

THIRD QUARTER 2019



IN MONTERREY

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JAVER ANNOUNCES 3Q19 AND 9M19 RESULTS WITH AN IMPROVED GROSS MARGIN

Monterrey, Nuevo Leon, Mexico – October 22, 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, announced today its financial results for the third quarter (“3Q19”) and first nine-month periods (“9M19”) ended September 30, 2019. All figures presented in this report are expressed in nominal Mexican pesos (Ps.), unless otherwise stated.

3Q19 and 9M19 Highlights:

(Figures in thousand pesos)	3Q19	3Q18	Variance	9M19	9M18	Variance
Homes titled	4,206	4,546	(7.5%)	11,459	14,622	(21.6%)
Net Revenues	1,932,887	2,026,882	(4.6%)	5,350,983	6,288,599	(14.9%)
Gross Profit	525,050	531,081	(1.1%)	1,453,433	1,620,934	(10.3%)
Gross Margin	27.2%	26.2%	1.0 pp	27.2%	25.8%	1.4 pp
EBITDA	252,850	275,746	(8.3%)	624,408	782,348	(20.2%)
EBITDA Margin	13.1%	13.6%	(0.5 pp)	11.7%	12.4%	(0.8 pp)
Net Income	45,287	82,307	(45.0%)	93,017	213,048	(56.3%)
Net Margin	2.3%	4.1%	(1.7 pp)	1.7%	3.4%	(1.6 pp)
FCF	-20,507	-88,675	76.9%	-14,063	-7,196	(95.4%)
Income per share*	0.16	0.30	(46.7%)	0.33	0.77	(57.1%)

*The weighted average number of shares to determine basic per share for the nine-month period ended September 30, 2019 and 2018, was 277,899,322 and 277,772,557, respectively; the weighted average number of shares to determine diluted earnings per share for the period ended September 30, 2019 and 2018 was 281,314,499 and 279,846,934, respectively.

- **Units sold** decreased 7.5% to 4,206 units in 3Q19 compared to 4,546 units in 3Q18 and declined 21.6% to 11,459 units in 9M19 from 14,622 units in 9M18. The decrease was due to the elimination of the subsidy budget for 2019, since 38.4% and 35.4% of the total units titled in 3Q18 and 9M18, respectively, were subsidized units.
- **Net Revenues** declined by 4.6% to Ps. 1,932.9 million in 3Q19 and 14.9% to Ps. 5,351.0 million in 9M19, as a result of the volume contraction, however, the enhanced sales mix and the increase in the average sales price resulted in a lower drop in net revenues.
- **EBITDA** decreased by 8.3% to Ps. 252.9 million in 3Q19 and 20.2% to Ps. 624.4 million in 9M19, primarily due to the decline in the volume of units sold.

- **Net Income** was Ps. 45.3 million in 3Q19 and Ps. 93.0 million in 9M19 derived from the abovementioned effects. Earnings per share were Ps. 0.16 in 3Q19 and Ps. 0.33 in 9M19.
- **Free cash flow (FCF)** was Ps. (20.5) million in 3Q19 compared to Ps. (88.7) million in 3Q18, given a lower investment in land reserves. In 9M19, FCF was Ps. (14.1) million compared to Ps. (7.2) million in 9M18 as a result of the volume decline.

CEO STATEMENT

Mr. René Martínez, CEO of the Company commented, “It is a pleasure to report to you once again in this final phase of the year. Likewise, we are very pleased to inform you that in September we finalized a project that we were working on with great effort during the last few quarters. I’m referring to the closing of new financing, with which we will repay our current debt, the US- denominated 2021 Senior Notes.

The new debt, which will mostly be denominated in Mexican pesos (87% of the total principal) leaves us with a better maturity profile and improved financial conditions in terms of financing cost. Furthermore, the FX fluctuation issue practically disappears, which alleviates the Company and will allow us to fully concentrate on our projects in process.

Turning to operational matters, the comparison of the nine months ended September 30 of this year with respect to 2018, shows the impact in volume derived from the elimination of the subsidy program as 35.4% of the units sold in 2018 (5,183 houses) were subsidized. Nonetheless, the strategy we implemented a few years ago to move more towards the middle and residential segments allowed us to recover 34% of the subsidized units in these two segments; although this caused us to not fully recover in gross profit, we did improve our gross margin by 140 basis points.

Some delays in permits, especially in the business units of the state of Mexico and Quintana Roo, have hindered a greater level of recovery in volume and revenues. However, we have continued with the opening of projects; during the third quarter we launched 3 new projects, a residential project in Quintana Roo, another middle-income housing project in Jalisco, and finally our second vertical project in Mexico City of 21 residential apartments. We are very proud of this vertical project as it represents another milestone for the Company operationally. We hope these projects complement our product portfolio for the fourth quarter, together with the scheduled opening of 6 projects that are expected for the last months of 2019.

Regarding the new housing policy, we are still waiting for its publication, and we will be very attentive to it in order to properly plan our short-term budget, as well as the medium and long-term financial and operational planning.

In summary, the results obtained during this nine month period, the operational delays in permits and our outlook for the last quarter lead us to modify our guidance for the year slightly, going from a growth forecast of 2.5% to 5.0% in EBITDA, considering that we will end up with neutral or up to 2.0% growth, without significantly changing the free cash flow generation.

UNITS SOLD AND NET REVENUES

Units Sold	3Q19	% of units	3Q18	% of units	Variance	9M19	% of units	9M18	% of units	Variance
Affordable Entry Level	516	12.3%	508	11.2%	1.6%	1,370	12.0%	1,822	12.5%	(24.8%)
Middle Income	3,318	78.9%	3,696	81.3%	(10.2%)	9,039	78.9%	11,863	81.1%	(23.8%)
Residential	372	8.8%	342	7.5%	8.8%	1,050	9.2%	937	6.4%	12.1%
TOTAL	4,206	100.0%	4,546	100.0%	-7.5%	11,459	100.0%	14,622	100.0%	-21.6%

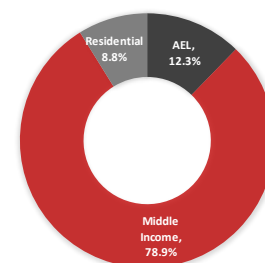
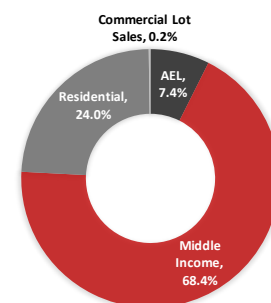
Revenues (Figures in thousand pesos)	3Q19	% of revenues	3Q18	% of revenues	Variance	9M19	% of revenues	9M18	% of revenues	Variance
Affordable Entry Level	142,972	7.4%	140,611	6.9%	1.7%	376,604	7.0%	513,015	8.2%	(26.6%)
Middle Income	1,322,558	68.4%	1,468,580	72.5%	(9.9%)	3,620,660	67.7%	4,599,989	73.1%	(21.3%)
Residential	463,077	24.0%	418,091	20.6%	10.8%	1,336,755	25.0%	1,168,865	18.6%	14.4%
Total Home Sales	1,928,607	99.8%	2,027,282	100.0%	-4.9%	5,334,020	99.7%	6,281,869	99.9%	-15.1%
Commercial Lot Sales	4,280	0.2%	-	400	0.0%	16,963	0.3%	6,730	0.1%	152.1%
TOTAL	1,932,887	100.0%	2,026,882	100.0%	-4.6%	5,350,983	100.0%	6,288,599	100.0%	-14.9%

* 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. 850,000.

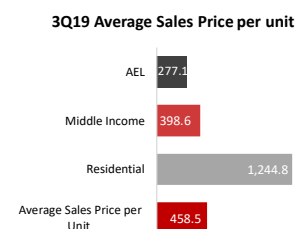
Units Sold decreased 7.5% to 4,206 units in 3Q19, compared to 4,546 units titled in 3Q18. The residential and Affordable Entry Level (AEL) segments grew by 8.8% and 1.6%, respectively, while the middle-income segment decreased by 10.2%. The middle-income segment represented 78.9% of the total units sold, and 68.4% of total revenues in 3Q19; AEL units comprised 12.3% of the total units titled and 7.4% of the total revenues during the same period. The residential segment represented 8.8% of the total units sold and 24.0% of total revenues.

In 9M19, the units titled declined by 21.6% to 11,459 units compared to 14,622 units in 9M18. The residential segment increased by 12.1%, while the AEL and middle-income segments decreased by 24.8% and 23.8%, respectively. Of total units, 78.9% corresponded to the middle-income segment, 12.0% to the AEL segment and 9.2% to the residential segment. The middle-income segment accounted for 67.7% of total revenues, while the residential and AEL segment comprised 25.0% and 7.0%, respectively.

Commercial lot sales were Ps. 4.3 million in 3Q19 and Ps. 17.0 million in 9M19, respectively, and represented less than 1.0% of total revenues in both periods.

3Q19 UNITS SOLD**3Q19 REVENUES**

The **average sales price** increased by 2.8% to Ps. 458.5 thousand in 3Q19 compared to Ps. 445.9 thousand in 3Q18, while in 9M19 rose by 8.3% to Ps. 465.5 thousand from Ps. 429.6 thousand in 9M18. In both periods, the increase in the average sales price is the result of the growth in the residential segment and the individually rise in prices in each prototype sold.



(figure in thousand pesos)	3Q19	3Q18	Variance	9M19	9M18
AEL	277.1	276.8	0.1%	274.9	281.6
Middle Income	398.6	397.3	0.3%	400.6	387.8
Residential	1,244.8	1,222.5	1.8%	1,273.1	1,247.5
Average Sales Price per Unit	458.5	445.9	2.8%	465.5	429.6

Mortgage Provided Mix: INFONAVIT is the main source of loans for the Company's clients. Loans granted by this institute, including COFINAVIT, represented 92.3% of the total units sold during 3Q19, while in 3Q18 they comprised 92.8%. In 9M19, INFONAVIT and COFINAVIT loans totaled 92.3% of the units titled compared to 94.0% in 9M18. The increase in banking loans for residential unit sales led to an improvement in the sales mix by type of financing.

Mortgage Provider	3Q19	% of total	3Q18	% of total	9M19	% of total	9M18	% of total
Infonavit	3,777	89.8%	4,126	90.8%	10,259	89.5%	13,484	92.2%
Fovissste	121	2.9%	149	3.3%	265	2.3%	323	2.2%
Cofinavit	105	2.5%	93	2.0%	313	2.7%	267	1.8%
Banks / Sofoles	117	2.8%	101	2.2%	339	3.0%	289	2.0%
Other	86	2.0%	77	1.7%	283	2.5%	259	1.8%
TOTAL	4,206	100.0%	4,546	100.0%	11,459	100.0%	14,622	100.0%

Subsidies: Subsidized units decreased by 96.6% and 94.8% in 3Q19 and 9M19, respectively, due to the cancellation of the subsidy budget for the purchase of homes for 2019. Only 1.4% of the units were sold with a subsidy during 3Q19 compared to 38.4% in 3Q18, as a result of the release of a budget of Ps. 400 million in July that is practically depleted. In 9M19, 2.4% of the units were sold in companion of a subsidy compared to 35.4% in 9M18.

	3Q19	3Q18	Variance	9M19	9M18	Variance
Traditional Loans	4,147	2,802	48.0%	11,189	9,439	18.5%
Subsidies	59	1,744	(96.6%)	270	5,183	(94.8%)
Total	4,206	4,546	(7.5%)	11,459	14,622	(21.6%)

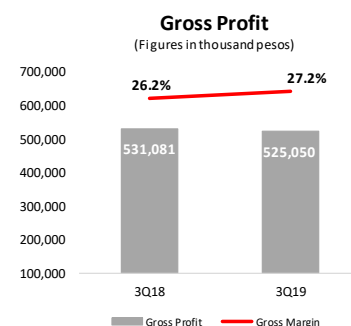
GROSS PROFIT / GROSS MARGIN

Gross Profit (figures in thousand pesos)	3Q19	3Q18	Variance	9M19	9M18	Variance
Home Sales	521,141	531,742	(2.0%)	1,439,877	1,617,364	(11.0%)
Commercial Lot Sales	3,909	661	691.6%	13,556	3,570	279.7%
TOTAL	525,050	531,081	(1.1%)	1,453,433	1,620,934	(10.3%)

Gross Margin (%)	3Q19	3Q18	Variance	9M19	9M18	Variance
Home Sales	27.0%	26.2%	0.8 pp	27.0%	25.7%	1.2 pp
Commercial Lot Sales	91.3%	165.2%	(73.9 pp)	79.9%	53.0%	26.9 pp
TOTAL	27.2%	26.2%	1.0 pp	27.2%	25.8%	1.4 pp

Gross profit decreased 1.1% to Ps. 525.1 million in 3Q19 compared to Ps. 531.1 million in 3Q18, as a result of the volume contraction. In 9M19, gross profit declined by 10.3% to Ps. 1,453.4 million from Ps. 1,621.0 million in 9M18, due to the aforementioned impact in volume.

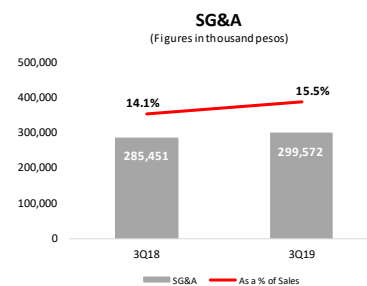
Gross margin increased by 1.0 percentage points to 27.2% in 3Q19 from 26.2% in 3Q18 and grew by 1.4 percentage points to 27.2% in 9M19 from 25.8% in 9M18, given the improvement in the sales mix as well as from cost efficiencies that caused the gross margin for homes sales to increase in both periods.



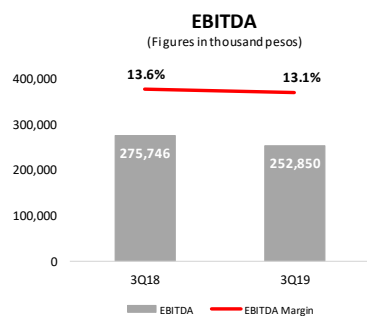
EBITDA / EBITDA MARGIN

(Figures in thousand pesos)	3Q19	3Q18	Variance	9M19	9M18	Variance
SG&A	299,572	285,451	4.9%	908,811	916,239	(0.8%)
As a % of Sales	15.5%	14.1%	1.4 pp	17.0%	14.6%	2.4 pp
EBITDA	252,850	275,746	(8.3%)	624,408	782,348	(20.2%)
EBITDA Margin	13.1%	13.6%	(0.5 pp)	11.7%	12.4%	(0.8 pp)

Selling, General and Administrative Expenses (SG&A) increased by 4.9% to Ps. 299.6 million in 3Q19 compared to Ps. 285.5 million in 3Q18 as a result of the absorption of fixed expenses in projects that are about to open or that have delays in permits. In 9M19, SG&A decreased by 0.8% to Ps. 908.8 million from Ps. 916.2 million in 9M18.



EBITDA decreased 8.3% to Ps. 252.9 million in 3Q19 and 20.2% to Ps. 624.4 million in 9M19, primarily from the decline in volume.

**COMPREHENSIVE COST OF FINANCING**

(Figures in thousand pesos)	3Q19	3Q18	Variance	9M19	9M18	Variance
Interest expense	125,629	121,374	3.5%	360,197	341,595	5.4%
Interest income	(6,514)	(12,559)	(48.1%)	(19,064)	(37,003)	(48.5%)
FX losses	28,011	(8,538)	(428.1%)	41,324	24,164	71.0%
NCFR	147,126	100,277	46.7%	382,457	328,756	16.3%
Net gain (loss) on cash flow hedges	(7,645)	(16,860)	(54.7%)	(56,262)	(59,301)	(5.1%)

Comprehensive Cost of Financing was Ps. 147.1 million in 3Q19 compared to Ps. 100.3 million in 3Q18, due to greater FX losses registered due to the FX volatility. In 9M19, the comprehensive cost of financing was Ps. 382.5 million compared to Ps. 328.8 million in 9M18, as a result of the same effects presented in 3Q19, along with the increase in the interest expense line due to the new hedging strategy, that also includes the principal of the Senior Notes.

Net Result was Ps. 45.3 million in 3Q19 and Ps. 93.0 million in 9M19 derived from the abovementioned volume contraction. Earnings per share reached Ps. 0.16 in 3Q19 and Ps. 0.33 in 9M19.

Comprehensive gain (loss), which included (MTM) gains and losses on derivatives to hedge the coupons corresponding to the long-term USD denominated debt, was Ps. 36.2 million in 3Q19 and Ps. 35.4 million in 9M19.

ASSETS / LIABILITIES

Cash and cash equivalents were Ps. 515.3 million as of September 30, 2019.

WORKING CAPITAL

The working capital cycle was 308 days as of September 30, 2019, an increase of 74 days compared with the 234 days cycle for the same period of 2018. During the second half of 2018, the Company realized a greater acquisition of land reserves; the investment in these properties resulted in the increase, along with certain permits and project opening delays that are expected in the fourth quarter. However, Javer continues with an efficient working capital management, which is the reason why the working capital cycle has remained below one year.

<u>(Figures in thousand pesos)</u>	September 2019		September 2018	
	Amount	Days	Amount	Days
Trade Accounts Receivable	888,282	44	963,606	41
Inventory (work in progress)	4,076,903	275	3,756,505	215
Inventory (land reserves)	1,374,942	93	1,332,755	76
Suppliers	1,506,153	101	1,672,374	96
Customer Advances	42,740	2	32,363	2
Working Capital	4,791,234	308	4,348,129	234
LTM Sales	7,383,464		8,616,130	
LTM Cost of Goods Sold	5,402,961		6,373,875	

FREE CASH FLOW

Free cash flow (FCF) reached Ps. (20.5) million in 3Q19 compared to Ps. (88.7) million in 3Q18, due to a lower investment in land reserves during the period. In 9M19, FCF was Ps. (14.1) million compared to Ps. (7.2) million in 9M18 as a result from the volume contraction.

(Figures in thousand pesos)	3Q19	3Q18	9M19	9M18
EBITDA	252,850	275,746	624,408	782,348
(+) Land included in COGS	173,090	154,605	479,804	502,112
(+-) Changes in Working Capital	(125,169)	(51,895)	(44,106)	(45,887)
Cash Interest	(141,031)	(117,396)	(401,170)	(321,980)
Cash Taxes	(36,769)	(46,258)	(84,617)	(142,189)
Land CAPEX	(140,360)	(308,016)	(579,963)	(775,347)
Equipment CAPEX	(3,118)	4,539	(8,420)	(6,253)
Free Cash Flow	(20,507)	(88,675)	(14,063)	(7,196)

DEVELOPMENT PIPELINE

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Home Starts	2,958	5,633	4,414	4,929	5,307	5,417	4,478	2,866	2,761	4,248	4,428
Home Completions	3,562	5,109	5,171	5,063	4,957	5,360	3,945	4,124	3,152	3,818	3,947
Homes Titled	4,224	4,660	4,281	5,585	4,747	5,329	4,546	4,340	3,498	3,755	4,206
Available Finished Home Inventory	1,374	1,823	2,713	2,191	2,401	2,432	1,831	1,615	1,269	1,332	1,073
Homes under active development (incl. AFHI)	7,474	8,447	8,580	7,924	8,484	8,572	8,504	7,030	6,293	6,786	7,008
Total Land Reserves	88,203	86,408	83,499	83,668	81,266	90,415	90,994	88,455	96,421	88,789	84,336

Home Starts presented a slightly decrease of 1.1% from 4,478 units in 3Q18 to 4,428 units in 3Q19, in preparation to close the year 2019 and start 2020.

Home Completions remained flat at 3,947 units in 3Q19 compared to 3,945 in 3Q18, in line with the Company's inventory control strategy.

Finished Home Inventory was 1,073 units as of September 30, 2019 compared to 1,332 units as of June 30, 2019, due to a 12.0% increase in units titled in 3Q19 compared with 2Q19.



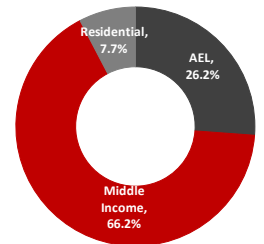
LAND RESERVES

As of September 30, 2019, the Company's land reserves reached 84,336 units, of which approximately 60.0% are reserves purchased directly by the Company and 40.0% are reserves that are maintained through land trusts.

Land Reserves per State as of September 30, 2019

<u>State</u>	<u>Units</u>	<u>Percentage</u>
Aguascalientes	8,049	9.5%
State of Mexico	4,904	5.8%
Jalisco	19,582	23.2%
Nuevo Leon	25,831	30.6%
Queretaro	9,865	11.7%
Quintana Roo	7,513	8.9%
Tamaulipas	8,592	10.2%
Total	84,336	100.0%

Landbank by housing segment



DEBT AND DERIVATIVES EXPOSURE

As of September 30, 2019, Javier continued to possess available credit facility lines in excess of Ps. 480.5 million. These credit lines can be used at any time as long as Javier is in compliance with the covenants established in its Senior Note contracts.

Javier maintained derivative positions to hedge its currency exposure related to the 2021 Notes (coupons and principal). As of September 30, 2019, the Company's hedging strategy includes 100% of the 2021 Notes principal and 100% of the coupons until April 2020.

As of September 30, 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 September 30, 2019, Total Debt / LTM EBITDA reached 3.37x, Net Debt to EBITDA was 2.80x, and EBITDA interest coverage reached 1.73x.

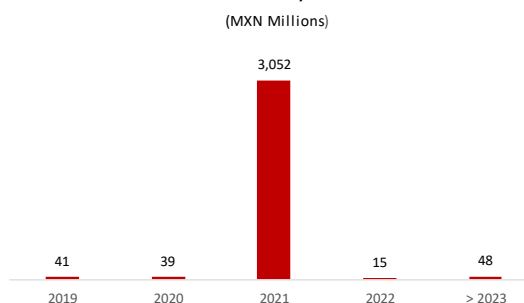
<u>Short Term Debt (Figures in thousand pesos)</u>	<u>Sep-19</u>
Notes Payable to Financial Institutions	85,540
Current Portion of Long Term Debt	41,369
TOTAL	126,909
<u>Long Term Debt (Figures in thousand pesos)</u>	<u>Sep-19</u>
High Yield Bond	3,018,327
Capital Leases	177,496
Less Current Portion	41,369
TOTAL	3,154,454
TOTAL DEBT	3,281,363
CASH AND CASH EQUIVALENTS	515,340
MTM DERIVATIVES	231,414
NET DEBT	2,534,609
TOTAL DEBT* / LTM EBITDA	3.37
NET DEBT / LTM EBITDA	2.80
LTM EBITDA / LTM INTEREST EXPENSE	1.73

* Total debt= Total Debt - MTM Derivative Position

Derivatives

	<u>September 30, 2019</u>	
	<u>FMV (Ps\$)</u>	<u>FMV (US\$)</u>
Coupon Swaps (Fix)	231,414	11,758
Embedded derivatives asset	0	0
TOTAL	231,414	11,758

Debt Maturity Profile



RECENT EVENTS

On October 3, 2019, the Company announced the redemption of its 9.875% Senior Notes due 2021 (CUSIP No. 81763T AC7 / P8585L AC6; ISIN No. US81763TAC71 / USP8585LAC655), which will be paid on November 14, 2019.

For the redemption, the Company will use the resources from a syndicated loan for an amount of up to Ps. 2,745,250,000.00, which is equivalent to 87% of the total amount of the principal of the loan; together with a dollar amount of up to US. 21,000,000.00, which is equivalent to 13% of the principal. The loan syndicate is comprised by banks and institutional investors, both national and foreign.

The syndicated loan will have a maturity of 5 years and it has been secured with a substantial part of the assets of the Company and its subsidiaries, through the establishment of a guarantee, administration and payment trust, a pledge agreement on shares of the Company's subsidiaries and a pledge contract without transfer of possession. The provision of the credit is subject to the fulfillment of a series of conditions, which are contemplated to be fulfilled on or before the redemption date of the Senior Notes.

With the obtaining of this syndicated loan, Javer completes the process of refinancing its current debt to improve its structure and the cost while extending the maturity of its debt.

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

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

Wednesday, October 23, 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/javer191023ZNgv3aYS.html>

A replay will be available on October 23, 2019 starting at 2:00pm 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: 10371029

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.

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

Consolidated statements of financial position

As of September 30, 2019, and December 31, 2018

(In thousands of Mexican pesos)

	Note	2019	2018
Assets			
Current assets:			
Cash and cash equivalents	3	\$ 515,340	\$ 579,144
Accounts receivable, net	4	870,712	898,516
Inventories	6	4,076,903	3,806,976
Prepaid expenses		580,763	480,862
Other current assets		235,666	130,714
Total current assets		6,279,384	5,896,212
Long term accounts receivable		17,570	17,993
Land held for future development	6	1,374,942	1,283,409
Use rights, molds, machinery and equipment		279,304	307,364
Derivative financial instruments	7	231,414	160,415
Deferred income taxes		614,024	614,024
Other non-current assets		85,601	85,601
Total assets		<u>\$8,882,239</u>	<u>\$ 8,365,018</u>
Liabilities and stockholders' equity			
Current liabilities:			
Short-term loans	8	\$85,540	\$ 107,916
Current portion of long-term debt	8	41,369	41,789
Trade and other payables	9	1,705,766	1,476,679
Due to related parties		165	165
Advances from customers		42,740	19,368
Income taxes payable	11		7,330
Interest payable		154,976	77,861
Total current liabilities		2,030,556	1,731,108
Long-term debt	8	3,154,454	3,119,289
Payables for purchase of land		82,832	11,868
Employee retirement obligations		55,623	49,180
Deferred income taxes	11	1,504,436	1,451,379
Total liabilities		<u>6,827,901</u>	<u>6,362,824</u>
Stockholders' equity:			
Capital stock	12	1,153,760	1,142,151
Premium on issuance of shares		12,452	7,296
Retained earnings		971,248	878,231
Other comprehensive income items		(83,122)	(25,484)
Total stockholders' equity		<u>2,054,338</u>	<u>2,002,194</u>
Total liabilities and stockholders' equity		<u>\$8,882,239</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 September 30, 2019 and 2018
(In thousands of Mexican pesos, except earnings per share)

	Nota	3Q 2019	3Q 2018	9M 2019	9M 2018
Revenues	14	\$ 1,932,887	\$ 2,026,882	\$ 5,350,983	\$ 6,288,599
Cost of sales		<u>1,407,837</u>	<u>1,495,801</u>	<u>3,897,550</u>	<u>4,667,665</u>
Gross profit		525,050	531,081	1,453,433	1,620,934
Administrative expenses		(102,842)	(89,431)	(315,380)	(318,627)
Selling expenses		(127,544)	(127,422)	(392,205)	(395,977)
General expenses		(69,186)	(68,598)	(201,226)	(201,635)
Other income, net		5,110	1,360	9,262	3,824
Interest expense, net		(119,115)	(108,815)	(341,133)	(304,592)
Net (loss) gain on foreign currency exchange		(75,661)	155,411	(2,063)	142,584
(Loss) gain on valuation of derivative financial instruments	7	<u>47,650</u>	<u>(146,873)</u>	<u>(39,261)</u>	<u>(166,748)</u>
Income before income tax		83,462	146,713	171,427	379,763
Income tax expense	11	<u>(38,175)</u>	<u>(64,406)</u>	<u>(78,410)</u>	<u>(166,715)</u>
Net income		45,287	82,307	93,017	213,048
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss:					
Actuarial remeasurements of employee benefits, net of tax		(1,473)	-	(1,376)	-
Items that may be reclassified subsequently to profit or loss:					
loss on cash flow hedges net of tax		<u>(7,645)</u>	<u>(16,860)</u>	<u>(56,262)</u>	<u>(59,301)</u>
Total comprehensive income		<u>\$ 36,169</u>	<u>\$ 65,447</u>	<u>\$ 35,379</u>	<u>\$ 153,747</u>
Basic and diluted income per share		<u>\$ 0.16</u>	<u>\$ 0.30</u>	<u>\$ 0.33</u>	<u>\$ 0.77</u>

The weighted average number of shares to determine basic per share for the period ended September 30, 2019 and 2018, was 277,899,322 and 277,772,557, respectively; the weighted average number of shares to determine diluted earnings per share for the period ended September 30, 2019 and 2018 was 281,314,499 and 279,846,934, respectively.

The accompanying notes are part of these consolidated financial statements.

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

Consolidated statements of changes in stockholders' equity

For the period ended September 30, 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	15,057	-	-	-	15,057
Repurchase of shares	(2,381)	-	-	-	(2,381)
Comprehensive income	-	-	213,048	(59,301)	153,747
Balance as of September 30, 2018	<u>\$1,143,162</u>	<u>\$ -</u>	<u>\$ 860,677</u>	<u>\$ (21,553)</u>	<u>\$ 1,982,286</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	15,692	5,156	-	-	20,848
Repurchase of shares	(4,083)	-	-	-	(4,083)
Comprehensive loss	-	-	93,017	(57,638)	35,379
Balance as of September 30, 2019	<u>\$ 1,153,760</u>	<u>\$ 12,452</u>	<u>\$ 971,248</u>	<u>\$ (83,122)</u>	<u>\$ 2,054,338</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 September 30, 2019 and 2018

(In thousands of Mexican pesos)

	2019	2018
Cash flows from operating activities:		
Income before tax expense	\$ 171,427	\$ 379,763
Adjustment for:		
Interest expense, net	341,133	304,592
Effects of valuation of derivative financial instruments	39,261	166,748
Depreciation and amortization	54,088	53,921
Unrealized exchange gain	(8,314)	(145,677)
Shares-based payments	20,848	15,057
(Increase) / decrease in:		
Accounts receivable	28,227	5,751
Inventories and land held for future development	(308,859)	(475,881)
Other current assets	(21,565)	(8,012)
Prepaid expenses	(148,421)	(171,947)
Increases / (decrease) in:		
Trade and other payables	288,949	316,438
Advances from customers	23,372	22,473
Income taxes paid	(84,618)	(142,189)
Net cash provided by operating activities	<u>395,528</u>	<u>321,037</u>
Cash flows from investing activities - Acquisition of molds, machinery and equipment	<u>(8,420)</u>	<u>(6,253)</u>
Cash flows from financing activities:		
Obtaining short-term loans	70,524	72,107
Payment of loans from financial institutions	(92,900)	-
Payment of long-term loans	(32,352)	(29,331)
Interest paid	(401,171)	(321,980)
Issuance of shares	8,827	7,537
Repurchase shares	(4,083)	(2,381)
Net cash used in financing activities	<u>(451,155)</u>	<u>(274,048)</u>
Net (decrease) increase in cash and cash equivalents	<u>(64,047)</u>	<u>40,736</u>
Effect of exchange rate changes on cash in foreign currency	243	(3,651)
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>\$ 515,340</u>	<u>\$ 803,061</u>
Supplemental schedule of non-cash investing activities:		
Payable for acquisition of fixed assets under finance leases	<u>\$ 22,314</u>	<u>\$ 149,840</u>

The accompanying notes are part of these consolidated financial statements.

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

Notes to consolidated statements

For the nine-month periods ending September 30, 2019 and 2018 and for the period ending September 30, 2019 and December 31, 2018
(In thousands of Mexican pesos, except as otherwise indicated)

1. Reporting entity and relevant event

1.1 Reporting entity

Servicios Corporativos Javier, 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. Juarez 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.

1.2 JAVER's Subsidiaries

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

Real estate sales:

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

Urbanization and construction services:

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

Construction services:

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

Administration services:

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

Financial services:

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

1.3 Relevant event

The Company has informed the investing public that the Company shall redeem all its outstanding 9.875% Senior Notes due in 2021 (See Note 8) ("the Bonds").

The redemption will be completed with the resources obtained from an available credit and guaranty agreement signed on September 19, 2019, ("Credit Agreement") that will be funded by a syndicate of banks and institutional investors. This Credit Agreement is composed of a Mexican peso tranche of \$2,745,250,000 and a USD tranche of US\$ 21,000,000, which are equivalent to 87% and 13%, respectively, of the total principal amount.

The Credit Agreement matures in 5 years and is guaranteed by several assets of the Company and its subsidiaries through the signing of a trust guarantee and payment contract, subsidiary stock pledge agreement and pledge contract without transfer of possession. The redemption date will be on November 14, 2019. The availability of the Credit Agreement is subject to various conditions, which are expected to be fulfilled on or prior to the redemption date.

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. For the period ended September 30, 2019, and 2018 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

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 derivative 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 September 30, 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 September 30, 2019	As of December 31, 2018
Cash and bank balances	\$ 260,002	\$ 223,571
Temporary investments	255,338	355,573
	<u>\$ 515,340</u>	<u>\$ 579,144</u>

4. Accounts receivable

As of September 30, 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 58.21% and 55.55% of the total of accounts receivable as of September 30, 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 September 30, 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

	September 30, 2019	2018
Urbanization services expense ⁽¹⁾	\$ 2,635	\$ 1,166
Administrative services expense ⁽²⁾	214	545
Interest expense ⁽²⁾	6,117	4,779
Other income ⁽²⁾	1,006	

(1) For the periods ended September 30, 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.

(2) Interest and administrative services expenses are related with the lease's contracts mentioned in the next point 5.2 of this Financial Statements, additionally, the Company recognized an income for recovery of installation expenses.

5.2 Balances due to related parties:

a) Accounts Payables

	As of September 30, 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 September 30, 2019	As of December 31, 2018
Inmobiliaria Torre M, S.A. de C.V. ⁽¹⁾	\$ 71,071	\$72,115
Administración de Proyectos y Servicios en Condominio, S.C. ⁽¹⁾	6,765	7,126
	<u>\$ 77,836</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.

b) Accounts receivables

On December 2018, a sale of commercial lot to an executive of the Company; as of September 30, 2019, the account receivable for this operation is \$1,291, recorded in short- and long-term accounts receivable for \$993 and \$298, respectively.

5.3 Compensation of key management personnel

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

	September 30, 2019	2018
Professional fees, salaries and other short-term benefits	<u>\$69,034</u>	<u>\$67,016</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	-	2,227,517	1,130,916	3,358,433
Transfers from land held for future development	525,484	-	-	525,484
Sales	<u>(473,163)</u>	<u>(2,085,893)</u>	<u>(1,054,934)</u>	<u>(3,613,990)</u>
Balance as of September 30, 2019	<u>\$1,158,379</u>	<u>\$ 1,127,667</u>	<u>\$ 1,790,857</u>	<u>\$ 4,076,903</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 September 30, 2019 and December 31, 2018.

As of September 30, 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 \$205,849 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 September 30, 2019 and as of 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 \$3,283,764 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 September 30, 2019	As of December 31, 2018
Financial assets	US\$ 10,071	US\$ 10,032
Financial liabilities	(162,828)	(157,716)
Net financial liability position	<u>US\$ (152,757)</u>	<u>US\$ (147,684)</u>
Equivalent in Mexican pesos	<u>\$(3,006,380)</u>	<u>\$ (2,902,965)</u>

- b. Foreign currency operations were as follows:

	As of September 30, 2019	As of September 30, 2018
Molds acquisition	US\$ -	US\$ 294

- 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 September 30, 2019	As of December 31, 2018
U.S. dollar	\$19.6808	\$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 September 30, 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 September 30, 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%	14.399%	Semiannual	Monthly
April 6, 2020 ⁽¹⁾	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 (until April 6, 2019) to the amortized cost in those years, an embedded derivative of \$38,511 was recorded in 2011, which balance as of December 31, 2018 represented an asset of 1,745, with such changes in fair value recognized in results of each year.

For the period ended September 30, 2019, the Company recognized an accumulated loss net of \$29,335 for the combined derivative financial instruments.

7.2.1 Market risk sensitivity analysis

The following disclosure 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 the exchange rate used by the Federal Reserve Bank of New York (\$19.7420) had decreased 10.00%, the Company's other comprehensive income would had decreased \$340,389, 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 September 30, 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	October 1 – September 30,				Total
	2019-2020	2020-2021	2021-2022	2022-2023+	
Short-term loans	\$ 85,540	\$ -	\$ -	\$ -	\$ 85,540
Current portion of long-term debt	41,369	-	-	-	41,369
Payables for purchase of land	1,573,306	-	-	-	1,573,306
Account payable for comparing land	132,460	82,832	-	-	215,292
Long-Term Debt and interest ⁽¹⁾	-	193,320	3,307,525	63,141	3,563,986
Derivatives ⁽²⁾	454,394	-	-	-	454,394
Total	<u>\$2,287,069</u>	<u>\$276,152</u>	<u>\$3,307,525</u>	<u>\$63,141</u>	<u>\$5,933,887</u>

(1) Interest payments on variable debt are calculated using the rate as of September 30, 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 September 30, 2019, and December 31, 2018, the

maximum exposure to credit risk related with its derivative financial instrument asset is \$231,414 and \$158,670, respectively. The Company does not maintain collateral for such amounts.

8. Debt

a) Long-term debt

	As of September 30, 2019	As of December 31, 2018
Unsecured – at amortized cost		
Senior Notes US\$210 million refinanced – 2021 ⁽ⁱ⁾	\$1,454,217	\$ 1,415,236
Senior Notes US\$30 million – 2021 ⁽ⁱ⁾	587,812	586,024
Senior Notes US\$50 million – 2021 ⁽ⁱ⁾	976,298	971,660
Capital lease agreements ⁽ⁱⁱ⁾	<u>177,496</u>	<u>188,158</u>
	3,195,823	3,161,078
Current portion	<u>(41,369)</u>	<u>(41,789)</u>
Long-term debt	<u>\$3,154,454</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 \$75,830 and \$10,161, respectively, and are presented net of the long-term liability in the statements of financial position as of September 30, 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 JAVER'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 \$7,720 and \$7,742, respectively, and are presented net of the long-term liability in the consolidated statements of financial position as of September 30, 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 September 30, 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 until April 2019, 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 December 2018 represents assets of \$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, 2019, the Company contracted a credit line with Banco del Bajío S.A. Institución de Banca Múltiple up to \$160,095, with a TIIE interest rate plus additional basic points according to the date of each disposal. As of September 30, 2019, the balance is \$15,016 at an interest rate of TIIE + 3.5 points.

On September 27, 2019, the Company contracted a credit line with Banco del Bajío S.A. Institución de Banca Múltiple up to \$352,622, with a TIIE interest rate plus additional basic points according to the date of each disposal. As of September 30, 2019, the balance is \$70,524 at an interest rate of TIIE + 3.25 points.

9. Trade and other payables

	As of September 30, 2019	As of December 31, 2018
Trade accounts payable ⁽ⁱ⁾	\$ 671,632	\$ 550,363
Payables for purchase of land	132,460	192,779
Revolving credit lines ⁽ⁱⁱ⁾	619,228	457,434
Other current liabilities	282,446	276,103
	<u>\$</u>	
	<u>1,705,766</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 \$293,478 and \$296,725 as of September 30, 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 \$691,000 as of September 30, 2019 and 2018 and \$931,000 as of 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:

	September 30,	
	2019	2018
Current ISR	\$ 651	\$ 122,106
Deferred ISR	<u>77,759</u>	<u>44,609</u>
	<u>\$ 78,410</u>	<u>\$ 166,715</u>

Income taxes for the period ended September 30, 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 September 30, 2019 and 2018 were 45.7% and 43.9%, respectively.

As of September 30, 2019, JAVER and certain subsidiaries had tax loss carryforwards pending to be amortized of \$1,589,967 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 September 30, 2019 and 2018 the Company repurchased 244,944 shares equivalent to \$4,083 and 143,858 shares equivalent to \$2,381, respectively.
- b. As of September 30, 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 September 30, 2019, the Company maintained land banks under land trust agreements of 11,823,393, square meters (unaudited) and the capacity to construct

33,743 (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 nine-month period ended September 30, 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:

	September 30,			
	Revenues per segment		Income per segment	
	2019	2018	2019	2018
Affordable Entry-level	\$ 376,604	\$ 513,015	\$ 68,709	\$ 39,112
Middle-income	3,620,661	4,599,989	959,469	1,221,029
Residential	1,336,755	1,168,865	411,699	357,223
Commercial Lots	16,963	6,730	13,556	3,570
Total	<u>\$ 5,350,983</u>	<u>\$6,288,599</u>	1,453,433	1,620,934
Administrative corporate costs and directors' salaries			(899,549)	(912,415)
Interest expense, net			<u>(382,457)</u>	<u>(328,756)</u>
Income before income taxes			<u>\$ 171,427</u>	<u>\$ 379,763</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:

	September 30,	
	2019	2018
Nuevo León	\$ 2,357,431	\$2,924,341
Jalisco	846,555	887,476
Aguascalientes	495,061	444,943
Querétaro	434,011	460,226
Estado de México	824,008	1,009,676
Tamaulipas	41,618	39,503
Quintana Roo	352,299	522,434
	<u>\$5,350,983</u>	<u>\$6,288,599</u>

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

	As of September 30, 2019	As of December 31, 2018
Nuevo León	\$ 1,847,412	\$ 1,972,241
Jalisco	939,324	958,302
Aguascalientes	386,157	382,339
Querétaro	634,021	339,235
Estado de México	827,754	789,498
Tamaulipas	309,218	333,670
Quintana Roo	507,959	315,100
	<u>\$ 5,451,845</u>	<u>\$ 5,090,385</u>

d) Information on primary clients

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