

FIRST QUARTER 2019



IN MONTERREY

Felipe Loera

Chief Financial Officer
Tel: +52 (81) 1133-6468
floera@javer.com.mx

Verónica Lozano

Investor Relations
Tel: +52 (81) 1133-6699 Ext. 6515
vlozano@javer.com.mx

IN NEW YORK

Melanie Carpenter

I-advize Corporate Communications
Tel: +212-406-3692
mcarpenter@i-advize.com

For more information,
visit: www.javer.com.mx



JAVER ANNOUNCES 1Q19 RESULTS WITH AN ENHANCED GROSS MARGIN DESPITE VOLUME CONTRACTION

Monterrey, Nuevo Leon, Mexico – April 25, 2019 - Servicios Corporativos Javer S.A.B. de C.V., (BMV: JAVER) (“Javer” or “the Company”), the largest housing development company in Mexico in terms of units sold, announces its financial results for the first quarter (“1Q19”) ended March 31, 2019. All figures presented in this report are expressed in nominal Mexican pesos (Ps.), unless otherwise stated.

1Q19 Highlights:

(Figures in thousand pesos)	1Q19	1Q18	Variance
Homes titled	3,498	4,747	(26.3%)
Net Revenues	1,617,326	1,984,984	(18.5%)
Gross Profit	429,378	491,561	(12.7%)
Gross Margin	26.5%	24.8%	1.8 pp
EBITDA	132,410	170,202	(22.2%)
EBITDA Margin	8.2%	8.6%	(0.4 pp)
Net Income	16,218	58,181	(72.1%)
Net Margin	1.0%	2.9%	(1.9 pp)
FCF	-55,409	-118,172	53.1%
Income per share*	0.06	0.21	(71.4%)

* The weighted average number of shares to determine basic per share for the period ended March 31, 2019 and 2018, was 277,833,838 and 277,729,355, respectively; the weighted average number of shares to determine diluted earnings per share for the period ended March 31, 2019 and 2018 was 280,994,037 and 279,238,176, respectively

- **Units sold** decreased 26.3% to 3,498 units in 1Q19 compared to 4,747 units in 1Q18 due to the elimination of the subsidy program for the year 2019, since the disbursement of the funds last year was carried out during the first half of the year.
- **Net Revenues** dropped 18.5% to Ps. 1,617.3 million in 1Q19 compared to Ps. 1,985.0 million in 1Q18 given the decrease in volume, however the effect was partially offset by the improvement in the sales mix.
- **EBITDA** decreased 22.2% to Ps. 132.4 million in 1Q19 compared to Ps. 170.2 million in 1Q18, as a result of the decline in units sold. EBITDA margin contracted only 0.4 percentage points to 8.2% in 1Q19 compared to 8.6% in 1Q18.

- **Net Result** was Ps. 16.2 million in 1Q19 compared to Ps. 58.2 million in 1Q18, derived from the same effect mentioned above. Earnings per share reached Ps. 0.06 in 1Q19 and Ps. 0.21 in 1Q18.
- **The free cash flow (FCF)** was Ps. (55.4) million in 1Q19 compared to Ps. (118.2) million in 1Q18; the lower use of funds was due to a reduction in tax payments and better working capital efficiencies.

CEO STATEMENT

Mr. René Martínez, CEO of the Company commented, "It is a pleasure for us to present the financial and operating results of the first quarter of 2019, which are completely in line with the volume, revenues, margins and expected profits for the 12-month period of 2019.

In the YoY comparison, we had a volume contraction as we had anticipated and discussed in our 4Q18 conference call, where we mentioned that the first two quarters of 2019 would be characterized by a lower volume and generation of profits since we expect the new projects that will start operations during the first semester to be fully-activated in the second half of the year.

As we have said, the subsidy program practically disappeared for the current year, with a mere Ps. 400 million remaining, which the government will begin to disburse in the middle of April.

Regarding the new housing policy, we are waiting for its release in the following months. One of the most important issues being discussed, is that the authority is seeking to increase the amounts of credit for those workers earning at least a minimum wage. This modification will help offset the elimination of the subsidy program. Undoubtedly, the implementation of this alternative will represent an improvement for the most vulnerable sector of the Mexican population.

In operational matters, we continued to direct our product mix to the middle-income and residential segments which represented 87.9% of the total units sold in 1Q19 versus 83.1% in 1Q18., This mix shift led to an improvement in the average sales price in the order of 10.8% compared to the same period of 2018.

Likewise, the gross margin for the sale of homes increased given the sales mix and price improvements, as it enhanced its relation to sales by 181 basis points to 26.5% in 1Q19 from 24.6% from 1Q18.

We continue with the market share leadership of within the INFONAVIT system, both in loans granted for new housing with 10.0% and in total of credits with 5.1%.

Also, at the beginning of the year we earned for the second consecutive year, the recognition as one of the best places to work in Mexico "GPTW" (Great Place to Work), and as a socially responsible company "ESR", which demonstrates our commitment to continue improving in both areas.

Regarding our debt refinancing, we continue analyzing different options, and soon we expect to have more color on the selected alternative.

In summary, we are very satisfied with the results obtained during this first quarter, which were in line with our expectation for this period of the year. This leaves us very confident in affirming our 2019 guidance of flat revenues compared to 2018, EBITDA growth between 2.5% and 5%, and positive free cash flow."

UNITS SOLD AND NET REVENUES

Units Sold	1Q19	% of units	1Q18	% of units	Variance
Affordable Entry Level	422	12.1%	803	16.9%	(47.4%)
Middle Income	2,781	79.5%	3,663	77.2%	(24.1%)
Residential	295	8.4%	281	5.9%	5.0%
TOTAL	3,498	100.0%	4,747	100.0%	-26.3%

Revenues (Figures in thousand pesos)	1Q19	% of revenues	1Q18	% of revenues	Variance
Affordable Entry Level	114,619	7.1%	228,065	11.5%	(49.7%)
Middle Income	1,120,549	69.3%	1,399,529	70.5%	(19.9%)
Residential	379,820	23.5%	350,260	17.6%	8.4%
Total Home Sales	1,614,988	99.9%	1,977,854	99.6%	-18.3%
Commercial Lot Sales	2,338	0.1%	7,130	0.4%	(67.2%)
TOTAL	1,617,326	100%	1,984,984	100%	-18.5%

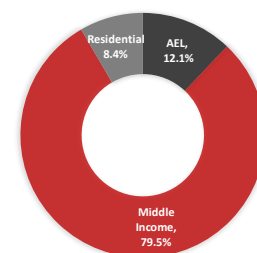
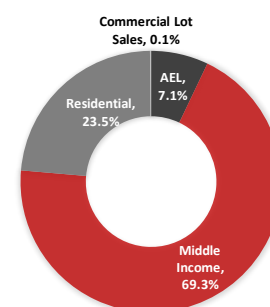
* Low Income units have selling prices below Ps. 300,000. Middle-income units have selling prices between Ps. 300,000 and Ps. 850,000. Residential units have selling price exceeding Ps. 850,0000.

Units Sold decreased 26.3% to 3,498 units in 1Q19, compared to 4,747 units titled in 1Q18. The residential segment grew 5.0% while the Affordable Entry Level (AEL) and middle-income segments decreased 47.4% and 24.1%, respectively. The middle-income segment represented 79.5% of the total units sold, and 69.3% of total revenues in 1Q19; AEL units comprised 12.1% of the total units titled and 7.1% of the total revenues in the same period. The residential segment represented 8.4% of the total units sold and 23.5% of total revenues.

During 1Q19, **commercial lot sales** were Ps. 2.3 million, a decrease of 67.2% compared to 1Q18, due to a lower availability of commercial lots.

The **average sale price** increased 10.8% to Ps. 461.7 thousand in 1Q19 compared to Ps. 416.7 thousand in 1Q18 as a result of a sales mix with a greater focus on the middle-income segment and growth in the residential segment.

(figure in thousand pesos)	1Q19	1Q18	Variance
AEL	271.6	284.0	-4.4%
Middle Income	402.9	382.1	5.5%
Residential	1,287.5	1,246.5	3.3%
Average Sales Price per Unit	461.7	416.7	10.8%

1Q19 UNITS SOLD**1Q19 REVENUES**

Mortgage Provided Mix: Infonavit is the main source of loans for the Company's clients. The loans granted by the Institute, including Cofinavit, represented 91.4% of the total units sold in 1Q19, while in 1Q18 they comprised 94.5%; the improvement in the type of financing mix is due to the increase in the offer of the Company's residential projects whose clients demanded a greater number of bank loans.

Mortgage Provider	1Q19	% of total	1Q18	% of total
Infonavit	3,108	88.9%	4,406	92.8%
Fovissste	92	2.6%	74	1.6%
Cofinavit	90	2.6%	81	1.7%
Banks / Sofoles	112	3.2%	88	1.9%
Other	96	2.7%	98	2.1%
TOTAL	3,498	100.0%	4,747	100.0%

Subsidies: For the year 2019, the housing subsidy budget was eliminated, so none of the units were sold with a subsidy in 1Q19, as opposed to 27.1% of the total of units that were titled with a subsidy in 1Q18.

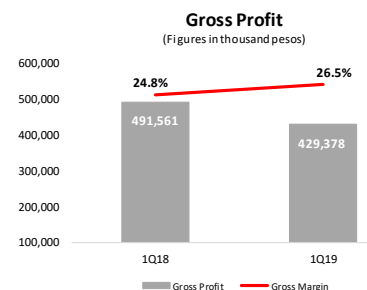
	1Q19	1Q18	Variance
No Subsidies	3,498	3,460	1.1%
Subsidies	0	1,287	(100.0%)
Total Units	3,498	4,747	(26.3%)

GROSS PROFIT / GROSS MARGIN

Gross Profit (figures in thousand pesos)	1Q19	1Q18	Variance
Home Sales	427,500	487,330	(12.3%)
Commercial Lot Sales	1,878	4,231	(55.6%)
TOTAL	429,378	491,561	(12.7%)

Gross Margin (%)	1Q19	1Q18	Variance
Home Sales	26.5%	24.6%	1.8 pp
Commercial Lot Sales	80.3%	59.3%	20.9 pp
TOTAL	26.5%	24.8%	1.8 pp

Gross profit decreased 12.7% to \$ 429.4 million in 1Q19 when compared to Ps. 491.6 million in 1Q18, as a result of volume contraction.



Gross margin increased 1.8 percentage points to 26.5% in 1Q19 from 24.8% in 1Q18, derived from the improvement in the sales mix with a greater focus on the middle-income and residential segments, as well as the Company's efforts to be cost efficient.

EBITDA / EBITDA MARGIN

(Figures in thousand pesos)	1Q19	1Q18	Variance
SG&A	322,951	343,335	(5.9%)
As a % of Sales	20.0%	17.3%	2.7 pp
EBITDA	132,410	170,202	(22.2%)
EBITDA Margin	8.2%	8.6%	(0.4 pp)



Selling, General and Administrative Expenses (SG&A) decreased 5.9% to Ps. 323.0 million in 1Q19, compared to Ps. 343.3 million in 1Q18. SG&A savings were generated from the personnel indemnities made during 4Q18 with the objective of having an optimal structure in accordance with market conditions.

EBITDA decreased 22.2% to \$ 132.4 million in 1Q19 from \$ 170.2 million in 1Q18 due to the contraction in volume, while the margin contracted only 0.4 percentage points to 8.2% in 1Q19 compared to 8.6% in 1Q18.



COMPREHENSIVE COST OF FINANCING

<u>(Figures in thousand pesos)</u>	<u>1Q19</u>	<u>1Q18</u>	<u>Variance</u>
Interest expense	116,953	107,797	8.5%
Interest income	(5,571)	(11,141)	(50.0%)
FX gains / losses	(32,661)	(50,241)	(35.0%)
NCFR	78,721	46,415	69.6%
Net gain (loss) on cash flow hedges	(53,285)	(50,456)	(5.6%)

The Comprehensive Cost of Financing was Ps. 78.7 million in 1Q19 compared to Ps. 46.4 million in 1Q18, due to lower FX losses since the Company's hedging strategy was modified in January through derivative financial instruments, including 100% coverage of the principal of the 2021 Notes.

Net Result was Ps. 16.2 million in 1Q19 compared to Ps. 58.2 million in 1Q18, derived from the same effect mentioned above. Earnings per share were Ps. 0.06 in 1Q19 and Ps. 0.21 in 1Q18.

Comprehensive loss, which includes (MTM) gains and losses on derivatives to hedge the coupons corresponding to the long-term USD denominated debt came in at Ps. (37.1) million in 1Q19.

ASSETS / LIABILITIES

Cash and cash equivalents were Ps. 560.5 million as of March 31, 2019.

WORKING CAPITAL

Working capital cycle was 279 days as of March 31, 2019, 36 more days compared to the 243 days registered as of March 31, 2018, the increase is due to a greater acquisition of land reserves during 4Q18 and the work in process investment made in these properties.

(Figures in thousand pesos)	March 2019		March 2018	
	Amount	Days	Amount	Days
Trade Accounts Receivable	789,713	36	1,178,069	54
Inventory (work in progress)	3,811,623	236	3,537,856	220
Inventory (land reserves)	1,520,762	94	1,053,473	66
Suppliers	1,368,055	85	1,544,842	96
Customer Advances	29,877	2	18,040	1
Working Capital	4,724,166	279	4,206,516	243
LTM Sales	7,953,422		7,880,196	
LTM Cost of Goods Sold	5,867,601		5,846,780	

FREE CASH FLOW

The free cash flow (FCF) was Ps. (55.4) million in 1Q19 compared to Ps. (118.2) million in 1Q18; the lower use of funds was due to a reduction in tax payments and better working capital efficiencies.

(Figures in thousand pesos)	1Q19	1Q18
EBITDA	132,410	170,202
(+) Land included in COGS	143,579	162,323
(+-) Changes in Working Capital	95,434	(84,745)
Cash Interest	(126,307)	(100,877)
Cash Taxes	(9,156)	(46,162)
Land CAPEX	(287,718)	(214,960)
Equipment CAPEX	(3,651)	(3,953)
Free Cash Flow	(55,409)	(118,172)

DEVELOPMENT PIPELINE

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Home Starts	5,071	4,373	4,902	4,632	2,958	5,633	4,414	4,929	5,307	5,417	4,478	2,866	2,761
Home Completions	4,429	4,739	4,579	4,595	3,562	5,109	5,171	5,063	4,957	5,360	3,945	4,124	3,152
Homes Titled	4,613	4,599	4,339	4,801	4,224	4,660	4,281	5,585	4,747	5,329	4,546	4,340	3,498
Available Finished Home Inventory	1,862	2,002	2,242	2,036	1,374	1,823	2,713	2,191	2,401	2,432	1,831	1,615	1,269
Homes under active development (incl. AFHI)	8,572	8,346	8,909	8,740	7,474	8,447	8,580	7,924	8,484	8,572	8,504	7,030	6,283
Total Land Reserves	102,394	99,434	95,566	91,236	88,203	86,408	83,499	83,668	81,266	90,415	90,994	88,455	96,421

Home Starts decreased 48.0% to 2,761 units in 1Q19, compared to 5,307 units in 1Q18, in line with the new market conditions and the Company's strategy.

Home Completions decreased 36.4% to 3,152 units in 1Q19, compared to 4,957 units in 1Q18 due to the change in the sales mix to middle-income and residential segment projects, which are less intensive in terms of unit production.

Finished Home Inventory was 1,269 units as of March 31, 2019 compared to 1,615 units as of December 31, 2018, a decrease of 21.4%, which is in line with the Company's inventory control policy.

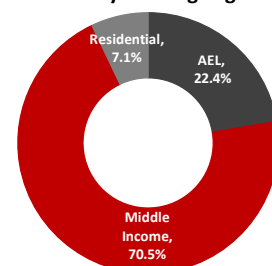
LAND RESERVES

As of March 31, 2019, the Company's land reserves reached 96,421 units, of which approximately 59.2% are reserves purchased directly by the Company and 40.8% are reserves that are maintained through land trusts.

Land Reserves per state as of 1Q19

<u>State</u>	<u>Units</u>	<u>Percentage</u>
Aguascalientes	8,845	9.2%
State of Mexico	5,726	5.9%
Jalisco	22,364	23.2%
Nuevo León	32,408	33.6%
Querétaro	10,482	10.9%
Quintana Roo	7,985	8.3%
Tamaulipas	8,611	8.9%
Total	96,421	100.0%

Landbank by housing segment



DEBT AND DERIVATIVE EXPOSURE

As of March 31, 2019, Javer continued to possess available credit facility lines in excess of Ps. 534.2 million. These credit lines can be used at any time as long as Javer is in compliance with the covenants established in its Senior Note contracts.

Javer maintained derivative positions to hedge its currency exposure related to the 2021 Notes (coupons and principal). As of March 31, 2019, the Company's hedging strategy includes 100% of the 2021 Notes principal and 100% of the coupons until April 2020.

As of March 31, 2019, the Company possessed US\$15 million in available credit lines from derivative counterparties to finance any potential negative carrying values on the Company's derivative contracts.

As of March 31, 2019, Total Debt / LTM EBITDA reached 3.03x, Net Debt to EBITDA was 2.48x, and EBITDA interest coverage reached 2.17x.

Short Term Debt (Figures in thousand pesos)	Mar-19
Notes Payable to Financial Institutions	160,909
Current Portion of Long Term Debt	40,711
TOTAL	201,620

Long Term Debt (Figures in thousand pesos)	Mar-19
High Yield Bond	2,943,785
Capital Leases	180,684
Less Current Portion	40,711
TOTAL	3,083,758

TOTAL DEBT	3,285,378
CASH AND CASH EQUIVALENTS	560,534
MTM DERIVATIVES	182,918
NET DEBT	2,541,926

TOTAL DEBT* / LTM EBITDA	3.03
NET DEBT / LTM EBITDA	2.48
LTM EBITDA / LTM INTEREST EXPENSE	2.17

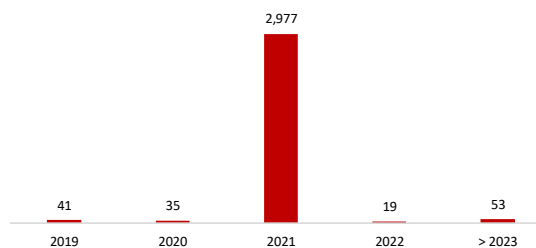
* Total debt= Total Debt - MTM Derivative Position

Derivatives

	March 31, 2019	
	FMV (Ps\$)	FMV (US\$)
Coupon Swaps (Fix)	182,549	9,420
Embedded derivatives asset	369	19
TOTAL	182,918	9,439

Debt maturity profile

(MXN millions)



SERVICIOS CORPORATIVOS JAVER S.A.B. de C.V.

cordially invites you to its
First Quarter 2019
Conference Call & Webcast Presentation in Spanish

Friday, April 26, 2019

11:00 a.m. New York Time

10:00 a.m. Mexico City/Monterrey Time

PRESENTERS

René Martínez Martínez, Chief Executive Officer

Felipe Loera Reyna, Chief Financial Officer

To access the call, please dial:

1(877) 830-2576 from within the U.S.

1(785) 424-1726 from outside the U.S.

Passcode: JAVER

To access the live and archived webcast presentation, visit:

<https://services.choruscall.com/links/javer190426CgFwpoND.html>

A replay will be available on April 26, 2019 at 3:00pm for 7 days

To obtain the replay, please call:

1(844) 488-7474 from within the U.S.

+1(862) 902-0129 from outside the U.S.

Passcode: 11234919

About Javer:

The Company is the largest housing development company in Mexico regarding the number of units sold through the Infonavit lending system in 2018, according to the Report of loans granted by developer published in Infonavit's website (Reporte de créditos por oferente). The Company started operations in 1973, and its corporate is located in Monterrey, Nuevo León. Javer has presence in the states of Nuevo León, Jalisco, Querétaro, Estado de México, Aguascalientes, Quintana Roo, Tamaulipas. The Company developed a vertical and residential project in Mexico City in 2016 and is currently working on its next project. It is the leading provider in the Infonavit system for new housing nationwide, with a market share of 9.3% in 2018. Additionally, it is the largest provider in the Infonavit system with respect to the loans granted for the acquisition of new housing in the states of Aguascalientes, Nuevo León, State of Mexico and Querétaro with a market share of 26.0%, 23.7%, 21.1% and 13.3%, respectively. It ranks second in Jalisco, and Quintana Roo with 13.4% and 12.6%, respectively. In 2018, the Company reported revenues of Ps. 8,321 million and a total of 18,962 units sold.

Disclaimer

This press release may include forward-looking statements. These statements relate to projections, future developments and business strategies and can be identified by the use of terms and phrases such as "anticipates," "believes," "can," "will," "estimates," "expects," "prevents", "intends", "pretends", "may", "plans", "predicts", "projects", "aims", "strategy" and similar terms and phrases, and may include references to assumptions. These forward-looking statements include, without limitation, those regarding the Company's future financial position and results of operations, the Company's strategy, plans, objectives, goals and targets, future developments in the markets in which the Company participates or are seeking to participate or anticipated regulatory changes in the markets in which the or intends to operate. The Company cautions potential investors that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that the Company's actual results of operations, including the Company's financial condition and liquidity and the development of the Mexican mortgage finance industry, may differ materially (and may be more negative than) from the forward-looking statements contained in this press release. In addition, even if the Company's results of operations are consistent with the forward-looking statements contained in this press release, those results or developments may not be indicative of results or developments in subsequent periods. These forward-looking statements speak only as of the date of this press release and the Company assumes no obligation to revise or update any forward-looking statement, whether as a result of new information or new events or developments obligation. More detailed information on these and other factors is included in the Offer to Purchase.

Servicios Corporativos Javer, S. A. B. de C. V. y Subsidiarias

Consolidated statements of financial position

As of March 31, 2019 and December 31, 2018
(In thousands of Mexican pesos)

	Note	2019	2018
Assets			
Current assets:			
Cash and cash equivalents	3	\$560,534	\$ 579,144
Accounts receivable, net	4	756,592	898,516
Inventories	6	3,811,623	3,806,976
Prepaid expenses		551,858	480,862
Other current assets		146,869	130,714
Total current assets		5,827,476	5,896,212
Long term accounts receivable		33,121	17,993
Land held for future development	6	1,520,762	1,283,409
Use rights, molds, machinery and equipment		296,508	307,364
Derivative financial instruments	7	182,918	160,415
Deferred income taxes		614,024	614,024
Other non-current assets		85,601	85,601
Total assets		<u>\$8,560,410</u>	<u>\$ 8,365,018</u>
Liabilities and stockholders' equity			
Current liabilities:			
Short-term loans	8	\$160,909	\$ 107,916
Current portion of long-term debt	8	40,711	41,789
Trade and other payables	9	1,501,102	1,476,679
Due to related parties		165	165
Advances from customers		29,877	19,368
Income taxes payable	11	2,942	7,330
Interest payable		152,603	77,861
Total current liabilities		1,888,309	1,731,108
Long-term debt	8	3,083,758	3,119,289
Payables for purchase of land		126,515	11,868
Employee retirement obligations		49,365	49,180
Deferred income taxes	11	1,441,566	1,451,379
Total liabilities		<u>6,589,513</u>	<u>6,362,824</u>
Stockholders' equity:			
Capital stock	12	1,147,921	1,142,151
Premium on issuance of shares		7,296	7,296
Retained earnings		894,449	878,231
Other comprehensive income items		(78,769)	(25,484)
Total stockholders' equity		<u>1,970,897</u>	<u>2,002,194</u>
Total liabilities and stockholders' equity		<u>\$8,560,410</u>	<u>\$ 8,365,018</u>

The accompanying notes are part of these consolidated financial statements.

Servicios Corporativos Javer, S. A. B. de C. V. and Subsidiaries
Consolidated statements of profit or loss and other comprehensive income

For the period ended March 31, 2019 and 2018
(In thousands of Mexican pesos, except earnings per share)

	Note	1Q 2019	1Q 2018
Revenues	14	\$1,617,326	\$1,984,984
Cost of sales		1,187,948	1,493,423
Gross profit		429,378	491,561
Administrative expenses		(122,512)	(132,219)
Selling expenses		(131,433)	(140,818)
General expenses		(69,006)	(70,298)
Other income, net		2,183	1,898
Interest expense, net		(111,382)	(96,656)
Net gain on foreign currency exchange		40,439	211,093
Loss on valuation of derivative financial instruments	7	(7,778)	(160,852)
Income before income tax		29,889	103,709
Income tax expense	11	(13,671)	(45,528)
Net income		16,218	58,181
Other comprehensive (loss) income:			
Items that may be reclassified subsequently to profit or loss:			
loss on cash flow hedges net of tax		(53,285)	(50,456)
Total comprehensive (loss) income		\$(37,067)	\$7,725
Basic and diluted income per share		\$ 0.06	\$ 0.21

The weighted average number of shares to determine basic per share for the period ended March 31, 2019 and 2018, was 277,833,838 and 277,729,355, respectively; the weighted average number of shares to determine diluted earnings per share for the period ended March 31, 2019 and 2018 was 280,994,037 and 279,238,176, respectively.

The accompanying notes are part of these consolidated financial statements.

Servicios Corporativos Javier, S. A. B. de C. V. and Subsidiaries

Consolidated statements of changes in stockholders' equity

For the period ended March 31, 2019 and 2018

(In thousands of Mexican pesos)

	Capital stock	Premium on issuance of shares	Retained earnings	Other comprehensive income items	Total stockholders' equity
Balance as of December 31, 2017	\$1,130,486	\$ -	\$ 647,629	\$ 37,748	\$1,815,863
Issuance of shares associated with share-based payment plans	4,088	-	-	-	4,088
Repurchase of shares	(721)	-	-	-	(721)
Comprehensive income	-	-	58,181	(50,456)	7,725
Balance as of March 31, 2018	<u>\$1,133,853</u>	<u>\$ -</u>	<u>\$705,810</u>	<u>\$ (12,708)</u>	<u>\$ 1,826,955</u>
Balance as of December 31, 2018	\$1,142,151	\$7,296	\$ 878,231	\$(25,484)	\$2,002,194
Issuance of shares associated with share-based payment plans	8,668	-	-	-	8,668
Repurchase of shares	(2,898)	-	-	-	(2,898)
Comprehensive income	-	-	-	-	-
Comprehensive loss	-	-	162,18	(53,285)	(37,067)
Balance as of March 31, 2019	<u>\$ 1,147,921</u>	<u>\$ 7,296</u>	<u>\$ 894,449</u>	<u>\$ (78,769)</u>	<u>\$1,970,897</u>

The accompanying notes are part of these consolidated financial statements.

Servicios Corporativos Javer, S. A. B. de C. V. and Subsidiaries

Consolidated statements of cash flows

For the period ended March 31, 2019 and 2018

(In thousands of Mexican pesos)

	2019	2018
Cash flows from operating activities:		
Income before tax expense	\$ 29,889	\$ 103,709
Adjustment for:		
Interest expense, net	111,382	96,656
Effects of valuation of derivative financial instruments	7,780	160,852
Depreciation and amortization	17,315	17,309
Unrealized exchange gain	(43,088)	(211,214)
Shares-based payments	8,668	4,088
(Increase) / decrease in:		
Accounts receivable	126,796	(208,712)
Inventories and land held for future development	(205,657)	(112,380)
Other current assets	(5,284)	(4,477)
Prepaid expenses	(107,107)	(22,467)
Increases / (decrease) in:		
Trade and other payables	155,611	201,307
Other passives	(23,109)	-
Advances from customers	10,509	8,150
Income taxes paid	(9,156)	(46,162)
Net cash provided by operating activities	<u>74,549</u>	<u>(13,341)</u>
Cash flows from investing activities - Acquisition of molds, machinery and equipment	<u>(3,651)</u>	<u>(3,953)</u>
Cash flows from financing activities:		
Obtaining short-term loans	70,524	72,109
Payment of loans from financial institutions	(10,514)	(9,210)
Payment of long-term loans	(17,531)	-
Interest paid	(126,307)	(100,878)
Repurchase shares	(2,898)	(721)
Net cash used in financing activities	<u>(86,726)</u>	<u>(38,700)</u>
Net decrease in cash and cash equivalents	<u>(15,828)</u>	<u>(55,994)</u>
Effect of exchange rate changes on cash in foreign currency	(2,782)	(5,740)
Cash and cash equivalents at the beginning of the period	<u>579,144</u>	<u>765,976</u>
Cash and cash equivalents at the end of the period	<u>\$ 560,534</u>	<u>\$ 704,242</u>
Supplemental schedule of non-cash investing activities:		
Payable for acquisition of fixed assets under finance leases	<u>\$ 3,665</u>	<u>\$116,040</u>

The accompanying notes are part of these consolidated financial statements.

Servicios Corporativos Javer, S. A. B. de C. V. and Subsidiaries

Notes to consolidated statements

For the three-month periods ending March 31, 2019 and 2018 and for the period ending March 31, 2019 and December 31, 2018

(In thousands of Mexican pesos, except as otherwise indicated)

1. Reporting entity

Servicios Corporativos Javer, S. A. B. de C. V. and Subsidiaries (the Company or JAVER) is a holding company that, together with its subsidiaries, specializes in the construction and sale of affordable entry-level, middle-income and residential housing developments in Mexico. Headquartered at Av. Juárez 1102, Piso 34, Colonia Centro, Monterrey, Nuevo León, México, 64000. The Company commenced operations in 1973 and is currently the leading housing developer in terms of number of units sold in Mexico.

1.1 JAVER's Subsidiaries

Details of JAVER's wholly-owned subsidiaries and their principal activities are as follows:

Real estate sales:

- Casas Javer, S. A. de C. V.
- Casas Javer de México, S. A. de C. V.
- Casas Javer de Querétaro, S. A. de C. V.
- Inmuebles para Ti, S. A. de C. V.

Urbanization and construction services:

- Urbanizaciones Javer del Noreste, S. A. de C. V.

Construction services:

- Construcción de Viviendas Javer, S. A. de C. V.

Administration services:

- Servicios Administrativos Javer, S. A. de C. V.

Financial services:

- Casas Consentidas Javer, S. A. de C. V., S. O. F. O. M., E. N. R.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated statements (hereafter, the financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB).

For purposes of the accompanying consolidated statements, certain information and disclosures, normally included in annual audited consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), have been condensed or omitted in the consolidated financial statements, in accordance with the provisions of IAS 34; In addition, the operating results of the periods presented, are not necessarily indicative of the operating results of the Company, as if the results would have been presented on an annual basis. Therefore, for a better understanding, the consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements as of December 31, 2018, which were also prepared in accordance with IFRS.

2.2 Application of new and revised International Financial Reporting Standards

In the current year, the Company has applied a number of new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2019.

IFRIC 23 adds to the requirements included in IAS 12 "Income Taxes" the specification of how to reflect the effects on the books of income taxes when the enforcement of laws and other tax regulations is not clear for a certain transaction or when an entity concludes that a tax treatment is not likely to be accepted by the tax authorities. In such cases, the decision must be based on the method that provides the best prediction of the resolution of the uncertainty.

Amendments to IAS 12, Income taxes.

It clarifies that an entity must recognize the effects of dividends on profit or loss, comprehensive income or capital in accordance with the item in which the entity originally recognized the transactions that generated the taxable income.

Amendments to IAS 23, Loan costs

It clarifies that if a specific financing remains in force after the related asset is ready for use or sale, said liability will be part of the general loans of the entity for the calculation of the general capitalization rate.

Amendments, Reduction or Liquidation of a Plan- (Amendments to IAS 19), Employee Benefits

It clarifies that the cost for past services (or the result of a settlement) is calculated by valuing the liability (asset) for defined benefits using updated variables and comparing the benefits and assets of the plan before and after the amendments of the plan (or liquidation) but ignoring the effects of the plan's asset limit (which arises when a plan is funded in excess).

The analyzes prepared by the Administration indicate that the changes described above did not have a material impact on the consolidated financial statements of the Company.

2.3 Basis of presentation

The same accounting policies, presentation and methods of computation were followed in these consolidated financial statements as were applied in the preparation of the Company's annual consolidated financial statements as of December 31, 2018.

2.3.1 Presentation of statements of profit and loss and other comprehensive (loss) income

The Company presents costs and expenses in its statements of profit and loss and other comprehensive (loss) income according to their function because this is the practice of the industry to which the Company belongs.

2.3.2 Presentation of statements of cash flows

The statements of cash flows are presented using the indirect method, at the Company's accounting policy election.

2.3.3 Income per share

The basic and diluted income per common share is calculated by dividing the net consolidated income by the weighted average number of outstanding common shares during the period. The Company held shares that could potentially be diluted, however, the difference between these shares and ordinary shares was not material.

2.4 Basis of consolidation For the period ended March 31, 2019, and 2018

The financial statements incorporate the financial statements of JAVER and its Subsidiaries. Control is achieved when JAVER: a) has power over the investee, b) is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns.

Income and expenses of subsidiaries acquired or sold during the year are included in the statement of profit and loss and other comprehensive (loss) income from the effective date of acquisition and up to the effective date of sale, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to non-controlling interests (to the extent applicable) even if this results in the non-controlling interests having a deficit balance.

All inter-company transactions and balances have been eliminated in the consolidation of financial statements.

Note 1 to the financial statements lists all the subsidiaries in which JAVER has a controlling interest.

2.5 Critical accounting judgments and estimates

In the application of the Company's accounting policies, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are reviewed on an ongoing basis.

Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised, if the revision affects only that period, the current period or future periods.

The Company considers as critical accounting judgments and estimates: the control over joint operations of land trusts, the useful lives of molds, machinery and equipment, deferred taxes, impairment of long-lived assets and the valuation of derivate financial instruments.

Management of the company considers that all necessary adjustments (including normal recurring provisions) for fair presentation have been included in the consolidated financial statements.

3. Cash and cash equivalents

As of March 31, 2019, and December 31, 2018, cash includes cash in banks and temporary investments. Temporary investments are highly liquid investments held in one-day overnight cash positions. Cash at the end of the reporting period, as shown in the consolidated statements of cash flows, can be reconciled to the related items in the consolidated statements of financial position as follows:

	As of March 31, 2019	As of December 31, 2018
Cash and bank balances	\$ 215,781	\$ 223,571
Temporary investments	344,753	355,573
	<u>\$ 560,534</u>	<u>\$ 579,144</u>

4. Accounts receivable

As of March 31, 2019, the composition of accounts receivable (and its corresponding estimate of allowance for doubtful accounts) is similar to that as of December 31, 2018; such accounts are measured at amortized cost.

The average credit period for the sale of homes is approximately 45 days.

Balances with the Mexican National Worker's Housing Fund Institute (Instituto del Fondo Nacional para la Vivienda de los Trabajadores or INFONAVIT for its acronym in Spanish) represent 50.84% and 55.55% of the total of accounts receivable as of March 31, 2019, and December 31, 2018, respectively.

Infonavit's risk of collection is not significant, as loans are backed by the employer's contributions to the Institute. The risk of collection for accounts receivable of other credits is also considered to be negligible given that they are backed by reputable financial institutions. Both INFONAVIT and the other credits have no significant history of defaulting on the amounts owed to the Company.

4.1 Long term account receivable

As of March 31, 2019, and December 31, 2018, long term accounts receivable corresponds to the sales of commercial lots.

5. Transactions and balances with related parties

Details of transactions and balances between the Company and other related parties are disclosed below:

5.1 Sales transactions

	March 31, 2019	2018
Urbanization services expense ⁽¹⁾	\$ (1,417)	\$ -
Administrative services expense ⁽¹⁾	(19)	(540)
Interest expense ⁽¹⁾	(1,884)	-

(1) For the periods ended March 31, 2019 and 2018, the Company entered into the following transactions with an affiliate company of Casas Javer, S. A. de C. V. and with related parties, which are controlled by Corporativo SMS, S. A. de C. V., a company controlled by a shareholder of JAVER.

5.2 Balances due to related parties:

	As of March 31, 2019	As of December 31, 2018
Desarrolladora y Urbanizadora Las Láminas, S. A. de C. V. ⁽¹⁾	<u>\$ 165</u>	<u>\$ 165</u>

⁽¹⁾ 99.9% owned by a shareholder of JAVER and its operating activity is to develop land for housing construction.

	As of March 31, 2019	As of December 31, 2018
Inmobiliaria Torre M, S.A. de C.V. ⁽¹⁾	\$ 71,737	\$72,115
Administración de Proyectos y Servicios en Condominio, S.C. ⁽¹⁾	<u>7,009</u>	<u>7,126</u>
	<u>\$ 78,746</u>	<u>\$ 79,241</u>

(1) Correspond to the liability for use rights for the corporate offices and are presented in the long-term debt and its corresponding current portion.

5.3 Compensation of key management personnel

The remuneration of executives and members of the board of directors during the year was as follows:

	March 31, 2019	2018
Professional fees, salaries and other short-term benefits	<u>\$ 35,016</u>	<u>\$ 34,256</u>

6. Inventories and land held for future development

	Land under development	Housing units under development	Urbanization and related equipment	Total
Balance as of December 31, 2017	\$ 1,051,480	\$ 970,640	\$ 1,556,394	\$ 3,578,514
Additions / Purchases	627	3,448,889	1,778,048	5,227,564
Transfers from land held for future development	763,228	-	-	763,228
Sales	<u>(709,277)</u>	<u>(3,433,486)</u>	<u>(1,619,567)</u>	<u>(5,762,330)</u>
Balance as of December 31, 2018	1,106,058	986,043	1,714,875	3,806,976
Additions / Purchases	710	596,274	329,393	926,377
Transfers from land held for future development	156,992	-	-	156,992
Sales	<u>(143,530)</u>	<u>(620,583)</u>	<u>(314,609)</u>	<u>(1,078,722)</u>
Balance as of March 31, 2019	<u>\$1,120,230</u>	<u>\$ 961,734</u>	<u>\$ 1,729,659</u>	<u>\$ 3,811,623</u>

6.1 Land held for future development

Refers to land reserves to be developed by the Company and is presented as a non-current asset.

No impairment related to such assets was identified by the Company as of March 31, 2019 and December 31, 2018.

As of March 31, 2019, and December 31, 2018, the amount of inventories and land held for future development guaranteeing the revolving lines of credit mentioned in Note 9 amounted to \$301,339 and \$206,588, respectively.

7. Financial instruments

7.1 Fair value of financial instruments

The carrying amounts of cash and cash equivalents held by the Company, accounts receivable and payable to third parties and related parties, and the current portion of long-term debt approximate their fair value due to their short-term maturities or because the effects of the time value of money are not significant. The long-term debt is recognized at amortized cost and bears interests at a fixed rate.

Quoted market prices are used for disclosure purposes of the fair value of the long-term debt.

The carrying amounts of financial instruments as shown in accompanying statements of financial position as of March 31, 2019 and December 31, 2018 (cash and cash equivalents, accounts receivable, short and long-term derivative financial instruments, trade and other payables, payables for purchase of land and short-term debt), are similar to their fair values. The fair value of long-term debt for the above-mentioned dates amounts \$3,421,147 and \$3,269,063, respectively.

7.2 Market risk

Exchange risk – The Company's exposure to the volatility of the exchange rate of the peso against the U.S. dollar is shown as follows (figures in this Note are stated in thousands of U.S. dollars – US\$):

- a. The net financial liability position was:

	As of March 31, 2019	As of December 31, 2018
Financial assets	US\$ 10,048	US\$ 10,032
Financial liabilities	(161,778)	(157,716)
Net financial liability position	<u>US\$ (151,730)</u>	<u>US\$ (147,684)</u>
Equivalent in Mexican pesos	<u>\$ (2,940,421)</u>	<u>\$ (2,902,965)</u>

- b. Foreign currency operations were as follows:

	March 31,	
	2019	2018
Molds acquisition	US\$ -	US\$ 90

- c. Mexican peso exchange rates in effect at the dates of the financial statements and at the date of its issuance were as follows:

	As of March 31, 2019	As of December 31, 2018
U.S. dollar	\$19.3793	\$19.6566

- d. Market risk hedging strategy

The Company is exposed to exchange rate risks related to its US dollar denominated Senior Notes due in 2021, which represent the majority of its outstanding debt. Interest is payable on a semiannual basis. The Company has implemented a derivative hedging strategy to hedge the total of its interest payments at an average fixed rate of 15.06% in Mexican pesos; hedging derivatives are due on April 6, 2020. As of March 31, 2019, the Company hedged 100% of its debt outstanding through several full cross currency swaps.

Management intends to renew its derivative hedging portfolio continuously while it continues to be exposed to principal and interest exchange rate risks.

As of March 31, 2019, the Company had entered into the following combined derivative financial instruments to implement the risk management hedging strategy described in the preceding paragraph (notional amounts in millions, and no notional amounts exchange is required), which were designated as cash flow hedges:

Maturity	Notional (Receivable)	Notional (Payable)	Fixed Rate (Receivable)	Fixed Rate (Payable)	Payment Date (Receivable)	Payment Date (Payable)
April 6, 2020 ⁽¹⁾	US\$78.519	\$1,450.246	9.875%	14.93%	Semiannual	Monthly
April 6, 2020 ⁽¹⁾	US\$30.000	\$559.95	9.875%	14.339%	Semiannual	Monthly
April 9, 2020 ⁽²⁾	US\$50.000	\$878.5	9.875%	15.71%	Semiannual	Monthly

(1) During 2019 the derivative financial instruments maturing in April 2019, were renegotiated with new interest rates as well as the validity thereof.

As the prepayment strike price for calling the Senior Notes is not similar at each strike date to the amortized cost in those years, an embedded derivative of \$38,511 was recorded in 2011, which balance as of March 31, 2019 and December 31, 2018 represents an asset of \$369 and \$1,745, respectively, with such changes in fair value recognized in results of each year.

For the period ended March 31, 2019, the Company recognized an accumulated loss net of \$19,530 for the combined derivative financial instruments.

7.2.1 Market risk sensitivity analysis

The following disclosures provide a sensitivity analysis of the market risks the Company is exposed to regarding foreign exchange rates and interest rates, which considers its existing hedging strategy:

- a) If as of March 31, 2019, the exchange rate published by the Federal Reserve Bank of New York (\$19.3980) had been 10.00% higher, the Company's income before income taxes would have increase \$9,541, resulting from foreign exchange losses associated with all the Company's Senior Notes. The effect in profit and loss related to interest, if the exchange rate would had been greater, it would had been offset with the same amount of its respective hedging in the profit and loss.
- b) If the exchange rate used by the Federal Reserve Bank of New York (\$19.3980) had decreased 10.00%, the Company's other comprehensive income would had decreased \$343,582, resulting from the impact associated with the fair value of the Company's derivative financial instruments.

7.3 Liquidity risk

The following table discloses the Company's maturity dates associated with its short and long-term financial liabilities as of March 31, 2019. The amounts disclosed represent the contractual cash payments (undiscounted); therefore, they differ from the amounts recognized in the financial statements. The Company's derivative financial instruments are presented on a net basis (cash payable, net of cash receivable) as it has the capacity and intention to settle them on a net basis:

Type of liability	April 1 – March 31,				Total
	2019-2020	2020-2021	2021-2022	2022+	
Current portion of long-term debt	\$ 160,909	\$ -	\$ -	\$ -	\$ 160,909
Trade and other payables	40,711	-	-	-	40,711
Payables for purchase of land	1,301,154	-	-	-	1,301,154
Account payable for comparing land	199,948	126,515	-	-	326,463
Long-Term Debt and interest ⁽¹⁾	-	187,541	3,257,457	71,564	3,516,562
Derivatives ⁽²⁾	454,393	227,197	-	-	681,590
Total	\$2,157,115	\$541,253	\$3,257,457	\$71,564	\$ 6,027,389

⁽¹⁾ Interest payments on variable debt are calculated using the rate as of March 31, 2019.

⁽²⁾ The Company's interest payments associated with the Senior Notes are hedged by its derivative financial instruments as describe above (Note 7.2), and therefore the contractual interest payments to be made on the Senior Notes are presented net of the amounts to be received from the derivatives.

7.4 Credit risk

The maximum exposure to credit risk corresponds to the balances of cash and cash equivalents, accounts receivable and assets derivative financial instruments. Cash balances are held in financial institutions with high credit quality. The Company manages the credit risk related to its derivative portfolio by solely entering into transactions with reputable and credit-worthy counterparties. As of March 31, 2019, and December 31, 2018, the maximum exposure to credit risk related with its derivative financial instrument asset is \$182,549 and \$158,670, respectively. The Company does not maintain collateral for such amounts.

8. Debt

a) Long-term debt

	As of March 31, 2019	As of December 31, 2018
<i>Unsecured – at amortized cost</i>		
Senior Notes US\$210 million refinanced – 2021 ⁽ⁱ⁾	\$ 1,406,782	\$ 1,415,236
Senior Notes US\$30 million – 2021 ⁽ⁱ⁾	578,096	586,024
Senior Notes US\$50 million – 2021 ⁽ⁱ⁾	958,907	971,660
Capital lease agreements ⁽ⁱⁱ⁾	180,684	188,158
	<u>3,124,469</u>	<u>3,161,078</u>
Current portion	(40,711)	(41,789)
Long-term debt	<u>\$3,083,758</u>	<u>\$ 3,119,289</u>

Significant loan information

- (i) On April 1, 2011, the Company refinanced its existing long-term debt as of December 31, 2010, of US\$210 million (Senior Notes) with a fixed interest rate of 13.0% and maturing in August 2014. The Company offered to holders of such Senior Notes to exchange their entire existing debt for new Senior Notes at an annual fixed interest rate of 9.875%, maturing in April 2021, which were issued on identical terms to those of the exchanged securities, including the guarantees thereof. The offer resulted in an exchange of 96.99% of the existing Senior Notes outstanding. The refinancing of the Senior Notes and the derivative financial instruments related to its hedging agreements were considered to be a modification to the original debt to the original terms and conditions of the agreements, and not an extinguishment thereof. The refinancing resulted in an additional premium and related issuance costs, which net balances amount to \$95,318 and \$15,936, respectively, and are presented net of the long-term liability in the statements of financial position as of March 31, 2019, which is being amortized in accordance with the effective interest method in accordance with the terms of the related debt.

On April 6, 2011 and March 20, 2013, the Company issued additional debt (Senior Notes) as part of an international offering for US\$30 million and US\$50 million, respectively, both maturing in April 2021, bearing annual fixed interest of 9.875%. Interest is paid on a semiannual basis beginning in October 2011 and October 2013, respectively, and JAVÉR's subsidiaries act as guarantors. The proceeds from the Senior Notes were used for the Company's general business purposes. This new issuance resulted in net additional premiums and debt issuance costs which net balance amounts to \$6,891 and \$10,058, respectively, and are presented net of the long-term liability in the consolidated statements of financial position as of March 31, 2019 and is being amortized in accordance with the effective interest method in accordance with the terms of the related debt.

The indenture governing the Company's 2021 Notes contains certain restrictions, negative covenants and other requirements, which we were in substantial compliance with as of March 31, 2019. Such restrictions, negative covenants and requirements restrict the Company's ability and the ability of its subsidiaries to, among other things, incur additional debt (which incurrence test requires us to comply with an interest expense to EBITDA ratio in connection with the incurrence of certain indebtedness), pay dividends or redeem, repurchase or retire shares from capital stock or subordinated debt, carry out certain investments, create liens, sell assets and enter into certain related party transactions, mergers and consolidations.

The aforementioned debt agreements include options to prepay the Senior Notes before or after April 2016 and April 2021, under certain conditions and subject to certain covenants and restrictions. Such prepayment options resulted in the recognition of an embedded derivative, whose balance as of March 31, 2019 and December 31, 2018 represents assets of \$369 and \$1,745, respectively (see Note 7.2).

- (ii) The Company has contracted finance leases related to right of use assets, molds, trucks, vehicles and computers with different maturity terms.

b) Short-term loans

On August 16, 2018, the Company contracted a credit line with Banco del Bajío S.A. Institución de Banca Múltiple up to \$ 160,098, with a TIIE interest rate plus additional basic points according to the date of each disposal. As of March 31, 2019, the Company exercised has disposed all to credit line at an interest rate of TIIE + 3.5 points.

9. Trade and other payables

	As of March 31, 2019	As of December 31, 2018
Trade accounts payable ⁽ⁱ⁾	\$ 536,719	\$ 550,363
Payables for purchase of land	199,948	192,779
Revolving credit lines ⁽ⁱⁱ⁾	504,873	457,434
Other current liabilities	259,562	276,103
	<u>\$ 1,501,102</u>	<u>\$ 1,476,679</u>

⁽ⁱ⁾ The Company maintains a warranty fund related to potential defects in housing constructions that is withheld from the constructors and reimbursed once the warranty period expires, which is approximately one year subsequent to the completion of the construction. The liability related to such fund amounts to \$303,396 and \$296,725 as of March 31, 2019 and December 31, 2018, respectively.

⁽ⁱⁱ⁾ The Company established a program that allows its suppliers to obtain financing from various financial institutions. The maximum limit is \$931,000 as of March 31, 2019 and December 31, 2018. Ordinarily, the Company pays qualifying financial institutions within 90 days following the invoice date, and the supplier is responsible for paying the financial institution a financing commission.

10. Share compensation plan bonus

The share compensation plan bonus for executives is based in the compliance of certain metrics established annually by management. The bonus amount is determined based on the level of responsibility of each executive, and it is granted to the eligible employee annually and after the applicable tax withholding, and is payable in shares of Servicios Corporativos Javer, S.A.B. de C.V.

At the General Shareholders Meeting held on April 29, 2016, the implementation of a share compensation plan for certain executives of the Company was approved, which was ratified at the General Shareholders Meeting held on April 27, 2017. The 2016 financial results were evaluated for compliance during May 2017.

The Company accounts its share compensation plan bonus as a share-based payment settled with the Company's stock, as the Company will finally settle its obligations with its executives, issuing its own shares.

11. Income taxes

ISR is computed taking into consideration taxable and certain deductible effects of inflation. In addition, the Company deducts purchases of land for housing developments in the year of acquisition or when it is sold and statutory employee profit payments.

The income tax rate was 30% for 2019 and 2018 and will remain at 30% thereafter.

The income taxes registered in the income statements by JAVER and its subsidiaries (as separate legal entities), were comprised of the following:

	March 31,	
	2019	2018
Current ISR	\$ 649	\$ 1,720
Deferred ISR	<u>13,022</u>	<u>43,808</u>
	<u>\$ 13,671</u>	<u>\$ 45,528</u>

Income taxes for the period ended March 31, 2019 and 2018 were determined considering such periods as normal fiscal years, calculated on the basis of temporary differences of the assets and liabilities at the end of the period. Effective tax rates for the period ended March 31, 2019 and 2018 were 45.7% and 43.9%, respectively.

As of March 31, 2019, JAVER and certain subsidiaries had tax loss carryforwards pending to be amortized of \$1,587,401 for ISR purposes, which are available to offset future taxable income.

The aforementioned tax losses were adjusted for inflation in accordance with the ISR Law. The Company estimates it will be able to utilize the losses in subsequent years.

12. Stockholders' equity

- a. For the period ended March 31, 2019 and 2018 the Company repurchased 174,454 shares equivalent to \$2,898 and 42,858 shares equivalent to \$721, respectively.
- b. As of March 31, 2019 and December 31, 2018, the 25.1% of the capital stock, property of Proyectos del Noreste, S.A. de C.V., is held by Scotiabank Inverlat, S. A., Multiple Banking Institution, Grupo Financiero Scotiabank Trust Division, as trustee (Scotiabank) pursuant to an irrevocable management trust entered into by and between Proyectos del Noreste, S. A. de C. V. as trustee, controlling shareholders as trustees, and Scotiabank Trust. The shares held by Scotiabank shall be released progressively either to Proyectos del Noreste, S. A. de C. V. or controlling shareholders, based on certain release criteria described in the share purchase agreement, corresponding to the payment of compensation and/or price adjustments included as well as the result of legal actions related to tax contingencies among the shareholders who own the shares making up the capital stock of JAVER.
- c. Proyectos del Noreste, S. A. de C. V. holds special voting rights regarding certain matters identified in the statutes as reserved matters and important decisions, which must be approved at an extraordinary meeting of shareholders by a majority vote of controlling shareholders and the total number of Series "B" shareholders.

13. Commitments and contingencies

- a. Land Trust Agreements for housing developments (Agreements) – The Company enters into land trusts where land (contributed by a third party) and other assets (inventories) contributed by the Company are held in trusts. The Company and the owners of the land act as trustors and trustees respectively in such agreements.

The trust vehicle serves as a guarantee to ensure the agreement between the parties is executed according to the terms set forth therein.

As of March 31, 2019, the Company maintained land banks under land trust agreements of 12,903,278, square meters (unaudited) and the capacity to construct 39,349 (unaudited) houses on such land in the states of Nuevo León, Jalisco, Querétaro, México and Quintana Roo.

- b. In the fourth quarter of 2012, the Mexican government amended the Federal Labor laws regarding subcontracting arrangements. The Company currently operates in Mexico using these subcontracting arrangements. The amendments provided clarification on certain regulatory requirements associated with an employer's obligation to compensate employees with appropriate profit sharing arrangements. The Company has assessed the implications of these amendments and has determined according to the Company's legal advisor that it is likely that no additional obligation for PTU payments is required to be recorded in the Company's financial statements in the three-month period ended March 31, 2019 and 2018 other than what is presently recorded.
- c. The Company is involved in certain legal procedures on incidental basis in the development of its operations and activities in its ordinary course of business. Currently, the Company is not a party to any litigation or any arbitral proceedings involving claims or payment of significant amounts, nor is it aware there it is pending resolution or the existence of a threat of initiation of any proceeding of this kind.
- d. The housing industry in Mexico is subject to many regulations regarding construction and land use practices. The application of these regulations is the responsibility of several federal, state and municipalities authorities, and any changes thereto might affect the operation of the Company.

14. Business segment information

The Company's management and the Board of Directors assess, allocate resources and make operating decisions for the Company based on the income per type of housing and geographical zones, respectively.

a) *Products whose reportable segments arise from income per type of housing and geographical zone:*

The Company's reportable segments are as follows:

Type of House	Geographical Zone
Affordable Entry-level	Nuevo León
Middle-income	Estado de México
Residential	Jalisco
Commercial Lots	Aguascalientes
	Querétaro
	Quintana Roo
	Tamaulipas

b) *Revenues and results per segment:*

	Revenues per segment		Income per segment	
	2019	2018	2019	2018
Affordable Entry-level	\$ 114,619	\$ 228,065	\$ 12,342	\$ 14,949
Middle-income	1,120,549	1,399,529	303,390	364,032
Residential	379,820	250,260	111,768	108,349
Commercial Lots	2,338	7,130	1,878	4,231
Total	<u>\$ 1,617,326</u>	<u>\$ 1,984,984</u>	429,378	491,561
Administrative corporate costs and directors' salaries			(320,768)	(341,437)
Interest expense, net			(78,721)	(46,415)
Income before income taxes			<u>\$ 29,889</u>	<u>\$ 103,709</u>

Income per segment represents the income obtained by each segment without assigning administrative corporate costs and directors' salaries, net interest expense and income tax expenses.

The operation of the Company depends to a large extent on the availability of funds; of the policies, programs and administrative procedures of INFONAVIT, the Federal Mortgage Society (Sociedad Hipotecaria Federal or "SHF"), Fovissste and the National Housing Commission (Comisión Nacional de Vivienda or "Conavi"); also, on the federal government's policies on housing. The Company cannot guarantee that the level of availability of mortgage loans from Infonavit, SHF, Fovissste, Conavi and any other sources of financing will remain stable, or that the federal government would not restrict the availability of funds due to the economic or political situation, or that would modify the policies and methods applicable to the granting of credits.

c) Geographical information

The Company operates primarily in seven geographical areas (states) in Mexico, and revenues are as follows:

	March 31,	
	2019	2018
Nuevo León	\$ 789,098	\$901,579
Jalisco	216,545	306,130
Aguascalientes	138,055	139,046
Querétaro	117,149	150,585
Estado de México	272,953	316,129
Tamaulipas	10,716	8,991
Quintana Roo	72,810	162,524
	<u>\$1,617,326</u>	<u>\$1,984,984</u>
	<u>\$1,617,326</u>	<u>\$1,984,984</u>

The Inventories and land held for future development in geographical areas, are as follows:

	As of March 31,	As of
	2019	December 31,
		2018
Nuevo León	\$ 1,952,221	\$ 1,972,241
Jalisco	960,854	958,302
Aguascalientes	398,361	382,339
Querétaro	556,062	339,235
Estado de México	760,107	789,498
Tamaulipas	329,813	333,670
Quintana Roo	374,967	315,100
	<u>\$ 5,332,385</u>	<u>\$ 5,090,385</u>

d) Information on primary clients

As mentioned in Note 4, the Company's primary client is the INFONAVIT.