

**Servicios Corporativos Javer, S. A. P. I.  
de C. V. and Subsidiaries**

Consolidated Financial Statements for  
the Years Ended December 31, 2013,  
2012 and 2011, and Independent  
Auditors' Report Dated March 10, 2014

## Independent Auditors' Report to the Board of Directors and Stockholders of Servicios Corporativos Javer, S. A. P. I. de C. V.

We have audited the accompanying consolidated financial statements of Servicios Corporativos Javer, S. A. P. I. de C. V. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2013, 2012 and 2011, and the consolidated statements of profit or loss and other comprehensive (loss) income, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes for the years then ended.

### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Responsibility of the Independent Auditors*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Servicios Corporativos Javer, S. A. P. I. de C. V. and its subsidiaries as of December 31, 2013, 2012 and 2011, and the results of their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards.

*Convenience translation into United States of America dollars and translation of the consolidated financial statements in English*

Our audits also comprehended the translation of the Mexican peso amounts into United States of America dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2.2.4. Such translation has been made solely for the convenience of readers.

The accompanying consolidated financial statements have been translated from Spanish into English at the request of the Company.

Galaz, Yamazaki, Ruiz Urquiza, S. C.  
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Alejandro Jalomo Nájera  
March 10, 2014

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

## Consolidated statements of financial position

As of December 31, 2013, 2012 and 2011


(In thousands of Mexican pesos)

	Note	Thousands of US dollars (* ) 2013	2013	2012	2011
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	5	US\$ 99,975	\$1,309,469	\$ 416,907	\$ 415,721
Accounts receivable, net	6	138,126	1,809,176	1,775,632	2,019,973
Inventories	8	169,473	2,219,763	2,395,570	2,636,334
Prepaid expenses		7,275	95,293	159,170	166,521
Other current assets		18,740	245,457	279,315	204,341
Total current assets		433,589	5,679,158	5,026,594	5,442,890
Long term account receivable	6	3,226	42,255	56,340	70,425
Land held for future development	8	77,019	1,008,796	1,241,215	875,367
Improvements, machinery and equipment, net	9	16,888	221,201	247,428	288,259
Derivative financial instruments	10	9,680	126,787	139,108	307,099
Other non-current assets		6,585	86,256	86,673	144,546
Total assets		<u>US\$546,987</u>	<u>\$7,164,453</u>	<u>\$6,797,358</u>	<u>\$7,128,586</u>
<b>Liabilities and stockholders' equity</b>					
Current liabilities:					
Borrowings from financial institutions					\$ 59,000
Current portion of long-term debt	11	US\$ 8,525	\$ 111,663	\$ 50,765	49,377
Trade and other payables	12	81,282	1,064,635	1,071,880	1,280,869
Due to related parties	7	722	9,457	3,161	1,268
Advances from customers		397	5,200	4,376	5,749
Income taxes payable	15	1,359	17,799	34,665	8,081
Interest payable		8,228	107,787	90,732	94,097
Total current liabilities		100,513	1,316,541	1,255,579	1,498,441
Long-term debt	11	281,059	3,681,313	3,063,210	3,245,577
Payables for purchase of land		14,429	188,989	274,370	199,361
Employee retirement obligations	14	2,778	36,388	30,809	25,437
Deferred income taxes	15	62,701	821,261	745,691	779,453
Total liabilities		<u>461,480</u>	<u>6,044,492</u>	<u>5,369,659</u>	<u>5,748,269</u>
Commitments and contingencies	17				
Stockholders' equity:					
Capital stock	16	56,101	734,806	734,806	734,806
Retained earnings		22,234	291,218	594,784	418,762
Other comprehensive income	10, 14	7,172	93,937	98,109	226,749
Total stockholders' equity		<u>85,507</u>	<u>1,119,961</u>	<u>1,427,699</u>	<u>1,380,317</u>
Total liabilities and stockholders' equity		<u>US\$546,987</u>	<u>\$7,164,453</u>	<u>\$6,797,358</u>	<u>\$7,128,586</u>

(\* ) Convenience translation to US dollars (US\$) – See Note 2.2.4

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

  
Ing. Eugenio Garza y Garza  
Chief Executive Officer

  
C.P. Felipe Loera Reyna  
Chief Financial Officer

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

**Consolidated statements of profits or loss and other comprehensive (loss) income**

For the years ended December 31, 2013, 2012 and 2011

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


	Note	Thousands of US dollars, except earnings per share (*) 2013	2013	2012	2011
Revenues	18	US\$ 413,917	\$5,421,490	\$ 5,090,361	\$4,718,574
Cost of sales		297,156	3,892,154	3,728,546	3,246,947
Gross profit		116,761	1,529,336	1,361,815	1,471,627
Selling, general and administrative expenses		(59,555)	(780,047)	(692,297)	(635,006)
Other expenses, net	8	(15,008)	(196,572)	(5,270)	(11,970)
Interest expense, net		(39,007)	(510,917)	(492,962)	(487,926)
Net (loss) gain on foreign currency exchange		(1,233)	(16,149)	230,798	(379,194)
(Loss) gain on valuation of derivative financial instruments	10	(1,401)	(18,344)	(44,320)	127,945
Income before income tax		557	7,307	357,764	85,476
Income tax expense	15	(23,734)	(310,873)	(181,742)	(81,307)
Net (loss) income for the year		(23,177)	(303,566)	176,022	4,169
Other comprehensive (loss) income:					
Items that may be reclassified subsequently to profit or loss:					
Net (loss) gain on cash flow hedges	10	(220)	(2,888)	(128,640)	290,743
Items that wil not be reclassified subsequently to profit or loss:					
Cumulative actuarial loss	14	(98)	(1,284)		
Total comprehensive (loss) income for the year		US\$ (23,495)	\$(307,738)	\$ 47,382	\$ 294,912
Basic (loss) earnings per share		US\$(0.00)	\$ (0.05)	\$ 0.03	\$0.00

The weighted average number of common shares outstanding used to determine the basic earnings per share was 5,826,581,633 for the years ended December 31, 2013, 2012 and 2011.

(\*) Convenience translation to US dollars (US\$) – See Note 2.2.4

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

  
Ing. Eugenio Garza y Garza  
Chief Executive Officer

  
C.P. Felipe Loera Reyna  
Chief Financial Officer

Servicios Corporativos Javer, S. A. P. I. de C. V. and Subsidiaries  
**Consolidated statements of changes in stockholders' equity**

For the years ended December 31, 2013, 2012 and 2011  
(In thousands of Mexican pesos)

	Capital stock	Retained earnings	Other comprehensive income	Total stockholders' equity
Balance as of January 1, 2011	\$734,806	\$ 414,593	\$ (63,994)	\$ 1,085,405
Comprehensive income		<u>4,169</u>	<u>290,743</u>	<u>294,912</u>
Balance as of December 31, 2011	<u>734,806</u>	<u>418,762</u>	<u>226,749</u>	<u>1,380,317</u>
Comprehensive income		<u>176,022</u>	<u>(128,640)</u>	<u>47,382</u>
Balance as of December 31, 2012	<u>734,806</u>	<u>594,784</u>	<u>98,109</u>	<u>1,427,699</u>
Comprehensive loss		<u>(303,566)</u>	<u>(4,172)</u>	<u>(307,738)</u>
Balance as of December 31, 2013	<u>\$734,806</u>	<u>\$ 291,218</u>	<u>\$ 93,937</u>	<u>\$ 1,119,961</u>

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

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

**Consolidated statements of cash flows**

For the years ended December 31, 2013, 2012 and 2011

(In thousands of Mexican pesos)

	2013	2012	2011
Cash flows from operating activities:			
Income before tax expense	\$ 7,307	\$ 357,764	\$ 85,476
Adjustment for:			
Interest expense, net	510,917	492,962	487,926
Effects of valuation of derivative financial instruments	18,344	44,320	(127,945)
Depreciation and amortization from non-current assets	39,846	52,178	59,796
Gain on sale of machinery and equipment		(1,321)	
Unrealized exchange loss (gain)	16,722	(226,992)	388,934
Impairment of land held for future development	185,514		
(Increase) / decrease in:			
Accounts receivable	(19,459)	258,426	(358,365)
Inventories and land held for future development	257,008	(74,455)	(470,743)
Other current assets	(5,689)	(104,374)	(172,296)
Prepaid expenses	42,019	22,791	67,564
Increase / (decrease) in:			
Trade and other payables	(88,856)	(136,804)	197,154
Due to related parties	6,296	1,893	(923)
Advances from customers	823	(1,373)	(1,419)
Other liabilities	4,296	5,372	(8,209)
Income taxes paid	(212,621)	(175,803)	(48,415)
Net cash provided by operating activities	<u>762,467</u>	<u>514,584</u>	<u>98,535</u>
Cash flows from investing activities:			
Proceeds from sale of machinery and equipment		13,085	
Improvements of machinery and equipment	(11,009)	(4,356)	(26,954)
Other investing activities	(500)	(8,007)	(58,550)
Net cash provided by (used in) investing activities	<u>(11,509)</u>	<u>722</u>	<u>(85,504)</u>
Cash flows from financing activities:			
Proceeds from borrowings			159,000
Repayment of borrowings		(59,000)	(100,000)
Proceeds from long-term borrowings	604,916	7,495	348,754
Repayment of long-term borrowings	(46,744)	(53,273)	(35,355)
Interest paid	(436,185)	(412,170)	(453,187)
Debt issuance costs	(13,225)		(64,526)
Proceeds of derivative forward contracts	10,925	2,828	60,204
Payment of commissions for derivative forward contracts			(4,139)
Net cash provided by (used in) financing activities	<u>119,687</u>	<u>(514,120)</u>	<u>(89,249)</u>
Effects of exchange rate changes on the balance of cash and cash equivalents	21,917		
Net increase (decrease) in cash and cash equivalents	892,562	1,186	(76,218)
Cash and cash equivalents at the beginning of the year	416,907	415,721	491,939
Cash and cash equivalents at the end of the year	<u>\$1,309,469</u>	<u>\$ 416,907</u>	<u>\$ 415,721</u>
Supplemental schedule of non-cash investing activities:			
Payable for acquisition of fixed assets under finance leases	<u>\$ 14,128</u>	<u>\$ 18,945</u>	<u>\$ 93,070</u>

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

# Servicios Corporativos Javer, S. A. P. I. de C. V. and Subsidiaries

## Notes to consolidated financial statements

For the years ended December 31, 2013, 2012 and 2011

(In thousands of Mexican pesos, except otherwise indicated)

### 1. Nature of business and relevant event

Servicios Corporativos Javer, S. A. P. I. de C. V. (JAVER) is a holding company that, together with its subsidiaries (collectively the Company), specializes in the construction and sale of affordable entry-level, middle-income and residential housing developments in Mexico. Headquartered at Boulevard Antonio L. Rodríguez No. 2850, Colonia Santa María, Monterrey, Nuevo León, México, 64650. The Company commenced operations in 1973 and is currently the leading housing developer in terms of number of units sold in two of the three wealthiest states of Mexico based on income per capita.

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.

Hogares Javer, S. A. de C. V.

Inmuebles para Ti, S. A. de C. V. (before, Impulsora de Viviendas del Noreste, S. A. de C. V.)

#### Urbanization and construction services:

Urbanizaciones Javer, S. A. de C. V.

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.

#### *1.1 Contract termination of possible asset acquisition of Viveica*

On November 30, 2012, JAVER and Viveica, S. A. de C. V. (Viveica), a subsidiary of Empresas ICA, S. A. B. de C. V., signed an agreement in which JAVER was going to acquire assets from Viveica contractually valued at \$1,440,866, including 20 affordable entry-level, middle-income, and residential housing developments that were being built and marketed by Viveica.

As consideration for the acquired assets, JAVER would issue a note equivalent to \$436,316 (convertible into 1,740,407,501 Series "B" shares of JAVER, which would represent 23% of its capital stock), the payment of a liability of \$600,000, the day after the closing date, and the issuance of a note payable for \$404,550 to settle certain existing liabilities with suppliers. For the payment of the aforementioned liability, JAVER issued an additional debt of 50 million U.S. dollars, as indicated in Note 11 (i), second paragraph.

The closing date was estimated to occur around the second half of March 2013, subject to certain conditions contained in the contract and approvals of regulatory organizations, mainly the authorization of the Federal Commission of Competition.

However, under the terms of the contract, the transaction could be terminated early if within the 180 days following the contract date, both entities do not reach a satisfactory agreement, which eventually occurred. No adverse effect resulted for JAVER from the termination of the contract.



## 2. Significant accounting policies

### 2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### 2.2 Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair value or amortized cost, as explained below. Historical cost is generally based on the fair value of the consideration given in exchange for assets, or a transfer of liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### 2.2.1 New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Company applied a number of new and revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2013:

##### *Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities*

The Company has applied the amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to the IFRS 7 have been applied retrospectively. Since 2010, the Company offsets the effects of derivative financial instruments, for which there was no effect at all.

##### *New and revised Standards on consolidation, joint arrangements, associates and disclosures*

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In 2013, the Company has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 is not applicable to the Company as it deals only with separate financial statements.

The impact of the application of these standards is set out below:

##### *Impact of the application of IFRS 10*

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when: a) it has power over the investee, b) it 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. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Company.

Management made an assessment as of the date of initial application of IFRS 10 (i.e. January 1, 2013) to determine whether or not the Company has control over some lands trusts where it develops or intends to develop residential subdivisions and a third party is involved by providing the land to the trust and JAVER provides the house construction to the same trust. Management concluded that these contracts are within the scope of IFRS 11 as described below, which meet the definition of joint operations.

### *Impact of the application of IFRS 11*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in IAS 28 (as revised in 2011).

IFRS 11 defines how a joint arrangement in which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures.

The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The Entity's management reviewed and assessed the classification of the Company's investments in joint arrangements in accordance with the requirements of IFRS 11. The Company's management concluded that the investment in land trusts for housing developments should be classified as a joint operation, where each investor recognizes the assets and liabilities to which it has rights and obligations, and the revenues and expenses related to its transactions. As the land trusts were accounted for in that manner in prior years, no effect arose from the adoption of IFRS 11.

### *Impact of the application of IFRS 12*

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The application of IFRS 12 has not resulted in more extensive disclosures in the consolidated financial statements.

### *IFRS 13 Fair Value Measurement*

The Company has applied IFRS 13 for the first time in 2013. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received for selling an asset or paying to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to companies such that they do not need to apply the disclosure requirements set out in the IFRS, in comparative information provided for periods before the initial application of the IFRS. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 and 2011 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

#### *Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*

The Company has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed as the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

#### *IAS 19 Employee Benefits (as revised in 2011)*

In the current year, the Company has applied IAS 19 *Employee Benefits* (as revised in 2011) and the related consequential amendments for the first time.

IAS 19 changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest', which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have not had an impact on the amounts recognized in profit or loss and other comprehensive income in prior years. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The Company has applied the relevant transitional provision, but the effects were not material significant.

#### *2.2.2 Presentation of consolidated statements of profit and loss and other comprehensive (loss) income*

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

#### *2.2.3 Presentation of consolidated statements of cash flows*

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

#### *2.2.4 Conversion to United States of America dollar (US\$)*

The consolidated financial statements are stated in thousands of Mexican pesos. However, solely for the convenience of the readers, the consolidated statements of financial position as of December 31, 2013 and the consolidated statements of profit or loss and other comprehensive income (loss) for the year then ended were translated into US dollars at the exchange rate of \$13.0980 per US dollar as used by the Federal Reserve Bank of New York. This arithmetic conversion should not be construed as representations that the amounts expressed in Mexican pesos may be translated into US dollars at that or any other exchange rate.

#### *2.2.5 Earnings per share*

The basic earnings per common share are calculated by dividing the net consolidated income by the weighted average number of outstanding common shares during the year. For the years 2013, 2012 and 2011, the Company held no potentially dilutive shares.

#### *2.3 Basis of consolidation*

The consolidated financial statements incorporate the financial statements of JAVER and those entities it controls. 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 disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income (loss) from the effective date of acquisition and up to the effective date of disposal, 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 intra-company transactions and balances have been eliminated in the consolidated financial statements.

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

#### *2.3.1 Interest on joint operations (land trusts)*

A joint operation is an agreement whereby the parties have joint control of the agreement; therefore, they have the right to the assets and liabilities related to the agreement. Joint control is the contractual agreement to share the business control, which solely exists when decisions on significant activities require unanimous approval from the parties sharing the control.

When an entity of the Company carries out activities under a joint operation framework, the Company, as a joint operator, recognizes, according to its interest in a joint operation:

- Assets, including interests in assets held in a jointly manner.
- Liabilities, including its share of liabilities incurred jointly.
- Income on the sale of houses resulting from the joint operation.
- Expenses, including its share in expenses mutually incurred.

The Company accounts for assets, liabilities, income and expenses related to its interests in a joint operation under IFRS, solely to the extent of its contribution to the trust, without recognizing the share of other assets, liabilities, income and expenses related to its interest in a joint operation.

#### *2.4 Financial assets*

Financial assets are classified into the following specified categories: "at fair value through profit or loss", "held-to-maturity investments", "available-for-sale" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis and require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *2.4.1 Financial assets at fair value through profit or loss (FVTPL)*

Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near term. Derivative financial instruments are classified as held for trading unless designated as a hedging instrument. Financial assets held for trading are stated at fair value in the consolidated statement of financial position, with any gains or losses arising on remeasurement recognised in the consolidated statements of profit or loss and other comprehensive income (loss).

#### *2.4.2 Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

#### *2.4.3 Available-for-sale financial assets (AFS financial assets)*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified in any category mentioned above and are not classified as held-to-maturity investments. AFS financial assets represent investments that have a quoted market price in an active market and which, therefore, can be stated at fair value reliably. After initial recognition, available-for-sale assets are valued at fair value and gains or losses are recognized as a separate item of stockholders' equity. When AFS financial assets are sold and all their risks and rewards have been transferred, the accumulated fair value adjustments recognized directly in equity are reclassified to the statements of profit or loss and other comprehensive income (loss).

#### *2.4.4 Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### *2.4.5 Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### *2.4.6 Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that have been assessed and determined not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 45 days, as well as observable changes in national or local economic conditions that correlate with default in receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for doubtful account. When a trade receivable is considered uncollectible, it is written off against the allowance for doubtful account. Subsequent recoveries of amounts previously written off are credited against the allowance for doubtful account. Changes in the carrying amount of the allowance account are recognized in profit or loss. As of December 31, 2013, 2012, and 2011, the Company did not identify any significant impairment.

#### *2.4.7 Derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable, as well as the accrued profit or loss that has been recognized in other comprehensive income and accrued results, is recognized in profit or loss.

#### *2.5 Inventories*

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The Company classifies its land held for future development as a long-term asset and transfers it to a current asset as land under development within inventories once management begins development and based on its operating plan the sale of the homes to be constructed is expected to be realized within a year.

#### *2.6 Improvements, machinery and equipment*

Improvements, machinery and equipment are recorded at acquisition cost. Depreciation and amortization is calculated using the straight-line method based on the useful lives of the related assets, as follows (in 2013, 2012 and 2011):

	Years
Leasehold improvements	20
Machinery and equipment	10
Office furniture and equipment	10
Computers	3
Trucks and vehicles	4

Depreciation is recognized in the results of the year so as to write off the cost of assets less their residual values over their useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation of molds for constructing houses (units) is calculated based on units produced during the year in relation to the total estimated production of the assets over their service lives. Depreciation in 2013, 2012 and 2011 represented a depreciation rate of 8.6%, 11.5% and 11.9%, respectively, of the total value of the related assets.

The gain or loss arising on the disposal or retirement of an item of leasehold improvements, machinery and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

## *2.7 Impairment of tangible assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. As of December 31, 2013, 2012, and 2011, the Company did not identify any impairment, except as disclosed in Note 8.1.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## *2.8 Derivative financial instruments*

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of the Company's derivative financial instruments are disclosed in Note 10.

The Company recognizes financial derivatives at fair value based on valuation methods widely accepted in the financial industry. The Company has interest rate swaps and forwards related to exchange rates. The fair value of these instruments is determined using the present value of such cash flows. This method consists of estimating future cash flows of such derivatives, using the difference between the derivative fixed level and the curve market valuation at such date to determine an appropriate discount rate in order to estimate the present value. In addition, the Company utilizes recognized sources of information in order to obtain risk factors. All of the Company's financial derivatives are classified within level 2 of the fair value hierarchy established by the international financial reporting standard (IFRS) 7, "Financial Instruments – Disclosure". Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 (derived from quoted prices (unadjusted) in active markets for identical assets or liabilities) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

An embedded derivative is recognized as a long-term asset or liability when the remaining expiration date of the hybrid instrument it is related to is 12 months or longer and its realization or cancellation is not expected in 12 months. All other embedded derivatives are recognized as short-term assets or liabilities.

### *2.8.1 Hedge accounting*

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

### *2.8.2 Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the caption "Other comprehensive (loss) income item" and accumulated under the heading valuation of derivative financial instruments. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the (loss) gain on valuation of derivative financial instruments line item within the consolidated statements of profit and loss and comprehensive income (loss).

Amounts previously recognized in "Other comprehensive (loss) income item" and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statements of profit or loss and other comprehensive income (loss) as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in "Other comprehensive (loss) income item" and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in "Other comprehensive (loss) income item" and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

### *2.8.3 Fair value hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statements of profit or loss and other comprehensive income (loss) relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

### *2.9 Borrowing costs*

The Company constructs all homes in a similar manner based on a standard design. In order to build entry-level homes, the Company purchases and uses moldings to create the frame and ceiling, after the concrete foundation has been set.

Management has concluded that based on the nature of the Company's operations and since it builds homes produced in large quantities, (based on a specific number of standard designs) on a repetitive basis, that such assets qualify for the exemption according to the international accounting standard (IAS) 23 "Borrowing Costs" and has elected as an accounting policy to not capitalize interest related to such assets.

### *2.10 Payables for purchase of land*

The Company entered into real state agreements to acquire land, which are payable mainly in Mexican pesos, do not bear interest, with various maturities through 2018. The current portion of these payables are presented under the caption "Trade and other payables" in the consolidated statements of financial position and long-term payables are presented as a separate line in such statements.



### *2.11 Employee retirement obligations*

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits, which the employees do not contribute for, consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. Additionally, during 2012, the Company established a retirement benefit plan for certain qualifying employees that will be entitled to such benefits if they reach a retirement age of 65 years. The costs associated with these benefits are determined based on actuarial computations using the Projected Unit Credit Method.

These defined benefit plans are calculated separately for each plan, estimating accrued future benefits for employees in exchange of their services in current and past periods. This benefit is discounted to determine its present value. Discount rate is the yield of government bonds at the reporting date with maturities close to the maturities of the Company's obligations. The Company recognizes actuarial gains and losses arising from defined benefit plans in the comprehensive income account within stockholders' equity in the period in which they occur, and they are never recycled to profit or loss.

### *2.12 Income tax*

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### *2.12.1 Current income tax*

Income taxes, calculated as the higher of regular Income Tax (ISR) or the Business Flat Tax (IETU), are recorded in the results of the year they are incurred.

#### *2.12.2 Deferred income tax*

To recognize deferred income tax, based on its financial projections, the Company determines whether it expects to incur ISR or IETU (until 2013 – see Note 15, which describes the elimination of the IETU as a consequence of the 2014 Tax Reform) and accordingly recognizes deferred taxes based on the tax it will pay.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### *2.12.3 Current and deferred tax for the period*

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in the caption "Other comprehensive (loss) income item" or directly in equity, in which case, the current and deferred tax are also recognized in "Other comprehensive (loss) income item" or directly in equity, respectively.

### *2.13 Financial liabilities*

Financial liabilities are classified as such at fair value with changes recognized in profit or loss or as other financial liabilities.

#### *2.13.1 Financial liabilities at fair value with changes recognized in profit or loss*

This is a liability that is classified as held for trading or designated as at fair value with changes recognized in profit or loss.

These liabilities are recorded at fair value, recognizing any gain or loss arising from remeasurement in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest obtained from the financial liability.

#### *2.13.2 Financial liabilities recognized at their amortized cost*

Financial liabilities recognized at their amortized cost, including loans, are valued initially at fair value, net of the transaction costs.

Other financial liabilities are valued subsequently at their amortized cost using the effective interest rate method. Interest expense is recognized based on its effective yield.

#### *2.13.3 Financial liability derecognition*

The Company derecognizes financial liabilities if, and only if, the Company's obligations have been met, cancelled or expired.

### *2.14 Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases (in the event the Company acts as lessee) are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between interest expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in profit or loss. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### *2.15 Provisions*

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### *2.16 Revenue recognition*

Revenue from the sale of housing units, and commercial lots is recognized when all the following conditions are satisfied:

- The Company transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### *2.17 Direct employee benefits*

Direct employee benefits are valued in proportion to the services rendered, considering current salaries and recognizing the liability as incurred. This includes mainly statutory employee profit sharing payable, compensated absences, such as vacation and vacation premiums, and incentives.

#### *2.18 Statutory employee profit sharing (PTU)*

PTU is recorded in the results of the year in which it is incurred and presented within selling, general and administrative expenses in the accompanying consolidated statements of profit or loss and other comprehensive income (loss).

#### *2.19 Foreign currencies*

The consolidated financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each of the Company's subsidiaries are expressed in Mexican pesos, which is the functional currency of the Company and the reporting currency for the consolidated financial statements.

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 10 below for hedging accounting policies), which are classified as cash flow hedges.

### **3. Critical accounting judgments and estimates**

In the application of the Company's accounting policies, which are described in Note 2, 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 as on ongoing basis. Actual results may differ from these estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### *3.1 Critical judgments*

- Evaluation of joint control over the joint operations of land trusts (Note 17 b.)

#### *3.2 Key sources of estimation uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur..

- Useful lives of improvements, machinery and equipment (Note 2.6)
- Projections of future income taxes and recoverability of deferred tax assets (Note 15)
- Tax, labor and legal contingencies and provisions (Note 17)
- Valuation of financial instruments (Note 10)
- Valuation of inventories (Note 8)
- Impairment of long lived assets (Note 2.7)

#### 4. Capital management

The Company manages its capital to ensure the ability to continue as a going concern while maximizing the return to stockholders through the optimization of its debt and equity balances in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, commercial and activities, investments, growth plans, and the risk characteristics of the underlying assets.

The Company's management evaluates the Company's net financial debt position, interest expense and its ratio to EBITDA (earnings before income taxes plus depreciation and amortization, interest and exchange rate fluctuations) on a monthly basis. The Company manages its capital through maintaining a ratio of non-cash net debt to EBITDA of at least 3.0; if exceeded, the Board of Directors should approve any additional debt request, which for the years ended December 31, 2013, 2012 and 2011 was 2.97, 3.52 and 2.96, respectively.

#### 5. Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash includes cash on hand and 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:

	2013	2012	2011
Cash and bank balances	\$ 494,477	\$ 26,574	\$ 46,015
Temporary investments	<u>814,992</u>	<u>390,333</u>	<u>369,706</u>
	<u>\$1,309,469</u>	<u>\$416,907</u>	<u>\$415,721</u>

#### 6. Accounts receivable

	2013	2012	2011
INFONAVIT	\$1,262,079	\$1,274,105	\$1,464,855
Fovi Credits	83,367	28,066	41,999
Commercial lots	283,438	274,589	288,389
Other	<u>260,169</u>	<u>262,887</u>	<u>279,956</u>
	1,889,053	1,839,647	2,075,199
Allowance for doubtful accounts	<u>(79,877)</u>	<u>(64,015)</u>	<u>(55,226)</u>
	<u>\$1,809,176</u>	<u>\$1,775,632</u>	<u>\$2,019,973</u>

### 6.1 Accounts receivable to customers

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

While some of the Company's accounts receivable are from individual homebuyers, the majority, also sold to individual homebuyers, are from entities in the home finance business, whose characteristics differ from other receivables. The INFONAVIT (Mexican National Workers' Housing Fund Institute) is a social services entity established by the Mexican government to manage the government's national housing fund, which offers mortgages to credit-qualified private sector employees. Fovi credits relate to receivables from SOFOLES (limited purpose financial companies) and SOFOMES (multiple purpose financial companies) who provide financing to individuals requiring credit to purchase a home, and Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (FOVISSTE), similar entity to INFONAVIT which attends the needs of the credit sector government workers. The risk of collection for accounts receivable from the INFONAVIT and FOVISSTE is negligible given that they are backed by substantial funds contributed by private sector employers. The risk of collection for accounts receivable from the Fovi credits is also considered to be negligible given that they are backed by reputable financial institutions. Both the INFONAVIT and Fovi credits have no significant history of defaulting on the amounts owed to the Company.

The Company participates in a program that provides for the prompt collection of receivables from individuals through factoring without recourse with INFONAVIT. The program allows the Company based on its cash flow requirements to receive payment from a governmental institution who participates in the program, whereby it receives the full amount of the receivable owed by the INFONAVIT less TIE (Interbank Equilibrium Interest Rate) plus a spread ranging between 2.00% and 5.00% for the remaining period the receivable is expected to be outstanding based on the terms of the sale. Once the payment is received, the Company derecognizes the receivable and records the difference between the sale amount and the cash proceeds as a loss, which is included in selling, general and administrative expenses in the consolidated statements of profit or loss and other comprehensive income (loss). The total amount of accounts receivable sold under the factoring program during 2013, 2012 and 2011 was \$62,850, \$104,540 and \$353,238, respectively, and the loss on sale presented within selling, general and administrative expenses for such years was \$592, \$1,030 and \$5,217, respectively.

### 6.2 Movement in the allowance for doubtful accounts

	2013	2012	2011
Balance at the beginning of the year	\$64,015	\$55,226	\$51,850
Increase of the year	16,500	12,500	3,376
Charges and write-offs of uncollectible accounts	(638)	(3,711)	
Balance at end of the year	<u>\$79,877</u>	<u>\$64,015</u>	<u>\$55,226</u>

### 6.3 Long term account receivable

The Company held a long-term sale with the Instituto de la Vivienda de Nuevo León, O. P. D., in 2011 for \$84,510. The current portion as of December 31, 2013 and 2012 amounted to \$14,085 and is recognized under the "Accounts receivable" line item, and the long-term portion is recognized under the "Long term account receivable" line item in the consolidated statements of financial position.

## 7. Transactions and balances with related parties

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

### 7.1 Trading transactions

During 2013 and 2012, the Company entered into the following trading transactions with an affiliate company of Casas Javer, S. A. de C. V. and in 2011 with related third parties, these third parties are entities controlled by Corporativo SMS, S. A. de C. V., a company controlled by the main shareholder of JAVER, Proyectos del Noreste, S. A. de C. V. (Proyectos del Noreste):

	2013	2012	2011
Urbanization services expense	\$(4,032)	\$(10,086)	\$(23,099)

7.2 Balances due to related party as of December 31:

	2013	2012	2011
Desarrolladora y Urbanizadora Las Láminas, S. A. de C. V. <sup>(1)</sup>	<u>\$9,457</u>	<u>\$3,161</u>	<u>\$1,268</u>

(1) 99.9% ownership by Salomón Marcushamer Stavchansky (one of the Company's principal shareholders) and its principal activity is to develop land for construction.

7.3 Compensation of key management personnel

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

	2013	2012	2011
Professional fees, salaries and other short-term benefits	<u>\$39,141</u>	<u>\$33,638</u>	<u>\$31,825</u>

8. Land held for future development

	Land under development	Housing units under development	Urbanization and related equipment	Total
Balance as of December 31, 2011	\$1,060,494	\$ 396,118	\$ 1,179,722	\$ 2,636,334
Additions / Purchases	198,504	1,935,881	967,735	3,102,120
Transfers from land held for future development	104,609			104,609
Sales	<u>(637,719)</u>	<u>(1,982,016)</u>	<u>(827,758)</u>	<u>(3,447,493)</u>
Balance as of December 31, 2012	725,888	349,983	1,319,699	2,395,570
Additions / Purchases	526,538	2,048,380	806,744	3,381,662
Transfers from land held for future development	87,938			87,938
Sales	<u>(506,574)</u>	<u>(2,115,366)</u>	<u>(1,023,467)</u>	<u>(3,645,407)</u>
Balance as of December 31, 2013	<u>\$ 833,790</u>	<u>\$ 282,997</u>	<u>\$ 1,102,976</u>	<u>\$ 2,219,763</u>

8.1 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, 2013, 2012 and 2011, except in 2013 for a pair or land reserves that according to the national housing policy, they were left out of the development line and were written down in profit and loss by \$185,511, and is presented under the "other expenses, net" line item.

As of December 31, 2013, the amount of inventories and land held for future development guaranteeing the revolving lines of credit mentioned in Note 12 amounted to \$191,341.

Movement of land held for future development is as follows:

Balance as of December 31, 2011	\$ 875,367
Additions / Purchases	470,457
Transfers to land from development process	(104,609)
Balance as of December 31, 2012	<u>1,241,215</u>
Additions / Purchases	118,705
Transfers to land from development process	(87,938)
Transfers to other assets	(73,801)
Land impairment	(185,511)
Others	(3,874)
Balance as of December 31, 2013	<u>\$1,008,796</u>

## 9. Improvements, machinery and equipment

	Leasehold improvements	Machinery and equipment	Molds	Investments in progress	Others (1)	Total
Cost	\$ 31,607	\$ 63,869	\$273,027	\$ 17,820	\$ 119,747	\$506,070
Accumulated amortization and depreciation	<u>(7,710)</u>	<u>(27,832)</u>	<u>(106,972)</u>		<u>(75,297)</u>	<u>(217,811)</u>
Balance as of December 31, 2011	23,897	36,037	166,055	17,820	44,450	288,259
Additions	994	1,133	9,607	5,922	13,070	30,726
Disposals		(2,969)		(7,226)	(1,098)	(11,293)
Transfers from investments in progress	4,785		7,904	(12,689)		
Amortization and depreciation expense	<u>(3,766)</u>	<u>(9,454)</u>	<u>(30,473)</u>		<u>(16,571)</u>	<u>(60,264)</u>
Balance as of December 31, 2012	25,910	24,747	153,093	3,827	39,851	247,428
Additions	543	3,794	3,795	3,911	15,946	27,989
Disposals		(135)			(10,271)	(10,406)
Transfers from investments in progress	67		5,889	(5,965)	9	
Amortization and depreciation expense	<u>(3,377)</u>	<u>(8,631)</u>	<u>(23,846)</u>		<u>(7,956)</u>	<u>(43,810)</u>
Balance as of December 31, 2013	<u>\$ 23,143</u>	<u>\$ 19,775</u>	<u>\$138,931</u>	<u>\$ 1,773</u>	<u>\$ 37,579</u>	<u>\$221,201</u>

Molds, computers, trucks and vehicles were acquired under financial lease contracts.

(1) Corresponds to office furniture and equipment, computers, and trucks and vehicles, with a balance as of December 31, 2013 of \$15,261, \$9,270 and \$13,048, respectively.

## 10. Derivative financial instruments

### 10.1 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 time value money are not significant. The long-term debt is recognised 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 and their fair values are as follows:

	December 31, 2013		December 31, 2012	
	Fair value	Carrying amount	Fair value	Carrying amount
Cash and cash equivalents	\$ 1,309,469	\$ 1,309,469	\$ 416,907	\$ 416,907
Accounts receivable	1,809,176	1,809,176	1,775,632	1,775,632
Long-term accounts receivable	42,255	42,255	56,340	56,340
Derivative financial instruments	126,787	126,787	139,108	139,108
Trade and other payables	(931,738)	(931,738)	(983,819)	(983,819)
Payables for purchase of land	(188,989)	(188,989)	(274,370)	(274,370)
Short - term debt	(110,850)	(111,663)	(50,765)	(50,765)
Long - term debt	<u>(4,167,416)</u>	<u>(3,681,313)</u>	<u>(3,373,037)</u>	<u>(3,063,210)</u>
	<u>\$ (2,111,306)</u>	<u>\$ (1,626,016)</u>	<u>\$ (2,294,004)</u>	<u>\$ (1,984,177)</u>

## 10.2 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 as of December 31, was:

	2013	2012	2011
Financial assets	US\$ 44,675	US\$ 8,320	US\$ 7,739
Financial liabilities	<u>(305,015)</u>	<u>(250,352)</u>	<u>(245,492)</u>
Net financial liability position	<u>US\$(260,340)</u>	<u>US\$(242,032)</u>	<u>US\$ (237,753)</u>
Equivalent in Mexican pesos	<u>\$(3,401,394)</u>	<u>\$(3,143,523)</u>	<u>\$(3,323,478)</u>

b. Transactions in foreign currency were as follows:

	2012	2011
Purchase of molds	<u>US\$154</u>	<u>US\$1,716</u>

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

	2013	December 31, 2012	2011	March 10, 2014
U.S. dollar	\$13.0652	\$12.9880	\$13.9787	\$13.1795

d. Market risk hedging strategy

As disclosed in Note 11, as a result of issuing additional debt and its debt refinancing, the Company restructured its portfolio of hedging instruments in accordance with its new contractual conditions.

The Company is exposed to exchange rate risks related to its Senior Notes, maturing in 2014 and 2021, contracted in US dollars, which represent the majority of its outstanding debt. Interest is settled on a semiannual basis. The Company has implemented a derivative hedging strategy to hedge 36.80% of its interest payments at an average fixed rate of 12.10% in Mexican pesos and the remaining 47.90% at an average variable TIIE plus 4.10%, until April 6, 2016 and the remaining 15.30% of the interest payment is not covered.

Management intends to renew its derivative hedging portfolio constantly while it continues to be exposed to the principal and interest exchange rate risks. As of December 31, 2013, the Company only has the interest payment hedged through 2018.

The Company entered into the following transactions to implement the risk management hedging strategy described in the preceding paragraph by entering into the following combined derivative financial instruments (notional amounts in millions, and no notional amounts exchange is required), maturing on August 4, 2014 and April 6, 2016, outstanding as of December 31, 2013, which were designated as cash flow hedges:

Maturing	Notional (Receivable)	Notional (Payable)	Fixed Rate (Receivable)	Floating Rate (Payable)	Payment Date (Receivable)	Payment Date (Payable)
April 6, 2016	US\$40.000	\$474.000	9.875%	TIIE 28+4.05%	Semiannual	Monthly
April 6, 2016	US\$50.000	\$592.500	9.875%	TIIE 28+4.65%	Semiannual	Monthly
April 6, 2016	US\$50.000	\$592.500	9.875%	TIIE 28+3.66%	Semiannual	Monthly
April 6, 2016	US\$16.480	\$195.288	9.875%	TIIE 28+3.65%	Semiannual	Monthly
April 6, 2016	US\$40.000	\$474.200	9.875%	12.200%	Semiannual	Monthly
April 6, 2016	US\$50.000	\$592.500	9.875%	11.935%	Semiannual	Monthly
August 4, 2014	US\$ 6.328	\$ 80.366	13.000%	14.190%	Semiannual	Monthly
April 6, 2016	US\$23.822	\$282.300	9.875%	11.800%	Semiannual	Monthly



In addition to that mentioned in the preceding paragraph, the Company has contracted the following derivative financial instruments (notional amounts in millions, and no exchange of notional amounts is required), in effect from April 6, 2016 and maturing on April 6, 2018, which are outstanding as of December 31, 2013, and were accrued as cash flows and fair value hedges:

Maturing	Notional (Receivable)	Notional (Payable)	Fixed Rate (Receivable)	Floating Rate (Payable)	Payment Date (Receivable)	Payment Date (Payable)
April 6, 2018	US\$50.000	\$623.0	9.875%	11.27%	Semiannual	Monthly
April 6, 2018	US\$30.000	\$373.095	9.875%	11.30%	Semiannual	Monthly
April 6, 2018	US\$50.000	\$606.0	9.875%	TIE28+6.00%	Semiannual	Monthly
April 6, 2018	US\$50.000	\$622.5	9.875%	11.33%	Semiannual	Monthly
April 6, 2018	US\$50.000	\$621.5	9.875%	11.55%	Semiannual	Monthly

Management closely monitors the Company's exposure to TIE in order to mitigate the risks of increasing interest rates and evaluates the cost/benefit of entering into derivative transactions to fix the interest rate to be paid. Increases in interest rates would impact its interest coverage ratio, which is one of the Company's primary debt covenants.

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, 2013, 2012 and 2011 represents an asset of \$1,255, \$2,681 and \$35,465, respectively, with such changes in fair value recognized in results of each year.

For the years ended December 31, 2013, 2012 and 2011, the Company recognized the following impacts related to its foreign exchange hedges:

- Combined derivative financial instruments: the amounts recognized within "Other comprehensive (loss) income" represented a gain of \$136,783 in 2013 (gain of \$136,427 and \$271,634 in 2012 and 2011, respectively). The amounts recorded within other comprehensive (loss) income will be recycled to profit or loss based on the maturities of the Company's derivative instruments as disclosed in Note 10.3. The amount of the period recycled to profit or loss was an income of \$1,203.
- Cross Currency Swaps: the amounts recognized within "(loss) gain on valuation of derivative financial instruments" represented a gain of \$10,925 in 2013; such gain arises from the early cancellation of the derivative that was hedging US\$50 million of the debt principal amount.
- Forwards: the amounts recognized in "(loss) gain on valuation of derivative financial instruments" represented a gain of \$2,828 and \$61,539 in 2012 and 2011, respectively; such gain arises from the early cancellation of the derivative that was hedging US\$40 million and US\$50 million of the debt principal amount in 2012 and 2011, respectively.
- Foreign exchange collars: the amounts recognized in "(loss) gain on valuation of derivative financial instruments" for 2011 represented a profit of \$5,469; such profit arises from the maturity and no renewal of derivatives that hedged US\$60 million of the amount of principal.

#### 10.2.1 Market risk sensitivity analysis

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

- If as of December 31, 2013, the exchange rate published by the Federal Reserve Bank of New York (\$13.0980) had increased 10.00 %, the Company's income before taxes would have decreased \$387,379, 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 have been greater is offset with the same amount of its respective hedging in current profit and loss.
- If the interest rate associated with TIE 28 had increased 100 basis points (1.00%), maintaining fixed the factor described below on c), the Company's other comprehensive (loss) income would have decreased \$32,004, resulting from the impact associated with the fair value of the Company's derivative financial instruments.

- c) If the exchange rate used by the Federal Reserve Bank of New York (\$13.0980) had decreased 10.00%, maintaining fixed the factor described above on b), the Company's other comprehensive income would have decreased \$49,583, resulting from the impact associated with the fair value of the Company's derivative financial instruments.

### 10.3 Liquidity risk

The following table (amounts in millions) discloses the Company's maturity dates associated with its long-term financial liabilities as of December 31, 2013. The amounts disclosed represent the contractual cash payments (undiscounted); therefore, they differ from the amounts recognized in the consolidated financial statements. The Company's derivative financial instruments are presented on a net basis (cash payable, net of cash receivable) as it has the ability and intention to settle them on a net basis:

Type of liability	2014	2015	2016	2017-2021	Total
Current portion of long-term debt	\$ 28,986				\$ 28,986
Trade and other payables	577,282				577,282
Payables for purchase of land	354,456	\$ 89,675	\$ 56,344	\$ 42,970	543,445
Senior Notes	147,186	64,509	64,509	3,947,193	4,223,397
Derivatives <sup>(1)</sup>	338,660	327,256	327,256	1,963,538	2,956,710
Total	<u>\$1,446,570</u>	<u>\$481,440</u>	<u>\$448,109</u>	<u>\$5,953,701</u>	<u>\$8,329,820</u>

- (1) The Company's interest payments associated with the Senior Notes are hedged by its derivative financial instruments as describe above (Note 10.2), 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.

The Company makes payments associated with its long-term financial liabilities with cash generated from its operations.

### 10.4 Credit risk

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, 2013, the maximum exposure to credit risk related with its derivative financial instrument asset is \$146,674. The Company does not maintain collateral for such amounts.

Trade accounts receivable:

The following is an age analysis of trade accounts receivable as of December 31, 2013:

	Not due	30 days	31-60 days	60+ days
Trade receivables (see Note 6)	<u>\$1,583,167</u>	<u>\$ 71,707</u>	<u>\$ 11,796</u>	<u>\$222,383</u>

## 11. Long-term debt

	2013	2012	2011
<i>Unsecured – at amortized cost</i>			
Senior Notes US\$210 million refinanced – 2021 (i)	\$2,645,616	\$2,566,570	\$2,685,916
Senior Notes US\$30 million – 2021 (i)	386,180	383,453	412,276
Senior Notes US\$50 million – 2021 (i)	625,105		
Remaining original Senior Notes US\$210 million – 2014	82,677	81,703	87,681
Capital lease agreements (ii)	49,923	76,240	109,081
Unsecured loan bearing a fixed interest rate of 11.8%, with various maturities through 2015	3,475	6,009	
	<u>3,792,976</u>	<u>3,113,975</u>	<u>3,294,954</u>
Current portion	(111,663)	(50,765)	(49,377)
Long-term debt	<u>\$3,681,313</u>	<u>\$3,063,210</u>	<u>\$3,245,577</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 will be 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 \$402,689 and \$53,790, respectively, and are presented net of the long-term liability in the consolidated statements of financial position as of December 31, 2013, which is being amortized in accordance with the effective interest method in accordance with the terms of the related debt. Additionally, the valuation effect to fair value of the Company's cancelled derivative financial instruments associated with the original Senior Notes of \$16,742 was reflected within long-term liabilities and \$85,158 was recorded in results of 2011.

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 the underwriter was the Bank of New York Mellon, as trustee and JAVER's subsidiaries as guarantors. The proceeds from the Senior Notes are being 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 \$5,776 and \$28,155, respectively, and are presented net of the long-term liability in the consolidated statements of financial position as of December 31, 2013, and is being amortized in accordance with the effective interest method in accordance with the terms of the related debt.

The debt agreements of all Senior Notes maturing in 2021 and the remaining original Senior Notes maturing in 2014 contain certain covenants and restrictions, which have been met as of December 31, 2012 except for a covenant regarding the interest expense to EBITDA ratio, which according to Company's legal advisors does not trigger a default of the Notes but limits the Company's ability to obtain additional debt for up to US\$60 million.

The aforementioned debt agreements include options to prepay the Senior Notes before or after April 2014 or between April 2016 and April 2021, under certain conditions and subject to certain covenants and restrictions. Such options have not been separated and recognized as derivative financial instruments, as their economic risks are clearly and closely related to the host agreement.

- (ii) The Company has finance leases related to molds, trucks, vehicles and computers with different maturity terms (see Note 13 for the disclosures related to such finance leases).

**12. Trade and other payables**

	2013	2012	2011
Trade accounts payable (i)	\$ 272,120	\$ 163,621	\$ 225,566
Payables for purchase of land	354,456	250,930	336,261
Revolving credit lines (ii)	305,162	569,268	608,687
Other current liabilities	132,897	88,061	110,355
	<u>\$1,064,635</u>	<u>\$1,071,880</u>	<u>\$1,280,869</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. The liability related to such fund amounts to \$69,915, \$45,725 and \$56,224 as of December 31, 2013, 2012 and 2011, respectively.
- (ii) The Company established a program that allows its suppliers to obtain financing from various financial institutions. The maximum limit is \$1,066,630, \$1,169,460 and \$1,090,000 as of December 31, 2013, 2012 and 2011, respectively. Ordinarily, the Company pays qualifying financial institution within 90 days following the invoice date, and the supplier is responsible for paying the financial institution financing commission.

### 13. Leases

The Company's capital lease agreements include those relating to: a) Molds, bearing annual fixed interest rates of 12.25%, with various maturities through 2015; b) Trucks, bearing annual fixed interest rate of 12.34%, with various maturities through 2017; c) Vehicles, bearing annual fixed interest rate of 10.65%, with various maturities through 2017; and d) Computer equipment, bearing annual fixed rate of 6.67%, with various maturities through 2016.

#### 13.1 Leasing arrangements

The Company has options to purchase the leased assets for a nominal amount at the conclusion of the lease agreements. The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

#### 13.2 Finance lease liabilities

	Minimum lease payments			Present value of minimum lease payments		
	2013	2012	2011	2013	2012	2011
Short-term	\$29,919	\$ 58,322	\$ 59,604	\$26,453	\$ 48,230	\$ 49,377
Long-term	<u>25,256</u>	<u>28,926</u>	<u>69,560</u>	<u>23,470</u>	<u>28,010</u>	<u>59,704</u>
	55,175	87,248	129,164	49,923	76,240	109,081
Less future finance charges	<u>(5,252)</u>	<u>(11,008)</u>	<u>(20,083)</u>			
Present value of minimum lease payments	<u>\$49,923</u>	<u>\$ 76,240</u>	<u>\$109,081</u>	<u>\$49,923</u>	<u>\$ 76,240</u>	<u>\$109,081</u>

Included in the consolidated financial statements as:

- Current portion of long-term debt	\$26,453	\$48,230	\$ 49,377
- Long-term debt	<u>23,470</u>	<u>28,010</u>	<u>59,704</u>
	<u>\$49,923</u>	<u>\$76,240</u>	<u>\$109,081</u>

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

### 14. Employee retirement obligations

Net period cost for obligations resulting from the Company's seniority premiums were \$5,161, \$13,895 and \$4,172 in 2013, 2012 and 2011, respectively. The total amount of salaries, wages, and bonuses paid in 2013, 2012 and 2011 were \$215,221, \$180,340 and \$162,668, respectively. Other disclosures required by IFRS are not considered to be material.

### 15. Income taxes

In accordance with the Mexican tax law, companies are subject to a dual system comprised of ISR and IETU (until 2013), and pay the higher of the ISR or IETU.

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. For ISR purposes, effective in 2005, cost of sales is deductible for tax purposes, eliminating the prior deduction for inventory purchases. Taxpayers had the option, in 2005, to ratably increase taxable income over a period from 4 to 12 years, by the tax basis of inventories as of December 31, 2004, determined in conformity with the respective tax rules, and taking into account inventory turnover. Such inventory was decreased by tax loss carryforwards whose net balance as of December 31, 2013, 2012 and 2011 was \$95,102, \$126,162 and \$163,835 respectively. PTU paid is fully deductible.

The income tax rate was 30% for 2013, 2012 and 2011, and will remain at 30% for 2014 and thereafter according to a new resolution of Federal Income Tax Law for 2014 and subsequent years.

Beginning 2014, IETU is abrogated; therefore, through December 31, 2013, this tax was incurred. IETU applies to the sale of goods, the provision of independent services and the granting of temporary use or enjoyment of goods, according to the terms of the IETU Law, less certain authorized deductions. IETU payable is calculated by subtracting certain tax credits from the tax determined. Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated beginning January 1, 2008. The IETU rate is 17.5%.

JAVER and the majority of its subsidiaries paid ISR in 2013, 2012 and 2011 (some of the subsidiaries did pay IETU in 2013, 2012, and 2011, but this is considered unlikely to reoccur). Income taxes payable by JAVER and its subsidiaries (as separate legal entities) for the years ended December 31, were comprised of the following:

	2013	2012	2011
Current ISR	\$ 75,425	\$202,546	\$42,674
Deferred ISR	75,570	(33,762)	24,811
IETU in excess of ISR	<u>159,878</u>	<u>12,958</u>	<u>13,822</u>
	<u>\$310,873</u>	<u>\$181,742</u>	<u>\$81,307</u>

The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before income taxes, for the years ended December 31, was:

	2013	2012	2011
Statutory income tax rate	30.0%	30.0%	30.0%
Effect of non-deductible expenses	102.7	1.3	4.0
Effects of inflation for tax purposes	909.8	8.1	28.9
Deduction from land purchases	265.1	6.1	26.7
Effects of derivative financial instruments	431.8	3.8	(8.8)
IETU effect	2,187.7	3.6	16.2
Other	<u>327.4</u>	<u>(2.1)</u>	<u>(1.9)</u>
Effective tax rate	<u>4,254.5%</u>	<u>50.8%</u>	<u>95.1%</u>

The main items originating a deferred ISR liability were:

	2013	2012	2011
Deferred ISR assets:			
Provisions	\$ 76,840	\$ 54,150	\$ 56,835
Tax loss carryforwards	<u>106,893</u>	<u>203,081</u>	<u>306,190</u>
	<u>183,733</u>	<u>257,231</u>	<u>363,025</u>
Deferred ISR liabilities:			
Advances to suppliers	(3,001)	(6,004)	(17,006)
Inventories	(870,455)	(933,104)	(965,981)
Other	<u>(131,538)</u>	<u>(63,814)</u>	<u>(159,491)</u>
	<u>(1,004,994)</u>	<u>(1,002,922)</u>	<u>(1,142,478)</u>
Deferred ISR liability, net	<u>\$ 821,261</u>	<u>\$ 745,691</u>	<u>\$ 779,453</u>

As of December 31, 2013, JAVER and certain subsidiaries had tax loss carryforwards pending to be amortized for ISR purposes, which are available to offset future taxable income, as follows:

Year generated	Tax loss carryforwards	Year of expiration
2009	\$142,281	2019
2010	20,776	2020
2011	183,718	2021
2012	9,481	2022
2013	<u>56</u>	2023
	<u>\$356,312</u>	

The Company sold the subsidiary Desarrollos Inmobiliarios El Camileño XXI, S. A. de C. V. in 2010 (see Note 17 c.) and generated a tax loss on sales of shares of \$725,817, which may be used only against gains on sales of shares. The Company had not recognised any deferred tax loss asset related to this loss as of December 31, 2013, 2012 and 2011.

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.

**16. Stockholders' equity**

- a. As of December 31, 2013, the Company's capital stock was comprised of 5,826,581,633 ordinary shares with no par value, 50,000 of which were fixed Series "B" shares, and 5,826,531,633 of which were variable. Variable capital consisted of 3,495,948,980 Series "A" shares, 2,214,051,020 Series "B" shares, and 116,531,633 Series "C" shares. Variable capital is unlimited.
- b. Stockholders' equity, except restated paid-in capital and tax retained earnings will be subject to income taxes payable by the Company at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.
- c. Currently, 38.0% of the capital stock of the "B" Series 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, holders of Series "A" and Scotiabank. The shares held by Scotiabank shall be released progressively either to Proyectos del Noreste or shareholders of Series "A" 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.

Proyectos del Noreste 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 Series "A" shareholders and the total number of Series "B" shareholders.

**17. Commitments and contingencies**

- a. The Company leases its administrative offices. Rent expenses were \$17,698, \$18,184 and \$15,605 in 2013, 2012 and 2011, respectively. 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	
2014	\$16,377
2015 and thereafter	<u>37,390</u>
	<u>\$53,767</u>

- b. *Land Trust Agreements* – The Company enters into land trusts where land (contributed by a third party) and other assets contributed by the Company are held in trusts. The Company and the owners of the land act as trustors and trustees 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.

As of December 31, 2013, the Company maintained land under land trust agreements of 3,269,135 square meters (unaudited) and the capacity to construct 36,839 (unaudited) houses on such land in the states of Nuevo León, Jalisco and Querétaro, México.

- c. JAVER submitted a proceeding for constitutional relief at the Second Court in Administrative Matters against Article 32 Section XVII of the ISR Law in effect in fiscal year 2010, which prevents the deduction of tax losses arising from the sale of shares of Desarrollos Inmobiliarios El Camileño XXI, S. A. de C. V. The trial is in the stage of presenting evidence, therefore the Company's legal counsel cannot yet conclude that the outcome will be in favor or against JAVER.

- d. In the fourth quarter of 2012, the Mexican government amended the Federal Labour 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 consolidated financial statements as at and for the years ended December 31, 2013 and 2012 other than what is presently recorded.

## 18. 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
Entry-level	Nuevo León
Middle-income	Estado de México
Residential	Jalisco
Business lots and land	Aguascalientes
	Querétaro
	Tamaulipas

### b) *Revenues and results per type-of-housing segment:*

	Revenues per segment			Profits per segment		
	2013	2012	2011	2013	2012	2011
Entry-level	\$1,930,513	\$2,257,251	\$1,967,140	\$ 440,360	\$ 427,057	\$ 497,487
Middle-income	2,690,393	2,061,048	2,026,792	761,654	584,100	680,709
Residential	691,814	411,068	494,684	232,860	199,871	134,812
Business lots and land	108,770	360,994	229,958	94,462	150,787	158,619
Totals	<u>\$5,421,490</u>	<u>\$5,090,361</u>	<u>\$4,718,574</u>	1,529,336	1,361,815	1,471,627
Administrative corporate costs and directors' salaries				(976,619)	(697,567)	(646,976)
Interest expense, net				(545,410)	(306,484)	(739,175)
Income before income taxes				<u>\$ 7,307</u>	<u>\$ 357,764</u>	<u>\$ 85,476</u>

The accounting policies of the segments on which the information is provided are the same as the Company's accounting policies described in Note 2. 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.

### c) *Geographical information*

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

	2013	2012	2011
Nuevo León	\$2,776,758	\$2,338,360	\$2,905,548
Jalisco	1,704,046	2,036,633	1,411,103
Aguascalientes	43,481	178,864	180,416
Querétaro	538,259	392,528	99,760
Estado de México	331,755	93,958	
Tamaulipas	27,191	50,018	121,747
	<u>\$5,421,490</u>	<u>\$5,090,361</u>	<u>\$4,718,574</u>

**d) Information on primary clients**

As mentioned in Note 6, the Company's primary client is the INFONAVIT.

**e) National housing policy**

On February 12, 2013, the Presidency of Mexico announced the national housing policy, which is based on four strategies: (i) to achieve better inter-agency coordination, (ii) to move towards a model of intelligent and sustainable urban development, (iii) to reduce housing backlog, and (iv) to procure a decent place for Mexicans.

The four strategies will be coordinated by the Ministry of Agrarian, Territorial and Urban Development (SEDATU) through the National Housing Commission (CONAVI), Commission for the Regularization of Land Possession (CORETT), and the public trust called National Popular Inhabitants Fund (FONHAPO). At the date of this report, with the rules in force issued by the SEDATU, the Entity's Management believes that it has complied with the parameters set forth in the aforementioned policy.

Certain lands owned by the Company that were outside the parameters of the policy were impaired, as indicated in the Note 8.1, whose impairment of \$ 185,511 is included in the "Other expenses, net" item in the accompanying consolidated statements of income and of other comprehensive income (loss).

**19. Adoption of new and revised IFRS**

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective as of December 31, 2013:

IFRS 9	<i>Financial Instruments</i> <sup>2</sup>
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i> <sup>3</sup>
Amendments to IFRS 10, IFRS 12 and IAS 27	<i>Investment Entities</i> <sup>1</sup>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>

1 Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

3 Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

**IFRS 9, *Financial Instruments***

IFRS 9 issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).



The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Company's management anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and liabilities (e.g. the Company's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognized in profit or loss). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

#### **Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment Entities***

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to: obtain funds from one or more investors for the purpose of providing them with professional investment management services, commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measure and evaluate performance of substantially all of its investments on a fair value basis.

The Company's management does not anticipate that the investment entities amendments will have any effect on the Company's consolidated financial statements

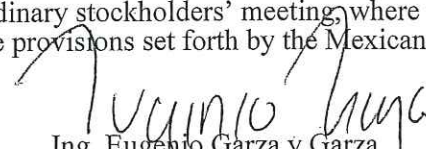
#### **Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities***

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Company's management anticipates that the application of these amendments to IAS 32 will not have a significant impact on the Company's consolidated financial statements.

## **20. Issuance and authorization of consolidated financial statements**

On March 10, 2014, the issuance of the consolidated financial statements was authorized by Ingeniero Eugenio Garza y Garza, Chief Executive Officer, and Felipe Loera Reyna, Chief Financial Officer. These consolidated financial statements are subject to the approval of the Board of Directors at the ordinary stockholders' meeting, where they may modify the consolidated financial statements, based on the provisions set forth by the Mexican General Corporate Law.

  
Ing. Eugenio Garza y Garza  
Chief Executive Officer

  
C.P. Felipe Loera Reyna  
Chief Financial Officer