -	Ps. 9,680,023
Creation of legal reserve	-	-	-	-	-	-	-	-	-	-
Foreign currency translation effect	-	-	-	-	-	-	159	-	159	159
Retirement benefits, net of taxes	-	-	-	-	-	206	-	-	206	206
Revaluation surplus, net of taxes	-	-	-	-	-	-	-	722,396	722,396	722,396
Allocation effect of surplus, net of taxes	-	-	-	1,149,358	1,149,358	-	-	(1,149,358)	(1,149,358)	-
Net loss of the year	-	-	-	(687,492)	(687,492)	-	-	-	(687,492)	(687,492)
Comprehensive income for the year	-	-	-	-	-	-	-	-	Ps. (1,114,089)	-
Balance as at 31 December 2017	35,000	(16,228,640)	3,359	2,469,882	2,473,241	120	861	23,434,710	-	9,715,292
Foreign currency translation effect 7	-	-	-	-	-	-	137	-	137	137
Retirement benefits, net of taxes	-	-	-	-	-	(254)	-	-	(254)	(254)
Revaluation surplus, net of taxes	-	-	-	-	-	-	-	808,271	808,271	808,271
Allocation effect of surplus, net of taxes	-	-	-	1,183,577	1,183,577	-	-	(1,183,577)	(1,183,577)	-
Net loss of the year	-	-	-	(97,211)	(97,211)	-	-	-	(97,211)	(97,211)
Comprehensive loss for the year	-	-	-	-	-	-	-	-	Ps. (472,634)	-
<b>Balance as at 31 December 2018</b>	<b>Ps. 35,000</b>	<b>Ps. (16,228,640)</b>	<b>Ps. 3,359</b>	<b>Ps. 3,556,248</b>	<b>Ps. 3,559,607</b>	<b>Ps. (134)</b>	<b>Ps. 998</b>	<b>Ps. 23,059,404</b>		<b>Ps. 10,426,235</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of Mexican pesos)

	For the year ended 31 December	
	2018	2017
<b>Operating activities</b>		
Income (loss) before income tax	Ps. 163,694	Ps. (539,445)
Items not affecting cash flows:		
Depreciation and amortization	2,124,184	2,042,366
Interest income	(47,391)	(22,238)
Interest expense	1,591,543	1,525,335
Foreign exchange loss, net	394,980	479,301
Net periodic benefit cost	1,133	708
	<b>4,228,143</b>	<b>3,486,027</b>
Changes in operating assets and liabilities:		
Accounts receivable	(48,833)	(39,812)
Related parties	30,335	(71,857)
Other current and non-current assets	23,322	54,270
Accounts payable and accrued liabilities	(121,305)	23,871
Taxes and contributions payable	(917,878)	(339,596)
Net cash flows from operating activities	<b>3,193,784</b>	<b>3,112,903</b>
<b>Investing activities</b>		
Interest received	47,391	22,238
Licenses and software	(4,469)	(9,796)
Property and equipment	(1,317,087)	(1,410,845)
Net cash flows used in investing activities	<b>(1,274,165)</b>	<b>(1,398,403)</b>
<b>Financing activities</b>		
Payment of short-term debt	58,349	-
Short-term debt	-	1,672,772
Issuance of short-term debt	-	(1,555,000)
Structured note premium	-	(15,930)
Interest paid on short-term debt	(1,572,492)	(1,486,398)
Net cash flows used in financing activities	<b>(1,514,143)</b>	<b>(1,384,556)</b>
Net increase in cash and cash equivalents	<b>405,476</b>	<b>329,944</b>
Cash and cash equivalents at beginning of the year	<b>561,477</b>	<b>231,533</b>
Cash and cash equivalents at end of the year	<b>Ps. 966,953</b>	<b>Ps. 561,477</b>

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

# NOTES TO **CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2018 and 2017

(Amounts in thousands of Mexican pesos, unless otherwise indicated)

## 1. Description of the Business

Telesites, S.A.B. de C.V. and subsidiaries (“Telesites” or “the Company”) was incorporated in Mexico City on 19 October 2016. The Company was created as a result of its spin-off from América Móvil, S.A.B. de C.V. (AMX) and it is primarily engaged in leasing passive mobile telecommunications infrastructure comprised of physical space on its towers for the installation of signal transmission and reception equipment and auxiliary equipment (including power generators, backup batteries, air conditioning systems, alarm systems and other equipment).

The Company's operating period and fiscal year is from 1 January through 31 December 2018.

The Company's head offices are located in Mexico City, at Paseo de las Palmas No. 781, 2nd floor, office No. 203, Colonia Lomas de Chapultepec III Sección, Miguel Hidalgo, postal code 11000.

On 3 April 2019, the Company's Board of Directors authorized the issue of the accompanying consolidated financial statements.

## 2. Basis of Preparation of the Consolidated Financial Statements and Summary of Significant Accounting Policies

### a) Basis of preparation

The accompanying financial statements have been prepared in accordance with the IFRS, effective as at 31 December 2018, as issued by the IASB.

The preparation of the Company's consolidated financial statements in accordance with IFRS requires the use of critical estimates and assumptions that affect the reported amounts of certain assets and liabilities, and revenue and expenses. It also requires management to exercise judgment in how it applies the Company's accounting policies.

The Company's functional and reporting currency is the Mexican peso.

### b) Consolidation

The accompanying consolidated financial statements include the accounts of Telesites and those of the subsidiaries over which the Company exercises significant control. The financial statements of the subsidiaries have been prepared for the same reporting period and following the same accounting policies as those of the Company. All companies operate in the telecommunications sector or provide services to companies related to these activities. All intercompany balances and transactions have been eliminated on consolidation.

The operating results of the subsidiaries were included in the Company's consolidated financial statements as of the month following their incorporation.



A description of the Company's main investments in its subsidiaries as at 31 December 2018 and 2017 is as follows:

Company name	% equity interest as at 31 December		Country	Date of first consolidation	Type of operations
	2018	2017			
<b>Intermediate holding company</b>					
Telesites Internacional, S.A. de C.V. (Teleint)	100%	100%	Mexico	November 2015	Intermediate holding company
<b>Infrastructure</b>					
Operadora de Sites Mexicanos, S.A. de C.V. (Opsimex)	100%	100%	Mexico	January 2015	Infrastructure
Telesites Costa Rica, S.A. (TLC)	100%	100%	Costa Rica	January 2016	Infrastructure
Telesites Colombia, S.A.S. (TCO)	100%	100%	Colombia	January 2018	Infrastructure
<b>Services</b>					
Demonasa, S.A. de C.V. (Demonasa)	100%	100%	Mexico	January 2015	Services

On consolidation, the assets and liabilities of foreign operations are translated into Mexican pesos at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive losses ("OCI").

### c) Revenue recognition

#### Rental income

The main activity of the Company is the rental of passive infrastructure and adaptation services for telephone operators.

Revenues derived from contracts with customers are recognized when the control of the goods or services are transferred to the customer for an amount that reflects the consideration to which the Company expects to have rights in exchange for those goods and services. The Company has concluded that it acts as principal in its income contracts in accordance with IFRS 15. Revenues are reviewed and increased in accordance with the behavior of the National Consumer Price Index (NCPI) and are established in the function of the characteristics of the leased spaces where the passive infrastructure is located.

### d) Use of estimates

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions in certain areas. Actual results could differ from these estimates. The Company based its assumptions and estimates on the best available information at the time the consolidated financial statements were prepared. However, the existing circumstances and assumptions about future events may change due to changes in the market or circumstances that are beyond the Company's control. Such changes are reflected in the estimates and their effects are shown in the financial statements as they occur.

These assumptions mostly refer to:

- Useful life estimates of items of property and equipment
- Allowance for doubtful accounts
- Impairment in the value of long-lived assets
- Fair value measurement of financial instruments
- Employee benefits

## e) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### i) Financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in Note 2.c) "Revenue recognition".

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

#### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

## Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired Or.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original, carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

## Impairment of financial assets IFRS

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## ii) Financial liabilities

### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, long-term debt.

### Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

#### Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

#### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### iii. Compensation of financial instruments

The compensation of a financial asset and a financial liability for its presentation in the statement of financial position comes only when:

- (i) the Company has a right and a legal obligation to collect or pay a compensated amount, so that the entity has, in fact, a compensated financial asset or a compensated financial liability; and
- (ii) the amount resulting from offsetting the financial asset with the financial liability reflects the expected cash flows of the Company, when liquidating two or more financial instruments.

#### iv. Fair value measurement

The Company measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Note 10 presents an analysis of the fair values of financial instruments.



#### f) Cash and cash equivalents

Cash in banks earns interest at floating rates on daily account balances. Cash equivalents are represented by short-term deposits made for terms ranging from one to three days, and which bear interest at rates common for each type of short-term investment. These investments are stated at cost plus uncollected accrued interest, which is similar to their market value.

#### g) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### h) Property and equipment, net

The Company's property includes passive infrastructure, which includes non-electronic components used in telecommunications networks, including masts, towers and poles. These fixed assets are measured at fair value using the revaluation model specified in IAS 16 *Property, Plant and Equipment*. Company management periodically reviews the stated amounts of the Company's fixed assets whenever it believes that there is a significant difference between the carrying amount of an asset and its fair value. Depreciation is determined on fair values on a straight-line basis over the estimated useful lives of the assets starting at the time the assets are available for use.

The Company's equipment is carried at cost, net of accumulated depreciation, in accordance with IAS 16 *Property, Plant and Equipment*. Depreciation is determined on carrying amounts on a straight-line basis over the estimated useful lives of the assets starting in the first month after they are available for use.

The Company periodically reviews the residual values, useful lives and depreciation methods of its fixed assets and adjusts them prospectively where appropriate at the end of each reporting period, in accordance with IFRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The amount of the surplus from revaluation of assets recycled to the retained earnings in the same proportion of the depreciation during the life of the asset, in the case that the revalued asset is written off, the amount of the surplus is transferred to the retained earnings, without affecting the results of the period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in other operating income or other operating expenses when the asset is derecognized.

Depreciation rates for 2018 and 2017 are as follows:

Passive infrastructure	3.33% to 6.67%
Automotive equipment	30%
Computer equipment	25%
Other equipment	10%

The carrying amount of property and equipment is reviewed annually whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the higher of the asset's expected net selling price and its value in use (the present value of future cash flows), is less than its net carrying amount, the difference is recognized as an impairment loss.

As at 31 December 2018 and 2017, there were no indicators of impairment in the values of the Company's fixed assets.

#### **i) Licenses and software**

The licenses and software acquired by the Company are classified as intangible assets with finite useful lives that are recognized at cost. Amortization of these intangible assets is calculated on the assets' carrying amounts on a straight-line basis based on the estimated useful lives of the assets.

The annual amortization rate for acquired licenses is 15%.

#### **j) Impairment in the value of long-lived assets**

The Company assesses at each reporting date whether there is an indication that its long-lived assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired, and its carrying amount is written down to its recoverable amount, and the loss is immediately recognized in profit or loss.

The depreciation and amortization expense for future periods is adjusted to the new carrying amount during the remaining useful life of the related assets. Recoverable amounts are determined for each individual asset, unless the asset generates cash inflows that are closely dependent on the cash flows generated by other assets or group of assets (cash generating units).

#### **k) Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset or assets.

##### **- Operating leases**

Leases in which the Company does not transfer substantially all of the risks and rewards inherent to the ownership of the asset are classified as operating leases. Payments made under operating lease agreements are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

### l) Provisions, contingent liabilities and commitments

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

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected outflow of resources to settle the obligation. The provisions are discounted using a pre-tax rate that reflects the current market conditions at the date of the statement of financial position and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingent liabilities are recognized only when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Also, contingencies are recognized only when they generate a loss.

### m) Asset retirement obligation

The Company records a reserve for the decommissioning costs associated with the sites where its passive infrastructure is located. Decommissioning costs are measured at the estimated fair values of the asset costs expected to be incurred to settle the Company's obligation to decommission the assets. These fair values are determined on the basis of the estimated cash flows associated with the method of settlement. Asset retirement costs are capitalized as part of the carrying amounts of the related assets. For purposes of this calculation, cash flows are discounted at a pre-tax rate that reflects the risks associated with the asset retirement obligation. Reversals of previous discount rates are recognized in profit or loss as a financing cost as incurred. Estimated future decommissioning costs are reviewed annually and are revised where needed. Changes in future cost estimates or discount rates are recognized as an increase or a decrease in the carrying amount of the asset.

### n) Employee benefits

The Company annually recognizes the liability for seniority premiums based on independent actuarial calculations applying the projected unit credit method, using financial assumptions net of inflation. The latest actuarial calculation was prepared on 31 December 2016.

The Company creates a provision for the cost of compensated absences, such as paid annual leave, which is recognized using the accrual method.

### o) Employee profit sharing (EPS)

Current EPS is presented as part of operating expenses in the statement of comprehensive income.

### p) Income tax

Current income tax is recognized as a current liability, net of prepayments made during the year.

Deferred income tax is calculated using the asset and liability method established in IAS 12 *Income Taxes*.

Deferred income tax is calculated using the asset and liability method, based on the temporary differences between financial reporting and tax values of assets and liabilities at the reporting date.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

#### q) Earnings per share

Earnings per share are determined by dividing net income for the year by the weighted-average number of shares outstanding attributable to ordinary equity holders of the parent during the year.

#### r) Statement of cash flows

The statement of cash flows reports the cash generated and used by the Company during the year. It first shows the Company's Income (loss) before income tax, followed by its cash flows resulting from operating activities, then its cash flows resulting from investing activities, and lastly its cash flows resulting from financing activities.

For the year ended 31 December 2018 and 31 December 2017, the statement of cash flows was prepared using the indirect method.

#### s) Concentration of risk

The main financial instruments used to fund the Company's operations are comprised of bank loans, lines of credit, accounts payable and related party payables. The Company holds several financial assets, such as cash and cash equivalents, accounts receivable, related party receivables and other current assets that are directly related to its business.

The main risks associated with the Company's financial instruments are cash flow risk and market, credit and liquidity risks. The Company performs sensitivity analyses to measure potential losses in its operating results based on a theoretical increase of 100 basis points in interest rates. The Board of Directors approves the risk management policies that are proposed by the Company's management.

Credit risk is the risk that the counterparty will default on its payment of obligations with the Company. The Company is also exposed to market risks associated with fluctuations in interest rates.

Financial assets which potentially subject the Company to concentrations of credit risk are cash and cash equivalents, short-term deposits and debt instruments. The Company's policy is designed to not restrict its exposure to any one financial institution.

The Company continuously monitors its customer accounts and a portion of the Company's surplus cash is invested in time deposits in financial institutions with strong credit ratings.

#### t) Statement of comprehensive income presentation

Costs and expenses shown in the Company's consolidated statement of comprehensive income are presented based on a combination of their function and their nature, which provides a clearer picture of the components of the Company's operating income, since such classification allows for comparability of the Company's financial statements with those of other companies in its industry.

Operating income is recognized in the consolidated statement of comprehensive income, since it is an important indicator used for evaluating the Company's operating results. Operating income consists of ordinary revenues and operating costs and expenses.

An analysis of the Company's other income is as follows:

	2018	2017
Technical advice	Ps. 37,081	Ps. 56,834
Ingresos por rentas anticipadas	4,720	71
Others	22	-
	<b>Ps. 41,823</b>	<b>Ps. 56,905</b>



### 3. New accounting pronouncements

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

#### IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

#### Transition to IFRS 16

The Company plans to adopt IFRS 16 using the modified retrospective method. Also, as of the date of transition to IFRS 16 (January 1, 2019), the Company has opted to apply the practical file and continue considering the contracts that qualified as lease under the previous accounting standards IAS 17 and the IFRIC.

On the other hand, the Company will use the exemptions included in the IFRS 16 with respect to lease agreements with terms of less than 12 months from the date of initial application of the standard, as well as those lease contracts whose underlying assets are considered low value in accordance with the policies of the Company. Derived from the foregoing, payments for these types of leases will be recognized as a linear expense during the lease period.

The Company will discount the present value of future cash flows for those leases that are within the scope of the standard, using an incremental discount rate, which is an estimate of the rate that the Company would obtain for a loan, for a period similar to current lease obligations and with a similar guarantee, to obtain an asset similar to the leased asset.

At year ended December 31, 2018, the Company made a preliminary assessment of the initial adoption effect in its consolidated financial statements as of January 1, 2019, which are summarized as follows:

	<b>Importe</b>
Right-of-use assets	Ps. 10,410,627
Lease liabilities	(10,311,068)
Initial effect of adoption on retaining earnings	Ps. -

#### IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

#### **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments will not have impact on the consolidated financial statements of Company.

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

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted.

These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

The published standards and interpretations are detailed below are effective as of January 1, 2018:

### **IFRS 9 Financial instruments: Classification and measurement**

This standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. Application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2016.

The adoption of these improvements had no effect on the consolidated financial statements of the Company.

### **IFRS 15 Revenue from contracts with customers**

IFRS 15 was issued in May 2016 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

This new revenue standard repeals all previous standard for revenue recognition. The application of this standard is required full retroactively or partial retroactive, for the periods beginning as of January 1, 2018 allowing its early application.

The Company's management analyzed the new five-step model for revenue recognition included in this standard; Derived from this analysis, no impacts on the adoption were identified.

### **Annual Improvements 2015-2017 Cycle (issued in December 2017)**

These improvements include:

#### **Amendments to IAS 16 and IAS 38: Clarification of acceptable amortization methods**

The amendments clarify the principle of IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that the income reflects a pattern of obtaining economic benefits arising from the operation of a business (of which the asset is part), plus that the economic benefits that are consumed by the use of the asset. Therefore, the Property, Plant and Equipment can not be amortized using a depreciation method based on income and can only be used in very limited circumstances to amortize intangible assets. The amendments are applied prospectively and have not had an impact on the Company, since a depreciation method based on income has not been used.

#### **Amendments to IAS 7 - Statement of Cash Flows: Disclosure Initiative**

The amendments require entities to disclose changes in liabilities produced by financing activities, including both those derived from cash flows and those that do not involve cash flows (such as gains or losses from exchange differences). The Company has had no effect on the consolidated financial statements derived from the application of these amendments.

#### **Amendments to IAS 12 Income Taxes**

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its consolidated financial statements.

#### **Interpretation of IFRIC 22 Transactions in foreign currency and prepaid consideration.**

This interpretation clarifies that, in order to determine the exchange rate that must be used in the initial recognition of the asset, expense or income (or part of them), which arises when a non-monetary asset or a non-monetary liability registered for a consideration is canceled In advance, the date of the transaction in which the non-monetary asset or non-monetary liability derived from the advance consideration was initially recognized will have to be used. If there are multiple payments or advances, the entity must determine the date of the transactions for each payment or collection of the anticipated consideration. This interpretation has not had any effect on the consolidated financial effects of the company.

#### 4. Cash and Cash Equivalents

An analysis of cash and cash equivalents as at 31 December 2018 and 2017 is as follows:

	2018	2017
Cash	Ps. 23	Ps. 48
Banks	911,739	550,528
Readily marketable securities	55,191	10,901
	<b>Ps. 966,953</b>	<b>Ps. 561,477</b>

#### 5. Other Current and Non-current Assets

An analysis of this caption as at 31 December 2018 and 2017 is as follows:

	2018	2017
Advances to supplier	Ps. 27,963	Ps. 77,900
Value Added Tax payable, net	31,122	36,247
Prepaid insurance	16,548	4,627
Fees and subscriptions	3,640	1,293
Total other current assets	<b>Ps. 79,273</b>	<b>Ps. 120,067</b>
Security deposits	Ps. 112,586	Ps. 103,172
Rent paid in advance	65,078	57,020
Total other non-current assets	<b>Ps. 177,664</b>	<b>Ps. 160,192</b>

#### 6. Related Parties

a) An analysis of balances due from and to the Company's related parties as at 31 December 2018 and 2017 is provided below. The companies mentioned in this note are considered associates or affiliates of the Company, since the Company's principal shareholders hold direct or indirect stakes in these companies.

	2018	2017
<b>Receivables:</b>		
Radiomóvil Dipsa, S.A. de C.V. (i)	Ps. 8,139	Ps. 51,411
Claro Costa Rica, S.A. (vii)	14,428	10,401
	<b>Ps. 22,567</b>	<b>Ps. 61,812</b>
<b>Payables:</b>		
Operadora Cicsa, S.A. de C.V. (ii)	Ps. 66,518	Ps. 66,574
PC Industrial, S.A. de C.V. (vi)	-	8,854
Other related parties	76	76
	<b>Ps. 66,594</b>	<b>Ps. 75,504</b>

b) During the years ended 31 December 2018 and 2017, the Company had the following transactions with its related parties:

		2018	2017
<b>Revenue:</b>			
Radiomóvil Dipsa, S.A. de C.V.	Leasing <sup>(i)</sup>	Ps. 6,075,253	Ps. 5,475,896
	Alteration services <sup>(i)</sup>	100,727	129,225
Claro Costa Rica, S.A de C.V.	Leasing <sup>(vii)</sup>	98,164	78,625
Comunicación celular, S.A. Comcel SA., Teléfonos de México, S.A.B. de C.V.	Advisory	37,289	56,834
Teléfonos del Noreste, S.A. de C.V.	Leasing <sup>(viii)</sup>	2,605	-
	Leasing <sup>(ix)</sup>	859	-
<b>Expenses:</b>			
Operadora Cicsa, S.A. de C.V.	Construction <sup>(ii)</sup>	300,364	345,124
Radiomóvil Dipsa, S.A. de C.V.	Leasing <sup>(iii)</sup>	121,842	125,840
Seguros Inbursa, S.A., Grupo Financiero Inbursa	Insurance <sup>(iv)</sup>	37,582	38,669
PC Industrial, S.A. de C.V.	Maintenance <sup>(v)</sup>	21,052	28,920
Consortio Red Uno, S.A. de C.V.	Leasing <sup>(x)</sup>	158	-
Grupo Sanborns, S.A. de C.V.	Leasing <sup>(vi)</sup>	-	1,349

- <sup>(i)</sup> The Company celebrates lease agreements with Telcel on a monthly basis under the current Offer for each year, for the use of its passive infrastructure, and also include adaptation services, each lease agreement is valid for 10 years, for the first lease agreement was made some modifications to extend the validity of each particular site, therefore, the dates of termination of leases cover until 2029 with the option of renewal for equal periods. The lease of passive structure corresponds to non-electronic elements at the service of telecommunications networks that include, but are not limited to, masts, towers, poles, sites, properties and physical spaces; the adaptation services correspond to all those modifications to the passive infrastructure requested by the client. As of December 31, 2018 and 2017, the amount charged to income for the lease of passive infrastructure and adaptation services was Ps.6,175,980 and Ps.5,605,121, respectively, the amount of the account receivable from Telcel, as of December 31, 2018 and 2017, is Ps.8,139 and Ps.51,411, respectively.
- <sup>(ii)</sup> During 2018 and 2017, the Company had transactions related to the construction of passive infrastructure with Operadora Cicsa, S.A. de C.V. (CICSA), construction expense under operating leases was Ps.300,364 and Ps.345,124 respectively. The account payable due to CICSA as at 31 December 2018 and 2017 is Ps.66,518 and Ps.66,574, respectively.
- <sup>(iii)</sup> During 2018 and 2017 the Company entered into leases of locations and land for passive infrastructure with Telcel for Ps.121,842 and Ps.125,840, respectively.
- <sup>(iv)</sup> During 2018 and 2017, the Company entered into insurance agreements, as required under its passive infrastructure lease agreements, with Seguros Inbursa, S.A., Grupo Financiero Inbursa (Inbursa). The Company's total insurance expense was Ps.37,582 and Ps.38,669, respectively.
- <sup>(v)</sup> The Company provided preventive maintenance to the passive infrastructure of PC Industrial, S.A. de C.V. (PCIS) in 2018 and 2017 the total maintenance expense for the year was Ps.21,052 and Ps.28,920, respectively. As at 31 December 2017, the Company's account payable to PCIS is Ps.8,854.
- <sup>(vi)</sup> During fiscal year 2017, the Company entered into operations for the lease of premises for the passive infrastructure with Grupo Sanborns, S.A. of C.V. (Sanborns), the amount charged to results for this concept, amounted to Ps.1,349.
- <sup>(vii)</sup> During the fiscal years of 2018 and 2017, the Company carried out operations for leasing services with Claro Costa Rica, S.A. (Claro), the amount charged to results for this concept, amounted to Ps.98,164 and Ps.78,625, respectively. As of December 31, 2018 and 2017, the amount of the account receivable from Claro amounted to Ps.14,428 and Ps.10,401, respectively.



## 7. Property and Equipment, net

The Company has two main types of towers: rooftop towers and greenfield towers, which are located in open areas. Most of the Company's greenfield towers can accommodate up to three customers, except for towers that are more than 45 meters high, which can accommodate up to five customers. Rooftop towers equipped with additional masts can accommodate more customers, provided that there is sufficient floor space available on-site to install the additional masts. As at 31 December 2018, the Company's passive infrastructure is comprised of 15,717 towers (14,976 towers as at 31 December 2017).

The Company's passive infrastructure is located in Mexico, distributed across nine cellular regions as defined by telecommunications sector rules and regulations. As at 31 December 2018, the Company has 278 towers in Costa Rica (267 towers as at 31 December 2017).

An analysis of property and equipment as at 31 December 2018 and 2017 is as follows:

Item	Passive infrastructure	Automotive equipment	Other equipment	Construction in process	Land	Total
<b>Investment:</b>						
As at 31 December 2016	Ps. 47,462,753	Ps. 6,831	Ps. 12,987	Ps. 98,414	Ps. 34,037	Ps. 47,615,022
Additions	1,306,123	2,631	13,758	1,408,071	23,916	2,754,499
Additions from revaluation surplus (Note 2h)	1,013,915	-	-	-	-	1,013,915
Disposals	(18,079)	(1,373)	-	(1,306,123)	-	(1,325,575)
As at 31 December 2017	49,764,712	8,089	26,745	200,362	57,953	50,057,861
Additions	1,320,863	1,368	25,477	1,284,727	5,515	2,637,950
Additions from revaluation surplus (Note 2h)	1,154,673	-	-	-	-	1,154,673
Disposals	-	-	-	(1,320,863)	-	(1,320,863)
<b>As at 31 December 2018</b>	<b>Ps. 52,240,248</b>	<b>Ps. 9,457</b>	<b>Ps. 52,222</b>	<b>Ps. 164,226</b>	<b>Ps. 63,468</b>	<b>Ps. 52,529,621</b>
<b>Depreciation:</b>						
As at 31 December 2016	Ps. 4,847,508	Ps. 1,274	Ps. 2,177	Ps. -	Ps. -	Ps. 4,850,959
Depreciation for the year	2,006,348	1,888	3,323	-	-	2,011,559
Disposals	-	-	-	-	-	-
As at 31 December 2017	6,853,856	3,162	5,500	-	-	6,862,518
Depreciation for the year	2,085,231	2,045	5,229	-	-	2,092,505
Disposals	-	-	-	-	-	-
<b>As at 31 December 2018</b>	<b>Ps. 8,939,087</b>	<b>Ps. 5,207</b>	<b>Ps. 10,729</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. 8,955,023</b>
<b>Asset retirement obligation:</b>						
As at 31 December 2016	Ps. 409,820	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 409,820
Cancellations	-	-	-	-	-	-
Amortization	(28,551)	-	-	-	-	(28,551)
Increase for the year	28,442	-	-	-	-	28,442
As at 31 December 2017	409,711	-	-	-	-	409,711
Cancellations	-	-	-	-	-	-
Amortization	(28,262)	-	-	-	-	(28,262)
Increase for the year	33,982	-	-	-	-	33,982
<b>As at 31 December 2018</b>	<b>Ps. 415,431</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. 415,431</b>
<b>Carrying amount:</b>						
<b>As at 31 December 2018</b>	<b>Ps. 43,716,592</b>	<b>Ps. 4,250</b>	<b>Ps. 41,493</b>	<b>Ps. 164,226</b>	<b>Ps. 63,468</b>	<b>Ps. 43,990,029</b>
As at 31 December 2017	Ps. 43,320,567	Ps. 4,927	Ps. 21,245	Ps. 200,362	Ps. 57,953	Ps. 43,605,054

Depreciation and amortization expense for the period ended 31 December 2018 and 2017 was Ps.2,124,184 and Ps.2,042,366, respectively.

## 8. Asset Retirement Obligation

An analysis of the Company's asset retirement obligation as at 31 December 2018 and 2017 is as follows:

	2018	2017
Balance as at 1 January of	Ps. 860,112	Ps. 831,670
Increase for additions of passive infrastructure	33,982	28,442
Charges	-	-
Balance as at 31 December	<b>Ps. 894,094</b>	Ps. 860,112

As at 31 December 2018, the review of the cash flow estimates and discount rates gave rise to no changes in these variables compared to the prior year.

## 9. Short- and Long-term Debt

### Integration of debt

		2018	2017
Bank loans	Non-current	Ps. -	Ps. 463,258
Bank loans	Short-term	520,757	-
Amortized costs		(983)	-
		519,774	-
Issue of structured notes	Non-current	22,455,110	22,068,347
Amortized costs		(43,129)	(49,496)
		22,411,981	22,018,851
Interest payable on structured notes	Short-term	505,403	492,321
Interest payable on bank loans	Short-term	2,027	1,137
Total de deuda		<b>Ps. 23,439,185</b>	Ps. 22,975,567

### a) Issue of structured notes

On 17 July 2015, as part of its structured note placement program through Inversora Bursátil, S.A. de C.V., Casa de Bolsa Grupo Financiero Inbursa (Inversora), Opsimex was authorized to issue five-year structured notes of up to Ps.22,000,000, or its equivalent in UDIs (investment units). Opsimex issued the following structured notes under this program:

- i) On 5 August 2015, Opsimex issued series 1 OSM-15 Mexican peso structured notes for a total issue of Ps.3,500,000, and with a maturity date of 23 July 2025. These structured notes bear annual gross interest of 7.97%.
- ii) On 23 September 2015, Opsimex reissued its series 1 OSM-15R Mexican peso structured notes for a total issue of Ps.3,710,000, and with a maturity date of 23 July 2025. These structured notes bear annual gross interest of 7.97%.
- iii) On 5 August 2015, Opsimex issued series 2 OSM-152 Mexican peso structured notes for a total issue of Ps.4,500,000, and with a maturity date of 29 July 2020. These structured notes bear annual gross interest of 0.5% plus the 28-day Mexican weighted interbank rate (TIIE).
- iv) On 5 August 2015, Opsimex issued series 3 OSM-15U structured notes denominated in UDIs for a total issue of Ps.7,000,000, (equal to 1,324,169 UDIs) and with a maturity date of 17 July 2030. These structured notes bear annual gross interest of 4.75%.
- v) On 18 February 2016, Opsimex reissued its series 1 OSM-15 2R Mexican peso structured notes for a total issue of Ps.2,500,000, and with a maturity date of 23 July 2025. These structured notes bear annual gross interest of 7.97%.

- vi) On 28 February 2017, Opsimex issued CB's series OSM-00217 and OSM-00117 in pesos, with a value of Ps.350,000 and Ps.505,000, respectively, maturing in 28 days at a gross annual interest rate of 7.06% per year. As of December 31, 2017, CB's were settled in full.
- vii) On 4 April 2017, Opsimex issued CB's serie OSM-00317 in pesos with a value of Ps.300,000, with a maturity of 15 days, and an annual interest rate of 7.22% per year. As of December 31, 2017, CB's were settled in full.

An analysis of the historical amounts and the outstanding accrued interest under the structured notes as at 31 December 2018 is as follows:

Series	Maturity date	Long-term debt	Interest payable
OSM-15 Mexican pesos series 1	23 July 2025	<b>Ps. 3,500,000</b>	Ps. 117,779
OSM-15R Mexican pesos series 1	23 July 2025	<b>3,710,000</b>	124,846
OSM-15 2R Mexican pesos series 1	23 July 2025	<b>2,500,000</b>	84,128
OSM-152 Mexican pesos series 2	29 July 2020	<b>4,500,000</b>	13,290
OSM-15U UDIs series 3	17 July 2030	<b>8,245,110</b>	165,360
		<b>Ps. 22,455,110</b>	Ps. 505,403

An analysis of the historical amounts and the outstanding accrued interest under the structured notes of Opsimex as at 31 December 2017 is as follows:

Series	Maturity date	Long-term debt	Interest payable
OSM-15 Mexican pesos series 1	23 July 2025	<b>Ps. 3,500,000</b>	Ps. 117,118
OSM-15R Mexican pesos series 1	23 July 2025	<b>3,710,000</b>	124,145
OSM-15 2R Mexican pesos series 1	23 July 2025	<b>2,500,000</b>	83,656
OSM-152 Mexican pesos series 2	29 July 2020	<b>4,500,000</b>	10,835
OSM-15U UDIs series 3	17 July 2030	<b>7,858,347</b>	156,567
		<b>Ps. 22,068,347</b>	Ps. 492,321

As at 31 December 2018 and 2017, the value of one UDI was Ps.6.1701 and Ps.5.9345, respectively. As at 3 april 2019, the date of the audit report on these financial statements, the value of the UDI was Ps.6.2636 per UDI.

### Redemptions

The Series 1 (OSM-15, OSM-15R, OSM- 15 2R), Series 2 (OSM-152) Mexican peso structured notes and Series 3 (OSM-15U) structured notes in UDIs of Opsimex do not stipulate early redemptions during their lifetimes, and principal is repayable to noteholders at maturity.

## b) Bank loans

An analysis of the Company's short-term bank loans as at 31 December 2018 is as follows:

Currency	Lender	Rate	Maturity date	Short-term debt	Interest
Mexican pesos:	Bank of America, N.A. <sup>(i)</sup>	4.52%	23 de febrero de 2023	<b>Ps. 471,629</b>	<b>Ps. 1,836</b>
	Bank of America, N.A. <sup>(ii)</sup>	4.52%	23 de febrero de 2023	<b>49,128</b>	<b>191</b>
Total debt				<b>Ps. 520,757</b>	<b>Ps. 2,027</b>

An analysis of the Company's short-term bank loans as at 31 December 2017 is as follows:

Currency	Lender	Rate	Maturity date	Short-term debt	Interest
Mexican pesos:	Bank of America, N.A. <sup>(iv)</sup>	1.625%+Libor	12 de enero de 2018	Ps. 440,646	Ps. 1,129
	Bank of America, N.A. <sup>(v)</sup>	1.625%+Libor	12 de enero de 2018	22,612	8
Total debt				Ps. 463,258	Ps. 1,137

<sup>(i)</sup> On February 23, 2018, the Company renewed its loan with BOFA, up to the amount of 24,000 USD (Ps.471,629), due on February 23, 2023. The loan generates current interest on the principal balance owed to a rate equivalent to 4.52%.

<sup>(ii)</sup> On May 24, 2018, the Company renewed its loan with BOFA, up to the amount of 2,500 USD (Ps.49,128), due on February 23, 2023. The loan generates current interest on the principal balance owed to a rate equivalent to 4.52%.

<sup>(iii)</sup> On November 30, 2017, the Company obtained a loan with BOFA, in the amount of USD 22,410(Ps.440,646), due on January 12, 2018. The loan generates ordinary interest payable monthly on the loan amount, by applying the ordinary rate that results from adding 1.6250% to the Libor rate.

<sup>(iv)</sup> On December 27, 2017, the Company obtained a loan with BOFA, in the amount of Ps.1,150 USD (Ps.22,612), due on January 12, 2018. The loan generates ordinary interest payable monthly on the loan amount, by applying the ordinary rate that results from adding 1.6250% to the Libor rate.

<sup>(v)</sup> On August 1, 2017, the Company obtained a loan with Banco Santander S.A. (Santander), in the amount of Ps.400,000, maturing on September 14, 2017. The loan generated ordinary interest payable monthly on the loan amount, at the rate of applying the ordinary rate resulting from adding 0.53 base points to the TIIE to 28 days.

<sup>(vi)</sup> During fiscal year 2017, the Company settled all of its bank loan with Santander for Ps.400,000.

## 10. Financial Assets and Financial Liabilities

An analysis of the Company's financial assets and financial liabilities as at 31 December 2018 and 2017 is as follows:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair Value
Long-term debt	<b>Ps. 22,931,755</b>	<b>Ps. 21,659,920</b>	Ps. 22,018,851	Ps. 21,394,032

The fair values of financial assets and financial liabilities are equal to the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Cash and cash equivalents, trade receivables, trade payables and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

## 11. Leases

The Company has entered into various operating lease agreements for the properties where its passive infrastructure is located. The agreements are for periods ranging from five to ten years, and the minimum annual lease payments are adjusted for inflation each year based on the NCPI. An analysis of the Company's future minimum lease payments for the next five years is as follows:

	2018
2019	Ps. 2,117,487
2020	2,219,761
2021	2,326,976
2022	2,439,369
2023	2,557,190
Total	Ps. 11,660,783

For the year ended 31 December 2018 and 31 December 2017, rent under operating leases was Ps.2,019,925 and Ps.1,863,678, respectively.

## 12. Retirement Benefits

An analysis of the net periodic benefit cost, the net defined benefit liability and plan assets associated with the Company's post-employment benefits (pension plan, seniority premiums and termination benefit plan) as at and for the years ended 31 December 2018 and 2017 is as follows:

### a) Net periodic benefit cost

	2018		
	Retirement benefits	Termination benefits	Total
<b>Analysis of net periodic benefit cost:</b>			
Current year service cost	Ps. 517	Ps. 273	Ps. 790
Net interest on net defined benefit liability	221	122	343
Net periodic benefit cost	Ps. 738	Ps. 395	Ps. 1,133

	2017		
	Retirement benefits	Termination benefits	Total
<b>Analysis of net periodic benefit cost:</b>			
Current year service cost	Ps. 264	Ps. 159	Ps. 423
Net interest on net defined benefit liability	187	98	285
Net periodic benefit cost	Ps. 451	Ps. 257	Ps. 708



b) An analysis of changes in the Company's net defined benefit liability is as follows:

	Retirement benefits	Termination benefits	Total
<b>Net defined benefit liability:</b>			
Net defined benefit liability as at 31 December 2016	Ps. 2,450	Ps. 1,317	Ps. 3,767
Current year service cost	264	159	423
Interest cost	187	98	285
Benefits paid	-	(194)	(194)
Actuarial (gain)/loss	(56)	227	171
Net defined benefit liability as at 31 December 2017	2,845	1,607	4,452
Remeasurements of net defined benefit liability			
Current year service cost	<b>517</b>	<b>273</b>	<b>790</b>
Interest cost	<b>221</b>	<b>122</b>	<b>343</b>
Benefits paid	-	-	-
Actuarial (gain)/loss	<b>410</b>	<b>(347)</b>	<b>63</b>
Net defined benefit liability as at 31 December <b>2018</b>	<b>Ps. 3,993</b>	<b>Ps. 1,655</b>	<b>Ps. 5,648</b>

c) An analysis of the net defined benefit liability is as follows:

	2018		
	Retirement benefits	Termination benefits	Total
<b>Provisions for:</b>			
Vested benefit obligation	<b>Ps. 3,993</b>	<b>Ps. 1,655</b>	<b>Ps. 5,648</b>
Defined benefit liability	<b>Ps. 3,993</b>	<b>Ps. 1,655</b>	<b>Ps. 5,648</b>

	2017		
	Retirement benefits	Termination benefits	Total
<b>Provisions for:</b>			
Vested benefit obligation	Ps. 2,845	Ps. 1,607	Ps. 4,452
Defined benefit liability	Ps. 2,845	Ps. 1,607	Ps. 4,452

d) The key assumptions used in the actuarial study, expressed in absolute terms, were as follows:

	2018	2017
<b>Financial assumptions:</b>		
Discount rate	9.96%	7.75%
Expected salary increase rate	4.15%	4.00%
Inflation rate	3.65%	3.50%
<b>Biometric assumptions:</b>		
Mortality rate	EMSSA 2019	EMSSA 2009
Disability	IMSS 97	IMSS 97

As at 31 December 2018 and 2017, the Company does not have any material contingent liabilities for employee benefits.

### 13. Employee Benefits

As at 31 December 2018 and 2017, the Company has recognized accrued liabilities for

short-term employee benefits. An analysis is as follows:

	Balance as at 31 December 2017	Increases for the year	Charges	Balance as at 31 December 2018
Paid annual leave	Ps. 1,560	Ps. 2,813	Ps. 2,829	Ps. 1,544
Vacation premium	2,288	4,530	4,040	2,778
Gratification	1,482	3,732	2,760	2,454
Employee profit sharing payable	408	1,668	403	1,673
	Ps. 5,738	Ps. 12,743	Ps. 10,032	Ps. 8,449

### 14. Accounts Payable and Accrued Liabilities

An analysis of the Company's accounts payable and accrued liabilities is as follows:

	2018	2017
Suppliers and accounts payable	Ps. 253,765	Ps. 306,926
Rent payable	18,493	79,023
Provisions and accrued liabilities	55,246	56,619
Total	Ps. 327,504	Ps. 442,568

The above-mentioned provisions represent expenses incurred in 2018 and 2017 or services contracted during these years that are to be paid in the following year. There is uncertainty as to both the final amounts payable and the timing of the Company's cash outlay and thus, the amounts shown above may vary.

## 15. Equity

a) An analysis of the Company's share capital as at 31 December 2018 and 2017 is as follows:

Serie	Share capital	Shares	Amount
B-1	Fixed minimum	4,774,486,209	Ps. 35,000

- b) The Company's share capital is variable, with an authorized fixed minimum of Ps.35,000, represented by 4,774,486,209 common registered shares with no par value; all of the Company's shares are issued and outstanding.
- c) As at 31 December 2018, the Company had treasury shares comprised of 1,474,486,209 Series B-1 shares for subsequent reissuance in terms of the Mexican Securities Trading Act.
- d) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. The legal reserve is recognized as part of retained earnings. As at 31 December 2018 and 2017, the Company's legal reserve is Ps.3,359.
- e) Earnings distributed in excess of the Net taxed profits account (CUFIN) balance will be subject to the payment of corporate income tax at the statutory rate at that time. The payment of this tax may be credited against the Company's current income tax.
- f) As a result of the 2014 Mexican Tax Reform, dividends paid to foreign individuals and corporations from earnings generated as of 1 January 2014 shall be subject to an additional 10% withholding tax.

## 16. Income Tax

a) Income tax

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate for Mexico of 30% for 2018.

b) An analysis of income tax recognized in the statement of comprehensive income for the year ended 31 December 2018 and 2017 is as follows:

	2018	2017
Current year income tax	Ps. 748,687	Ps. 688,644
Deferred income tax	(487,782)	(540,597)
Total income tax	Ps. 260,905	Ps. 148,047

c) A reconciliation of the Company's net deferred income tax assets and liabilities is as follows:

	2018	2017
As at 1 January	Ps. (10,228,649)	Ps.(10,459,558)
Deferred income tax recognized in the income Statements	487,782	540,597
Deferred income tax recognized in other comprehensive Income	160,952	182,894
Deferred income tax reclassified to retained earnings	(507,247)	(492,582)
As at 31 December	Ps. (10,087,162)	Ps.(10,228,649)

d) A reconciliation of the statutory corporate income tax rate to the effective income tax rate recognized by the Company for financial reporting purposes is as follows:

	2018	2017
Statutory income tax rate	30%	30%
Effect of reconciled items:		
Taxable effects of inflation	195	(82)
Property and equipment, net	(69)	25
Non-deductible items	3	(1)
Other items	-	1
Effective income tax rate	159%	(27)%

e) An analysis of the effect of temporary differences giving rise to deferred tax assets and liabilities is as follows:

	2018	2017
<b>Deferred tax assets:</b>		
Provisions and accrued liabilities	Ps. 18,971	Ps. 17,811
Rent payable to individuals	9,700	11,385
Amortized cost	1,006	1,640
Employee benefits	502	1,721
Retirement benefits	1,694	1,336
Tax losses	3,453	1,805
Total deferred tax assets	35,326	35,698
<b>Deferred tax liabilities:</b>		
Property and equipment, net	560,301	204,217
Surplus from revaluation of assets	9,536,201	10,043,447
Rent paid in advance	19,043	16,168
Prepaid expenses	6,943	515
Total deferred tax liabilities	10,122,488	10,264,347
Deferred tax liability, net	Ps. 10,087,162	Ps. 10,228,649

f) For the years ended 31 December 2018 and 2017, the Company reported taxable income of Ps.2,495,623 and Ps.2,295,480, respectively, on which income tax payable was Ps.748,687 and Ps.688,644, respectively.

g) Consolidated tax losses pending amortization

Consolidated tax losses may be amortized against future profits, within a period of ten years. For these purposes, they are updated according to the MITL. As of 31 December 2018, the consolidated fiscal losses of the Company are as follows:

Year of tax loss	Amount of the losses updated	Expiration Date
	2016	Ps. 232
	2017	5,862
	2018	5,415
		2026
		2027
		2028
		Ps. 11,509

e) As at 31 December 2018 and 2017, the Company had the following tax balances:

	2018	2017
Restated contributed capital account (CUCA)	Ps. 41,087	Ps. 39,194
Net taxed profits account (CUFIN)	11,562	11,029

## 17. Contingencies and Commitments

Since 2013, Mexico has developed a new regulatory framework for the regulation of telecommunications and broadcasting. This new regulatory framework is based on a constitutional package of reforms approved in June 2013 and implemented in July 2014, and which led to the enactment of a new Federal Telecommunications and Broadcasting Law and Mexican Public Broadcasting System Law to replace the existing regulatory framework.

The IFT was created as an independent agency tasked with promoting and regulating access to Mexico's telecommunications and broadcast infrastructure (including passive infrastructure).

The IFT also has the power to oversee fair competition in the telecommunications and broadcast sectors by imposing asymmetric regulations on sector participants that it deems market dominant and it may also declare that a company is a so-called "preponderant economic agent" in either of these two sectors.

In March 2014, the IFT issued a ruling (the Ruling) through which it declared that America Movil and Telcel, together with others market participants, represented an "economic interest group" that is a so-called "preponderant economic agent" in the telecommunications sector. The IFT ordered America Movil and Telcel to take specific actions to force both companies to grant access to and to share their passive infrastructure with other carriers. Telcel's passive infrastructure includes new tower space, as well as space on towers where telecommunications equipment is already installed.

The Federal Telecommunications and Broadcasting Law that was published in July 2014 states that the IFT shall be tasked with promoting the execution of agreements between asset owners and customers in order for the former to provide access to this passive infrastructure to the latter. Whenever the negotiations surrounding these agreements prove unsuccessful, the IFT may intercede to determine the pricing and the terms of the commercial agreements. The IFT also has the power to regulate the terms of passive infrastructure agreements between assets owners and their customers, and it may assess the agreements in terms of fair competition and take actions to ensure that the terms and conditions for the use and sharing of the passive infrastructure are non-discriminatory.

In February 2018, the IFT published a "Biennial Resolution" through which measures were modified, deleted and added" to the Resolution ("the Biennial Resolution"), modifications that in the case of passive infrastructure, can be considered as minor or of little relevance.

### Reference Offer

In terms of the current regulatory framework and the Resolution, which was modified by the Biennial Resolution, the Reference Offer (the "Offer") has been prepared and/or updated, and this Offer will be valid until December 31 of each year. and for each year, due to the above, the Company as Telcel's successor and owner of the passive infrastructure has complied with the Resolution.

In terms of the Biennial Resolution, a new Offer is currently in force, which was duly approved by the IFT in October 2018, which will be in force during the period from January 1 to December 31, 2019 under the terms of the current Offer, interested operators must sign a Framework Agreement, as well as individual agreements per site, the duration of which will be for a minimum mandatory term of 10 years. It is worth mentioning that, in accordance with the Biennial Resolution, the Company will present in the month of July of each year, for IFT approval, a new offer proposal, which will come into force on January 1 of the year following its presentation, with independence to the foregoing, the operators may agree to sign the Offer with a duration longer than the validity of the respective Offer.



## Towers and Antennas

The Company is subject to regulatory requirements regarding the registration, zoning, construction, lighting, demarcation, maintenance and inspection of towers, and land use restrictions where the towers are located. Failure to comply with these regulations may result in preventions or sanctions. The Company considers that it is in substantial compliance with all applicable regulations.

## 18. Segment Information

The Company has passive infrastructure installed throughout Mexico and in various points abroad. Its principal business segment is leasing this infrastructure. At the reporting date, the Company's business is geographically divided into the following nine regions:

Region	Mexican states	2018		2017	
		Infrastructure rental revenue	Lease expense	Infrastructure rental revenue	Lease expense
1	Baja California Sur and Baja California	Ps. 351,619	Ps. 77,325	Ps. 279,847	Ps. 102,777
2	Sinaloa and Sonora	445,739	129,659	402,059	110,083
3	Chihuahua and Durango	303,893	71,337	270,786	82,380
4	Nuevo Leon, Tamaulipas and Coahuila	786,069	209,917	689,065	189,609
5	Jalisco, Michoacan, Colima and Nayarit	777,309	229,594	662,764	213,085
6	Queretaro, Guanajuato, San Luis Potosi, Aguascalientes and Zacatecas	826,466	261,853	671,966	233,071
7	Puebla, Veracruz, Oaxaca and Guerrero	987,686	297,534	860,934	273,719
8	Yucatan, Campeche, Tabasco, Chiapas and Quintana Roo	689,745	204,255	603,134	176,216
9	Hidalgo, Morelos and Mexico City	1,337,132	504,969	1,146,535	449,017
	Total	Ps. 6,505,658	Ps. 1,986,443	Ps. 5,587,090	Ps. 1,829,957

Region	Other foreign locations	Infrastructure rental revenue	Lease expense	Infrastructure rental revenue	Lease expense
1	Costa Rica	Ps. 98,164	Ps. 33,482	Ps. 78,625	Ps. 33,721
	Total foreign locations	98,164	33,482	78,625	33,721
	Total	Ps. 6,603,822	Ps. 2,019,925	Ps. 5,665,715	Ps. 1,863,678

## 19. Subsequent Events

During the months of January and February 2019, the Company paid interest corresponding to series 1 OSM-15 in pesos, series 2 OSM-152 in pesos and series 3 OSM-15U Udis for an amount of Ps.391,243, Ps.62,825 and Ps.198,650, respectively.

# INVESTOR'S

## INFORMATION

### INVESTOR RELATIONS

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### STOCK INFORMATION

Series B1 shares of Telesites, S.A.B de C.V. are listed on the Mexican Stock Exchange under the ticker symbol "**SITES**".

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