



# FOURTH QUARTER 2018



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## JAVER ANNOUNCES GROWTH IN VOLUME, REVENUES AND EBITDA IN 2018

**Monterrey, Nuevo Leon, Mexico – February 7, 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 fourth quarter (“4Q18”) and twelve-month (“12M18”) periods ended December 31, 2018. All figures presented in this report are expressed in nominal Mexican pesos (Ps.), unless otherwise stated.

### 4Q18 and 12M18 Highlights:

(Figures in thousand pesos)	4Q18	4Q17	Variance	12M18	12M17	Variance
Homes titled	4,340	5,585	(22.3%)	18,962	18,750	1.1%
Net Revenues	2,032,481	2,327,531	(12.7%)	8,321,080	7,562,985	10.0%
Gross Profit	527,070	621,321	(15.2%)	2,148,004	1,964,861	9.3%
Gross Margin	25.9%	26.7%	(0.8 pp)	25.8%	26.0%	(0.2 pp)
EBITDA	279,335	386,276	(27.7%)	1,061,683	956,075	11.0%
EBITDA Margin	13.7%	16.6%	(2.9 pp)	12.8%	12.6%	0.1 pp
Net Income	17,554	143,837	(87.8%)	230,602	441,602	(47.8%)
Net Margin	0.9%	6.2%	(5.3 pp)	2.8%	5.8%	(3.1 pp)
FCF	-256,039	254,967	(200.4%)	-263,235	470,932	(155.9%)
Income per share*	0.06	0.52	(88.5%)	0.83	1.59	(47.8%)

\*The weighted average number of shares to determine basic earnings per share for the years ended December 31, 2018 and 2017 was 277,656,968 and 278,075,577, respectively; for the determination of earnings per diluted share, the weighted average number of shares was 279,705,167 and 278,576,306, respectively.

- **Units sold** increased 1.1% to 18,962 units in 12M18 from 18,750 units in 12M17. In 4Q18, units sold decreased 22.3% to 4,340 units compared to 5,585 units in 4Q17, since the number of units sold in the projects that started operations during 4Q17 was higher than the units titled in the projects that opened during 4Q18.
- **Net Revenues** increased 10.0% to Ps. 8,321.1 million in 12M18 compared to Ps. 7,563.0 million in 12M17 mainly due to improvements in the product mix and the increase in the average sales price. In 4Q18, net revenues were Ps. 2,032.5 million, 12.7% below the Ps. 2,327.5 million reported in 4Q17, as a result of the decline in volume.
- **EBITDA** grew 11.0% to Ps. 1,061.7 million in 12M18 compared to Ps. 956.1 million in 12M17, derived from a better sales mix, volume growth and higher prices. EBITDA decreased 27.7% to Ps. 279.3 million in 4Q18 from Ps. 386.3 million in 4Q17 mainly due to the volume contraction, higher expenses for personnel severance due to workforce reductions that were made to prepare the Company for 2019 according to the market conditions, as well as expenses incurred in Javer’s ongoing debt refinancing process.

- **Net Result** was Ps. 230.6 million in 12M18 compared to Ps. 441.6 million in 12M17, due to the FX gain of Ps. 243.4 million recorded in 12M17. In 4Q18, the net result was Ps. 17.6 million compared to Ps. 143.8 million in 4Q17, mainly due to the decrease in volume and Ps. 67.2 million in FX losses. Earnings per share reached Ps. 0.06 in 4Q18 and Ps. 0.83 in 12M18.
- **The free cash flow (FCF)** was Ps. (263.2) million in 12M18 compared to Ps. 470.9 million in 12M17, mainly from greater disbursements made for the acquisition of land reserves and for the use of additional working capital to start operations in the acquired properties. The same effect was presented in 4Q18 with a FCF of Ps. (256.0) million compared to Ps. 255.0 million in 4Q17.

## **CEO STATEMENT**

Mr. René Martínez, CEO of the Company commented, "As always, we are very pleased to have this opportunity to connect with you and present the 2018 financial and operational results, which were higher than our guidance provided at the beginning of the year and with respect to 2017. Our revenues grew 10.0%, while our gross margin from the sale of homes and EBITDA increased 13.0% and 11.0%, respectively, despite a decrease in commercial lot sales.

In the twelve-month period ended December 31, 2018, 17 projects were opened, 10 of them focusing on the middle-income segment and 7 of them in the residential segment, which helped us to consolidate the improvement in the sales mix and achieve favorable results. At the end of 2018, our market share in the INFONAVIT loans system for new housing was 9.3%, which represents 4.9% more than in 2017; taking into account the loans for the acquisition of new and used housing, our market share reached 4.8% nationwide.

As projected in previous quarterly reports, land reserve acquisitions in 2018 totaled an investment of more than Ps. 1.0 billion, 34.2% more than the disbursements made during 2017. This investment is only exceeded by the one made in 2014, when we decided to change our product mix strategy and migrate our land reserves to properties oriented towards the middle-income and residential segments. This strategy has been paying off ever since, reflected in increases across practically all our annual financial figures.

The year 2019 will undoubtedly bring many changes and challenges. Our industry is not the exception which is why we have initiated an austerity and expense reduction plan that will help us maintain an optimal structure according to market conditions. The first two quarters of 2019 will be the most affected in terms of units sold, since the subsidy program will no longer be available. We will also see the effects on working capital due to the start-up of 23 new projects in the land reserves that were acquired during 2018; 17 of them during the first half of 2019 and the remaining 6 projects during the third and fourth quarters. These effects will be reversed in the second half of the year as we will begin to title units in these projects.

Furthermore, it is also important to point out that Infonavit recently announced it is working on implementing measures to increase the total number of loans for workers with a monthly wage up to 2.8 UMAs to offset the effect of the lack of subsidies and support those who need the funding most.

On the other hand, we continue analyzing different options for refinancing the Company's debt, with the goal of optimizing costs and terms. In order to maintain the financial prudence that has distinguished us, in the first days of January of 2019 we decided to expand our hedging strategy,

including 100% of the principal and 100% of the following three coupon payments, which leaves us without exposure to fluctuations in the Mexican peso against the dollar.

In closing, our goal for 2019 will be to maintain a level of revenues consistent with those registered in 2018, albeit with lower unit volume while improving our sales mix, with growth between 2.5% to 5.0% in EBITDA, and positive free cash flow."

## UNITS SOLD AND NET REVENUES

Units Sold	4Q18	% of units	4Q17	% of units	Variance	12M18	% of units	12M17	% of units	Variance
Affordable Entry Level	654	15.1%	1,470	26.3%	(55.5%)	2,476	13.1%	6,692	35.7%	(63.0%)
Middle Income	3,284	75.7%	3,775	67.6%	(13.0%)	15,147	79.9%	11,096	59.2%	36.5%
Residential	402	9.3%	340	6.1%	18.2%	1,339	7.1%	962	5.1%	39.2%
<b>TOTAL</b>	<b>4,340</b>	<b>100.0%</b>	<b>5,585</b>	<b>100.0%</b>	<b>-22.3%</b>	<b>18,962</b>	<b>100.0%</b>	<b>18,750</b>	<b>100.0%</b>	<b>1.1%</b>

Revenues (Figures in thousand pesos)	4Q18	% of revenues	4Q17	% of revenues	Variance	12M18	% of revenues	12M17	% of revenues	Variance
Affordable Entry Level	177,805	8.7%	398,929	17.1%	(55.4%)	690,820	8.3%	1,811,910	24.0%	(61.9%)
Middle Income	1,298,391	63.9%	1,455,785	62.5%	(10.8%)	5,898,380	70.9%	4,370,260	57.8%	35.0%
Residential	529,038	26.0%	463,539	19.9%	14.1%	1,697,903	20.4%	1,290,506	17.1%	31.6%
<b>Total Home Sales</b>	<b>2,005,234</b>	<b>98.7%</b>	<b>2,318,253</b>	<b>99.6%</b>	<b>-13.5%</b>	<b>8,287,103</b>	<b>99.6%</b>	<b>7,472,676</b>	<b>98.8%</b>	<b>10.9%</b>
Commercial Lot Sales	27,247	1.3%	9,277	0.4%	193.7%	33,977	0.4%	90,309	1.2%	(62.4%)
<b>TOTAL</b>	<b>2,032,481</b>	<b>100%</b>	<b>2,327,530</b>	<b>100%</b>	<b>-12.7%</b>	<b>8,321,080</b>	<b>100%</b>	<b>7,562,985</b>	<b>100%</b>	<b>10.0%</b>

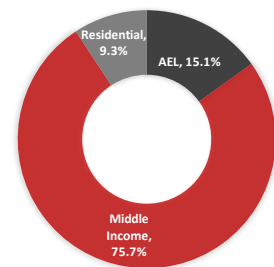
\* Low Income units have selling prices below Ps. 300,000. Middle Income units have selling prices between Ps. 300,000 and Ps. 850,000. Residential units have selling price exceeding Ps. 850,0000.

**Units Sold** decreased 22.3% to 4,340 units in 4Q18, compared to 5,585 units titled in 4Q17. The residential segment grew 18.2% while the AEL (Affordable-Entry Level) and middle-income segments declined 55.5% and 13.0%, respectively. The middle-income segment represented 75.7% of the total units sold, and 63.9% of total revenues in 4Q18; AEL segment comprised 15.1% of the total titled units and 8.7% of the total revenues in the same period. The residential segment represented 9.3% of the total units sold and 26.0% of total revenues.

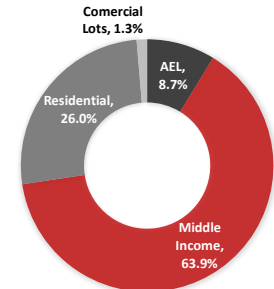
In 12M18, units titled increased 1.1% to 18,962 units compared to 18,750 units in 12M17. The residential and middle-income segment grew 39.2% and 36.5%, respectively, while the AEL segment had a 63.0% decline. Of the total units, 79.9% corresponded to the middle-income segment, 13.1% to the AEL segment and 7.1% to the residential segment. The middle-income segment accounted for 70.9% of total revenues, while the residential and AEL segments represented 20.4% and 8.3%, respectively.

During 4Q18, **commercial lot** sales were Ps. 27.2 million and Ps. 34.0 million in 12M18. Commercial lot sales decreased due to the lower availability of lots with commercial use.

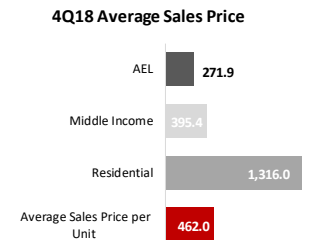
4Q18 UNITS SOLD



4Q18 REVENUES



**The average sales price** increased 11.3% to Ps. 462.0 thousand in 4Q18, compared to Ps. 415.1 thousand in 4Q17, as a result of a sales mix with a higher focus on the middle-income and residential segments. In 12M18, the average sales price increased 9.7% to Ps. 437.0 thousand compared to Ps. 398.5 thousand in 12M17, due to the same effects presented during the quarter.



(figure in thousand pesos)	4Q18	4Q17	Variance	12M18	12M17	Variance
AEL	271.9	271.4	0.2%	279.0	270.8	3.0%
Middle Income	395.4	385.6	2.5%	389.4	393.9	(1.1%)
Residential	1,316.0	1,363.3	(3.5%)	1,268.0	1,341.5	(5.5%)
<b>Average Sales Price per Unit</b>	<b>462.0</b>	<b>415.1</b>	<b>11.3%</b>	<b>437.0</b>	<b>398.5</b>	<b>9.7%</b>

**Mortgage Provider Mix:** Infonavit is the main source of loans for the Company's clients. The loans granted by this Institute, including Cofinavit, represented 92.3% of the total units sold in 4Q18, while they represented 93.8% in 4Q17; the slight decrease was due to the shift towards housing acquisitions through financial institution loans stemming from the growth in the residential segment. In 12M18, Infonavit and Cofinavit loans represented 93.6% of the total units sold compared to 94.5% in 12M17, due to the same effects presented in 4Q18.

Mortgage Provider	4Q18	% of total	4Q17	% of total	12M18	% of total	12M17	% of total
Infonavit	3,896	89.8%	5,122	91.7%	17,380	91.7%	17,343	92.5%
Fovissste	61	1.4%	112	2.0%	384	2.0%	366	2.0%
Cofinavit	109	2.5%	114	2.0%	376	2.0%	370	2.0%
Banks / Sofoles	125	2.9%	116	2.1%	414	2.2%	319	1.7%
Other	149	3.4%	121	2.2%	408	2.2%	352	1.9%
<b>TOTAL</b>	<b>4,340</b>	<b>100.0%</b>	<b>5,585</b>	<b>100.0%</b>	<b>18,962</b>	<b>100.0%</b>	<b>18,750</b>	<b>100.0%</b>

**Subsidies:** In 4Q18, 500 units were sold with subsidies, a decrease of 56.6% compared to 1,153 units in 4Q17. The subsidized units represented 11.5% of the total units sold in 4Q18 and 20.6% in 4Q17. In 12M18, 5,683 subsidized units were titled, 17.7% above the 4,827 units in 12M17, which accounted for 30.0% and 25.7%, respectively, of the total units sold.

Vertical housing represented 23.1% and 21.8% of the total units titled in 4Q18 and 12M18, respectively.

	4Q18	4Q17	Variance	12M18	12M17	Variance
No Subsidies	3,840	4,432	(13.4%)	13,279	13,923	(4.6%)
<b>Subsidies</b>	<b>500</b>	<b>1,153</b>	<b>(56.6%)</b>	<b>5,683</b>	<b>4,827</b>	<b>17.7%</b>
Total	4,340	5,585	(22.3%)	18,962	18,750	1.1%

	4Q18	% of total units	4Q17	% of total units	12M18	% of total units	12M17	% of total units
<b>Vertical Housing</b>	1,004	23.1%	1,107	19.8%	4,139	21.8%	4,072	21.7%

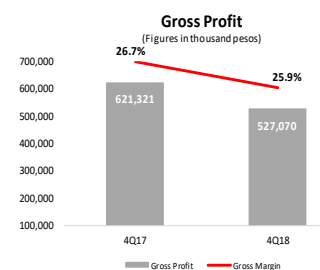
### GROSS PROFIT / MARGIN

<b>Gross Profit</b> (figures in thousand pesos)	4Q18	4Q17	Variance	12M18	12M17	Variance
Home Sales	510,265	611,477	(16.6%)	2,127,629	1,883,600	13.0%
Commercial Lot Sales	16,805	9,844	70.7%	20,375	81,261	(74.9%)
<b>TOTAL</b>	<b>527,070</b>	<b>621,321</b>	<b>(15.2%)</b>	<b>2,148,004</b>	<b>1,964,861</b>	<b>9.3%</b>

<b>Gross Margin (%)</b>	4Q18	4Q17	Variance	12M18	12M17	Variance
Home Sales	25.4%	26.4%	(0.9 pp)	25.7%	25.2%	0.5 pp
Commercial Lot Sales	61.7%	106.1%	(44.4 pp)	60.0%	90.0%	(30.0 pp)
<b>TOTAL</b>	<b>25.9%</b>	<b>26.7%</b>	<b>(0.8 pp)</b>	<b>25.8%</b>	<b>26.0%</b>	<b>(0.2 pp)</b>

**Gross Profit** decreased 15.2% to Ps. 527.1 million in 4Q18 compared to Ps. 621.3 million in 4Q17 as a result of the volume contraction, however, it grew 9.3% to Ps. 2,148.0 million in 12M18 compared to Ps. 1,964.9 million in 12M17, due to the increase in the average sales price and the improved product mix.

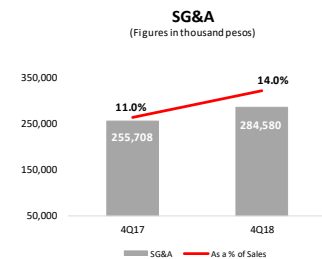
**Gross Margin** was 25.9% in 4Q18, a decrease of 0.8 percentage points compared to 26.7% in 4Q17, as a result of the volume effect. In 12M18, the gross margin was 25.8%, only a 0.2 percentage points variation compared to 26.0% in 12M17, mainly due to the decline in commercial lot sales; however, the gross margin generated by the sale of homes in the period increased 0.5 percentage points to 25.7% compared to 25.2% in 12M17.



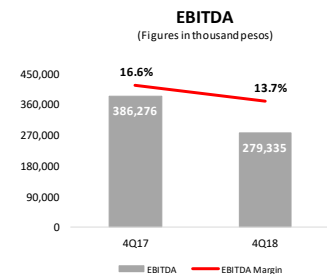
**EBITDA / EBITDA MARGIN**

(Figures in thousand pesos)	4Q18	4Q17	Variance	12M18	12M17	Variance
SG&A	284,580	255,708	11.3%	1,200,819	1,075,860	11.6%
As a % of Sales	14.0%	11.0%	3.0 pp	14.4%	14.2%	0.2 pp
EBITDA	279,335	386,276	(27.7%)	1,061,683	956,075	11.0%
EBITDA Margin	13.7%	16.6%	(2.9 pp)	12.8%	12.6%	0.1 pp

**Selling, General and Administrative Expenses (SG&A)** increased 11.3% to Ps. 284.6 million in 4Q18 compared to Ps. 255.7 million in 4Q17. In 12M18, SG&A increased 11.6% to Ps. 1,200.8 million compared to Ps. 1,075.9 million in 12M17. The increase in both periods was caused by the higher expenses for personnel severance due to workforce reductions that were made to prepare the Company for 2019 according to the market conditions, as well as expenses incurred in Javer's ongoing debt refinancing process.



**EBITDA** decreased 27.7% to Ps. 279.3 million in 4Q18 from Ps. 386.3 million in 4Q17 mainly due to the volume contraction and the increase in selling and administrative expenses, as mentioned above. **EBITDA** grew 11.0% to Ps. 1,061.7 million in 12M18 compared to Ps. 956.1 million in 12M17, derived from improvements in the sales mix, the growth in volume and the increase in prices.

**COMPREHENSIVE COST OF FINANCING**

(Figures in thousand pesos)	4Q18	4Q17	Variance	12M18	12M17	Variance
Interest expense	124,057	108,109	14.8%	465,650	409,141	13.8%
Interest income	(8,226)	(10,383)	(20.8%)	(45,228)	(32,658)	38.5%
FX losses / gains	67,194	28,831	133.1%	91,359	(243,370)	(137.5%)
<b>NCFR</b>	<b>183,025</b>	<b>126,557</b>	<b>44.6%</b>	<b>511,781</b>	<b>133,113</b>	<b>284.5%</b>
Loss on cash flow hedges	(4,863)	4,298	(213.1%)	(64,162)	(133,224)	(51.8%)

**The comprehensive cost of financing** was Ps. 183.0 million in 4Q18 compared to Ps. 126.6 million in 4Q17, due to Ps. 67.2 million in FX losses and the increase in the reference interest rate that generated higher financial expenses. In 12M18, the comprehensive cost of financing was Ps. 511.8 million compared to Ps. 133.1 million in 12M17, as a result of the Ps. 243.4 million in FX gains in 12M17, as well as the effect of the reference interest rate increase previously mentioned.

**Net Result** was Ps. 230.6 million in 12M18 compared to Ps. 441.6 million in 12M17, due to the FX gain of Ps. 243.4 million recorded in 12M17. In 4Q18, the net result was Ps. 17.6 million compared to Ps. 143.8 million in 4Q17, mainly due to the decrease in volume and Ps. 67.2 million in FX losses. Earnings per share were Ps. 0.06 in 4Q18 and Ps. 0.83 in 12M18.

**Comprehensive Income**, which includes (MTM) gains and losses on derivatives to hedge the coupons corresponding to the long-term USD denominated debt, was Ps. 13.6 million in 4Q18 and Ps. 167.4 million in 12M18.

### **ASSETS / LIABILITIES**

**Cash and cash equivalents** were Ps. 579.1 million as of December 31, 2018.

### **WORKING CAPITAL**

Greater resources designated to purchase land reserves to ensure the continuity of the Company's operation for the years 2019 and 2020 caused the working capital cycle to increase to 268 days as of December 31, 2018, a 19-day growth with respect to the same period of 2017.

<b>(Figures in thousand pesos)</b>	<b>Dec 2018</b>		<b>Dec 2017</b>	
	<b>Amount</b>	<b>Days</b>	<b>Amount</b>	<b>Days</b>
Trade Accounts Receivable	916,509	40	969,357	47
Inventory (work in progress)	3,806,976	224	3,578,514	233
Inventory (land reserves)	1,283,409	76	872,591	57
Suppliers	1,212,444	71	1,332,153	87
Customer Advances	19,368	1	9,890	1
<b>Working Capital</b>	<b>4,775,082</b>	<b>268</b>	<b>4,078,419</b>	<b>249</b>
LTM Sales	8,321,080		7,562,985	
LTM Cost of Goods Sold	6,173,076		5,598,124	

**FREE CASH FLOW**

The free cash flow (FCF) was Ps. (263.2) million in 12M18 compared to Ps. 470.9 million in 12M17, mainly from greater disbursements made for the acquisition of land reserves and for the use of additional working capital to start operations in the acquired properties. The same effect was presented in 4Q18 with a FCF of Ps. (256.0) million compared to Ps. 255.0 million in 4Q17.

(Figures in thousand pesos)	4Q18	4Q17	12M18	12M17
EBITDA	279,335	386,276	1,061,683	956,075
(+) Land included in COGS	191,088	196,907	693,200	621,494
(+-) Changes in Working Capital	(305,262)	(54,070)	(351,149)	430,184
Cash Interest	(117,990)	(100,591)	(439,970)	(406,886)
Cash Taxes	(44,377)	(36,485)	(186,566)	(340,196)
Land CAPEX	(255,940)	(134,716)	(1,031,287)	(768,696)
Equipment CAPEX	(2,893)	(2,354)	(9,146)	(21,043)
<b>Free Cash Flow</b>	<b>(256,039)</b>	<b>254,967</b>	<b>(263,235)</b>	<b>470,932</b>

**DEVELOPMENT PIPELINE**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
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
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
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
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
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	7,053
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

**Home Starts** decreased 41.9% to 2,866 units in 4Q18, compared to 4,929 units in 4Q17, in line with the Company's inventory management strategy.

**Home Completions** decreased 18.5% to 4,124 units in 4Q18, compared to 5,063 units in 4Q17 due to the change in sales mix to middle-income and residential projects, which generate lower unit production.

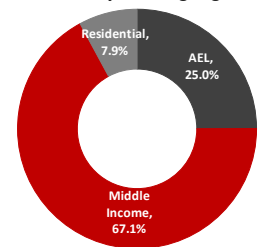
**Finished Home Inventory** was 1,615 units as of December 31, 2018 compared to 1,831 units as of September 30, 2018, a decline of 11.8% in line with the inventory control strategy.



## **LAND RESERVES**

As of December 31, 2018, the Company's total land bank reached approximately 88,445 units, of which approximately 67.0% were owned land reserves and 33.0% were held through land trust agreements.

Landbank by housing segment



### **Land Reserves per state as of 4Q18**

<b>State</b>	<b>Units</b>	<b>Percentage</b>
Aguascalientes	9,130	10.3%
State of México	6,276	7.1%
Jalisco	16,314	18.4%
Nuevo León	34,238	38.7%
Querétaro	5,705	6.4%
Quintana Roo	8,147	9.2%
Tamaulipas	8,645	9.8%
<b>Total</b>	<b>88,455</b>	<b>100.0%</b>

## DEBT AND DERIVATIVES EXPOSURE

As of December 31, 2018, Javer continued to possess available credit facility lines in excess of Ps. 581.2 million. These credit lines could 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 a portion of the principal of its 2021 Notes. As of December 31, 2018, the weighted hedge of the coupons was of 6 months and the Company held hedges for 68.9% of the 2021 Notes principal until April 2019. Recently, Javer updated its portfolio of derivative financial instruments to hedge the next 3 coupons until April 2020 and 100% of the principal with the same maturity.

As of December 31, 2018, 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 December 31, 2018, Total Debt / LTM EBITDA reached 2.93x; Net Debt to EBITDA was 2.38x; EBITDA interest coverage reached 2.19x.

<u>Short Term Debt (Figures in thousand pesos)</u>	<u>Dec-18</u>
Notes Payable to Financial Institutions	107,916
Current Portion of Long Term Debt	41,789
<b>TOTAL</b>	<b>149,705</b>

<u>Long Term Debt (Figures in thousand pesos)</u>	<u>Dec-18</u>
High Yield Bond	2,972,920
Capital Leases	188,158
Less Current Portion	41,789
<b>TOTAL</b>	<b>3,119,289</b>

<b>TOTAL DEBT</b>	<b>3,268,994</b>
CASH AND CASH EQUIVALENTS	579,144
MTM DERIVATIVES	160,415
<b>NET DEBT</b>	<b>2,529,435</b>

<u>Financial Ratios</u>	<u>Dec-18</u>
TOTAL DEBT* / LTM EBITDA	2.93
NET DEBT / LTM EBITDA	2.38
LTM EBITDA / LTM INTEREST EXPENSE**	2.19

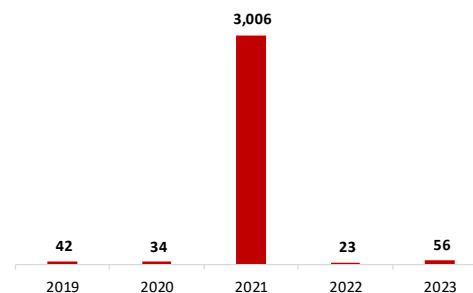
\* Total debt= Total Debt - MTM Derivative Position

### Derivatives

	<u>Dec-18</u>	
	<u>FMV (Ps\$)</u>	<u>FMV (US\$)</u>
Coupon Swaps (Fix)	158,670	8,072
Embedded derivatives asset	1,745	89
<b>TOTAL</b>	<b>160,415</b>	<b>8,161</b>

### Debt Maturity Profile

(figures in million pesos)



**Servicios Corporativos Javer S.A.B. de C.V.**

cordially invites you to its  
Fourth Quarter 2018  
Conference Call & Webcast Presentation in Spanish

**Friday, February 8, 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/javer190208uglPvZlu.html>

A replay will be available on February 8, 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: 92111209**

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***About Javier:***

**Servicios Corporativos Javier S.A.B. de C.V.** specializes in the construction of affordable entry level, middle income and residential housing and it is the largest housing development company in Mexico in terms of units sold. The Company began operations in 1973, and it is headquartered in the city of Monterrey, Nuevo Leon. The Company operates in the states of, Aguascalientes, Jalisco, Nuevo Leon, Queretaro, Quintana Roo, State of Mexico and Tamaulipas and had operations in Mexico City with a residential project in 2016 and currently the Company is working in its second project. Javier is the largest supplier of the Infonavit system in the country, holding a 9.3% market share in 2018, considering the total amount of loans granted for new housing. In addition, it is the largest supplier of Infonavit loans for new housing in the state of Aguascalientes, Nuevo Leon, State of Mexico and Queretaro with a 26.0%, 23.7%, 21.1%, and 13.3%, respectively; and the second largest supplier of Infonavit loans for new housing in Jalisco and Quintana Roo with a 13.4% and 12.6% market share, respectively. During 2018, the Company reported revenues of Ps. 8.3 billion and sold a total of 18,962 units.

**Disclaimer:**

This press release may include forward-looking statements. These forward-looking statements include, without limitation, those regarding Javier's future financial position and results of operations, the Company's strategy, plans, objectives, goals and targets, future developments in the markets in which Javier participates or are seeking to participate or anticipated regulatory changes in the markets in which Javier operates or intends to operate.

Javier cautions potential investors that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that Javier'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 from the forward-looking statements contained in this press release. In addition, even if Javier'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.

Important factors that could cause these differences include, but are not limited to: risks related to Javier's competitive position; risks related to Javier's business and Company's strategy, Javier's expectations about growth in demand for its products and services and to the Company's business operations, financial condition and results of operations; access to funding sources, and the cost of the funding; changes in regulatory, administrative, political, fiscal or economic conditions, including fluctuations in interest rates and growth or diminution of the Mexican real estate and/or home mortgage market; increases in customer default rates; risks associated with market demand for and liquidity of the notes; foreign currency exchange fluctuations relative to the U.S. Dollar against the Mexican Peso; and risks related to Mexico's social, political or economic environment.

This document is not an offer of securities for sale in Mexico or in the United States. Securities may not be offered or sold (i) in Mexico absent authorization by the CNBV in accordance with the Ley del Mercado de Valores (Mexican Securities Market Law) and all applicable regulations and the due registration of the securities in the National Registry of Securities maintained by the CNBV; or (ii) in the United States absent registration under the Securities Act of 1933, as amended, or an exemption from registration therefrom. Any public offering of securities in Mexico or in the United States must be made by means of a prospectus containing detailed information about the terms of the offering, the issuer and matters relating to its financial, administrative, and legal condition, as well as financial statements.

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

# Consolidated statements of financial position

As of December 31, 2018 and 2017  
(In thousands of Mexican pesos)

	Note	2018	2017
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	3	\$ 579,144	\$ 765,976
Accounts receivable, net	4	898,516	860,237
Inventories	6	3,806,976	3,578,514
Prepaid expenses		480,862	503,430
Other current assets		130,714	105,146
Total current assets		5,896,212	5,813,303
Long term accounts receivable		17,993	109,120
Land held for future development	6	1,283,409	872,591
Use rights, molds, machinery and equipment		307,364	219,846
Derivative financial instruments	7	160,415	284,666
Deferred income taxes		614,024	-
Other non-current assets		85,601	85,601
Total assets		<u>\$ 8,365,018</u>	<u>\$7,385,127</u>
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Short-term loans	8	\$ 107,916	\$ -
Current portion of long-term debt	8	41,789	27,267
Trade and other payables	9	1,476,679	1,568,945
Due to related parties		165	165
Advances from customers		19,368	9,890
Income taxes payable	11	7,330	16,875
Interest payable		77,861	76,912
Total current liabilities		1,731,108	1,700,054
Long-term debt	8	3,119,289	2,971,214
Payables for purchase of land		11,868	23,803
Employee retirement obligations		49,180	44,911
Deferred income taxes	11	1,451,379	829,282
Total liabilities		<u>6,362,824</u>	<u>5,569,264</u>
Stockholders' equity:			
Capital stock	12	1,142,151	1,130,486
Premium on issuance of shares		7,296	-
Retained earnings		878,231	647,629
Other comprehensive income items		(25,484)	37,748
Total stockholders' equity		<u>2,002,194</u>	<u>1,815,863</u>
Total liabilities and stockholders' equity		<u>\$ 8,365,018</u>	<u>\$7,385,127</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 years ended December 31, 2018 and 2017

(In thousands of Mexican pesos, except earnings per share)

	Note	4Q 2018	4Q 2017	12M 2018	12M 2017
Revenues	14	\$2,032,481	\$ 2,327,531	\$ 8,321,080	\$ 7,562,985
Cost of sales		<u>1,505,411</u>	<u>1,706,210</u>	<u>6,173,076</u>	<u>5,598,124</u>
Gross profit		527,070	621,321	2,148,004	1,964,861
Administrative expenses		(30,950)	(67,249)	(349,576)	(342,882)
Selling expenses		(185,736)	(131,050)	(581,713)	(482,265)
General expenses		(67,894)	(57,409)	(269,530)	(250,713)
Other income (expenses), net		939	(3,386)	4,763	(880)
Interest expense, net		(115,831)	(97,726)	(420,422)	(376,483)
Net gain (loss) on foreign currency exchange		(128,465)	(236,870)	14,118	143,479
(Loss) gain on valuation of derivative financial instruments	7	<u>61,271</u>	<u>208,039</u>	<u>(105,477)</u>	<u>99,891</u>
Income before income tax		60,404	235,670	440,167	755,008
Income tax expense	11	<u>(42,850)</u>	<u>(91,833)</u>	<u>(209,565)</u>	<u>(313,406)</u>
Net income		17,554	143,837	230,602	441,602
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss: Actuarial Re-measurements of employee benefits, net of tax		930	178	930	178
Items that may be reclassified subsequently to profit or loss: (loss) gain on cash flow hedges net of tax		<u>(4,863)</u>	<u>4,298</u>	<u>(64,162)</u>	<u>(133,224)</u>
Total comprehensive income		<u>\$ 13,621</u>	<u>\$ 148,313</u>	<u>\$ 167,370</u>	<u>\$ 308,556</u>
Basic and diluted income per share		<u>\$ 0.06</u>	<u>\$ 0.52</u>	<u>\$ 0.83</u>	<u>\$ 1.59</u>

The weighted average number of shares to determine basic earnings per share for the years ended December 31, 2018 and 2017 was 277,656,968 and 278,075,577, respectively; for the determination of earnings per diluted share, the weighted average number of shares was 279,705,167 and 278,576,306, 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 years ended December 31, 2018 and 2017  
(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, 2016	\$ 151,596	\$1,680,018	\$(432,626)	\$ 170,794	\$1,569,782
Issuance of shares associated with share-based payment plans	16,861	-	-	-	16,861
Capitalization of premium in the issuance of shares	975,190	(1,680,018)	704,828	-	-
Declared dividends	-	-	(71,500)	-	(71,500)
Repurchase of shares	(13,161)	-	5,325	-	(7,836)
Comprehensive income	-	-	441,602	(133,046)	308,556
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	16,434	7,296	-	-	23,730
Repurchase of shares	(4,769)	-	-	-	(4,769)
Comprehensive income	-	-	230,602	(63,232)	167,370
Balance as of December 31, 2018	<u>\$ 1,142,151</u>	<u>\$ 7,296</u>	<u>\$ 878,231</u>	<u>\$ (25,484)</u>	<u>\$ 2,002,194</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 December 30, 2018 and 2017

(In thousands of Mexican pesos)

	2018	2017
Cash flows from operating activities:		
Income before tax expense	\$ 440,167	\$ 755,008
Adjustment for:		
Interest expense, net	420,422	376,483
Effects of valuation of derivative financial instruments	105,477	(99,891)
Depreciation and amortization	73,073	45,013
Unrealized exchange gain	(19,272)	(140,576)
Shares-based payments	23,730	16,861
(Increase) / decrease in:		
Accounts receivable	52,848	467,509
Inventories and land held for future development	(476,662)	(227,527)
Other current assets	(19,063)	(52,563)
Prepaid expenses	(121,236)	(127,046)
Increases / (decrease) in:		
Trade and other payables	(116,517)	222,579
Due to related party	-	157
Advances from customers	9,478	3,052
Income taxes paid	(186,565)	(340,197)
Net cash provided by operating activities	<u>185,880</u>	<u>898,862</u>
Cash flows from investing activities:		
Acquisition of molds, machinery and equipment	(9,145)	(21,043)
Net cash used in investing activities	<u>(9,145)</u>	<u>(21,043)</u>
Cash flows from financing activities:		
Obtaining short-term loans	126,137	-
Payment of short-term loans	(18,221)	-
Payment of long-term loans	(39,082)	(40,009)
Interest paid	(439,970)	(382,575)
Repurchase shares	(4,769)	(7,836)
Issuance of shares	7,537	-
Proceeds from derivative financial instruments	-	32,238
Payment of commissions and premium for derivative option contracts	-	(56,550)
Payment of dividend	-	(328,900)
Net cash used in financing activities	<u>(368,368)</u>	<u>(783,632)</u>
Net increase decrease in cash and cash equivalents	(191,633)	94,187
Effect of exchange rate changes on cash in foreign currency	4,801	(2,105)
Cash and cash equivalents at the beginning of the period	<u>765,976</u>	<u>673,894</u>
Cash and cash equivalents at the end of the period	<u>\$ 579,144</u>	<u>\$ 765,976</u>
Supplemental schedule of non-cash investing activities:		
Payable for acquisition of fixed assets under finance leases	<u>\$ 163,759</u>	<u>\$ 31,588</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 years ended December 31, 2018 and 2017

(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, 2017, 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 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, 2018.

#### **IFRS 9, *Financial Instruments***

The Company has concluded the analysis and evaluation of the processes for accounting management and treatment of financial instruments in the three chapters of the standard, 1) Classification and measurement of

financial assets and liabilities, 2) Impairment of financial instruments and 3) Hedge accounting; the Company concluding that the impacts of the standard are not to have a negative impact on the Company's financial position, results of operations, internal processes, or contractual obligations.

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

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

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

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

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

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

The Company recognizes revenue from the following major sources:

- Revenues from the sale of housing;
- Revenues from the commercial lots

The Company has evaluated the impacts derived from the adoption of this standard, and based on the facts and circumstances existing, it has concluded that the adoption of this standard does not have a material impact on its consolidated financial statements.

### **IFRS 16, Leases**

The Company adopted IFRS 16 as of January 1, 2018, considering that its early adoption is permitted. For the adoption of IFRS 16, the Company has selected the modified retrospective method that consists in not restating comparative information and recognizing the effect of the initial adoption as an adjustment in retained earnings at the date of the initial application. The Company estimated the effect of the initial adoption through the determination of the liability considering the present value of lease payments at the adoption's date considering a discount rate consisting of an incremental rate of loans applicable to lease agreements with characteristics, terms and classes of similar underlying assets. With respect to the recognition of the right of use asset, the Company applied the approach which consists in recognizing the value of the right of use at the date of initial application as the equivalent amount to the lease liability, adjusted for prepayments or accrued amounts payable for rent related to the leases recognized in the statement of financial position prior to the initial adoption of IFRS 16.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. Specific transition provisions apply. The application of the amendments did not have a significant impact on the consolidated financial statements of the Company.

### **IFRIC 22, Foreign Currency Transactions and Advance Consideration**

The Company's Management concludes that the application of the amendments does not have an impact on the consolidated financial statements of the Company. This is because the Company already accounts for

transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

### *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, 2017.

#### *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 December 31, 2018, and 2017 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 December 31, 2018, and 2017, 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:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
Cash and bank balances	\$ 223,571	\$ 101,790
Temporary investments	355,573	664,186
	<u>\$ 579,144</u>	<u>\$ 765,976</u>

### 4. Accounts receivable

As of December 31, 2018, the composition of accounts receivable (and its corresponding estimate of allowance for doubtful accounts) is similar to that as of December 31, 2017; 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 55.55% and 42.65% of the total of accounts receivable as of December 31, 2018, and December 31, 2017, 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 December 31, 2018, and 2017, 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

As of December 31, 2018, and 2017, 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:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Urbanization services expense <sup>(1)</sup>	\$ 1,377	\$ 1,093
Administrative services expense <sup>(2)</sup>	972	535
Income from sale commercial lots <sup>(2)</sup>	1,986	-
Interest expense <sup>(2)</sup>	6,674	-

(1) Sale of commercial lot to an executive of the Company, as of December 31, 2018 the account receivable for this operation is for \$ 1,490, registered in the accounts receivable in the short and long term for \$ 795 and \$ 695, respectively.

(2) For the periods ended December 30, 2018 and 2017, 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:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
Desarrolladora y Urbanizadora Las Láminas, S. A. de C. V. <sup>(1)</sup>	<u>\$ 165</u>	<u>\$ 165</u>

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

	<b>As of december 31, 2018</b>	<b>2017</b>
Inmobiliaria Torre M, S.A. de C.V. <sup>(1)</sup>	\$ 72,115	\$ -
Administración de Proyectos y Servicios en Condominio, S.C. <sup>(1)</sup>	<u>7,126</u>	<u>-</u>
	<u>\$ 79,241</u>	<u>\$ -</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:

	<b>December 31, 2018</b>	<b>2017</b>
Professional fees, salaries and other short-term benefits	<u>\$ 83,479</u>	<u>\$ 73,674</u>

## 6. Inventories and land held for future development

	<b>Land under development</b>	<b>Housing units under development</b>	<b>Urbanization and related equipment</b>	<b>Total</b>
Balance as of December 31, 2016	\$ 1,120,718	\$ 997,418	\$ 1,072,192	\$ 3,190,328
Additions / Purchases	236,562	3,368,770	1,651,176	5,256,508
Transfers from land held for future development	330,036	-	-	330,036
Sales	<u>(635,836)</u>	<u>(3,395,548)</u>	<u>(1,166,974)</u>	<u>(5,198,358)</u>
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	<u>\$1,106,058</u>	<u>\$ 986,043</u>	<u>\$ 1,714,875</u>	<u>\$ 3,806,976</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 December 31, 2018 and 2017.

As of December 31, 2018, and 2017, the amount of inventories and land held for future development guaranteeing the revolving lines of credit mentioned in Note 9 amounted to \$206,588 and \$134,672, 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 December 31, 2018 and 2017 (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 \$3,269,063 and \$3,061,781, 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:

	<b>As of December 31</b>	
	<b>2018</b>	<b>2017</b>
Financial assets	US\$ 10,032	US\$ 4,044
Financial liabilities	(157,716)	(152,823)
Net financial liability position	<u>US\$ (147,684)</u>	<u>US\$ (148,779)</u>
Equivalent in Mexican pesos	<u>\$ (2,902,965)</u>	<u>\$ (2,936,213)</u>

- b. Foreign currency operations were as follows:

	<b>As of December 31</b>	
	<b>2018</b>	<b>2017</b>
Molds acquisition	US\$ 294	US\$ 811

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

	<b>As of December 31</b>	
	<b>2018</b>	<b>2017</b>
U.S. dollar	\$19.6566	\$19.7354

- 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 12.94% in Mexican pesos; hedging derivatives are due on April 6, 2019. As of December 31, 2018, the Company hedged US\$109.166 million of its debt outstanding through several full cross currency swaps, which is equivalent to 68.87% of the Senior Notes.

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

As of December 31, 2018, 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, 2019	US\$50.000	\$878.50	9.875%	10.53%	Semiannual	Monthly
April 6, 2019 <sup>(1)</sup>	US\$30.000	\$554.10	9.875%	14.96%	Semiannual	Monthly
April 6, 2019 <sup>(1)</sup>	US\$9.166	\$170.76	9.875%	14.41%	Semiannual	Monthly
April 6, 2019	US\$40.000	\$758.00	9.875%	14.407%	Semiannual	Monthly
April 9, 2019 <sup>(2)</sup>	US\$30.000	\$559.95	9.875%	12.305%	Semiannual	Monthly

(1) During 2017 a derivative financial instrument due in April 2018 was unwound and new derivatives financial instruments were added to hedge the coupons payments and the debt principal.

(2) During 2017 a derivative financial instrument due in October 2019 was unwound and new derivatives financial instruments were added to hedge the coupons payments and the debt principal.

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 December 31, 2018 and 2017 represents an asset of \$1,745 and \$47,086, respectively, with such changes in fair value recognized in results of each year.

For the year ended December 31, 2018, the Company recognized an accumulated loss net of \$78,910 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 December 31, 2018, the exchange rate published by the Federal Reserve Bank of New York (\$19.6350) had been 10.00 % higher, the Company's loss before income taxes would have decreased \$86,249, 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 (\$19.6350) had decreased 10.00%, the Company's other comprehensive income would had decreased \$227,966, 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 December 31, 2018. 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	2019	2020	2021	2022+	Total
Short-term loans	\$ 107,916	\$ -	\$ -	\$ -	\$ 107,916
Current portion of long-term debt	41,789	-	-	-	41,789
Trade and other payables	1,283,900	-	-	-	1,283,900
Payables for purchase of land	192,779	7,710	4,158	-	204,647
Long-Term Debt and interest <sup>(1)</sup>	154,478	343,402	3,304,002	78,347	3,880,229
Derivatives <sup>(2)</sup>	189,053	-	-	-	189,053
Total	<u>\$1,969,915</u>	<u>\$351,112</u>	<u>\$3,308,160</u>	<u>\$78,347</u>	<u>\$5,707,534</u>

<sup>(1)</sup> Interest payments on variable debt are calculated using the rate as of December 31, 2018.

- (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 December 31, 2018, and 2017, the maximum exposure to credit risk related with its derivative financial instrument asset is \$158,670 and \$237,580, respectively. The Company does not maintain collateral for such amounts.

### 8. Debt

#### a) Long-term debt

##### Unsecured – at amortized cost

	<b>As of December 31</b>	
	<b>2018</b>	<b>2017</b>
Senior Notes US\$210 million refinanced – 2021 <sup>(i)</sup>	\$ 1,415,236	\$ 1,376,467
Senior Notes US\$30 million – 2021 <sup>(i)</sup>	586,024	587,095
Senior Notes US\$50 million – 2021 <sup>(i)</sup>	971,660	971,438
Capital lease agreements <sup>(ii)</sup>	188,158	63,481
	<u>3,161,078</u>	<u>2,998,481</u>
Current portion	(41,789)	(27,267)
Long-term debt	<u>\$3,119,289</u>	<u>\$ 2,971,214</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 \$106,669 and \$18,540, respectively, and are presented net of the long-term liability in the statements of financial position as of December 31, 2018, 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 2014, 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 \$6,646 and \$11,170, respectively, and are presented net of the long-term liability in the consolidated statements of financial position as of December 31, 2018 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 December 31, 2018. 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 December 31, 2018 and 2017 represents assets of \$1,745 and \$47,086, 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 \$ 160,095, with a TIIE interest rate plus additional basic points according to the date of each disposal. As of December 31, 2018, the Company exercised has disposed an amount of \$107,916 at an interest rate of TIIE + 3.5 points.

## 9. Trade and other payables

	As of December 31	
	2018	2017
Trade accounts payable <sup>(i)</sup>	\$ 550,363	\$ 478,260
Payables for purchase of land	192,779	140,639
Revolving credit lines <sup>(ii)</sup>	457,434	689,450
Other current liabilities	276,103	260,596
	<u>\$ 1,476,679</u>	<u>\$ 1,568,945</u>

<sup>(i)</sup> 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 \$296,725 and \$205,050 as of December 31, 2018 and 2017, respectively.

<sup>(ii)</sup> The Company established a program that allows its suppliers to obtain financing from various financial institutions. The maximum limit is \$931,000 and \$895,000 as of December 31, 2018 and 2017. 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 2018 and 2017 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:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current ISR	\$ 174,392	\$ 231,010
Deferred ISR	<u>35,173</u>	<u>82,396</u>
	<u>\$ 209,565</u>	<u>\$ 313,406</u>

Income taxes for the period ended December 31, 2018 and 2017 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 December 31, 2018 and 2017 were 47.6% and 41.5%, respectively.

As of December 31, 2018, JAVER and certain subsidiaries had tax loss carryforwards pending to be amortized of \$1,575,573 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) During the period ended December 31, 2018 and 2017 the Company repurchased 289,158 shares equivalent to \$4,769 and 499,884 shares equivalent to \$7,836, respectively.
- b) Among the resolutions adopted by the General Shareholders' Meeting held on July 12, 2017, it was approved a cash dividend for a total of \$71,500, from the Net Tax Profit Account generated as of December 31, 2013, equivalent to \$0.256695248432013 per share, to be paid to each of the 278,540,411 ordinary shares that are subscribed, paid and outstanding at the date of the dividend payment. This dividend was paid in 3 installments according to the availability of funds.
- c) Through resolutions adopted at the General Shareholders' Meeting held on July 12, 2017, the Company approved the amortization of the accumulated losses through the capitalization of \$704,828 belonging to the additional paid in capital.
- d) In addition, an increase in the variable portion of the Company's capital was approved at the General Shareholder's Meeting mentioned above, for the amount of \$975,190, which was subscribed and paid by capitalizing the remaining balance of the additional paid in capital subsequent to the amortization of accumulated losses mentioned in the preceding paragraph; such increase did not imply the issuance of new shares representing the Company's capital stock.
- e) As of December 31, 2018 and 2017, 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.
- f) 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. The Company leases its administrative offices. Rent expenses were \$17,732 for the period ended December 31, 2017.

Until December 31, 2017, the rents for the contracts mentioned in the previous paragraph were recorded in the results for the year and the commitments to be paid for said contracts were disclosed; as of January 1, 2018, the Company has decided to adopt IFRS 16 in advance (see Note 2.2), so the commitments derived from the main rental contracts of its administrative offices have been incorporated into the Company's balance sheet.

The Company leases its commercial local. Rent expenses were \$4,438 for the period ended December 31, 2018. Future minimum lease commitments are for different fixed terms and establish the following minimum payments, which will increase based on the National Consumer Price Index.

Year	
2019	\$ 2,373
2020	<u>67</u>
	<u>\$ 2,440</u>

- b. 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 December 31, 2018, the Company maintained land banks under land trust agreements of 12,249,264, square meters (unaudited) and the capacity to construct 29,149 (unaudited) houses on such land in the states of Nuevo León, Jalisco, Querétaro, México and Quintana Roo.

- c. 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 December 31, 2018 and 2017 other than what is presently recorded.
- d. 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.
- e. 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:**

	December 31,		December 31,	
	Revenues per segment		Income per segment	
	2018	2017	2018	2017
Affordable Entry-level <sup>(1)</sup>	\$ 690,819	\$ 473,734	\$ 47,875	\$ (466)
Middle-income <sup>(1)</sup>	5,898,380	4,957,402	1,552,084	1,242,051
Residential <sup>(1)</sup>	1,697,903	2,041,540	527,668	642,016
Commercial Lots	<u>33,978</u>	<u>90,309</u>	<u>20,377</u>	<u>81,260</u>
Total	<u>\$ 8,321,080</u>	<u>\$ 7,562,985</u>	2,148,004	1,964,861
Administrative corporate costs and directors' salaries			(1,196,056)	(1,076,740)
Interest expense, net			<u>(511,781)</u>	<u>(133,113)</u>
Income before income taxes			<u>\$ 440,167</u>	<u>\$ 755,008</u>

(1) As of January 1, 2018, the price ranges for housing types were updated, so that revenues and profits by segment for 2017 considering the current price ranges would have been as follows:

- Affordable Entry-level - Income of \$1,811,910 and a profit of \$250,590 for the year ended on December 31, 2017.
- Middle-income - Income of \$4,370,260 and a profit of \$1,221,726 for the year ended on December 31, 2017.
- Residential - Income of \$1,290,506 and a profit of \$411,285 for the year ended on December 31, 2017.

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:

	December 31,	
	2018	2017
Nuevo León	\$ 3,755,386	\$3,188,620
Jalisco	1,202,565	1,576,067
Aguascalientes	613,612	518,547
Querétaro	678,971	755,608
Estado de México	1,378,830	908,561
Tamaulipas	41,946	25,982
Quintana Roo	649,770	569,600
	<u>\$8,321,080</u>	<u>\$7,562,985</u>

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

	As of December 31	
	2018	2017
Nuevo León	\$ 1,972,241	\$ 1,806,585
Jalisco	958,302	800,044
Aguascalientes	382,339	298,051
Querétaro	339,235	262,917
Estado de México	789,498	646,710
Tamaulipas	333,670	341,579
Quintana Roo	315,100	295,219
	<u>\$ 5,090,385</u>	<u>\$ 4,451,105</u>

**d) Information on primary clients**

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

**15. New standards and interpretations not yet adopted**

***IFRIC 23, Uncertainty over Income Tax Treatments***

This interpretation seeks to clarify the application of the recognition and measurement criteria established in IAS 12, "Income Taxes", when there are uncertain tax positions. Uncertain tax positions are those tax positions where there is uncertainty about whether the competent taxation authorities' will accept the tax position under current tax laws. In such cases, the Company will recognize and measure its assets or liabilities for current or deferred taxes applying the requirements of IAS 12 based on tax profits (losses), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this Interpretation.

The Company will apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Early application is permitted, and the event must be disclosed. In its initial application, it is applied retrospectively under the requirements of IAS 8, modifying comparative or retrospective periods with the accumulated effect of its initial application as an adjustment in the initial balance of retained earnings, without modifying comparative periods.

The Company's management is in the process of determining the potential impacts that will result from the adoption of this standard in the Company's consolidated financial statements.