



ConsorcioARA®




DETERMINATION DISCIPLINE VISION

2018 ANNUAL AND SUSTAINABILITY REPORT

Cumbres Barreal, Puebla, Segment: Residential.





42

YEARS OF EXPERIENCE
AND 22 YEARS LISTED
IN THE MEXICAN
STOCK EXCHANGE

355,500

HOMES SOLD,
INHABITED BY
1,422,000 MEXICANS

3

SEGMENTS:
AFFORDABLE ENTRY
LEVEL, MIDDLE INCOME
AND RESIDENTIAL

52

DEVELOPMENTS
IN OPERATION,
IN 17 STATES

33.6

MILLION M² OF
LAND BANK IN
18 STATES

11

CONCRETE PLANTS, WITH
A PRODUCTION OF 10.2
MILLION M³ OVER THE
LAST 22 YEARS

18

YEARS OF EXPERIENCE
IN THE BUILDING
AND OPERATION OF
SHOPPING CENTERS

6

SHOPPING CENTERS,
WITH 180,840 M²
OF GROSS
LEASABLE AREA

13

CONSECUTIVE YEARS
WITH THE HIGHEST
CREDIT RATINGS IN
OUR INDUSTRY

2

YEARS WITH THE
GREAT PLACE TO WORK
CERTIFICATION

Dream Lagoons Rialta, Nuevo León, Segment: Residential.



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CORPORATE PROFILE

Consortio ARA, S.A.B. de C.V. is a vertically integrated firm committed to the construction and sale of Affordable Entry Level, Middle Income, and Residential housing developments. However, ARA's fundamental purpose is to build homes that will constitute the estate of an increasing number of Mexican families.

Aiming to improve the increase in value of such estate, Consortio ARA builds not just houses but well-equipped housing developments offering high-quality infrastructure and urbanization, thereby contributing to building thriving communities.

We are proud to say that 1,422,000 Mexicans can now call one of the over 355,500 houses we have sold over 42 years their "home," including Mexicans across the whole income spectrum who have found a housing solution in our broad product portfolio. At the close of 2018, we had 52 housing developments in seventeen states across the country.

Our Shopping Malls Division, for its part, has built and currently operates six shopping centers, which together make up a total gross leasable area of about 181,000 m², mainly in the State of Mexico and also Veracruz.

As a result of our prudent debt management practices and our efficient approach to cash flow management, among other factors, financial soundness has been one of the company's most distinctive features.

That is why Consortio ARA has earned the highest credit ratings in the Mexican housing sector for the thirteenth consecutive year. In 2018, S&P Global Ratings and Moody's assigned us the "mxA+" and "A2.mx+" credit ratings, respectively, and HR Ratings – a rating agency that has assessed the company's credit risk since 2017 – assigned us the "HR AA-" credit rating.

ARA's* shares have been listed in the Mexican Stock Exchange since 1996, and in 2017 the company entered the bond market by issuing long-term unsecured bonds.

For the second consecutive year, the Great Place To Work Institute Mexico awarded us the Great Place to Work Certification, recognizing the efforts we have undertaken every day to provide all our employees with the best possible working environment.



Fuentes de Tizayuca II, Hidalgo, Segment: Affordable Entry Level.

MISSION

To meet the objectives of our customers, partners and shareholders with a team of collaborators who are committed to the construction and sale of sustainable homes and shopping centers.

VISION

To be a leader in the construction of homes and shopping centers that can make up sustainable communities through innovation, quality, and reliability.

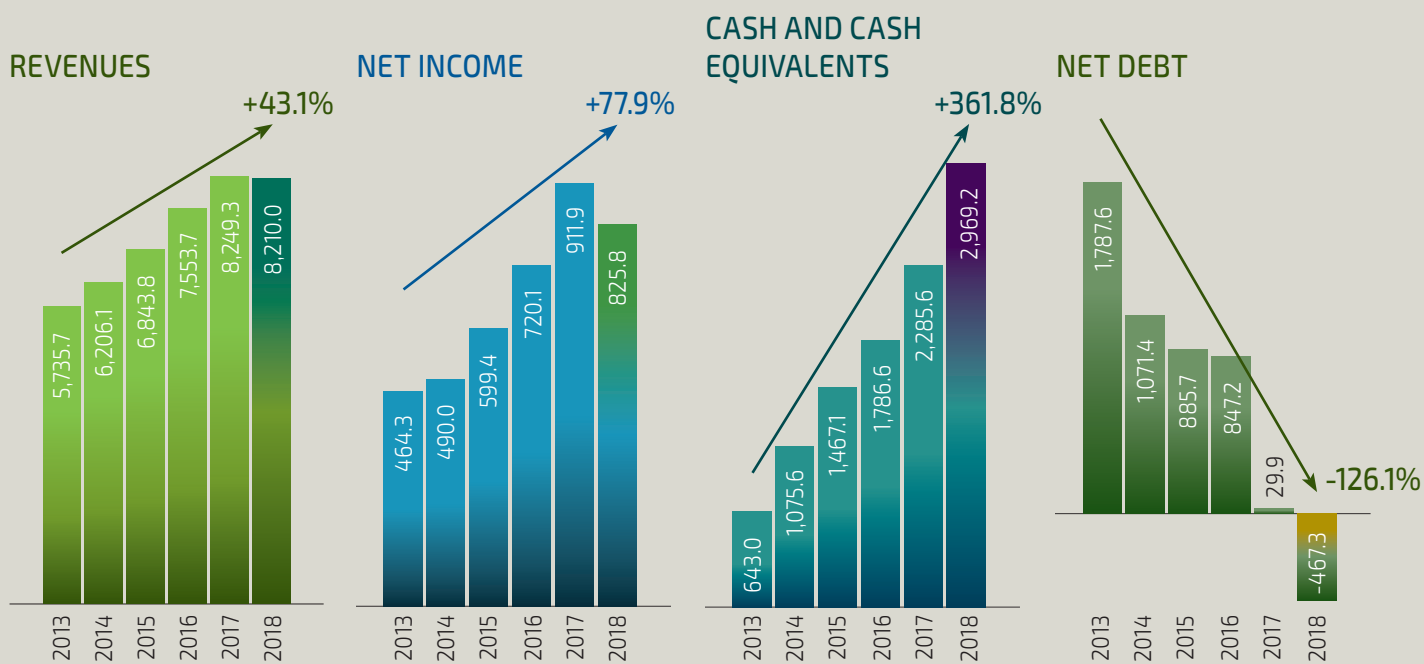
VALUES

- Honesty
- Responsibility
- Commitment
- Quality

Bosque de los Sauces, Puebla, Segment: Middle Income.



Millions of pesos



* Net Income in 2017 included a tax benefit of \$99.7 million.

FINANCIAL HIGHLIGHTS

G4-9

Millions of pesos	2018	2017	Chge.%
Revenue	8,210.0	8,249.3	-0.5
Units sold	11,403	11,355	0.4
Average price (thousands of pesos)	681.5	708.0	-3.7
Gross profit	2,193.4	2,245.0	-2.3
Income from operations	963.6	1,020.2	-5.6
Financial income - net	-107.6	-46.7	130.4
Net Income	825.8	911.9	-9.4
Net income excluding tax benefits	825.8	812.3	1.7
EBITDA	1,190.3	1,219.7	-2.4
Free Cash Flow for the Firm	1,031.4	1,187.8	-13.2
Gross margin	26.7%	27.2%	-50 pp
Operating margin	11.7%	12.4%	-70 pp
Net margin	10.1%	11.1%	-100 pp
Net margin excluding tax benefits	10.1%	9.8%	30 pp
EBITDA margin	14.5%	14.8%	-30 pp
Cash and cash equivalents	2,969.2	2,285.6	29.9
Total current assets	15,301.0	14,465.7	5.8
Total assets	20,247.2	19,047.1	6.3
Total current liabilities	2,072.7	2,238.3	-7.4
Total liabilities	7,062.9	6,432.2	9.8
Retained earnings	12,212.4	11,550.8	5.7
Stockholders' equity	13,184.3	12,615.0	4.5
Net working capital	14,042.4	13,939.6	0.7
Capital expenditures	-26.7	-28.6	-6.7
Cost-bearing debt	2,501.9	2,315.4	8.1
Net debt	-467.3	29.9	-1,663.8

LEVERAGE RATIOS (TIMES)

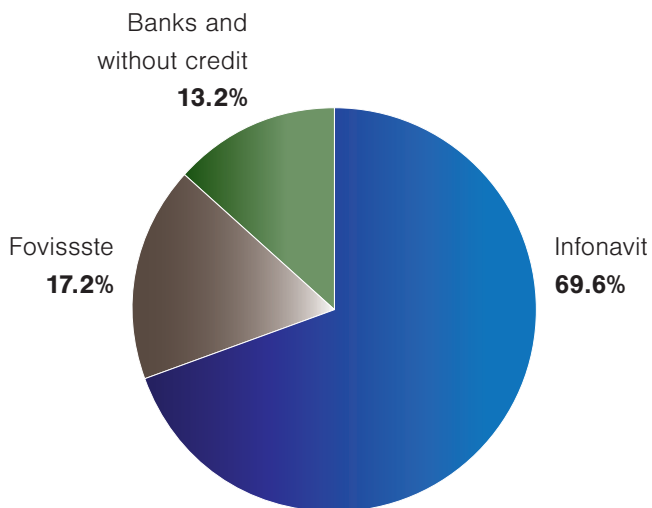
	2018	2017	Chge.%
Cost-bearing debt			
to Stockholders' equity	0.19	0.18	0.01
to Total assets	0.12	0.12	0.0
to EBITDA (12m)	2.10	1.90	0.20
Net debt to EBITDA (12m)	-0.39	0.02	-0.41
Net debt to Stockholders' equity	-0.04	0.002	-0.042
Interest coverage (12m)	4.50	4.79	-0.29
Total current assets less inventories to Total current liabilities	1.96	1.58	0.38
Total liabilities to Stockholders' equity	0.54	0.51	0.03

TITLED HOMES

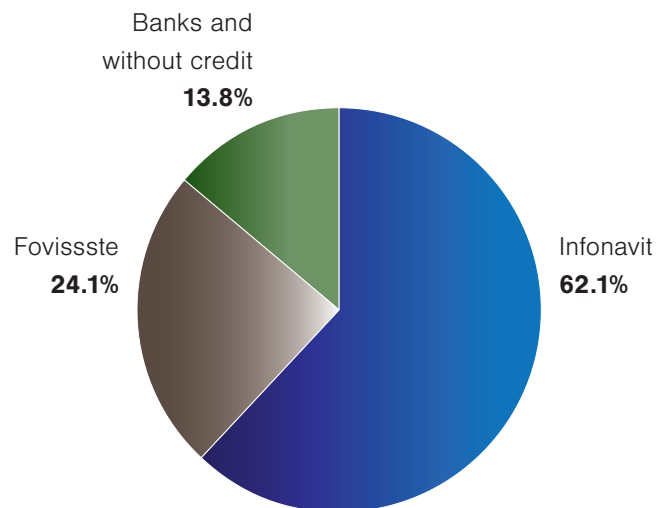
BY TYPE OF FINANCING

Institution	2018		2017	
	Number of titled homes	%	Number of titled homes	%
Infonavit	7,448	65.3	6,462	56.9
Infonavit Total and Cofinavit	497	4.3	588	5.2
Subtotal	7,945	69.6	7,050	62.1
Fovissste	1,958	17.2	2,735	24.1
Banks and without credit	1,500	13.2	1,570	13.8
Total titled homes	11,403	100	11,355	100

2018



2017



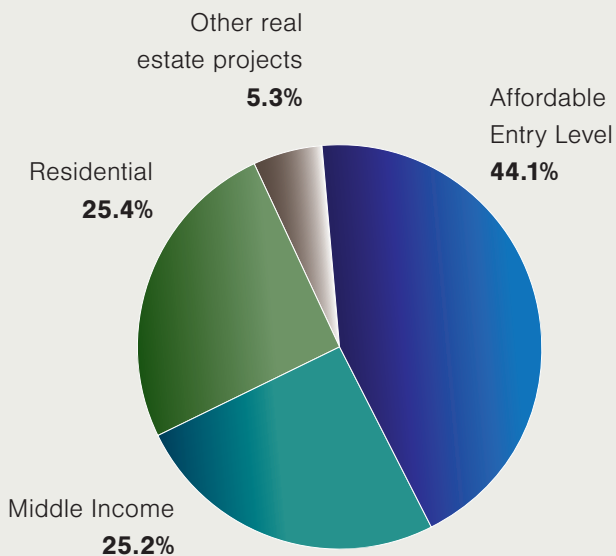
REVENUE

MIX

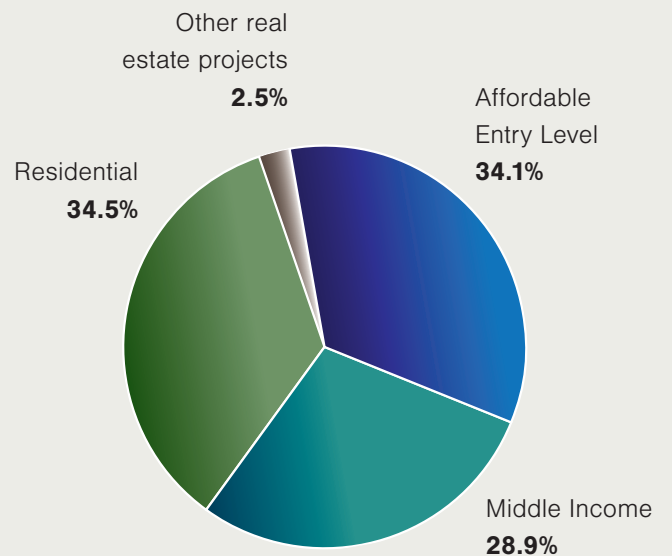
	2018				2017			
	Units	Average price ⁽¹⁾	Revenue ⁽²⁾	%	Units	Average price ⁽¹⁾	Revenue ⁽²⁾	%
Affordable Entry Level	8,097	446.9	3,618.7	44.1	6,735	417.4	2,811.2	34.1
Middle Income	2,242	922.9	2,069.2	25.2	3,032	785.9	2,383.0	28.9
Residential	1,064	1,958.3	2,083.7	25.4	1,588	1,791.4	2,844.8	34.5
Total housing	11,403	681.5	7,771.6	94.7	11,355	708.0	8,039.0	97.5
Other real estate projects			438.4	5.3			210.3	2.5
Total	11,403		8,210.0	100	11,355		8,249.3	100

(1) Figures in thousands of pesos.
 (2) Figures in millions of pesos.

2018



2017



LAND BANK G4-5, G4-6, G4-8

Consortio ARA's land bank is one of the most relevant assets in its balance sheet, not only because of the investment it represents but also because of its excellent quality and location.

The quality of our land bank was validated when a significant part of it was used as collateral to obtain syndicated loans in 2013 and 2015, and, at the close of 2018, the release of the collaterals had been executed at 100%.

As of December 31, 2018, Consortio ARA's land bank amounted to 33.6 million m² across eighteen states in our country, with a capacity to build 126,581 master plan homes for the Affordable Entry Level, Middle Income and Residential segments. Nearly 2.1 million m² of such land is suitable for real estate projects other than housing, including industrial centers, shopping centers, and tourist developments.

Its book value as of December 31, 2018 was \$4.5 billion, calculated at its acquisition cost according to the International Financial Reporting Standards (IFRS). It is important to note that our entire land bank has been fully paid and is free from encumbrance.

All our land is suitable for housing development in accordance with the current housing policy. This is demonstrat-

ed by the nearly 44,000 Affordable Entry Level housing units we have built over the past six years, most of which have been built on land acquired before 2013, when the most relevant housing policy changes of the past few years were introduced.

Furthermore, ARA's land bank is enough to continue to carry out its operations in the medium term. This provides us with enough leeway to adequately and strategically plan the acquisition of new land, providing a key competitive advantage for the Company.

In 2018, we acquired land for a total of \$435 million, adhering to two guidelines that we have been following over the past years: i) land located in areas where we want to continue our operations, given current and potential demand, and ii) land suitable for Middle Income and Residential housing.

Consortio ARA does not just build houses, but it promotes the development of compact and sustainable cities that facilitate mobility for their inhabitants and thus improve their quality of life. The success we have achieved has demonstrated that this has been an effective strategy, and we will thus maintain our approach to selective land purchase in the future.

OPERATING IN:

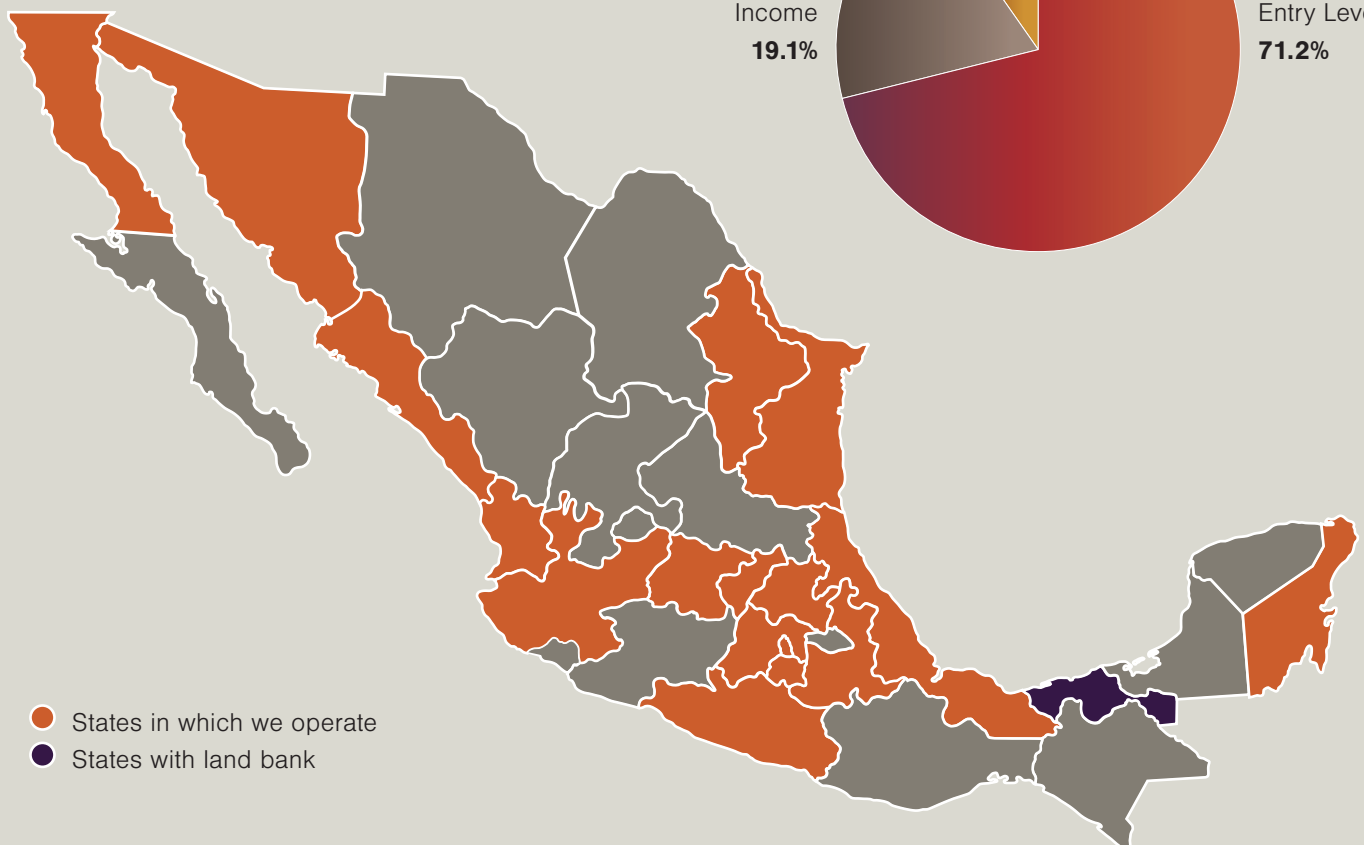
17	23	36	52
STATES	CITIES	MUNICIPALITIES	DEVELOPMENTS

LAND BANK IN 18 STATES

STATE	UNITS ⁽²⁾	%
State of Mexico	41,667	32.9
Quintana Roo	34,556	27.3
Jalisco	7,380	5.8
Baja California	6,603	5.2
Guanajuato	4,970	3.9
Hidalgo	4,945	3.9
Guerrero	4,003	3.2
Veracruz	3,953	3.1
Nuevo León	3,682	2.9
Nayarit	3,657	2.9
Puebla	3,143	2.5
Sonora	1,599	1.3
Morelos	1,536	1.2
Subtotal	121,694	96.1
Others (5 states)	4,887	3.9
Total	126,581	100

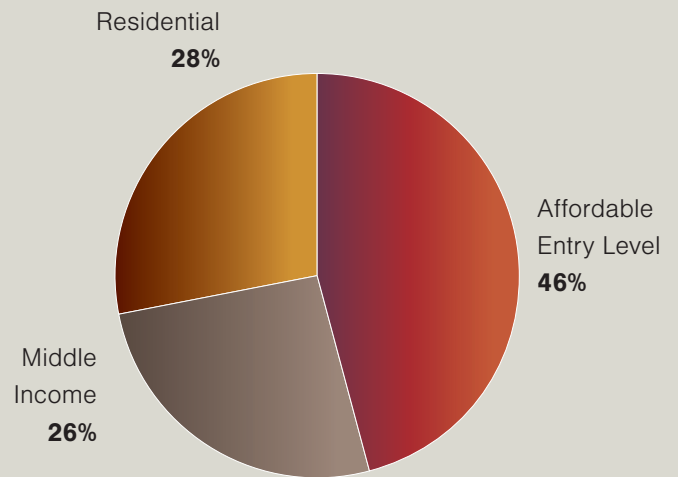
(2) Master plan subject to market modifications and approvals.

ARA'S LAND BANK IS ONE OF ITS MOST IMPORTANT ASSETS, NOT ONLY BECAUSE OF THE INVESTMENT IT REPRESENTS BUT ALSO BECAUSE OF ITS EXCELLENT QUALITY AND LOCATION



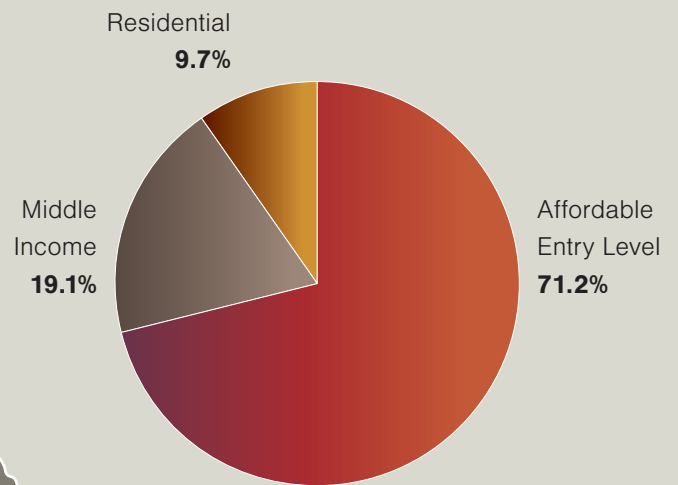
BY HOUSING TYPE

REVENUES⁽¹⁾



(1) Percentage obtained by multiplying units per 2018 average price.

UNITS



MESSAGE TO OUR SHAREHOLDERS

G4-1, G4-2

IN 2018, CONSORCIO ARA HELD TO ITS COMMITMENT TO FINANCIAL DISCIPLINE AND EFFICIENT MANAGEMENT OF RESOURCES. FOR THE FIFTH CONSECUTIVE YEAR, WE GENERATED POSITIVE FREE CASH FLOW FOR THE FIRM, THIS TIME OVER \$1 BILLION, WHICH CONTRIBUTED TO A RECORD \$2.97 BILLION IN CASH AND CASH EQUIVALENTS AT THE CLOSE OF THE YEAR.

ECONOMIC ENVIRONMENT AND HOUSING SECTOR

The economic and political environment in 2018 was marked by uncertainty, which was mainly due to factors including the presidential elections, the transition and government change period, and the signing of the United States-Mexico-Canada Agreement (USMCA). Mexico's Gross Domestic Product (GDP) grew by 2.0% — slightly down from 2.3% in 2017.

In this context, the country's industrial and construction sectors grew by 0.2% and 0.6%, respectively. And the Building subsector, comprising house building, outperformed both with a 1.3% growth.

The outlook of the construction industry, and especially the building subsector, looks promising, considering the country's demographic bonus and its varied and competitive mortgage supply, which is increasingly meeting the needs of the Mexican population.

As for the performance of the Mexican mortgage market in 2018, INFONAVIT granted 207,739 new home mortgage loans — 11.8% less than in 2017 — with an investment of \$80.26 billion. While this figure was slightly below that of the previous year, the average amount of the loans rose by 12.7% — partly due to INFONAVIT's decision to increase mortgage loan limits by 68% in 2017. All this provides a favorable setting for both Consorcio ARA and the wider housing sector.

FOVISSSTE, for its part, granted 26,463 mortgage loans for new homes — 10.2% below the previous year — with an investment of \$18.09 billion, 8.3% less than in 2017. In commercial banking, 75,544 mortgage loans for new homes were granted for a total of \$96.44 billion — 3.1% less than in 2017.

Cascadas Cocoyoc, Morelos, Segment: Residential.



Finally, the government's subsidized housing program (the program for access to housing financing solutions) granted \$5.69 billion in 2018. New homes accounted for \$3.62 billion of these subsidies, 63.6% of the total, rising 7.6% over 2017.

INFONAVIT is expected to grant 377,796 mortgages for both new and existing housing in 2019, with a total investment of \$161.31 billion, and FOVISSSTE is expected to grant 45,000–52,000 loans for a total of \$35.15 billion.

The institutions accounting for the bulk of mortgage loans granted in commercial banking estimate that performance in this category in 2019 will roughly mimic that of 2018 – with 119,682 loans for a total of \$143.5 billion in both new and existing housing.

In all three cases, investment prospects are encouraging and, if they come true, they will contribute to a sustained positive performance in the industry.

One of the challenges facing the sector is ensuring that adequate mechanisms are in place to grant loans to those who do not have access to housing finance agencies. That market will provide an interesting opportunity for growth to businesses that, like ARA, can offer an attractive range of products that cater to various brackets of the income spectrum.

2018 RESULTS

Consortio ARA has earned recognition as a housing development firm that effectively generates positive Free Cash Flow to the Firm, which is a particularly relevant indicator in any heavy-investment industry. Notably, the Company has generated a positive Cash Flow totaling \$3.84 billion over the past five years, clearly demonstrating our commitment to value creation.

In 2018 alone, Consortio ARA made \$1.03 billion in Free Cash Flow to the Firm, which is well above the \$450 million that had been originally projected.



Furthermore, the Company's income in 2018 totaled \$8.21 billion, slightly below that in 2017, and net profits stood at \$825.8 million, 9.5% less than the previous year. It should be noted that a tax benefit was made effective in 2017, but, without considering this item, Consorcio ARA's net profits nonetheless increased by 1.7% in 2018 compared with the previous year.

Looking at revenues by housing segment in 2018, Affordable Entry Level sales showed a double-digit growth — a 28.7% increase over sales in 2017.

Sales in the Middle Income and Residential segments fell by 13.2% and 26.7%, respectively, as a result of the completion of some development projects. It should be noted, however, that most of the ten new development projects that were started throughout the year did not reach the maturity required to be recognized as income in this fiscal year.

We expect that those projects will bring growth back to the Middle Income and Residential segments in 2019 — accounting for nearly 60% of total revenues — which is one of Consorcio ARA's key strategic objectives.

Consorcio ARA has long been characterized by discipline in managing its finances and a moderate approach in using generated cash, yielding positive results for the organization.

Thus, Consorcio ARA's leverage ratios at year-end 2018 stood at optimal levels. The cost-bearing debt to EBITDA ratio was 2.10, and the net debt to EBITDA ratio stood

at -0.39. Furthermore, the cash flow generated by the company during FY2018 resulted in a record \$2.97 billion in Cash and Cash Equivalents as of December 31, 2018, and thus net debt at year-end 2018 was negative, -\$467.3 million.

Consorcio ARA's debt maturity profile also improved this year, with 82% of it being long-term debt. Furthermore, just as in the previous fiscal years, all the Company's debt is peso-denominated, minimizing any foreign exchange risk.

Such financial soundness, coupled with the Company's strong operating performance over the past five years, prompted two of the agencies assessing our credit risk to increase Consorcio ARA's credit rating in 2018.

S&P Global Ratings upgraded the Company's credit rating from "mxA" to "mxA+", with a stable outlook. The agency emphasized the flexibility of our business model and the prudent financial policy we have followed, leading to a positive performance despite Mexico's increasingly challenging macroeconomic environment.

HR Ratings, for its part, upgraded Consorcio ARA's credit rating from HR A+ to HR AA- (with a stable outlook), which is the highest ranking we have ever achieved. HR Ratings justified the upgrade stating that it is a result of the improvement in our key indicators as well as our strong corporate, operating and financial structure.

In both cases, the credit rating upgrades were also made effective for the bonds issued by Consorcio ARA in December 2017.



Dream Lagoons Veracruz, Veracruz, Segment: Residential.

Neither the Company's financial soundness nor other factors including the consistency of its results, its effective geographical and product diversification, the added value derived from its shopping centers, and the high quality of its owned land, had an impact on the performance of ARA's stock, as its price dropped by 32% in FY2018.

In September 2018, Consorcio ARA was awarded the 2016 National Housing Award, in the category of Affordable Entry Level, for its "Misión de las Flores III" housing development. Located in Playa del Carmen, Quintana Roo, the development features a little over 150,000 m² of land, where Consorcio ARA built 1,200 vertical housing units distributed in 4-story buildings.

Granted by CONAVIT in conjunction with INFONAVIT, FOVISSSTE, SHF and FONHAPO, the award considers factors including location, urban design, densification, utility infrastructure feasibility, connectivity, financing, affordability, and accessibility for people with disabilities.

The Shopping Malls Division, for its part, generated \$227.9 million in Net Operating Income in 2018, achieving a remarkable double-digit growth of 12.3% compared with 2017.

By the end of the third quarter, we inaugurated the 13,000 m² expansion of the gross leasable area (GLA) of Centro San Miguel. Thus, at the close of 2018, the GLA of this segment totaled nearly 181,000 m², comprising six shopping centers, unicenters, and minicenters, with an occupancy rate of 94.6%. In addition, this year we started up the expansion of

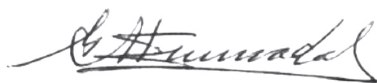
Centro Las Américas, which will account for an additional 24,000 m² of GLA.

Consorcio ARA's sustainability strategy attaches the same level of importance to both our social and environmental objectives and our operating and financial objectives. Thus, for the seventh consecutive year, we have prepared our 2018 sustainability report in accordance with the Global Reporting Initiative (GRI) standards.

The company's employees have always been key to its success. Thus, Consorcio ARA continuously strives to provide its workforce with an optimal workplace. As a result, for the second consecutive year, we were granted the Great Place to Work certification by the Great Place To Work Institute Mexico.

We would thus like to take this opportunity to acknowledge the commitment of all Consorcio ARA's employees. We are also grateful for the trust that our investors – who have given us key feedback and recommendations to achieve continuous improvement – and our clients have placed upon us, and for the contribution of our suppliers.

We anticipate that 2019 will bring important challenges, but we are convinced that, building upon the willpower of our people, upholding the discipline that has always characterized us, and holding to a vision that can prevail even in the most diverse scenarios, we will continue to build homes that can provide a worthy estate for an increasing number of Mexicans.



Germán Ahumada Russek
Chief Executive Officer
Housing Division



Luis Felipe Ahumada Russek
Chief Executive Officer
Shopping Malls Division

Puerta Paraiso, Veracruz, Segment: Middle Income.



Rincón de Palma Real, Veracruz, Segment: Affordable Entry Level.

HOUSING SECTOR IN MEXICO



Paseo de los Sauces, Puebla,
Segment: Affordable Entry Level.



La Florida, State of Mexico,
Segment: Middle Income.



Nautilus, Quintana Roo,
Segment: Middle Income.

THE YEAR 2018 WAS CONSIDERABLY MARKED BY UNCERTAINTY CAUSED BY THE ELECTIONS AND THE CHANGE OF GOVERNMENT, SIGNIFICANTLY IMPACTING ON THE COUNTRY'S ECONOMIC OUTLOOK ALONG WITH OTHER FACTORS INCLUDING THE NEGOTIATIONS HELD PRIOR TO THE SIGNING OF THE NEW NORTH AMERICAN TRADE AGREEMENT (USMCA). THE COUNTRY'S GDP GROWTH STOOD AT 2.0% – DOWN FROM 2.3% IN 2017 – AND THE CONSTRUCTION SECTOR AND BUILDING SUBSECTOR, WHICH COMPRISES HOUSING, GREW BY 0.6% AND 1.3%, RESPECTIVELY.



Valle del Sol, Baja California, Segment: Affordable Entry Level.

Performance of the country's housing and mortgage finance institutions showed mixed results in 2018. INFONAVIT granted 207,739 mortgage loans for new homes for a total of \$80.26 billion. While the number of mortgage loans allocated fell by 11.8% compared with 2017, investment in this category was roughly similar, and so the average loan amounts increased by 12.7% compared the previous year, standing at \$386,346.

The average amount of the loans granted by INFONAVIT once again showed double-digit growth, a trend that we believe is positive for the Company, for the rest of the sector, and, most importantly, for the workers.

FOVISSSTE, for its part, gave 26,463 new home mortgage loans for a total of \$18.09 billion — 8.3% and 10.2% below the figures reported in 2017, respectively. The average amount of the loans granted by FOVISSSTE was \$683,790. Commercial banks granted 75,544 new home mortgage loans — roughly the same figure as in the previous year — with an investment of \$96.44 billion, 3.1% below the figure reported in 2017, and so the average loan amount stood at \$1.28 million.

As for the revenue mix achieved in 2018 in terms of source of financing, 57% of revenues came from loans given by INFONAVIT, 18% came from mortgage loans granted by FOVISSSTE, and the remaining 25% came from loans allocated by commercial banks or from housing purchases made without financing. Thus, we have continued to fulfill our objective of achieving a balanced mix of mortgage financing sources.

The federal government's housing subsidies program paid out \$5.69 billion in 2018, \$3.62 billion of which corresponded to the purchase of new homes, up 7.6% compared with 2017.

Thus, Consorcio ARA's revenues coming from houses purchased with subsidies granted to customers by the government accounted for 10.1% of total sales in 2018.

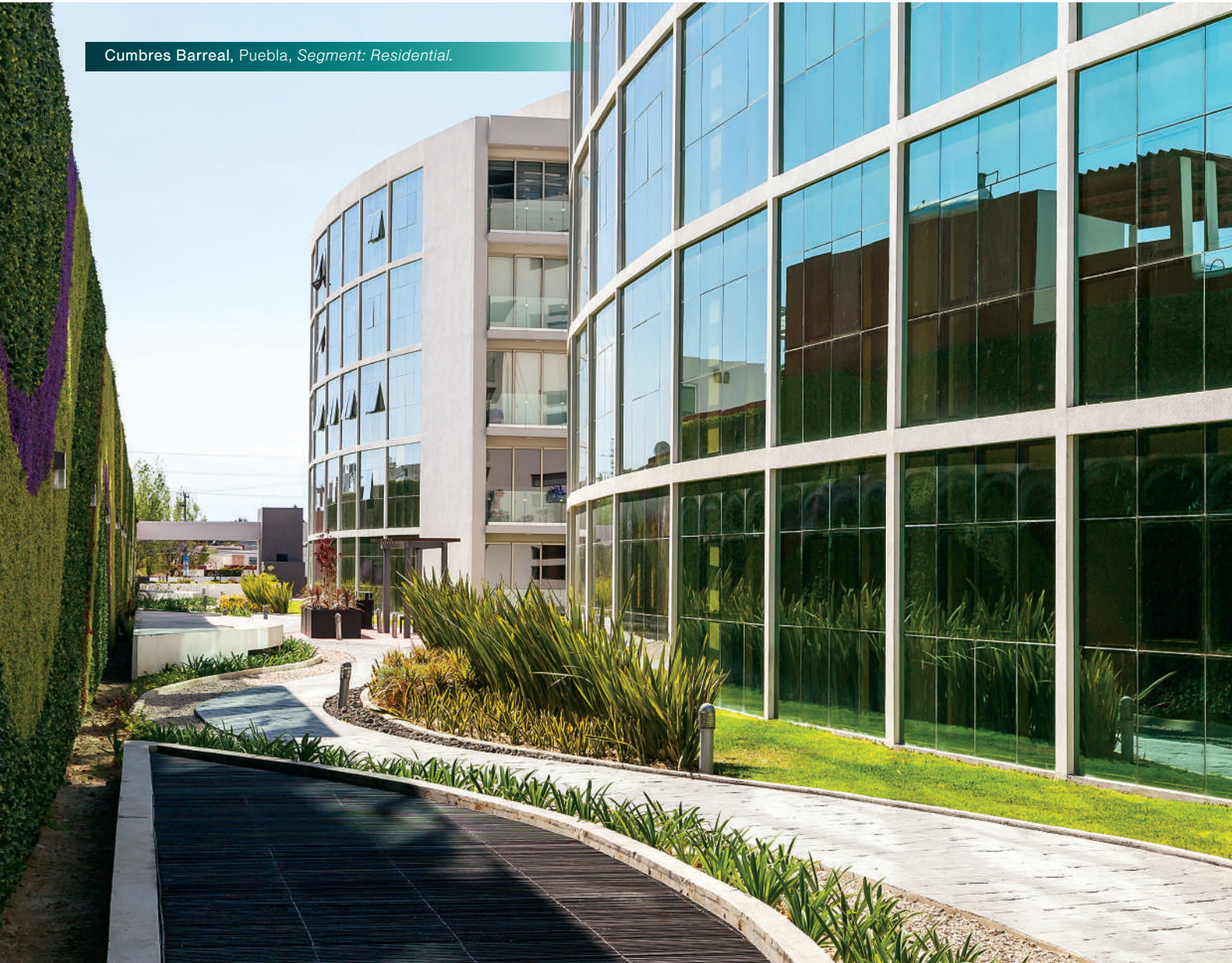
The diversity of our product portfolio — including the Middle Income and Residential segments, in which we have extensive experience — strengthens our resilience to fluctuations in the amount of money the government allocates to the housing subsidy program.

2019 OUTLOOK

According to estimates by mortgage finance institutions, INFONAVIT is expected to achieve better performance in 2019, compared with 2018, in terms of both loans granted and total investment, as it expects to grant 377,796 loans with an investment of \$161.31 billion. For its part, FOVISSSTE is planning to allocate \$35.15 billion for the granting of 45,000–52,000 mortgage loans. In both cases, projections consider financing for both new and existing housing.

According to forecasts by the institutions accounting for the bulk of mortgage loans granted in commercial banking, performance of banking institutions in 2019 will be similar to that of 2018 – with 119,682 loans granted for a total of \$143.51 billion in both new and existing housing.

Such mortgage loan projections encourage confidence about performance in the sector in 2019.



Cumbres Barreal, Puebla, Segment: Residential.

Puerta al Sol, Guerrero, Segment: Middle Income.



Dream Lagoons Rialta, Nuevo León, Segment: Residential.



Hacienda San Javier, State of Mexico, Segment: Middle Income.



HOUSING PRODUCTS_{G4-4}



Puerta Paraíso, Veracruz,
Segment: Middle Income.

Residencial Colinas de Chapultepec, Baja California,
Segment: Residential.

Dream Lagoons Veracruz, Veracruz,
Segment: Residential.

A KEY ELEMENT OF CONSORCIO ARA'S BUSINESS STRATEGY IS THE DIVERSITY OF ITS PRODUCT PORTFOLIO, WHICH ALLOWS US TO MEET THE HOUSING NEEDS OF AN INCREASING NUMBER OF MEXICAN FAMILIES.

The Company builds and sells housing developments in the Affordable Entry Level, Middle Income and Residential segments. Such diversity of housing products offers three major benefits to Consorcio ARA: i) it ensures diversity of revenue sources; ii) it allows us to leverage the far-reaching supply of mortgage loans offered by INFONAVIT, FOVISSSTE, and commercial banks; and iii) it minimizes market exposure risk associated to each individual segment or income bracket.

In 2018, the Affordable Entry Level segment experienced a significant double-digit growth — 28.6% compared with 2017. Sales from this housing segment accounted for 44.1% of the Company's total revenue.

This helped us to largely offset the decline observed in the Middle Income and Residential segments — 13.2% and 26.7%, respectively. Such decline was due, first, to the completion of some development projects and, second, to the fact that most of the developments initiated in 2018 did not reach enough maturity to recognize revenue in that year.

Nonetheless, in 2019 these projects will drive the performance of the Middle Income and Residential segments back to optimal levels, enabling us to achieve once again the strategic objective of ensuring that the two segments account for about 60% of the Company's total revenues.

In 2018, the Middle Income segment accounted for 25.2% of Consorcio ARA's consolidated income, and the Residential segment accounted for 25.4%. At the close of 2018, we had 52 developments in 17 states across the country.

AFFORDABLE ENTRY LEVEL

Product:



Price ranges:
\$320,000 to \$550,000

Mortgage Financing:
INFONAVIT*, FOVISSSTE**, Banks

Monthly income: \$7,700 to \$20,550
MMUU***: 3 to 8

Socioeconomic level: D / D+ / C-



MIDDLE INCOME

Product:



Price ranges:
\$550,001 to \$1,200,000

Mortgage Financing:
INFONAVIT*, FOVISSSTE**, Banks

Monthly income: \$20,550 to \$46,200
MMUU***: 8 to 18

Socioeconomic level: C- / C



RESIDENTIAL

Product:



Price ranges:
From \$1,200,001

Mortgage Financing:
INFONAVIT*, FOVISSSTE**, Banks

Monthly income: More than \$46,200
MMUU***: More than 18

Socioeconomic level: C / C+



*Includes all mortgage schemes: Infonavit Total, Cofinavit, Apoyo Infonavit and Infonavit Second Credit.

**Includes all mortgage schemes: Aliados Plus, Respaldados, Conjugal, Pensioned and Fovissste in Pesos.

***MMUU: Monthly Measurement and Update Unit, equivalent to \$2,568.50 for 2019.

PRODUCT DIVERSIFICATION



Affordable Entry Level and Middle Income housing



ARA RESIDENCIAL

Middle Income and Residential housing



RIALTA

Residential housing



DREAM LAGOONS
ARA

Projects with lagoon

DEPARTAMENTOS INTEGRARA

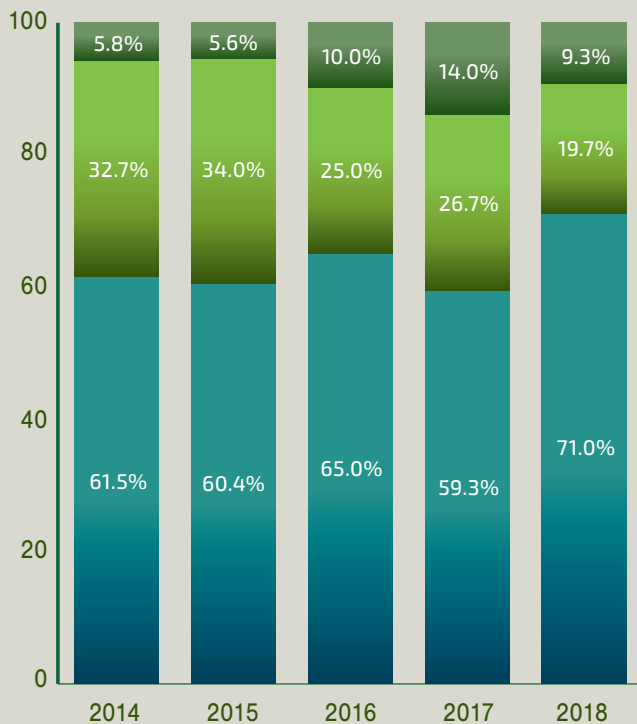
Urban concentration and sustainability projects

CENTROS COMERCIALES

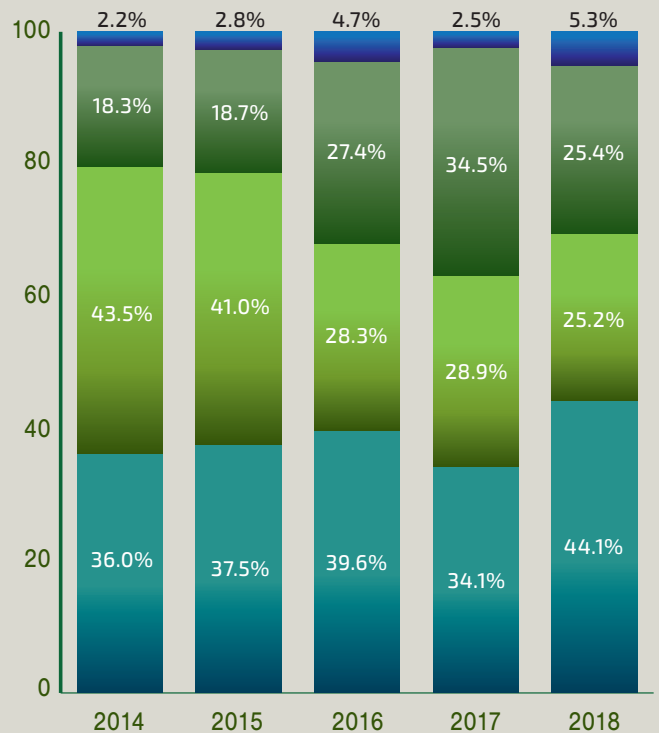
Shopping mall construction and operation

REVENUE MIX

UNITS



AMOUNT



● Affordable Entry Level ● Middle Income ● Residential ● Other real estate projects

SHOPPING CENTERS



Centro San Miguel, State of Mexico.

IN ADDITION TO IMPROVING THE VALUE INCREASE OF OUR HOUSING DEVELOPMENTS, THE SHOPPING CENTERS WE OPERATE SUPPLEMENT CONSORCIO ARA'S VALUE PROPOSITION BY PROVIDING A SIGNIFICANT DIFFERENTIATING FACTOR.

ARA's Shopping Malls Division was highly productive in 2018, achieving double-digit growth in both revenues and net operating profits (NOI), and undertaking and concluding expansion projects for two existing shopping centers.

Thus, revenues from our shopping centers in 2018 rose by 13.5% compared with 2017, topping at \$326.5 million. Net operating profit (NOI) stood at \$227.9 million, achieving a remarkable 12.3% increase. Both increases were mainly due to the opening of Paseo Ventura in early 2017 and the expansion of Centro San Miguel at the end of Q3 2018.

At year-end 2018, the gross leasable area (GLA) of this segment, including unicenters and minicenters, topped at 180,840 m² — 7.7% up from 2017 — and the occupancy rate stood at 94.6%, which is a highly competitive figure. Thus, our shopping centers once again fulfilled the objective of providing an ideal option for leisure to Mexican families.

One of the most significant achievements in 2018 was the implementation and completion of the expansion project for Centro San Miguel, located in the State of Mexico. San Miguel is the busiest shopping center in the Cuautitlán Izcalli municipality, reporting over 3 million visitors per year. That is why we decided to invest \$352 million in a 13,000 m² expansion project that increased the shopping center's leasable area by over 50%.

	CENTRO SAN MIGUEL	CENTRO LAS AMÉRICAS	
City or Municipality	Cuautitlán Izcalli	Ecatepec	
State	State of Mexico	State of Mexico	
Type	Community Center	Regional Center	
		Fashion Mall	Power Center
Anchors	Mega Comercial Mexicana	Liverpool, Sears	Walmart, SAM'S
Sub-anchors	C&A, Coppel	Sanborn's, Suburbia, C&A	Office Max, Martí, Sport City, FAMSA
Cinemas (number of screens)	Cinépolis (10)	Cinepolis (14)	N/A
Gross leasable area (GLA) All the complex (m ²)	38,561	75,929	43,742
Gross leasable area (GLA) ARA Ownership / partner (m ²)	38,561	47,265	14,276
Year of construction	2001	2005	
% ARA	100%	50%	

In addition, we initiated an ambitious expansion and refurbishment project for Centro Las Américas, which is expected to be completed in 2020, adding 24,000 m² to the shopping center's leasable area — a 40% increase from its current capacity. With this, the total GLA of this shopping center will total 85,350 m², offering an ideal blend of businesses so as to become the preferred get-together, amusement, and leisure site for inhabitants in Ecatepec. Centro Las Américas is arguably the most important shopping center in this municipality, and it is one of the busiest shopping centers across the State of Mexico.

As of December 31, 2018, the book value of the four shopping centers that are 100% owned by ARA was \$928.7 million — calculated as acquisition cost minus depreciations. These assets are recognized in the Investment Property item on the statement of financial position.

The strategic growth plan for the Shopping Malls Division is aimed at continuing to increase the value of the existing shopping centers, as illustrated by the recent expansion of Centro San Miguel and the expansion project undertaken in Centro Las Américas.

Centro Las Américas, State of Mexico.



CENTRO SAN BUENAVENTURA	PLAZA CAREY	PLAZA CENTELLA	PASEO VENTURA	OPERADORA DE UNICENTROS
Ixtapaluca	Veracruz	Cuautitlán	Ecatepec	Cuautitlán, Acolman and Coacalco
State of Mexico	Veracruz	State of Mexico	State of Mexico	State of Mexico
Community Center	Community Center	Community Center	Entertainment Center	Strip Center
Bodega Aurrera	Soriana Hiper	Mega Comercial Mexicana	Cinemex	Coppel, Bodega Aurrera Express
Coppel	N/A	Martí, Parisina, McDonald's, D'Europe	Best Buy, Coppel, Ice Station	N/A
N/A	Henry Cinemas (10)	Cinépolis (10)	Cinemex (12)	N/A
11,474	20,917	25,996	25,783	7,686
11,474	20,917	14,882	25,783	7,686
2006	2008	2011	2015	2000-2010
100%	100%	100%	50%	100%



Centro Las Américas, State of Mexico.

FINANCIAL STRENGTH

IN 2018, CONSORCIO ARA CONTINUED TO STRENGTHEN ITS FINANCIAL POSITION, PROVING ONCE AGAIN ITS CAPACITY TO ACHIEVE CONSISTENT RESULTS, ITS EFFICIENCY IN USING THE CASH IT GENERATES, AND ITS DISCIPLINE IN THE MANAGEMENT OF DEBT. THIS YEAR THE COMPANY GENERATED A REMARKABLE \$1.03 BILLION IN FREE CASH FLOW TO THE FIRM, MORE THAN DOUBLING THE \$450 MILLION THAT WAS ORIGINALLY ESTIMATED IN OUR GUIDANCE AND SURPASSING \$1 BILLION FOR THE SECOND CONSECUTIVE YEAR.

This is a key index in our sector, which is one of the more investment-intensive in the industry. In this context, Consorcio ARA has generated a positive Cash Flow of \$3.84 billion over the past five years, increasing the cash balance by 362% — moving from \$643 million in 2013 to \$2.97 billion at year-end 2018 — and thus maintaining reasonable debt levels.

Revenues in 2018 amounted to \$8.21 billion — slightly below those reported in 2017 — and net profits stood at \$825.8 million. Although this figure was 9.4% below that of the previous year — without considering the \$99.7 million tax benefit made effective in 2017 — net profits in 2018 actually increased by 1.7%.

At the close of the year, we achieved a record \$2.97 billion in Cash and Cash Equivalents, up 29.9% compared with 2017. Cost-bearing debt stood at \$2.50 billion, up 8.1% compared with the previous year — primarily due to a loan that was taken out to finance an expansion project for one of our shopping centers. Net debt at the close of the year stood at a negative figure — -\$467.3 million — as a result of the positive balance in Cash and Cash Equivalents. Leverage ratios at year-end stood once again at optimal levels: Cost-bearing Debt to EBITDA was 2.10, and Net Debt-to-EBITDA was -0.39.

Cascadas Cocoyoc, Morelos, Segment: Residential.



In 2018, we also improved our debt maturities profile, with long-term debt representing 82%, up from 69.6% at year-end 2017. Since all our operations take place in Mexico, all our debt is peso-denominated to avoid exchange rate risk.

In late 2017 we began to diversify our financing sources by issuing long-term unsecured bonds for \$1.35 billion, and we continued to do so in 2018. This year we obtained loans for \$500 million and \$300 million from two banks under the unsecured loans scheme (not secured by mortgage), which we had not used since 2013 due to the liquidity crisis affecting three of the public companies in the sector.

Notably, while almost all our cost-bearing debt was collateralized by Q3 2017, at the close of 2018 less than 20% was collateralized.

At December 31, 2018, the inventory balance was \$14.27 billion, up 2.9% compared with the previous year due to an investment made in 10 new developments. Primarily comprising ongoing construction projects, land under development, and land for long-term development, inventory balance is the most relevant item of Consorcio ARA's balance sheet, accounting for 71% of its assets.

Two credit rating agencies assessing the Company's credit risk upgraded its ratings in 2018.

S&P Global Ratings upgraded Consorcio ARA's rating from "mxA" to "mxA+", with a stable outlook. This upgrade was made considering the flexibility of the Company's business model and the prudence it has demonstrated in its financial management. Both factors have driven the Company's success even in the midst of an increasingly challenging economic environment in the country.

Villa Toscana III, State of Mexico, Segment: Residential.



HR Ratings, for its part, upgraded the Company's rating from "HR A+" to "HR AA-", also with a stable outlook. This is the highest rating we have received, and it is a result of the constant improvement observed in Consorcio ARA's key indicators, including a negative net debt, an adequate debt structure for its business model, and an increased debt-service coverage ratio.

In both cases, the upgraded ratings were also made effective for the bonds that Consorcio ARA issued in December 2017.

Additionally, Moody's confirmed its rating of "A2.mx" with a stable outlook for Consorcio ARA. The agency stated such grade was based on ARA's leadership in the housing sector, on its conservative growth strategy, and on its prudent financial policy.

Notably, the impact of the Company's financial soundness, the consistency of its results, its effective geographical and product diversification, the added value derived from its shopping centers, and the high quality of its land bank, among other factors, was not reflected in the performance of ARA's stock*, as its price dropped by 32% in 2018.

In 2018, dividends paid to shareholders amounted to \$180 million, up 62% compared with 2017, accounting for 20% of the year's net profits.

The results achieved are a consequence of our determination, the discipline that drives our approach to finance, and the long-term vision that characterizes our leadership, and they demonstrate Consorcio ARA's commitment to profitability and value generation.

Dream Lagoons Rialta, Nuevo León, Segment: Residential.



INTEGRATION, TECHNOLOGY, AND VALUE CHAIN G4-12

CONSORCIO ARA IS A VERTICALLY INTEGRATED COMPANY. THE CONCRETE, MACHINERY AND FORMWORK (COMACI) DIVISION IS IN CHARGE OF PRODUCING AND TRANSPORTING THE READY-MIXED CONCRETE REQUIRED FOR THE CONSTRUCTION OF OUR HOUSING DEVELOPMENTS IN A TIMELY MANNER. THIS HELPS US TO MAKE PROCESSES MORE EFFICIENT, GENERATING ECONOMIC BENEFITS FOR BOTH THE COMPANY AND ITS CUSTOMERS.

COMACI currently operates eleven concrete plants located inside or near the developments under construction. Such vertical integration helps us to ensure better quality, turnaround times, and sustainability — reducing CO₂ emissions from transport of materials.

Over the past 22 years, we have produced over 10.2 million m³ of ready-mixed concrete — an amount sufficient to fill the US's Hoover Dam more than four times.

One of Consorcio ARA's most distinctive features is a construction system known as "wall-slab," in which the wall and the slab are assembled as a single structural element. This system offers the necessary flexibility to build either horizontally or vertically, which is a significant quality considering that 60% of the housing units we sold in 2018 were within vertical developments — a figure that has experienced an upward trend over the past few years.

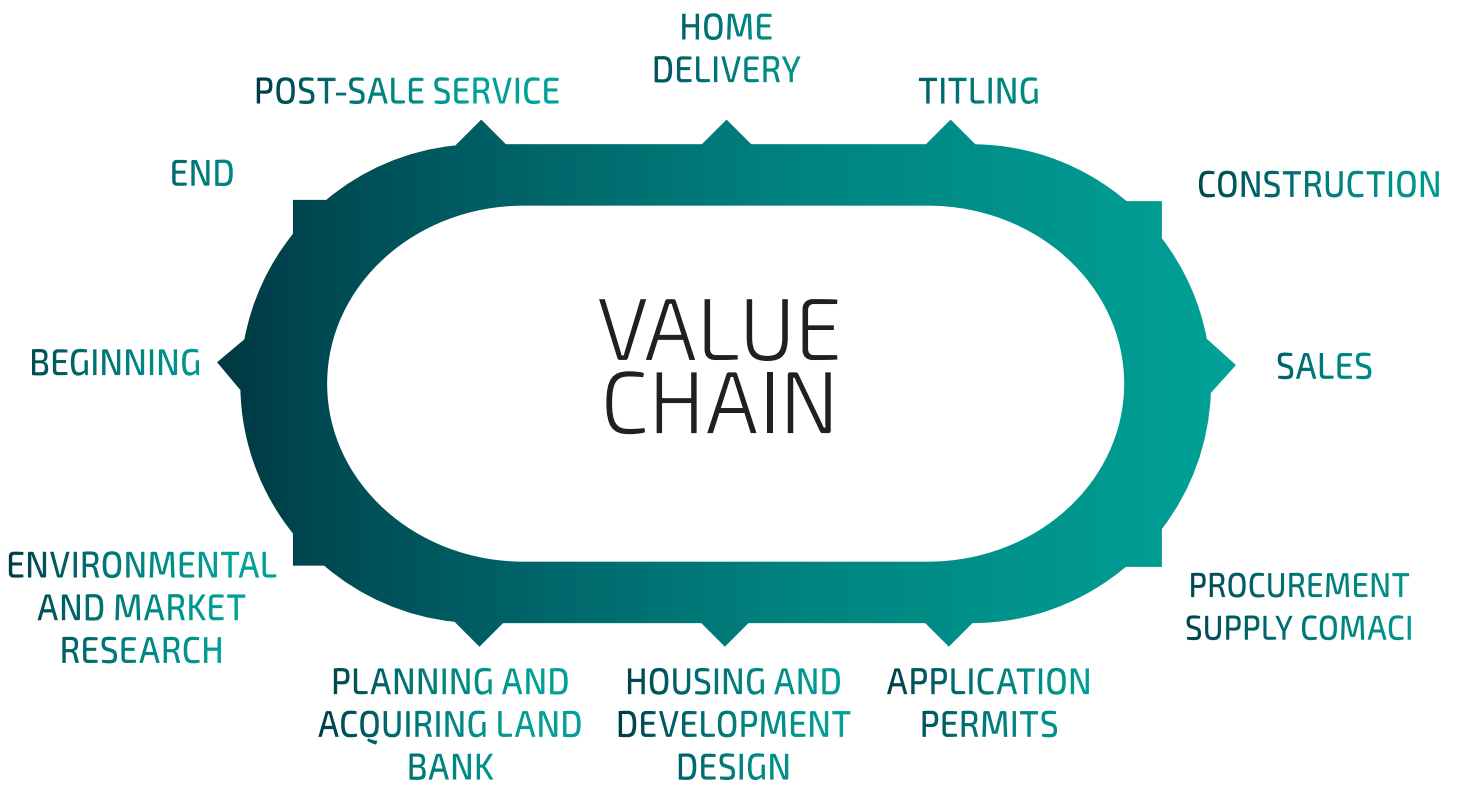
We strive to be at the forefront in the use of technology, thereby contributing to both the efficiency of our processes and the quality of our products.

For this purpose, we have implemented the BIM (Building Information Modeling) system, which enables us to adopt a collaborative and integrated approach for modeling in 3D the various phases of the design, planning, budgeting, and construction process. This allows us to simulate the performance of inputs and thus maximize productivity.

Specifically, we model prototypes and mine laying in our 3D printer, enabling us to assess new projects in a more precise and detailed way.



Valle del Sol, Baja California, Segment: Affordable Entry Level.



SUSTAINABILITY



Paseo de los Sauces, Puebla,
Segment: Affordable Entry Level.



Nautilus, Quintana Roo,
Segment: Middle Income.



Valle Esmeralda, Nayarit,
Segment: Affordable Entry Level.

TODAY'S LEADING BUSINESSES DO NOT ONLY STRIVE TO BE AT THE FOREFRONT OF THE MATTERS RELATING TO THEIR SECTOR, BUT THEY ALSO AIM TO SERVE AS A MODEL FOR OTHER BUSINESSES IN TERMS OF SUSTAINABILITY. THAT IS WHY WE HAVE SUPPLEMENTED THE SOUND OPERATING AND FINANCIAL PERFORMANCE WE HAVE ACHIEVED OVER THE PAST YEARS WITH DECISIVE MEASURES REGARDING ENVIRONMENTAL AND SOCIAL ISSUES, BOTH INSIDE AND OUTSIDE THE ORGANIZATION.

STAKEHOLDERS

G4-24, G4-25 The stakeholders we have identified as most relevant to the company's operation are employees, customers, suppliers, shareholders, the community, and government authorities. Our relationship with each one of them is regulated by our Code of Conduct and Ethics at Work, which is aimed at ensuring that relationships take place under the strictest ethical standards.

G4-26 We use a number of mechanisms to openly and promptly address any query, comment or suggestion from our stakeholders:

- Contact and support line (01800 0220581).
- LineARA Customer Service Line (01800 5463272).
- Quarterly conference calls with shareholders.
- Facebook (over 202,000 followers), Twitter (over 2,000), and Instagram (over 2,300) accounts.

We have a number of institutional communication channels available to employees. In 2018, we established a new Intranet, implementing an internal communication channel called ComunicARA. This user-friendly website is aimed at providing employees with an integrated database to get direct and easy access to information.



Fuentes de Tizayuca II, Hidalgo, solar heaters.

ComunicARA comprises mainly the following sections:

- Business (Mission, Vision, Values, SIP link, Quarterly Goal)
- Guidelines (Policies, Code of Conduct, ARA's Way)
- Communication (Internal Communication and Cultura del BienEstar)
- Training (Access to ARALearning)
- ARAKiosco

“Cultura del BienEstar” (Wellness Culture) is an important channel that publishes information on topics of general interest to employees, including employee discount programs, holidays and vacation periods, campaigns, activities undertaken by the ARA Foundation, and other information that may be relevant for them.

Also, there are bulletin boards on each floor in the headquarters and field offices. Finally, the “Kiosco” employee website provides employees with access to information on payroll, vacation, and personal data.

ECONOMIC DIMENSION

[G4-EC1](#) Housing construction requires products and services from 78 different types of businesses, and it is thus considered one of the most important drivers of development. Detailed information on the economic value generated and distributed by Consorcio ARA is provided in the Consolidated Financial Statements, which are included in the digital version of this report.

[G4-EC6](#), [G4-EC7](#), [G4-EC9](#) Aiming to stimulate growth in the Mexican economy, the Company makes most of its purchases from domestic suppliers, and its senior executive positions are held by Mexicans who have relevant experience in the regions they serve.

[G4-EC4](#), [G4-SO6](#), [G4-SO7](#), [G4-SO8](#) In 2018 Consorcio ARA made no contributions to any political party and it received no financial aid from any government. The Company did not receive any complaints of monopolistic or anti-competitive practices, or incur any penalties for breach of regulations.



Fuentes de Tizayuca II, Hidalgo, School.

ENVIRONMENTAL DIMENSION

Consortio ARA's major objectives regarding the environment are to comply with the relevant regulation and to minimize our ecological footprint.

ENERGY, EMISSIONS AND SUSTAINABLE HOUSING

[G4-EC2](#), [G4-EN6](#), [G4-EN7](#), [G4-EN19](#), [G4-EN27](#) In 2009, Mexico launched a Special Climate Change Program aimed at reducing greenhouse gas emissions. The program included the implementation of the National Appropriate Mitigation Action (NAMA) program, whose aim is to support sustainable housing in Mexico.

Consortio ARA has taken part in the NAMA initiative since 2015. Our housing prototypes have been tested to meet standards for minimizing CO₂ emissions, implementing bioclimatic strategies and technologies aimed at reducing the thermal load of each dwelling and generating environmental and economic benefits.

Over the past four years, we have built nearly 15,000 housing units under the NAMA project, equipping them with eco-technologies that minimize the use of air conditioning, heating, and gas, and thereby achieving an estimated reduction of 8,800 tons of CO₂ emissions. Considering that the useful life of a housing unit is forty years, this reduction is quite significant, as the 15,000 housing units built by ARA over this period would result in an estimated reduction of 353,600 tons of CO₂ emissions.

Furthermore, those who acquired this type of housing were eligible for a subsidy from the federal government.

In 2018, Consortio ARA titled houses corresponding to 7,945 INFONAVIT Green Mortgages, which are equipped with technologies to reduce water and energy consumption, minimize CO₂ emissions, and generate savings of up to \$400¹ per month for each household. We also sold 1,958 housing units equipped with these technologies under a similar program run by FOVISSSTE. The eco-technologies we acquired in 2018 are shown below:

¹ Source: INFONAVIT

DESCRIPTION	2018	2017
Solar Heaters	2,777	2,405
Step Water Heaters	8,523	5,236
Energy-Saving Light Bulbs	59,208	56,339
Mixers / Single-Lever Faucets	29,325	27,591
Voltage Optimizers	296	540
Water-Saving Shower Heads	15,726	14,930
Eco-Friendly Toilets, econ. and residential	16,391	16,571
Solar-Powered Street Lamps	70	48

Our housing developments are equipped with infrastructure and fixtures that promote integration in communities and improved quality of life:

FACILITIES	2018 UNITS/ AREA (m ²)	2017 UNITS/ AREA (m ²)
Classrooms	105	59
Community Garden	43,780	31,257
Sports and Playground Area	46,801	60,414
Urbanization	469,840	523,039

MATERIALS, WATER, BIODIVERSITY AND WASTE

[G4-EN1](#), [G4-EN2](#) Housing construction makes intensive use of premixed concrete and steel. In 2018, we used 426,000 m³ of concrete, 15,753 tons of steel, and 2.38 million m² of welded wire mesh, and we did not use recycled materials in our construction processes

[G4-EN9](#), [G4-EN10](#) Water conservation is one of the most important objectives today, and we thus have ensured that our operations do not impact negatively on primary water sources. Our developments are equipped with eco-technologies to optimize water consumption and with water treatment plants, some of which are equipped with rainwater harvesting systems that produce safe water. In 2018, we built sixty waterworks systems.

[G4-EN11](#), [G4-EN22](#), [G4-EN23](#), [G4-EN24](#), [G4-EN25](#), [G4-EN26](#), [G4-EN29](#) None of Consorcio ARA's operations take place in protected or high biodiversity areas. In 2018, no wastewater spills were reported, and no waste was transported or handled. We did not incur any significant environmental sanctions.

[G4-EN30](#) As part of the company's employee benefits program, we have four employee shuttle routes in place. In

2018, 246 employees used the shuttles, with a total of 55,598 kilometers traveled. Also, we installed concrete plants inside or near the housing developments, thereby reducing emissions from transport of materials.

[G4-EN31](#) In 2018, we invested \$66 million in eco-technologies.

[G4-EN32](#), [G4-LA14](#), [G4-HR4](#), [G4-HR10](#), [G4-SO9](#) Although Consorcio ARA does not evaluate the environmental, labor, social, or human rights practices of its suppliers, we encourage them to take part in our efforts to achieve sustainability.

SOCIAL DIMENSION

One of Consorcio ARA's strategic priorities is to build a workforce that strives for excellence as a means to ensure success for the Organization. We provide employees with highly competitive working conditions, opportunities for growth, and training at both the professional and the personal levels.

Outside the organization, we strive to contribute to raising the quality of life of those living in the developments we build and in the communities we serve.

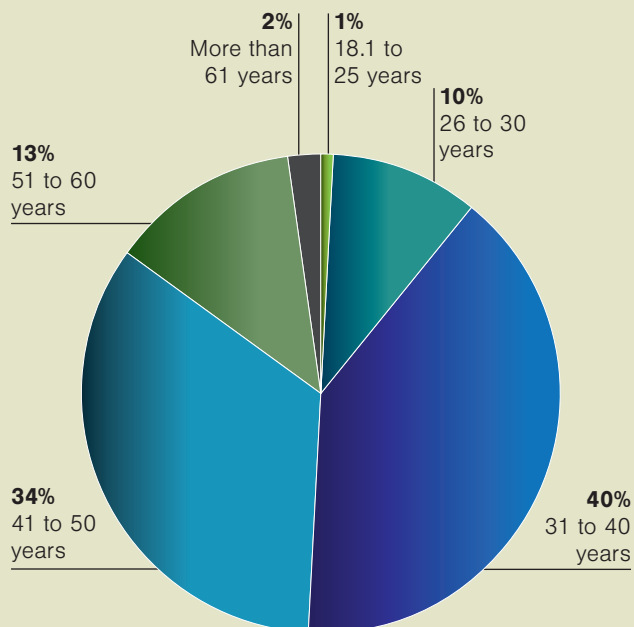
EMPLOYMENT

For the second consecutive year, Consorcio ARA was granted the Great Place to Work certification by the Great Place to Work Institute Mexico in the 500–5,000 Employees and Multinational category. This recognition is awarded based on a direct assessment of the employees' experience, asking them to answer a Trust Index Survey. The ARA team showed pride in, commitment to, and a sense of belonging to the Organization.

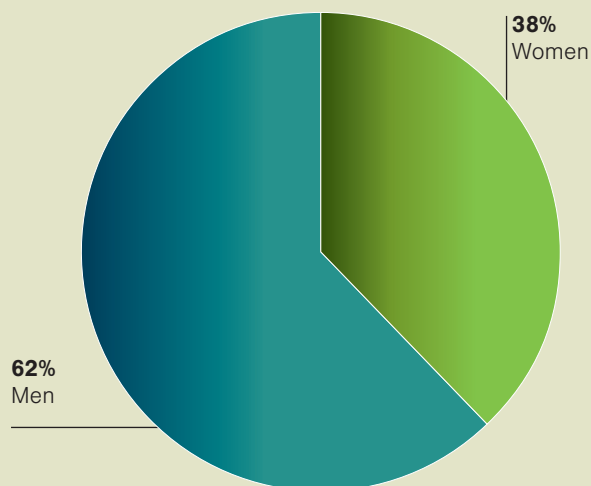
Earning such an important distinction for the second time urges us to continue to build a world-class workplace that fosters teamwork, camaraderie, and development among the ARA talent.



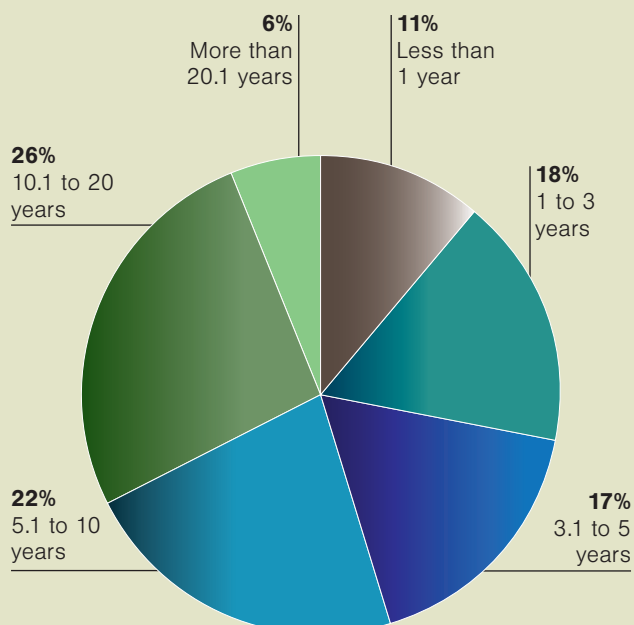
BY AGE



BY GENDER



BY LENGTH OF SERVICE



In 2018, we launched a campaign to raise awareness and acknowledge the benefits and services offered to employees and thus strengthen their commitment to the Organization.

[G4-9, G4-10, G4-11, G4-LA1, G4-HR4](#) Consorcio ARA does not have any collective bargaining agreement in place, although we fully recognize access to this right by our employees. The following tables show the composition of our workforce in the Housing Division by December 31, 2018.

[G4-LA2, G4-EC3, G4-EC5](#) The average wage paid to Consorcio ARA's employees across the board is nine times the minimum monthly wage, and the benefits offered are above the requirements of the law:

- Thirty days' annual bonus
- Vacation bonus, as established by Law
- Savings Fund, complying with the 13% ceiling established by Law
- Performance Bonus
- Life Insurance
- Medical Expenses Insurance
- Punctuality Bonus (an amount equivalent to two days of base salary per month)
- Corporate Canteen
- Employee Shuttle Service (five routes)
- Employee discount agreements with other businesses

[G4-LA4](#) Due to the nature of our business, Consorcio ARA is unable to provide its employees with a minimum period of notice prior to organizational changes.

[G4-LA3](#) In 2018, 8 mothers and 4 fathers resumed their regular activities at the company after taking a total of 692 days due to maternity or parental leave, a right that Consorcio ARA fully recognizes and enforces across the Organization.

[G4-LA16](#) Twenty-nine complaints concerning labor practices were filed in 2018, 13 of which were declared admissible.

TRAINING

We believe that continuing development is a key element for the Company's success, and we thus have built training and development programs for our employees.

As part of the innovation, redesign, and information updating strategy, in 2018 we updated the ARA Learning training

platform, in which all our virtual and face-to-face training initiatives are managed. The new platform offers a number of advantages for both students and the Company, including:

- 24/7 Access
- A user-friendly and flexible platform
- Online reports
- Reduces need to commute
- Saves time and costs
- Possibility to manage and monitor training courses and programs
- Access to videos, materials, etc., from any device

[G4-LA9](#), [G4-LA10](#) In 2018, a total of 2,240 hours of training were held for employee induction, 513 hours were held for specialized courses and workshops on leadership and high-impact results, and Team Building. The platform featured training courses on urbanization, money laundering, the mortgage schemes offered by INFONAVIT, FOVISSSTE, commercial banking and the Cuenta con ARA program, and construction train.

In 2018, employees received 414 hours of training on INFONAVIT's EC0903 certification, resulting in the certification of 378 consultants and analysts specializing in title deeds.

We also established educational agreements with a number of institutions to bring benefits to employees and, in some cases, to their families as well.

[G4-52](#), [G4-LA11](#) Consorcio ARA carries out quarterly employee performance appraisals where managers provide feedback and set well-defined goals for each employee. In 2018, we conducted a total of 2,346 appraisals, which were now conducted in electronic form.

DIVERSITY AND EQUAL OPPORTUNITIES

[G4-LA12](#), [G4-LA13](#) We firmly believe in equal opportunities for everyone, and thus the Company's salaries, recruitment, training, development and promotions are acted on based on each employee's individual capacity, regardless of their gender or any other factor like ethnic background or religious affiliation. By 2018, 27% of management and executive positions were held by women.

We seek not only to engage talent, but also to retain talent. In 2018, 37 employees were promoted and another 92 employees received salary increases, which altogether account for 19% of the total workforce.

SAFETY AND HEALTH

[G4-LA5](#) Composed of 58 volunteers, the ARA Brigade is aimed at disseminating self-protection measures, encouraging employees to actively participate in occupational accident prevention and control, and ensuring a timely response to any event that may threaten the continuity of the business, minimizing damages.

In 2018, the ARA Brigade received training on First Aid, Fire Fighting, and Evacuation, and it organized evacuation drills in which 223 employees participated. Additionally, 245 em-



employees attended the awareness-raising talks organized by the brigade.

Also, this year we had a seismic alert system installed in our headquarters, enabling the detection of early tremors from any direction.

[G4-LA5](#) We encourage employees to practice sports and engage in recreational activities as a means to promote a culture of disease prevention and a healthy and active lifestyle among employees. The following activities were held in 2018:

- 48 employees underwent clinical and blood chemistry tests.
- 32 employees went to the visual health unit.
- 14 employees signed up for the men’s football team, and 15 women for the women’s football team.
- 90 employees participated in the Bowling for a Cause Tournament, aimed at supporting 35 children from the See Well to Learn Better program.
- 69 children participated in the ARAKid’s Day, aimed at integrating our employees’ children into the Consorcio ARA community and acquainting them with the work that their parents do at the Company.

[G4-LA6](#) No ARA employee carries out any occupational activity associated with a high incidence or risk of any specific disease. The following table shows the data on occupational accidents in 2018:

ACCIDENT TYPE	NO. OF CASES	DURATION OF SICK LEAVE
Injuries caused by accidents on the way to work.	6	279
Occupational injuries		
Minor muscle injuries and common illnesses and conditions	25	738
Fatal occupational injuries	0	0

HUMAN RIGHTS

[G4-HR3](#), [G4-HR5](#), [G4-HR6](#), [G4-HR8](#), [G4-HR12](#) Under no circumstances will the company employ children or young people, and no person working for the Company is employed against their will. Just as in previous years, there were no reports of incidents or grievances related with discrimination or violation of human rights or indigenous rights in 2018.

RESPONSIBILITY ASSOCIATED WITH OUR PRODUCTS

[G4-PR2](#), [G4-PR7](#) All our housing developments comply with the current legislation on urban development and housing, in both their design and their construction. In 2018, the Company did not breach any regulation regarding advertising or marketing.

[G4-PR8](#), [G4-PR9](#) Consorcio ARA protects the personal data of its customers in accordance with the provisions of the

ARA Brigade.



Federal Law on the Protection of Personal Data Held by Private Parties. No complaints were reported to us this year in this regard.

CUSTOMER SERVICE

Consortio ARA believes it is important to promote healthy neighbor relations among those living in our developments, even after we have concluded the sale of the housing units. For this purpose, the Customer Service department employs 32 certified Neighborhood Promoters across the country, who organized 219 community events in 2018:

EVENT TYPE		NUMBER OF EVENTS 2018
Massive deliveries		3
Assemblies	Neighborhood meetings	174
Sports	Classes (various), races, competitions, rallies	5
Family	Mother's Day, Father's Day, Children's Day, Family Day	12
Civil/use and customs	Independence day, Day of the dead, Christmas, Three Wise Men' day	18
Social	Literacy, self-employment, workshops, therapies, addictions	6
Sustainability	Reforestation, waste management, water use	7
Health	Vaccination campaigns, visual health, anti-dengue campaign, etc.	4
TOTAL		219

ARA FOUNDATION

[G4-16, SO-1](#) Consortio ARA has always embraced the responsibility of acting as a driver of well-being across its scope of influence. To fulfill such social commitment, the ARA Foundation has implemented various housing, education, health, and environmental programs since 2005, aiming to achieve its Mission: "To provide development opportunities to raise the quality of life of Mexicans."

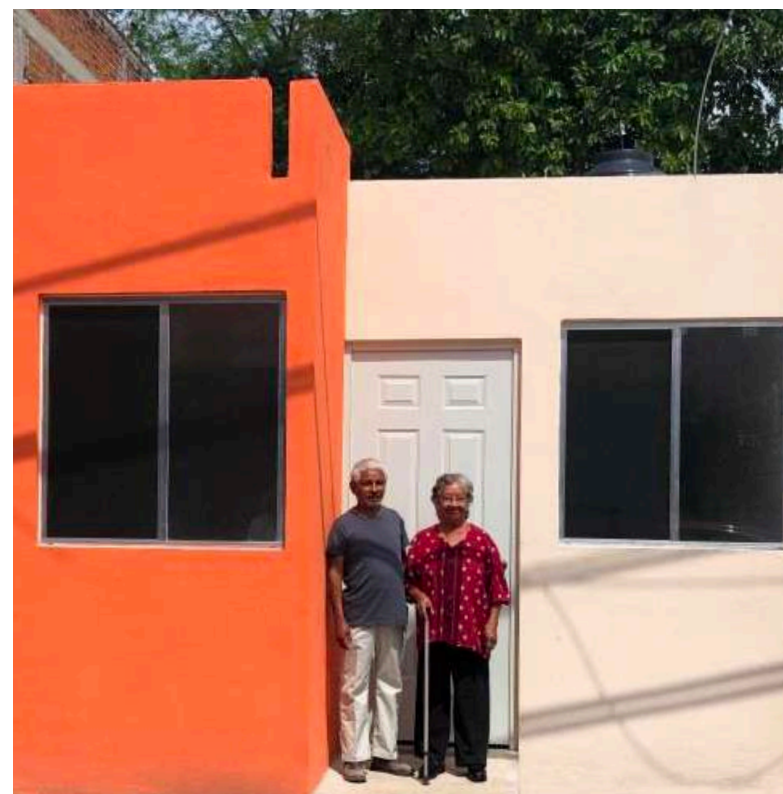
In 2018, the ARA Foundation undertook an initiative to build new houses to support those who were affected by the earthquakes that struck Mexico in September 2017.

a. In collaboration with Fundación Teletón, Consortio ARA has supported families that lost their houses following the 2017 earthquakes by building 100 new houses for victims, regardless of their background,

in the State of Mexico, Chiapas, Guerrero, Morelos, Oaxaca, Puebla, Tlaxcala and Mexico City, with an investment totaling \$3 million.

At the close of 2018, 35 houses had already been delivered in Chiapas, 27 in Morelos, and 20 more in Mexico City. Throughout the rest of 2019, the remaining 30 houses will be delivered in Taxco, Guerrero.

b. Notably, Fundación ARA has invested \$2 million in building houses for the victims of the earthquakes. By December 31, 2018, six houses had been delivered in Tlalpan, Mexico City, and another seven in Jojutla, Morelos.



CORPORATE GOVERNANCE



Colinas del Valle, Jalisco,
Segment: Affordable Entry Level.



Valle Esmeralda, Nayarit,
Segment: Affordable Entry Level.



Vista Real II, Quintana Roo,
Segment: Affordable Entry Level.

CONSORCIO ARA HAS ADOPTED SOLID CORPORATE PRACTICES THAT UPHOLD BUSINESS ETHICS, TRANSPARENCY, AND SUSTAINABILITY. SUCH PRACTICES ARE AT THE CORE OF BOTH THE COMPANY'S BUSINESS STRATEGY AND ITS LONG-TERM VISION.

G4-34 In pursuance of the provisions of the Securities Market Law (LMV for its Spanish acronym) and the Company's bylaws, the Board of Directors of Consorcio ARA S.A.B. de C.V. meets four times a year. In 2018, the average attendance at the Board's meetings was 85%.

G4-38 The Board has thirteen members, all men, and three women act as alternates. In accordance with the provisions of the Code of Best Corporate Practices, nine of the members (69%) are independent, well above the 25% requirement of the LMV. The following table shows the length of service of Board members:

	LENGTH OF SERVICE IN YEARS AS OF DEC 31, 2018	
Germán Ahumada Russek	30	CHAIRMAN
Luis Felipe Ahumada Russek	30	VICE CHAIRMAN
Germán Ahumada Alduncin	15	VICE CHAIRMAN
Pedro Alonso Angulo	15	BOARD MEMBER
Luis Ramón Carazo Preciado	15	BOARD MEMBER
Roberto Danel Díaz	15	BOARD MEMBER
Salvi Rafael Folch Viadero	2	BOARD MEMBER
Félix Gavito Marco	23	BOARD MEMBER
Francisco Javier Lomelín Anaya	11	BOARD MEMBER
Miguel Guillermo Lozano Pardinás	2	BOARD MEMBER
Andrés Massieu Berlanga ^(a)	20	BOARD MEMBER
Ricardo Paullada Nevárez	5	BOARD MEMBER
Raúl Robledo Tovi	5	BOARD MEMBER

(a) In February 2019, Board Member Mr. Andrés Massieu Berlanga submitted his resignation due to personal reasons.

[G4-39](#) The Chairman of the Board of Directors is also the Chief Executive Officer of the Housing Division of Consorcio ARA.

[G4-40](#), [G4-41](#), [G4-51](#) The independent members of the Board are chosen based on factors including experience, capability, professional prestige, and no conflict of interest in the performance of their duties. The appointment and ratification of board members is subject to approval by the Shareholders' Meeting, and all are experts in finance, taxes, corporate governance, risk management, and other strategic issues.



Cascadas Cocoyoc, Morelos, Segment: Residential.

[G4-45](#) The Board of Directors advises about the risks facing the Company, manages impacts, and evaluates the economic opportunities for the Company through the Annual Report that is presented in accordance with the general provisions applicable to Securities Issuers and other Stakeholders of the Security Market.

[G4-34](#), [G4-42](#) [G4-47](#) The Board is supported by the Audit and Corporate Practices committees, which are made up of independent members and presided over by Félix Gavito Marco and Roberto Danel Díaz, respectively.

The Audit Committee is in charge of: evaluating the performance of external auditors; monitoring the internal control system; reporting on internal audit functions; discussing the financial statements with those responsible for their preparation, and, if in agreement, recommending their approval by the Board of Directors; informing the Board of any irregularities of which it becomes aware; receiving and analyzing comments from shareholders, Board members, and executive officers; and performing other duties provided for in the LMV.

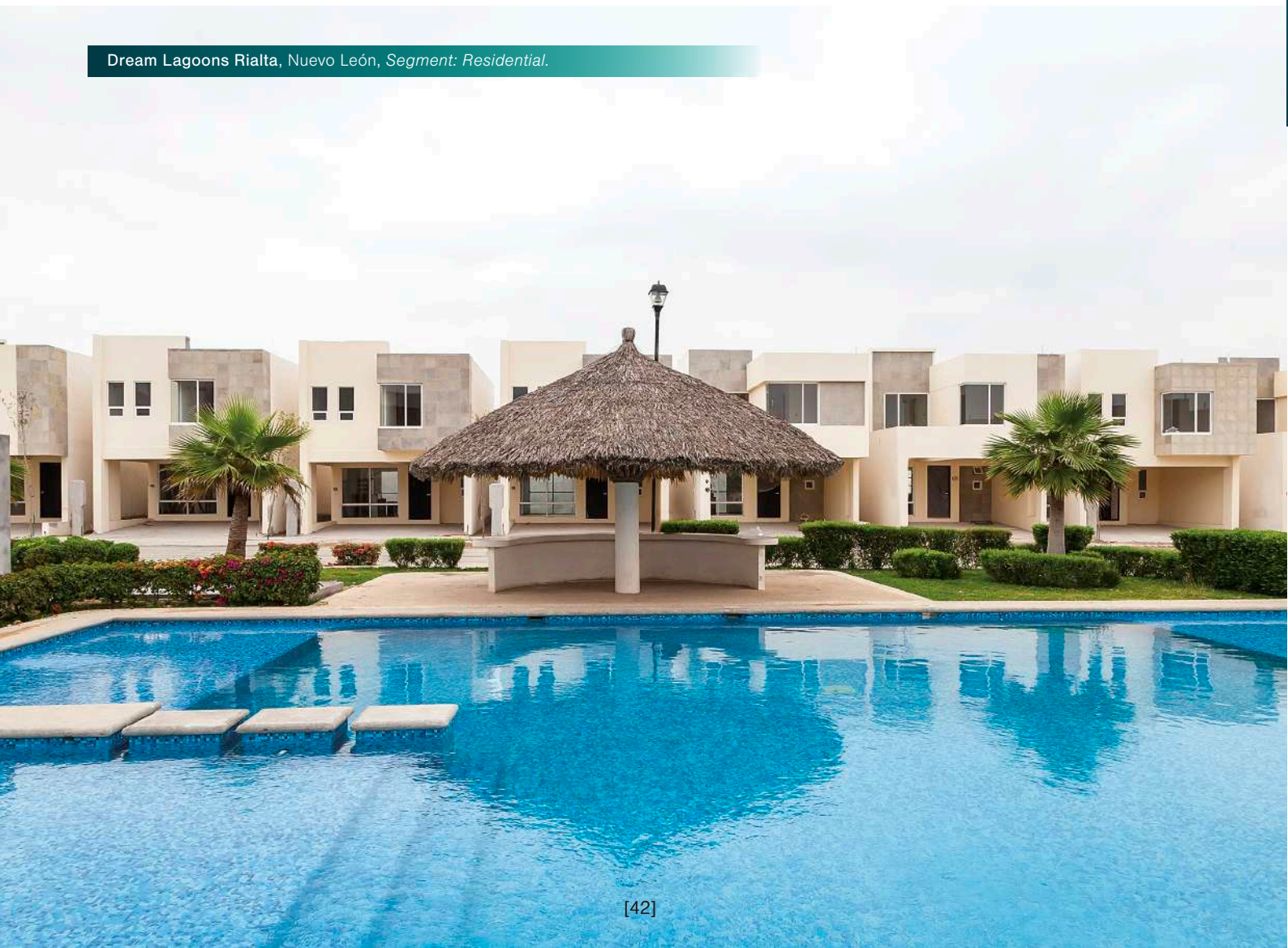
[G4-51](#), [G4-46](#), [G4-52](#) The Corporate Practices Committee delivers opinions on the policies and guidelines on the Company's operations as they relate to stakeholders, evaluates and proposes the compensation of the Chief Executive Officer and other senior officials; and oversees the financial policies and practices, the strategic vision, and the risk management approach.

[G4-35](#), [G4-36](#) Consorcio ARA's management team meets with the two Committees at least once every quarter to discuss relevant issues.

[G4-15](#) Since 2003, Consorcio ARA has adhered to the Code of Best Corporate Practices issued by the Business Coordination Council, and it presents an annual compliance report to the Mexican Stock Exchange using the Best Corporate Practices Questionnaire.

[G4-SO8](#) In 2018, Consorcio ARA did not incur any penalties or significant fines resulting from non-compliance with current laws and regulations.

Dream Lagoons Rialta, Nuevo León, Segment: Residential.





Las Misiones II, State of Mexico, Segment: Residential.

CODE OF CONDUCT AND ETHICS

[G4-56, G4-SO4](#) Consorcio ARA’s corporate culture is marked by our everyday embodiment of our corporate values: Honesty, Commitment, Responsibility and Quality. These values are laid down in the Code of Conduct and Ethics, which outlines the integrity and transparency standards that the Company and its stakeholders – board members, shareholders, management, collaborators, suppliers, and customers – must maintain. The Code of Conduct and Ethics can be found at: <https://consorcioara.com.mx>

[G4-34, G4-37, G4-57, G4-58, G4-LA16](#) Consorcio ARA has put in place the ARA Advisory and Reporting System to support all stakeholders. This includes the ARA Confidential Hotline, which is available to our stakeholder groups to report any violation of the Code of Conduct and Ethics:

- Mexico City Metropolitan Area: 5251 7489
- Outside Mexico City, in Mexico: 01800 823 07 22
- E-mail: lineaconfidencial@ara.com.mx

The following table shows the number of grievances reported and addressed in the past three years:

YEARS	GRIEVANCES
2018	123
2017	78
2016	51

[G4-49, G4-50](#) Of the 123 grievances reported in 2018, 66 were declared admissible and processed, with resolutions ranging from warnings to final dismissal. All grievances were reported to the Board of Directors.

[G4-EN34, G4-LA16, G4-HR3, G4-HR12, G4-SO5, G4-SO11](#) Just as in the previous years, no complaints were received in 2018 regarding environmental issues, discrimination, human rights violations, or claims about social impact.

BOARD OF DIRECTORS

MEMBERS OF THE BOARD OF DIRECTORS 2019, AS WELL AS THE AUXILIARY COMMITTEES, WILL BE APPOINTED OR RATIFIED IN THE SHAREHOLDERS' MEETING OF APRIL 24, 2019.

COMMITTEE	NAME		POSITION	ALTERNATE	
	Germán Ahumada Russek	▲ ■	Chairman	Alicia Enriquez Pimentel	▲
	Luis Felipe Ahumada Russek	▲ ■	Vice-Chairman	Guillermo Alberto Riveroll López	▲
	Germán Ahumada Alduncin	▲ ■	Vice-Chairman	Alicia Enriquez Pimentel	▲
P	Pedro Alonso Angulo	●	Board Member	María Cristina Hernández Trejo	●
P	Luis Ramón Carazo Preciado	●	Board Member	Eugenio Riveroll Picazo	●
A and P	Roberto Danel Díaz	●	Board Member	Sylvia Meljem Enríquez de Rivera	●
	Salvi Rafael Folch Viadero	●	Board Member	Patricio Bustamante Martínez	●
A	Félix Gavito Marco	●	Board Member	Lorenzo Lucas Sánchez	●
	Francisco Javier Lomelín Anaya	●	Board Member	Carlos Hernández Magallanes	●
	Miguel Guillermo Lozano Pardinas	▲	Board Member	Alicia Enriquez Pimentel	▲
A and P	Andrés Massieu Berlanga ^(a)	●	Board Member	Alejandro C. Álvarez Certucha	●
A and P	Ricardo Paullada Nevárez	●	Board Member	Andrés García Gutiérrez	▲
P	Raúl Robledo Tovi	●	Board Member	José Roberto Flores Athié	●
	Ricardo Maldonado Yáñez		Secretary		
	Lorenza K. Langarica O'Hea		Pro-Secretary		

(a) On February 2019, Board Member Andrés Massieu Berlanga handed over his resignation due to personal reasons.

A: Audit

P: Corporate Practices

● Independent Board Member

▲ Related Board Member

■ Owner Board Member



MANAGEMENT TEAM

Germán Ahumada Russek | CHIEF EXECUTIVE OFFICER HOUSING DIVISION

Luis Felipe Ahumada Russek | CHIEF EXECUTIVE OFFICER SHOPPING MALL DIVISION

Miguel Lozano Pardinás | CO-CHIEF EXECUTIVE OFFICER

HOUSING DIVISION CORPORATE DIRECTORS

Silvia Rosa Chew Bolaños | ADMINISTRATION DIRECTOR

Alicia Enriquez Pimentel | FINANCIAL AND INVESTOR RELATIONS DIRECTOR

Luis Alfonso Gómez Fernández | DIRECTOR OF COMMERCIAL REGULATION AND INTELLIGENCE

Carlos López Pérez | AUDIT, COMPTROLLERSHIP AND RISK DIRECTOR

Carlos Noé Ríos Cabello | TECHNICAL AND LEGALIZATION DIRECTOR

Rodolfo Trujillo Mondragón | LEGAL DIRECTOR

COMMERCIAL DIRECTORS

Carlos Ávila Viveros | STATE OF MEXICO

State of Mexico

Carlos Falcón Pimienta | EAST | BAJÍO | WEST

Puebla, Veracruz, Querétaro, Guanajuato, Jalisco, Nayarit

Ricardo Martínez Hernández | CENTRAL | SOUTH | CDMX

Guerrero, Morelos, Quintana Roo, Mexico City, Sinaloa

Elesban Alejandro Torres López | METROPOLITAN NORTH

State of Mexico, Hidalgo

Alberto Navarro Ramos | COMMERCIAL DIRECTOR | NORTHEAST

Baja California, Sonora

Jesús Martín Zavala García | COMMERCIAL DEPUTY DIRECTOR |

NORTHEAST

Monterrey, Tamaulipas

CONSTRUCTION DIRECTORS

Ernesto Flores Taboada

State of Mexico, Hidalgo

Francisco Mario Franco Martínez

Guerrero, Morelos, Querétaro, Guanajuato, Quintana Roo,

Puebla, Veracruz

Javier Garduño Santacruz

Mexico City, State of Mexico, Morelos, Jalisco, Nayarit, Baja

California, Nuevo León, Sonora, Sinaloa, Tamaulipas

ABOUT THIS REPORT

[G4-28](#), [G4-29](#), [G4-30](#), [G4-32](#) THIS REPORT CONSTITUTES OUR SEVENTH ANNUAL SUSTAINABILITY REPORT. IT COMPRISES THE 2018 FISCAL YEAR, AND FOR THE SIXTH CONSECUTIVE TIME IT WAS MADE UNDER THE G4 GLOBAL REPORTING INITIATIVES (GRI) GUIDELINES, CORE CONTENT. TO KNOW MORE ABOUT CONSORCIO ARA, ITS OPERATIONAL AND FINANCIAL PERFORMANCE, AND THE DIGITAL VERSIONS OF PREVIOUS REPORTS, PLEASE GO TO OUR WEB PAGE: [HTTPS://CONSORCIOARA.COM.MX](https://consorcioara.com.mx)

[G4-17](#), [G4-20](#) This document covers all the Consorcio ARA operations, including the subsidiaries we control or over which we have significant influence; it openly, objectively and transparently communicates the main advances, challenges and opportunities in terms of sustainability that our Company faces.

[G4-18](#), [G4-19](#) The material aspects of the report were defined through an analysis of the most important sustainability topics for our sector and our company.

[G4-48](#) The Direction of Finance and Investor Relations is responsible for reviewing and approving the annual and sustainability report.

[G4-22](#), [G4-23](#) The sustainability information has not been reformulated, and its coverage and scope is comparable to those of previous reports.

[G4-31](#), [G4-33](#) This sustainability report has not been audited by an independent third party. Please address any comment regarding these topics to aenriquez@ara.com.mx.

Consortio ARA does not have information available on the indicators that are not mentioned in this document.

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CONSOLIDATED FINANCIAL STATEMENTS

Consortio ARA, S. A. B. de C. V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 (restated) and January 1, 2017(restated), and Independent Auditors' Report Dated March 29, 2019

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS

OF CONSORCIO ARA, S. A. B. DE C. V.

Opinion

We have audited the accompanying consolidated financial statements of Consorcio ARA, S. A. B. de C. V. and subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017 (restated) and January 1, 2017 (restated), and the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2018 and 2017 (restated) and January 1, 2017 (restated), and their consolidated financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We carried out our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are explained more extensively in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent from the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code of Ethics) and that issued by the Mexican Institute of Public Accountants (IMCP Code of Ethics), and we have complied with the other ethical responsibilities in accordance with the IESBA Code of Ethics and with the IMCP Code of Ethics. We believe that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the issues described below are the key audit issues to be reported in our report.

Valuation of real estate inventories

Real estate inventories represent a very significant portion of total assets presented by ARA in its consolidated financial statements; therefore, the existence and valuation of real estate inventories is considered a key audit matter. The Entity uses judgment and assumptions to value its inventories at the lower of net realizable value or acquisition and development cost, in accordance with International Accounting Standard ("IAS") 2, "Inventories". This requires management to consider for its valuation, among others: its internal control, the estimated selling and demand prices of homes, based on management plans and its budgets for sales, costs and profit margins expected in its residential and commercial developments, as well as possible discounts on them.

Future estimated costs of unfinished work are subject to several variables which include the distribution of housing for development considering market and industry conditions, work materials, supplier and subcontractor costs, and the ongoing analysis of sales budgets based on the supply and demand of housing developments.

Similarly, there is a risk that real estate inventory and construction work in progress costs are inappropriately capitalized or inadequately allocated to a project without associating them to the cost of sales of the respective houses sold, resulting in an incorrect project profit margin.

Our audit procedures with regard to this key audit matter included the following:

1. Inquiries with management to understand key cost of sales and inventory cycle controls and the procedures to update and review the proforma information by development, validating the adequacy of the current and budgeted profit margins of the selected real estate developments.
2. Visits to selected real estate developments to ascertain if the related budgets are restated and whether there are additional costs, work or changes thereto not considered in the budget.
3. We determine a sample of certain costs incurred in construction work in progress, ascertaining that purchases or additions thereto are considered in the original budget and were allocated to the respective project, project stage or real estate inventory phase. We also confirmed that procurement authorization and validation procedures were followed and the definition of capitalizable costs to real estate inventories was fulfilled. Similarly, we reviewed the proportion of expenses and costs recognized as cost of goods sold for the year with regard to housing units sold.
4. We reviewed a sample of budgets of projects or development work in progress and challenged the main judgments used by management regarding sales and future costs. We performed impairment tests on development work in progress and land reserves, and on finished developments with only certain units or apartments left for sale.
5. We evaluated the margin recognized during the application of housing units sold with the projected margin of the business project life.
6. We tested key judgments in the model used by the Entity regarding uncompleted selling prices and estimated costs, which support the book value of real estate inventories. We have compared such information to cost and selling price budgets and historical sales information to verify its reasonableness.

Recognition of real estate sale revenues in the correct period.

There is a risk of recognizing real estate sale revenues in the incorrect period. Revenues from real estate sales should be recognized in the period that the Entity transfers control to the customer; i.e., a) in the case of Contracts with customers for sales of housing without conditional sales, when it fulfills the following criteria: i) the real property is habitable, ii) the real property is legalized in the name of the customer and iii) the customer has accepted the asset, under the contract terms; and b) Contracts with customers for sale of homes under conditional sale where management believes that the transfer of control of the home takes place once the home is delivered, because at the time the asset is legalized, the risks and benefits have not been transferred to the customer, basically due to the stipulated conditional sale. Therefore, the most identifiable moment at which the customer can make use of the real property immediately is at delivery. There may be a risk that the sales are deliberately overstated by management due to the pressure to reach budgeted results. Management considers sales as a key factor to measure performance, which may create an incentive to recognize sales before their risks and rewards have been transferred.

Our audit procedures with regard to this key audit matter included the following:

1. We tested the design, implementation and operating effectiveness of the Entity's controls regarding real estate sale revenue recognition.
2. We Involve our experts in international Financial Reporting Standards to correspond that the adjustments and conclusions reached by the administration regarding the adoption of IFRS 15 "Revenue from Contracts with customers" and IFRS 9 "Financial Instruments" and the corresponding clarifications were correct in accordance with the transition approach used by the administration.
3. We selected a sample of real estate sales during the year and performed the following: i) we inspected the documents of housing sale revenues supported by the respective deeds to confirm the integrity of the housing deeds executed with the customers ii) we confirmed with the Notary Publics engaged by the Entity that the recognized housing sale revenues had the respective deeds iii) during our visits to the selected projects, we randomly ascertained that notarized properties were built and/or delivered to the customer iv) we also ascertained sales transactions executed before and after yearend to ensure that revenues were recognized in the appropriate period v) we determine a sample of finished properties which were physically available and checked that the Entity had not recognized them as sold.
4. We have also assessed that management's response to incorrect revenue recognition indicators is adequate and performed additional work when deemed necessary. Finally, we assessed that the disclosures related to sales included in Note 23 were adequate.

Deferred income taxes

In accordance with IAS 12, "Income" Taxes in determining deferred income taxes, the Entity estimates the likelihood of generating a taxable base in future periods to use deferred assets generated by tax losses and asset tax. There is a risk that the assumptions used by management to calculate future cash flows may not be reasonable based on current and foreseeable future conditions.

Our audit procedures to address the risk related to deferred tax determination included the following:

1. We tested the reasonableness of the assumptions used by management to determine the recoverability of its tax losses. The result of the audit tests was satisfactory.

The Entity's accounting policies for deferred tax recording and disclosure are included in Notes 3 and 17, respectively, to the accompanying consolidated financial statements.

Compliance with Laws and Regulations

The Entity is subject to various laws and regulations, including but not limited to the Money Laundering Act, public housing policies of both State and Federal governments, and the regulation to list its securities with the Mexican Stock Exchange. Noncompliance with these laws and regulations may have a material impact in the consolidated financial statements. Management reviews compliance with laws and regulations and has not restricted some effect or disclosed any instance of noncompliance.

Our audit procedures consisted of obtaining a relevant understanding of these laws and regulations, reviewing the design and implementation and inspected of key controls established by management to monitor and comply with them, and reviewing documentation and Board of Directors' minutes regarding these matters.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information covers the information included in the Annual Report which must be prepared by the Entity in accordance with Title Four, Chapter One, Article 33, Section I, subsection b) of the General Provisions Applicable to Issuing Companies and Other Stock Market Participants in Mexico and the related Instructions (the Provisions). The Annual Report is expected to be available for reading after the date of this audit report.

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

In relation to our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when it is available, and when we do so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material misstatement. If based on the work that we have done, we conclude that there is material error in the other information, we would have to report that fact. After reading the Annual Report, we will issue the related statement required by Article 33, Section I, subsection b) number 1.2 of the Provisions. We have nothing to report on this matter.

Management's Responsibilities 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, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements.

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

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

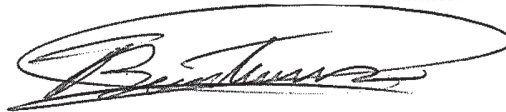
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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



José Gabriel Beristáin Salmerón
Mexico City, Mexico

March 29, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2018, 2017 (restated) and January 1, 2017 (restated)
(In thousands of Mexican pesos)

	Notes	2018	2017 (restated)	January 1, 2017 (restated)
Assets				
<i>Current assets</i>				
Cash and cash equivalents	6	\$ 2,919,170	\$ 2,235,559	\$ 1,734,268
Trade accounts receivable - Net	7	591,454	685,949	450,867
Due from joint ventures		20,574	28,601	28,940
Real estate inventories and land for development	8	11,295,049	10,977,481	11,283,553
Other current assets	10	474,788	538,083	335,965
Total current assets		15,301,035	14,465,673	13,833,593
<i>Non-current assets</i>				
Golf club memberships available for sale		180,904	180,607	180,013
Investment properties	9	928,724	761,004	642,803
Restricted cash	6	50,000	50,000	52,369
Long-term land held for development	8	2,978,176	2,891,366	2,951,547
Investments in joint ventures	11	168,235	154,584	152,621
Employee benefits	19	-	-	1,303
Property, machinery and equipment - Net	12	206,089	206,237	221,460
Deferred tax asset	17	356,966	269,034	169,971
Derivative financial instruments		4,374	1,578	2,232
Other assets		72,656	67,053	73,953
Total non-current assets		4,946,124	4,581,463	4,448,272
Total assets		\$ 20, 247,159	\$ 19,047,136	\$ 18,281,865

The comparative information has been restated as a result of the initial application of IFRS 9 and IFRS 15 as discussed in note 2. See accompanying notes to consolidated financial statements.

	Notes	2018	2017 (restated)	January 1, 2017 (restated)
Liabilities and stockholders' equity				
<i>Current liabilities</i>				
Current portion of long-term debt	14	\$ 438,939	\$ 680,840	\$ 642,790
Current portion of finance lease obligations	18	15,835	22,099	21,487
Trade accounts payable		822,267	615,241	773,487
Other liabilities and taxes payable	16	574,185	606,049	565,054
Advances from customers		221,480	314,047	292,031
Total current liabilities		2,072,706	2,238,276	2,294,849
<i>Non-current liabilities</i>				
Long-term debt	14	703,859	278,225	1,947,691
Finance lease obligations	18	11,445	7,043	21,860
Unsecured securities certificates	15	1,331,774	1,327,233	-
Employee benefits	19	978	8,051	-
Other non-current liabilities		946	39,649	70,491
Deferred income tax	17	2,941,198	2,533,682	2,113,572
Total non-current liabilities		4,990,200	4,193,883	4,153,614
Total liabilities		7,062,906	6,432,159	6,448,463
<i>Stockholders' equity</i>				
Common stock	21	640,720	644,834	645,534
Additional paid-in capital		351,556	351,556	351,556
Reserve for acquisition of own stock		(51,362)	23,919	36,211
Retained earnings	21	12,212,353	11,550,757	10,757,899
Controlling interest		13,153,267	12,571,066	11,791,200
Non-controlling interest		30,986	43,911	42,202
Total stockholders' equity		13,184,253	12,614,977	11,833,402
Total stockholders' equity and liabilities		\$ 20,247,159	\$ 19,047,136	\$ 18,281,865

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017 (restated)

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

	Notes	2018	2017 (restated)
Revenue	23	\$ 8,209,957	\$ 8,249,258
Costs	23	6,016,551	6,004,299
Gross profit		2,193,406	2,244,959
General expenses:	24		
Selling expenses		843,972	835,355
Administrative expenses		371,219	387,636
Operating expenses		18,560	12,899
Other income– Net		(3,930)	(11,168)
Income from operations		963,585	1,020,237
Financial income:			
Interest expense		61,648	55,585
Interest income		(167,692)	(109,482)
(Income) loss from derivative financial instruments		(2,796)	1,675
Exchange loss – Net		1,190	5,499
		(107,650)	(46,723)
Equity method in joint ventures	11	85,493	78,671
Income before income taxes		1,156,728	1,145,631
Income taxes	17	330,940	233,736
Consolidated income for the year		825,788	911,895
Other comprehensive income (loss):			
Items that are reclassified to income in the future			
Recognition of employee benefits obligations		12,470	(5,448)
Consolidated comprehensive income for the year		\$ 838,258	\$ 906,447
Total consolidated income for the year attributable to:			
Controlling interest		\$ 823,998	\$ 909,306
Non-controlling interest		1,790	2,589
		\$ 825,788	\$ 911,895
Consolidated comprehensive income for the year attributable to:			
Controlling interest		\$ 836,436	\$ 903,858
Non-controlling interest		1,822	2,589
		\$ 838,258	\$ 906,447
Basic earnings per common share		\$ 0.63	\$ 0.69
Weighted average number of shares outstanding		\$ 1,300,693,878	\$ 1,307,731,365

The comparative information has been restated as a result of the initial application of IFRS 9 and IFRS 15 as discussed in note 2. See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017 (restated)
(In thousands of Mexican pesos)

	Common Stock	Additional paid-in capital	Reserve for acquisition of own stock	Retained earnings	Total controlling interest	Non- controlling interest	Total stockholders' equity
<i>Balances as of January 1, 2017 (restated)</i>	\$ 645,534	\$ 351,556	\$ 36,211	\$ 10,757,899	\$ 11,791,200	\$ 42,202	\$ 11,833,402
Dividends paid	-	-	-	(111,000)	(111,000)	-	(111,000)
Repurchase of own stock (Note 21)	(700)	-	(12,292)	-	(12,292)	-	(12,292)
Decrease in non- controlling interest	-	-	-	-	-	(880)	(880)
Comprehensive income for the year	-	-	-	903,858	903,858	2,589	906,447
<i>Balances as of December 31, 2017 (restated)</i>	644,834	351,556	23,919	11,550,757	12,571,066	43,911	12,614,977
Dividends paid	-	-	-	(180,000)	(180,000)	-	(180,000)
Repurchase of own stock (Note 21)	(4,114)	-	(75,281)	-	(79,395)	-	(79,395)
Decrease in non- controlling interest	-	-	-	5,160	5,160	(14,747)	(9,587)
Comprehensive income for the year	-	-	-	836,436	836,436	1,822	838,258
<i>Balances as of December 31, 2018</i>	<u>\$ 640,720</u>	<u>\$ 351,556</u>	<u>\$ (51,362)</u>	<u>\$ 12,212,353</u>	<u>\$ 13,153,267</u>	<u>\$ 30,986</u>	<u>\$ 13,184,253</u>

The comparative information has been restated as a result of the initial application of IFRS 9 and IFRS 15 as discussed in note 2.
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017 (restated)
(In thousands of Mexican pesos)

	2018	2017
Operating activities:		
Income before income taxes	\$ 1,156,728	\$ 1,145,631
Adjustments for:		
Depreciation and amortization	59,078	54,754
Derivative financial instruments	(2,796)	1,674
Equity method in joint ventures	(85,493)	(78,671)
Interest expense	61,648	55,585
	1,189,165	1,178,973
Movements in working capital:		
(Increase) decrease in:		
Trade accounts receivable – Net	94,495	(235,081)
Due from joint ventures	8,027	339
Inventories and long-term land held for development	(201,490)	565,348
Other current assets	58,784	(167,496)
Golf club memberships available for sale	(297)	(594)
Increase (decrease) in:		
Trade accounts payable	207,314	(158,247)
Other liabilities and taxes payable	(67,389)	118,418
Advances from customers	(92,566)	22,016
Income taxes paid	(3,341)	(26,576)
Employee benefits	10,461	3,907
	1,203,163	1,301,007
Investing activities:		
Investment property	(178,324)	(130,473)
Purchase of machinery and equipment	(26,717)	(28,634)
Investments in joint ventures	18,235	(10,134)
Dividends received and capital reimbursement from joint ventures	15,000	56,000
Net cash flows used in investing activities	(171,806)	(113,241)
Financing activities:		
Proceeds from debt	1,001,616	650,344
Payment for debt	(813,344)	(2,281,760)
Unsecured securities certificates	-	1,327,233
Interest paid	(255,101)	(246,465)
Dividends paid	(180,000)	(111,000)
Repurchase of own stock – Net	(79,395)	(12,992)
Amortization of others finance	(21,522)	(14,204)
Net cash used in financing activities	(347,746)	(688,844)
Net increase in cash and cash equivalents	683,611	498,922
Cash and cash equivalents at beginning of year	2,285,559	1,786,637
Cash, cash equivalents and restricted cash at end of year	\$ 2,969,170	\$ 2,285,559

The comparative information has been restated as a result of the initial application of IFRS 9 and IFRS 15 as discussed in note 2. See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2018 and 2017 (restated)
(In thousands of Mexican pesos, except share amounts)*

1. NATURE OF BUSINESS

Consortio ARA, S. A. B. de C. V. and subsidiaries (collectively, the “Entity”) buy and sell land, design, develop, construct and market affordable entry-level, middle-income residential housing developments and market commercial and industrial developments. In addition, the Entity rents mini-supermarkets under the scheme of operating leases in Mexico.

The Entity was incorporated for 99 years since 1977 and the principal place of business is Arcos Bosques Marco II, Paseo de Tamarindos No. 90, Tower I, 25th Floor, Bosques de las Lomas, CP 05120, Mexico City.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

- a. *Application of new and revised International Financing Reporting Standards (“IFRSs” or “IAS”) that are mandatorily effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2018.

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Entity has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. However, the Entity has elected to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Entity adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Entity’s consolidated financial statements are described below.

The Entity has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) *Classification and measurement of financial assets*

The date of initial application is 1 January 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments 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 amount outstanding, are measured subsequently at amortized cost.

In the current year, the Entity has not designated any debt investments that meet the amortized cost or fair value through other comprehensive income (FVTOCI) criteria as measured at fair value through profit or loss (FVTPL).

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

Reviewed and assessed the Entity's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Entity's financial assets as regards their classification and measurement:

- The Entity's investments in redeemable notes were classified as available-for-sale financial assets under IAS 39 Financial Instruments: Recognition and Measurement. The notes have been reclassified as financial assets at amortized cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the other reclassifications of financial assets have had any impact on the Entity's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

(b) *Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Entity to recognize a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortized cost or at FVTOCI,
- (2) Lease receivables,
- (3) Trade receivables and contract assets, and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Entity has elected to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of IFRS 9 (i.e. 1 January 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2017.

The result of the assessment is as follows:

Items existing as at 01/01/18 that are subject to the impairment provisions of IFRS 9	Note	Credit risk attributes at
Trade accounts receivable	7	The Entity applies the simplified approach and recognizes lifetime expected credit losses for these assets.
Cash, cash equivalents and restricted cash balances	6	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

(c) ***Classification and measurement of financial liabilities***

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. The application of the IFRS 9 hedge accounting requirements has had no other impact on the results and financial position of the Entity for the current and prior years.

(d) ***Disclosures in relation to the initial application of IFRS 9***

There were no financial assets or financial liabilities which the Entity had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Entity has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Entity has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Entity has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

Apart from providing more extensive disclosures for the Entity's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Entity.

The amount of adjustment for each financial statement line item affected by the application of IFRS 9 and IFRS 15 is illustrated below:

Impact on profit for the year 2017

Description	As previously reported	IFRS 15 and 9 adjustments		As restated
Housing sale	\$ 8,137,486	\$ (105,171)	(a)	\$ 8,032,315
Interest income	-	6,690	(b)	6,690
Others projects income	210,253	-		210,253
Total revenue from contracts with customers	8,347,739	(98,481)		8,249,258
Cost	6,072,845	(68,546)	(c)	6,004,299
Gross Profit	2,274,894	(29,935)		2,244,959
General expenses	1,246,680	(21,958)	(d)	1,224,722
Financial income	46,723	-		46,723
Equity method in joint ventures	78,671	-		78,671
Income before income taxes	1,153,608	(7,977)		1,145,631
Income taxes	235,267	(1,531)	(e)	233,736
Consolidated income for the year	<u>\$ 918,341</u>	<u>\$ (6,446)</u>		<u>\$ 911,895</u>

- (a) Net adjustment in revenues due to adoption of IFRS 15 which includes: reduction in revenues for the year 2017 due to the change in policy of home sales by (\$184,484), housing revenue for periods prior to 2017 recognized in such year for \$102,648 and cancellation of unearned interest income for the installment sale of homes for (\$23,335).
- (b) Recognition of earned interest income from sale of homes under conditional sale.
- (c) Cost of adjustment of revenues.
- (d) Adjustment for adoption of IFRS 9 for the effects applicable to the Company in the recognition of impairment of accounts receivable.
- (e) Adjustment in the deferred tax due to the aforementioned adjustments.

Impact on assets, liabilities and equity as at 31 December 2017

	As previously reported	IFRS 15 and 9 adjustments		As restated
Cash	\$ 2,235,559	\$ -		\$ 2,235,559
Trade accounts receivable	812,977	(116,724)	(1)	696,253
Allowance for doubtful accounts	(32,262)	21,958	(2)	(10,304)
Real estate inventories and land for development	10,806,778	170,703	(3)	10,977,481
Other current and no current assets	4,986,838	-		4,986,838
Total assets	\$ 18,809,890	\$ 75,937		\$ 18,885,827
Advances from customers	\$ 189,333	\$ 124,714	(4)	\$ 314,047
Other current liabilities	2,113,562	-		2,113,562
Deferred income tax	2,385,291	(12,918)	(5)	2,372,373
Other non-current liabilities	1,470,868	-		1,470,868
Total liabilities	6,159,054	111,796		6,270,850
Common stock	644,834	-		644,834
Retained earnings	10,668,137	(29,413)	(6)	10,638,724
Profit for the year	918,341	(6,446)	(7)	911,895
Other equity accounts	419,524	-		419,524
Total stockholders' equity	12,650,836	(35,859)		12,614,977
Total stockholders' equity and liabilities	\$ 18,809,890	\$ 75,937		\$ 18,885,827

1. Net effect in customers due to the revenues from homes subject to conditional sale not recognized for the period of (\$317,833), homes from the previous year recognized in the year \$102,648 and cancellation of unearned interest income for installment sales of homes for (\$34,279) and earned interest in the period for \$8,027. Also, the respective reclassification of advances from customers accumulated to 2017 for \$124,713.
2. Impact in the allowance for bad debts due to adoption of IFRS 9, as a result of the new expected credit losses model.
3. Adjustment in inventories as a result of the effect of IFRS 15 in revenues.
4. Adjustment in advances from customers as a result of the effect of IFRS 15 in revenues.
5. Net adjustment in deferred tax as a result of the effects of IFRS 15 and 9.
6. Effect of the IFRS 15 and 9 standards from previous years.
7. Net effect in results of the year for adoption of IFRS 15 and 9.

Impact on assets, liabilities and equity as at 1 January 2017

	As previously reported	IFRS 15 and 9 adjustments	As restated
Cash	\$ 1,734,268	\$ -	\$ 1,734,268
Trade accounts receivable	548,271	(62,365)	485,906
Allowance for doubtful accounts	(35,039)	-	(35,039)
Real estate inventories and land for development	11,181,396	102,157	11,283,553
Other current and no current assets	4,738,295	-	4,738,295
Total assets	\$ 18,167,191	\$ 39,792	\$ 18,206,983
Advances from customers	\$ 211,439	\$ 80,592	\$ 292,031
Other current liabilities	2,002,818	-	2,002,818
Deferred income tax	2,050,077	(11,387)	2,038,690
Other non-current liabilities	2,040,042	-	2,040,042
Total liabilities	6,304,376	69,205	6,373,581
Common stock	645,534	-	645,534
Retained earnings	10,051,587	(13,920)	10,037,667
Profit for the year	735,607	(15,493)	720,114
Other equity accounts	430,087	-	430,087
Total stockholders' equity	11,862,815	(29,413)	11,833,402
Total stockholders' equity and liabilities	\$ 18,167,191	\$ 39,792	\$ 18,206,983

Impact of application of other amendments to IFRS Standards and Interpretations

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IAS 40 (amendments)
Transfers of Investment
Property

The Entity has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

IFRIC 22 Foreign Currency
Transactions and Advance
Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, The Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet been adopted:

IFRS 16	<i>Leases</i>
Annual Improvements to IFRS Standards 2015–2017 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>
Amendments to IAS 19 Employee Benefits	<i>Plan Amendment, Curtailment or Settlement</i>
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>

The Entity does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except as noted below:

IFRS 16 Leases*General impact of application of IFRS 16 Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Entity will be 1 January 2019.

The Entity has chosen the cumulative impact application of IFRS 16 in accordance with IFRS 16:C5 (b). Consequently, the Entity recognize same amount for asset and liability at the beginning application at 1 January 2019, will not restate comparative information.

Impact of the new definition of a lease

The Entity will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Entity will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 whether it is a lessor or a lessee in the lease contract. In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Entity.

*Impact on Lessee Accounting**Operating leases*

IFRS 16 will change how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Entity will:

- (a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- (b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- (c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Entity will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Entity estimates the following effects as of January 1, 2019:

As of January 1, 2019 the Entity must record an asset for use right of \$66,778 and a liability for leasing in the same amount.

As of the enactment of IFRS 16, all rentals paid under operating leases are presented as part of the cash flows from operating activities.

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Entity will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Entity's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Entity's consolidated financial statements.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

The Entity has not identified any change in the lessor accounting in implementation date of IFRS 16.

b. ***Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs***

The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as an entity; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICES

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

b. *Basis of preparation*

Explanations for translation into English - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

(i) Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

(ii) Fair value

Fair value is defined as 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 valuation date regardless of whether that price is observable or estimated using another technique directly valuation. In estimating the fair value of an asset or liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics when pricing the asset or liability at the measurement date. The fair value for purposes of measurement and / or disclosure of these consolidated financial statements are determined such, except for leases that are within the scope of IAS 17, and valuations that have some similarities to fair value, but it is not reasonable, such as net realizable value in IAS 2 or value in use of the IAS 36 value.

In addition, for financial reporting purposes, the fair value measurements are classified as Level 1, 2 or 3 based on the degree to which are observable input data measurements and their importance in determining the fair value in full, which are described as follows:

- Level 1 are considered quoted prices in an active market for identical assets or liabilities that the entity can obtain the date of valuation;
- Level 2 Data input different observable quoted prices Level 1, either directly or indirectly,
- Level 3 consider unobservable input.

c. *Presentation of the consolidated statements of profit or loss and other comprehensive income*

The Entity presents its costs and expenses according to their function, allowing know its gross profit. Additionally, in order to provide a better understanding of the Entity's economic and financial performance, the Entity presents income from operations which is the result of subtracting cost and general and administrative expenses from revenues.

d. *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Entity and entities controlled by it. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit and other comprehensive income from the date of acquisition or until the date of disposal, as appropriate.

Net income and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All balances and transactions between entities of the entity have been eliminated in consolidation.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in investments in subsidiaries of the Entity that do not result in a loss of control are recorded as equity transactions. The carrying value of investments and non-controlling interest in the Entity is adjusted to reflect changes in the investments in subsidiaries. Any difference between the amount by which the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and the owners of the Entity.

When the Entity loses control of a subsidiary, gain or loss on disposal is calculated as the difference between (i) the sum of the fair value of the consideration received and the fair value of any retained interest and (ii) the value previously carrying amounts of assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognized in other items of comprehensive income related to the subsidiary are recorded in the same manner intended for the case that the availability of the relevant assets or liabilities (i.e. reclassified to profit or transferred directly to other games stockholders' equity as specified / allowed by applicable IFRS). The fair value of any investment retained in the subsidiary at the date when control is lost is regarded as the fair value for initial recognition under IAS 39 or, where appropriate, the cost on initial recognition of an investment in an associate or joint venture.

e. ***Financial instruments***

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

f. ***Financial assets***

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) *Amortized cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income" line item.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor;
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) Significant financial difficulty of the issuer or the borrower;
- (b) A breach of contract, such as a default or past due event (see (ii) above);
- (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Entity expects to receive from the holder, the debtor or any other party.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Entity 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 Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

g. ***Financial liabilities***

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (Note 20).

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

h. ***Derivative financial instruments***

The Entity uses financial instruments to manage its exposure to interest rate volatility risks, including contracts such as interest rate caps. Note 20 include a detailed explanation on derivative financial instruments.

Derivatives are initially recognized at fair value at the date on which the derivative contract is executed and subsequently restated at fair value at the end of the reporting period. The resulting gain or loss is recognized immediately in results unless the derivative is designated and is effective as a hedging instrument, in which case the timeliness of recognition in results will depend on the nature of the hedging relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Entity has both legal right and intention to offset.

i. **Real estate inventories and long-term land held for development**

Inventories are maintained at the lower of cost or net realizable value.

- (i) Ownership to The construction materials are valued at acquisition cost, which includes all costs inherent to real estate inventories. Work in process is valued to acquisition cost plus borrowing cost. The balances of work in process and land in process of development, represent the real cost incurred, and represent the cost incurred on housing projects for which the Entity has not transferred customers.
- (ii) Land held for future development and real estate developments in process are valued at acquisition cost plus borrowing cost.

The net realizable value represents estimated sale price less all estimated final cost.

The Entity's operations present a seasonal cycle given that the greatest sales volumes occur during the second half of the years. Construction time for low income housing (LIH) is approximately three to four months, whereas a building development for this segment takes an average of ten to twelve months. For middle-income and residential housing (MIR) the construction period is twelve to twenty months, particularly in the case of apartment buildings.

j. **Golf club memberships available for sale**

Are initially recorded at the lower of acquisition cost or net realizable value.

k. **Property, machinery and equipment**

Property, machinery and equipment held for use in the operation of the Entity or for administrative purposes, are presented in the statement of financial position at acquisition cost. Balances arising from acquisitions made through December 31, 2007 were restated using National Consumer Price Index (NCPI) factors to date, in accordance with deemed cost exemptions allowed in the transition to IFRS. Depreciation is calculated under the straight-line method based on the remaining useful life of the asset components as follows:

	<u>Average years</u>
Buildings	32
Leasehold improvements	4
Machinery and equipment	4
Vehicles	3
Office furniture and fixtures	5

The estimated useful lives, the possible residual value and depreciation method of assets in this category are reviewed at the end of each year, and the effect of any changes in the estimate recorded is recognized on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, machinery and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant 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.

l. *Impairment of tangible and intangible assets other than goodwill*

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible 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).

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. During 2018 y 2017 there was not any impairment indication.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. During 2018 and prior periods the Entity had no made reversals.

m. *Investment properties*

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost model. After recognition as an asset an item of investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated using the straight-line method based on the useful lives of their components are allocated in ranging from 38 to 65 years of the investment properties.

Land is not depreciated.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any profit or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

n. *Investment in joint ventures*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Entity's share of the profit or loss and other comprehensive income of the joint venture. When the Entity's share of losses of a joint venture exceeds the Entity's interest in that joint venture, the Entity recognizes a loss if the Entity acquired a legal obligation or implied obligation to make payment on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Entity's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Entity's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Entity's investment in a joint venture.

The Entity continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with a joint venture of the Entity, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Entity's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Entity.

o. **Leases**

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.

– The Entity as lessor

Revenues and costs for leasing to malls, unicenter and mini-malls are recognized as earned.

– The Entity as lessee

The assets held under finance leases are initially recognized as assets of the Entity 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 finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Entity's general policy on borrowing costs (see Note 3). 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.

p. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. ***Employee benefits***

Retirement benefits cost from termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement

The Entity presents the first two components of defined benefit costs in consolidated statement of profit or loss in the line item administrative expenses. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs..

Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

Statutory employee profit sharing (“PTU”)

As result of the PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost of sales line item in the consolidated statement of profit or loss and other comprehensive income/consolidated statement of income.

As result of the 2014 Income Tax Law, as of December 31, 2018 and 2017, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

r. ***Income taxes***

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

1. Current tax

Current income tax (“ISR”) is recognized in the results of the year in which is incurred.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Entity’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

2. Deferred income tax

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 the initial recognition (other than in a business combination) of 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 Entity 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 liabilities and assets 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 date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

s. *Provisions*

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity 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 (when 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.

1. Surety Funds

It is a provision to create a fund that will help cover the sureties on the sale of homes; such fund is withheld from sub-contractors based on the work performed.

2. Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 and the amount initially recognized less cumulative amortization recognized in accordance with the principles of IFRS 15.

t. *Recognition of revenues for ordinary activities derived from contracts with customers*

Contract with customers for sale of homes without conditional sale

For the revenues from contracts with customers executed prior to termination of the house construction, the Company recognizes revenues when it transfers control to the customer; i.e., when it fulfills the following criteria: i) the real property is habitable, ii) the real property is legalized in the name of the customer and iii) the customer has accepted the asset. Under the terms of the contract, the Company has contractual restrictions on redirecting the properties to another customer, the Company has the enforceable right of payment once the deed for the house is signed and the customer has accepted the real property; these revenues are recognized at a specific point in time. Management believes that the transfer of control of the home is completed once the customer has accepted (moment of acceptance) and formalized the asset (moment of transfer of risks and benefits); after these moments the delivery of the house is imminent. By the same token, current liabilities show the balance of advances from customers which represents the resources received in cash from customers, before legalization of the real properties, for the deposit, expenses and payments received.

Contract with customers for sale of homes under conditional sale

In the revenues from contracts with customers of long-term medium type and residential housing, according to the terms of the contract, the Company has contractual restrictions on redirecting the properties to another customer, it has the right to receive an advance of a given percentage and once such advance is paid the Company then performs the legalization of the housing. For the unpaid remnant the Company grants the customer a loan for up to the value of the home for up to 36 months, leaving the deed subject to conditional sale. The Company does not deliver the home until the customer has settled his debt plus a percentage on the loan; these revenues are recognized at a specific point in time. Management believes that the transfer of control takes place once the home is delivered, because at the time the asset is legalized, the risks and benefits have not been transferred to the customer, essentially due to the conditional sale stipulated. Therefore, the most identifiable moment at which the customer can make use of the real property immediately is at the time of delivery. By the same token, the current liabilities show the balance of advances from customers which represents the resources received in cash from customers, before legalization of the real properties, for the deposit, expenses and payments received before recognition of the revenue.

Interest on installment sales of homes under contracts with customers subject to conditional sale

Interest income derived from contracts with customers of long-term medium and residential housing which include a financial cost are recognized over time, as the interest is accrued under the terms stipulated in the contract.

Other projects revenues:

Leasing revenues

Revenues from leasing are classified as operating when they do not transfer risks and benefits inherent to the ownership. The rental income under scheme of operating lease is recognized by the straight-line method during the lease term. The initial direct costs incurred when negotiating and agreeing an operating lease are added to the carrying amount of the asset leased, and are recognized by the straight-line method over the lease term.

Services revenues

Lease agreements include maintenance, advertising services which the Entity must provide to the lessees, for which reason the revenue is recognized as it is accrued and the costs as they are incurred, respectively.

Project revenues

The revenues from the sale of projects are recognized when the customer takes ownership and assumes the risk, which takes place when they are delivered.

u. **Earnings per share**

Basic earnings per common share are calculated by dividing majority net income by the weighted average number of shares outstanding during the year.

v. **Foreign currency transactions**

The individual financial statements of each of the Entity's subsidiaries are prepared by using the currency of the primary economic environment in which the Entity operates (its functional currency). For the purposes of these consolidated financial statements, the results and financial position of each entity are expressed in Mexican pesos, which is the Entity's functional currency, as well as the presentation currency of the consolidated financial statements.

Transactions performed in foreign currency are recorded at the exchange rate in effect at the date on which each transaction is performed. Monetary assets and liabilities denominated in foreign currency are valued in Mexican pesos based on the exchange rate in effect at the date of the financial statements. Exchange rate fluctuations that are unrelated to the financing obtained to acquire land are recorded in results.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Entity's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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.

The critical accounting judgements and key sources of uncertainty considered when applying the estimates prepared at the date of the consolidated financial statements, and which imply a significant risk involving the adjustment of the book values of assets and liabilities during the following financial period, are as follows:

- a. **Valuation of inventories and land** – The Entity keeps its inventories and land at cost in accordance with the acquisition value, less any impairment loss. However, the Entity determines the fairness of the value by ascertaining that it does not exceed cost or market value, through a comparison of the estimate of the realizable revenues from housing, land and commercial premises against the carrying amount of the inventories.
- b. **Allowance for doubtful accounts** – The Entity determines the provision for loss allowance based on lifetime expected credit losses of trade receivable account (view Note 7).
- c. **Significant increase in credit risk** - As explained in note 7, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Entity takes into account qualitative and quantitative reasonable and supportable forward looking information.
- d. **Asset useful lives** - Management reviews the estimated useful lives of property, machinery and equipment at the end of each annual period.

- e. **Fair value measurements and valuation methodology** - Some assets and liabilities of the Entity are measured at fair value in the consolidated financial statements. In estimating the fair value of an asset or a liability, the Company uses observable market data to the extent that they are available. When the input data of level 1 are not available, the Entity carries out the valuation with the assistance of independent appraisers.
- f. **Costs** - Management determines an estimate of the costs incurred for each housing development plan. A portion of the total estimated costs to be incurred is then allocated to each unit to determine the cost of sales. The estimate is based on a technical analysis.
- g. **Employee benefits** - The valuation of other postretirement benefits to employees is based on actuarial calculations using assumptions for discount rates, salary increases, among others. The assumptions are updated annually. Changes in these assumptions could have a significant effect on the amount of the liabilities and results of the Entity.
- h. **Contingencies** - As the Entity is involved in certain legal proceedings, it evaluates the probability of receiving a payment obligation, for which purpose, it analyzes its legal situation at the estimate date and requests the opinion of its financial advisors. These evaluations are periodically reconsidered.

5. NON- CASH TRANSACTIONS

During the current year, the Entity entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows.

Acquisition of machinery, furniture and equipment under capital leases for \$19,360 y \$8,147, in 2018 y 2017, respectively.

6. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows may be reconciled to the related items in the consolidated statement of financial position as follows:

	2018	2017
Cash and cash equivalents	\$ 96,027	\$ 122,247
Investments	2,823,143	2,113,312
Total current	\$ 2,919,170	\$ 2,235,559
Restricted cash ⁽¹⁾	\$ 50,000	\$ 50,000
Total cash and cash equivalents	\$ 2,969,170	\$ 2,285,559

⁽¹⁾ The Entity, through some subsidiaries, signed a trust contract with Nacional Financiera, S. N. C., for the purpose of promoting the development of micro, small and medium-size companies through a system that grants financial support to the Entity's suppliers. For these purposes, a reserve for payment was created, which may only be used to fund obligations payable by the fund.

7. TRADE ACCOUNTS RECEIVABLE

	2018	2017
For housing sale	\$ 380,127	\$ 671,264
For Land sale and commercial locals	211,665	19,235
For lease	8,604	5,754
	600,396	696,253
Allowance for doubtful accounts	(8,942)	(10,304)
	\$ 591,454	\$ 685,949

Customers by deed according to institution granting mortgage credit are as follow:

	2018	2017
INFONAVIT (Including cofinancing)	\$ 173,967	\$ 300,914
FOVISSSTE	14,121	43,104
Commercial banks	151,401	148,717
ARA Financing	40,638	178,529
	\$ 380,127	\$ 671,264

a. *Accounts receivable*

Trade accounts receivable are valued at amortized cost. The average loan term on the sale of assets with INFONAVIT, FOVISSSTE and Commercial banks is 30 days and 36 months with ARA funding.

The Entity uses rigorous processes to integrate the information to be sent to Institutions. Additionally, is complemented with the acceptance process of customers of the entities to grant mortgage loans. Strict adherence to the processes of each institution is the only medium existing that permit to the Entity to sell, notarize and collect products through them.

b. *Expected credit loss on trade receivables*

The Entity determines the provision for impairment as the expected losses over the life of the customer receivables, analyzing historical information of the portfolio and calculating the percentage of the customers' balance until reaching a level of impairment, without considering the contracts with customers subject to conditional sale, because such balance is secured by the total amount of the housing, which is equivalent to the total balance or value of the home.

The reserve is determined based on a Probability of Default Model, establishing objective evidence of impairment of +90 days. Under the IFRS 9 standard, it is presupposed that a financial asset with more than 90 days of arrears should be considered as overdue or in default.

The parameter of Loss Given Default (LGD) is determined through a market study performed in the real estate sector for INFONAVIT and FOVISSSTE home loans. The LGD is approximately 60% for the mortgage market.

Change in allowance for doubtful accounts

	2018	2017
Balance at beginning of year	\$ 10,304	\$ 35,039
Change in accordance with IAS 39	-	(2,777)
Adjustment upon application of IFRS 9	(1,362)	(21,958)
Balance at end of year	\$ 8,942	\$ 10,304

The following table shows the movement of the expected credit loss over its life, and it has been recognized in the accounts receivable with ARA financing and leasing of commercial premises according to the approach under IFRS 9.

31/12/2018	Trade receivables – days past due						Total
	No past due:	<30	31 - 60	61 - 90	91 - 180	>180	
Expected credit loss rate	0%	11%	30%	46%	55%	60%	
Estimated total gross carrying amount at default	\$ 18,564	\$ 17,526	\$ 2,667	\$ 254	\$ 621	\$ 9,610	\$ 49,242
Lifetime expected credit losses	-	\$ 1,915	\$ 804	\$ 118	\$ 339	\$ 5,766	\$ 8,942

31/12/2017	Trade receivables – days past due						Total
	No past due:	<30	31 - 60	61 - 90	91 - 180	>120	
Expected credit loss rate	0%	9%	31%	41%	52%	60%	(Restated)
Estimated total gross carrying amount at default	\$ 112,245*	\$ 62,875	\$ 1,520	\$ 1,639	\$ 1,126	\$ 4,878	\$ 184,283
Lifetime expected credit losses	-	\$ 5,661	\$ 465	\$ 668	\$ 584	\$ 2,927	\$ 10,304

* Trade receivable with guarantee

8. REAL ESTATE INVENTORIES AND LAND FOR DEVELOPMENT

	2018	2017
Work in process	\$ 9,268,139	\$ 8,727,168
Land in process of development	1,611,705	1,911,688
Construction materials	340,591	295,371
Borrowing costs	74,614	43,254
	11,295,049	10,977,481
Land for long-term development	2,978,176	2,891,366
	\$ 14,273,225	\$ 13,868,847

- a. The Entity's policy is to locate and acquire land each year for new developments, classifying land currently being developed or land planned to be developed within the Entity's operational cycle as current assets, and as long-term all remaining land for which the Entity has no current plans to develop.

- b. The capitalization ratio of loan costs is calculated based on expenses incurred in the purchase of land and construction work in progress which are held as qualifying assets and have not been concluded.
- c. In 2018 and 2017, were capitalized borrowing cost in the inventory balance \$202,888 and \$199,095, respectively, transferred costs of \$171,529 y \$155,841, respectively.

Inventories pledged as guarantee

The land reserve guaranteed in the syndicated loan at 31 December 2017 was released on July 2018 when the balance of this loan was paid.

9. INVESTMENT PROPERTIES

	2018	2017
Buildings held for lease	\$ 817,615	\$ 521,274
Accumulated depreciation	(181,983)	(171,379)
	635,632	349,895
Land	276,635	276,635
Construction in progress	16,457	134,474
	\$ 928,724	\$ 761,004

All of the Group's investment properties is held under freehold interests.

	2018	2017
Fair value of investment properties	\$ 2,301,210	\$ 1,815,567

The fair value of the Group's investment property as of December 31, 2018 and 2017 has been achieved on the basis of a valuation carried out on the respective dates by independent appraisers not related to the Group, which are members of the Institute of Appraisers of Mexico, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties, which corresponds to fair value Level 2.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

10. OTHER CURRENT ASSETS

	2018	2017
Advances to suppliers	\$ 208,084	\$ 205,076
Recoverable taxes, mainly ISR income tax	124,029	189,866
Security deposits	63,475	87,498
Other accounts receivable	51,779	36,627
Advance payments	27,421	19,016
	\$ 474,788	\$ 538,083

11. INVESTMENT IN JOINT VENTURES

a. The Entity's investments accounted for by the equity method are summarized as follows:

Name of joint ventures	% ownership	Equity method in net assets		Equity method	
		2018	2017	2018	2017
Centro Regional las Américas, S. de R. L. (CRAS) (i) (ii) (iii)	50	\$ 7,926	\$ -	\$ 69,433	\$ 61,466
Centro San Francisco, S. de R. L. (CSF) (i) (ii) (iii)	50	-	877	-	-
Servicios Inmobiliarios Administrativo Américas, S. de R. L. de C. V. (SIAA) (i)	50	697	568	7,579	9,090
Fideicomiso Irrevocable de Administración y Garantía con Derecho de Reversión No. CIB/2224 Ventura (i) (ii) (iii)	50	159,612	153,139	10,303	8,285
Investments in joint ventures-Asset		168,235	154,584	87,315	78,841
Centro Regional las Américas, S. de R. L. (CRAS) (i) (ii) (iii)	50	-	(21,119)	-	-
Centro San Francisco, S. de R. L. (CSF) (i) (ii) (iii) (iv)	50	(945)	-	(1,822)	(170)
Investments in joint ventures-Liabilities (iv)		(945)	(21,119)	(1,822)	(170)
Investments in joint ventures		\$ 167,290	\$ 133,465	\$ 85,493	\$ 78,671

- (i) The Entity has contractual agreements through which the parties that have joint control of the agreement are entitled to the net assets of the joint venture, which exists when the decisions on the relevant activities require the unanimous approval of the parties that share the agreement control.
- (ii) The main purpose of these businesses is the construction, marketing, leasing, and management of all types of real estate projects, including shopping centers.
- (iii) As of December 31, 2018 and 2017, write-offs have been recorded against joint ventures for the sale of land, interest and provision of administrative services.
- (iv) Information relating to the participation of joint ventures classified as liabilities, includes other long-term liabilities in the consolidated statement of financial position.

The most significant financial information relating to joint venture (CRAS) of the Entity is summarized below:

	2018	2017
Current assets	\$ 159,103	\$ 124,450
Non-current assets	\$ 738,030	\$ 685,088
Total assets	\$ 897,133	\$ 809,538
Current liabilities	\$ 126,972	\$ 118,180
Non-current liabilities	\$ 665,901	\$ 680,778
Stockholders' equity	\$ 104,260	\$ 10,580
Total stockholders' equity and liabilities	\$ 897,133	\$ 809,538
Revenue	\$ 276,790	\$ 256,269
Income before income taxes	\$ 175,920	\$ 152,940
Net income for the year	\$ 123,680	\$ 107,969
Value in results of the Entity's participation in the most significant joint venture	\$ 69,433	\$ 61,466

12. PROPERTY, MACHINERY AND EQUIPMENT

Reconciliation of beginning and ending carrying amount in 2018 and 2017 is as follows:

	Balance as of January 1, 2017	Additions	Disposals	Balance as of December 31, 2017	Additions	Disposals	Balance as of December 31, 2018
Investment:							
Buildings	\$ 36,524	\$ -	\$ -	\$ 36,524	\$ -	\$ -	\$ 36,524
Leasehold improvements	64,019	-	-	64,019	3,487	-	67,506
Commercial facilities and mini-supermarkets for rent	2,686	-	-	2,686	-	-	2,686
Machinery and equipment	1,039,435	10,209	36	1,049,608	22,648	630	1,071,626
Vehicles	123,230	14,190	4,866	132,554	18,967	8,556	142,965
Office furniture and fixtures	101,542	4,727	11	106,258	3,440	246	109,452
Land	23,256	-	-	23,256	-	-	23,256
Improvements and adaptations in progress	6,620	-	-	6,620	-	-	6,620
Total investments	1,397,312	29,126	4,913	1,421,525	48,542	9,432	1,460,635
Depreciation:							
Buildings	\$ (9,878)	\$ (663)	\$ -	\$ (10,541)	\$ (667)	\$ -	\$ (11,208)
Leasehold improvements	(63,362)	-	-	(63,362)	-	-	(63,362)
Machinery and equipment	-	-	-	-	-	-	-
Vehicles	(967,319)	(31,791)	(21)	(999,089)	(31,692)	(588)	(1,030,193)
Office furniture and fixtures	(69,282)	(6,530)	(4,389)	(71,423)	(7,853)	(6,235)	(73,041)
Buildings	(66,011)	(4,872)	(10)	(70,873)	(6,013)	(144)	(76,742)
Total accumulated depreciation	1,175,852	(43,856)	(4,420)	(1,215,288)	(46,225)	(6,967)	(1,254,546)
Net investment	\$ 221,460	\$ (14,730)	\$ 493	\$ 206,237	\$ 2,317	\$ 2,465	\$ 206,089

13. INVESTMENTS IN SUBSIDIARIES

The consolidated financial statements include the financial statements of Consorcio ARA, S. A. B. de C. V. (ARA) and all its subsidiaries over which it maintains control. ARA's ownership interest in its subsidiaries at December 31, 2018 and 2017, is shown below:

Subsidiary or Subsidiary Group	Percentage of equity stake and Voting Power	Principal activity
Consorcio de Ingeniería Integral, S.A. de C.V. (CIISA)	99.7%	Home construction
Proyectos Urbanos Ecológicos, S.A. de C.V. (PUESA)	99.9%	Purchase and sale of land
Constructora y Urbanizadora ARA, S.A. de C.V. (CUARA)	99.9%	Home construction
Inmobiliaria ACRE, S.A. de C.V. (ACRE)	99.9%	Currently without operations
Asesoría Técnica y Administrativa GAVI, S.A. de C.V. (GAVI)	99.9%	Services supplier
Comercialización y Ventas, S.A. (COVENSA)	98.0%	Services supplier
Promotora y Desarrolladora de Centros Comerciales, S.A. de C.V. (PDCC)	99.9%	Development and leasing of shopping malls and commercial premises
Desarrollos Inmobiliarios Turísticos ARA, S.A. de C.V. (DITA)	100.0%	Currently without operations
Inmobiliaria el Globo, S.A. de C.V.	99.4%	Home construction

The Entity created PDCC with 99.9% equity stake, which holds 99.9% owned in other subsidiaries. These entities are: Operadora de Centros, Unicentros y Locales Comerciales, S. A. de C. V., Servicios Administrativos ARADCD, S. A. de C. V., Operadora de Espacios las Américas, S. de R. L., Plaza Cañada Huehuetoca, S. de R. L., Centro Veracruzano Rio Medio, S. de R. L. y Centro San Miguel, S. de R. L., the purpose of these entities is rent its commercial facilities and mini malls.

Consorcio ARA, LLC was eliminated as a subsidiary because the entity was liquidated as it no longer had operations for more than three years. The Company canceled the assets and liabilities of such subsidiary. Balances and transactions between the consolidated companies have been eliminated.

14. LONG-TERM DEBT

Non-guaranteed – in amortized cost	2018	2017
Unsecured money loan with BBVA Bancomer, S. A., contracted on June 27, 2018, for \$500,000 with two provisions on June, 2019 and July, 2019, both for \$250,000, bearing monthly interest at the 28-day TIIE rate plus 2.30%; principal and interest payable monthly and unpaid balances, maturing on June 27, 2021 (effective interest rate of 10.89% as of December 31, 2018).	\$ 416,667	\$ -
Unsecured money loan with Scotiabank Inverlat, S.A., contracted on May 21, 2018, for \$300,000, bearing monthly interest at the 28-day TIIE rate plus 2.15%; principal is payable quarterly and interest is payable monthly on unpaid balances, maturing on May 21, 2021 (effective interest rate of 10.74% as of December 31, 2018).	250,000	-
Guaranteed – in amortized cost	2018	2017
Unsecured loan guaranteed by collection rights with Banco Mercantil del Norte, S. A., refinanced on September 7, 2015, for \$148,180, bearing monthly interest at 28-day TIIE rate plus 2.50%, maturing on August 14, 2022 (effective interest rate of 11.09% and 9.88% as of December 31, 2018 and December 31, 2017).	134,692	139,005
Unsecured loan guaranteed by collection rights with Banco Mercantil del Norte, S. A., contracted on June 25, 2018 even for \$170,000, bearing monthly interest at 28-day TIIE rate plus 2.75% at the construction stage and will decrease to 2.50% at the operation stage, maturing on June 14, 2035 (effective interest rate of 11.34% as of December 31, 2018).	\$ 110,142	\$ -

Guaranteed – in amortized cost	2018	2017
Unsecured loan guaranteed by collection rights with Banco Mercantil del Norte, S. A., contracted on May 14, 2016, for \$100,000, bearing monthly interest at the 28-day TIIE rate plus 2.50%, maturing on May 14, 2031 (effective interest rate of 11.09% and 9.88% as of December 31, 2018 and December 31, 2017).	89,186	93,600
Unsecured loan guaranteed by joint ownership and collection rights with Banco Scotiabank Inverlat, S. A., contracted on March 16, 2012, for \$80,750. On December 15, 2016, an amending agreement was signed for \$57,679 to extend the term and modify the rate margin. The current contract bears monthly interest at the 28-day TIIE rate plus 2.50%, with principal and interest payable monthly and maturing on December 16, 2021 (effective interest rate of 11.09% and 9.88% as of December 31, 2018 and December 31, 2017).	45,662	51,430
Bridge loan “Paraíso Country Club” with SHF through CIBanco, contracted on April 4, 2018, bearing monthly interest at the 28-day TIIE rate plus 2.85%; principal is payable at the housing sale (legalized) or at the latest at maturity on April 4, 2021 (effective interest rate of 11.44% as of December 31, 2018).	45,629	-
Bridge loan “Lázaro Cárdenas III” with SHF through CIBanco, contracted on August 29, 2017, bearing monthly interest at the 28-day TIIE rate plus 2.85%; principal is payable at the housing sale (legalized) or at the latest at maturity on August 29, 2020 (effective interest rate of 11.44% and 10.24% as of December 31, 2018 and December 31, 2017).	45,428	12,430
Bridge loan “Dream Lagoons Veracruz” with SHF through CIBanco, contracted on October 18, 2016, bearing monthly interest at the 28-day TIIE rate plus 0.15%; principal is payable at the housing sale (legalized) or at the latest at maturity on October 18, 2019 (effective interest rate of 8.74% and 7.54% as of December 31, 2018 and December 31, 2017).	9,704	67,100
Bridge loan “Residencial Villamarino” with SHF through CIBanco, contracted on February 19, 2016, bearing monthly interest at the 28-day TIIE rate plus 2.85%; principal is payable at the housing sale (legalized) or at the latest at maturity on February 19, 2019 (effective interest rate of 11.44% and 10.24% as of December 31, 2018 and December 31, 2017).	1,415	16,159
(1) Syndicated loan with mortgage security, contracted on September 30, 2015, for \$1,850,000 and two amendments signed in March 28, 2017 and June 28, 2017 both for \$231,250, with BBVA Bancomer, S.A. acting as administrative and collateral agent and Banco Santander, S.A. Banco Ve Por Más, S.A. and Scotiabank Inverlat, S.A. as lenders, bearing monthly interest at the 28-day TIIE rate plus 1.90% more the cost of SHF’s guarantee even for 50% of the unpaid balances (effective interest rate of 9.29% as of December 31).	-	326,759
Bridge loan “Torres San Simón” contracted on October 20, 2016, through BBVA Bancomer, for \$199,338, bearing monthly interest at the 28-day TIIE rate plus 2.75%; principal was paid at the housing sale (legalized) or at the latest at maturity on October 21, 2018, liquidated in advance (effective interest rate of 10.13% as of December 31, 2017).	-	116,078
Mortgage-backed “La Cascada” unsecured loan with BBVA Bancomer, contracted on August 16, 2016, principal and interest were paid monthly and maturing on September 20, 2018, liquidated in advance (effective interest rate of 10.13% as of December 31, 2017).	-	48,611
Bridge loan “Residencial Colinas de Chapultepec” with SHF through CIBanco, contracted on November 30, 2015, bearing monthly interest at the 28-day TIIE rate plus 2.85%; principal was paid at the housing sale (legalized) or at the latest at maturity on December 17, 2018 (effective interest rate of 10.24% as of December 31, 2017).	-	25,799
Mortgage-backed unsecured loan “Valle Esmeralda” with BBVA Bancomer, contracted on June 6, 2016, bearing monthly interest at the 28-day TIIE rate plus 2.75%, principal and interest were paid monthly or at the latest at maturity on June 30, 2018 (effective interest rate of 10.13% as of December 31, 2017).	-	15,749
Mortgage-backed unsecured loan “Jiutepec Morelos” with BBVA Bancomer, S.A., contracted on October 20, 2016, bearing monthly interest at the 28-day TIIE rate plus 2.75%, principal and interest were paid monthly, liquated before maturity on October 20, 2018 (effective interest rate of 10.13% as of December 31, 2017).	-	14,084
Bridge loan “Paraíso Country Club” with SHF through CIBanco, contracted on June 3, 2016, bearing monthly interest at the 28-day TIIE rate plus 2.85%; principal was paid at the housing sale (legalized) or at the latest at maturity on June 31, 2018 (effective interest rate of 10.24% as of December 31, 2017).	-	1,583

Guaranteed – in amortized cost	2018	2017
Bridge loan “Foresta 3” with SHF through CIBanco, contracted on July 2, 2015, bearing monthly interest at the 28-day TIIE rate plus 2.85%; principal was paid at the housing sale (legalized) or at the latest at maturity on July 10, 2018 (effective interest rate of 10.24% as of December 31, 2017).	-	1,512
Unsecured money loan with Actinver, S.A. de C.V., contracted on July 27, 2016, for \$100,000, bearing monthly interest at the 28-day TIIE rate plus 3.00%; principal and interest were paid monthly on unpaid balances, with maturity July 30, 2018 (effective interest rate of 10.38% as of December 31, 2017).	-	29,166
	1,148,525	959,065
Less – Fees	(5,727)	-
	1,142,798	959,065
Less –Current portion	(438,939)	(680,840)
Long - Term debt	\$ 703,859	\$ 278,225

As of December 31, 2018, long-term debt matures as follows:

2020	223,891
2021	182,423
2022	129,281
2023	10,865
2024 or more	157,399
	<u>\$ 703,859</u>

⁽¹⁾ In December 2017, a syndicated loan payment of \$1,327,233 was made, thereby leaving a balance of \$326,759 liquidated in 2018, consequently the mortgage guarantee was released.

a. **Summary of loan agreements**

Financial institution loan contracts include restrictive clauses which obligate the Entity to, among other things, maintain certain financial ratios and comply with negative and affirmative covenants during their duration. As of December 31, 2018 and 2017 the Entity has complied with such restrictions and obligations.

The Entity’s long-term debt is recorded at amortized cost and consists of debt which bears interest at fixed and variable rates and are related to market indicators; fair value does not differ from book value because market values are very similar to those recorded. As of December 31, 2018 and 2017, fair values are \$1,172,245 and \$966,804, respectively.

b. *Reconciliation of liabilities arising from financing activities*

	Balance as of January 1, 2018	Financing cash flows, net	Borrowing cost (Commissions less amortization)	New finance leases	December 31, 2018
Long-term debt	\$ 959,065	\$ 188,272	\$ (4,539)	\$ -	\$ 1,142,798
Unsecured securities certificates ⁽¹⁾	1,327,233	-	4,541	-	1,331,774
Finance lease obligations	29,142	(21,222)	-	19,360	27,280
	\$ 2,315,440	\$ 167,050	\$ 2	\$ 19,360	\$ 2,501,852

⁽¹⁾ Balance of placement expenses for \$18,291 and \$22,832 at December 31, 2018 and 2017, respectively.

	Balance as of January 1, 2017	Financing cash flows, net	Borrowing cost (Commissions less amortization)	New finance leases	December 31, 2017
Long-term debt	\$ 2,590,481	\$ (1,631,416)	\$ -	\$ -	\$ 959,065
Unsecured securities certificates ⁽¹⁾	-	1,350,065	(22,832)	-	1,327,233
Finance lease obligations	43,347	(22,352)	-	8,147	29,142
	\$ 2,633,828	\$ (303,703)	\$ (22,832)	\$ 8,147	\$ 2,315,440

15. UNSECURED SECURITIES CERTIFICATES

On December 13, 2017, the Entity placed 13,500,650 long-term domestic senior notes on the Mexican market with a face value of \$100, equal to the amount of \$1,350,065, for a five-year period, with the settlement of principal through 26 payments as of the third year at the 28-day Interbank Interest Rate (TIIE) plus 250 basis point.

	2018	2017
Unsecured securities certificates	\$ 1,350,065	\$ 1,350,065
Placement expenses	(18,291)	(22,832)
Long-term debt	\$ 1,331,774	\$ 1,327,233

As of December 31, 2018, long-term debt matures as follows:

2021	\$ 675,033
2022	675,032
	\$ 1,350,065

16. OTHER LIABILITIES AND TAXES PAYABLE

	2018	2017
Deposits from suppliers	\$ 291,464	\$ 289,636
Accrued expenses	245,857	273,829
Taxes, other than ISR	25,296	33,096
Accrued interest	9,435	8,215
Direct employee benefits	2,133	1,273
	<u>\$ 574,185</u>	<u>\$ 606,049</u>

17. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2018 and 2017 was 30% and will continue to 30% and thereafter.

For ISR tax purposes, as of 2005 cost of sales is deducted instead of inventory purchases. In such year, accrual of the inventory balance as of December 31, 2004 for a period of 11 to 12 years, determined based on tax rules in accordance with turnover, was permitted. Such inventory balance, net as of December 31, 2018 and 2017 was \$132,900 and \$168,398 respectively.

a. Income taxes are integrated as follows:

	2018	2017
ISR:		
Current ⁽¹⁾	\$ 11,356	\$ (87,311)
Deferred	319,584	321,047
	<u>\$ 330,940</u>	<u>\$ 233,736</u>

The effective ISR rate for fiscal 2018 and 2017 differs from the statutory rate, mainly due to permanent differences, such as nondeductible expenses and the effects of inflation as follows:

	2018	2017
Statutory rate	30.0%	30.0%
Effect of permanent differences:		
Effect of inflation	0.3	2.0
Non-deductible expenses	0.8	1.1
Land 3% accumulation	3.3	3.0
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	2.3	(7.4)
Liabilities cancelation	(3.5)	-
Income tax provision excess from last year ⁽¹⁾	-	(8.7)
Others	(4.6)	1.0
Effective tax rate	<u>28.6%</u>	<u>21.0 %</u>

⁽¹⁾ In 2017, the Entity applied tax criterion 30/2013/CTN/CS-SASEN issued by the Taxpayer Defense Office to determine income tax for 2016. This criterion primarily establishes the possibility of deducting urbanization costs during the year in which they are incurred as they represent strictly indispensable expenses. Consequently, after applying this criterion, in 2017 the Entity canceled the excess amount of \$99,670 of the 2016 current income tax provision.

b. The main items comprising the balance of deferred income tax are as follows:

	2018	2017
Temporary differences		
Inventories and long-term land for development	\$ (2,931,944)	\$ (2,491,460)
Property, machinery and equipment	(6,076)	(34,932)
Others – Net	(3,178)	(7,290)
Gross deferred income tax liabilities	(2,941,198)	(2,533,682)
Effect of tax loss carryforwards ⁽²⁾	266,036	185,696
Investment properties	54,288	49,018
Advances from customers	28,308	24,993
Allowance for doubtful accounts	2,632	1,856
Others – Net	5,702	7,471
Gross deferred income tax assets	\$ 356,966	\$ 269,034

⁽²⁾ Tax loss carryforwards are presented as deducted from the respective estimate for valuation, whose benefit was not recorded due to the uncertainty of recovery.

c. Tax loss carryforwards for which the deferred ISR asset, have been partially recognized, due to it is probable their recuperation subject to certain conditions. Restated amounts as of December 31, 2018 and expiration dates are:

Year of expiration	Tax loss carryforwards
2019	\$ 9,343
2020	20,681
2021	28,297
2022	43,146
2023	51,047
2024	35,800
2025	5,686
2026	317,908
2027	92,107
2027	230,258
	\$ 886,788

d. d. Unrecognized deferred income tax asset

The following deferred income tax assets has not been recognized as of the date of this financial statement.

	2018	2017
Tax loss	\$ -	\$ 90,237

18. FINANCE LEASE

a. *Leasing arrangements*

The Entity leased certain vehicles and machinery under the capital lease regime. Lease periods are 36 months. The Entity has the option of acquiring this equipment for a nominal amount at the end of the lease periods. The Entity's capital lease obligations are guaranteed by the lessors' title to the leased assets.

Obligations for finance leases are contracted at the 28 day TIE rate plus from 3.0 to 3.1 percentage points with different financial institutions as of December 31, 2018 and 2017, respectively.

The Entity leased in 2018 transportation equipment through a 36 month operating lease with a 11% fixed rate. The Entity has a purchase option for a stated amount at the end of the lease agreement.

At December 31, 2018, fair values do not differ from carrying amounts, because of observed market values are very similar to those recorded by the Entity.

b. *Finance lease liabilities*

At December 31, 2018 and 2017, minimum rental commitments under finance leases are comprised as following:

	2018	2017
Total minimum lease obligations ⁽¹⁾	\$ 27,280	\$ 29,142
Current portion of obligations	(15,835)	(22,099)
Long-term portion of capital lease obligations	\$ 11,445	\$ 7,043

⁽¹⁾ The finance lease is used for the acquisition of machinery and equipment; as of December 31, 2018 and 2017, the lease agreements net of depreciation come to \$65,675 and \$48,252, respectively.

The liabilities for capital leases arrangements matures as follows:

Year ending December 31		
2019	\$	15,835
2020		6,262
2021		5,132
2022		51
	\$	27,280

19. EMPLOYEE BENEFITS

La The Entity operates defined contribution retirement benefit plans for all qualifying employees. The assets of the plans are held separately from those of the Entity in funds under the control of trustees.

The Entity manages a plan that also covers seniority premium, which consists of a one-time payment of 12 days for each year work based on the last wage, no exceeding twice the minimum wage established by law. The related liability and the annual cost of benefits are calculated by an independent actuary in accordance with the bases defined in the plans, using the projected unit credit method.

The Entity manages defined benefits plans for eligible employees. Under these plans, the employees are entitled to retirement benefits of the average net wage of the last 12 months, after completing the retirement age of 65 years, with at least 10 years of service in the company. No other postretirement benefits are granted.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2018 and 2017 by members of Actuaries Institute of Mexico.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018 %	2017 %
Discount rate	8.9	7.5
Expected rate of salary increase	4.0	5.8
Expected return on plan assets	8.9	7.5
Average age	7.5	7.2

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

	2018	2017
Service cost:		
Current service cost	\$ 4,584	\$ 4,171
Net interest expense	3,875	3,370
Past service cost and loss from settlements	(3,061)	(3,488)
Components of defined benefit costs recognized in profit or loss	5,398	4,053

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	2018	2017
Present value of funded defined benefit obligation	\$ (41,848)	\$ (49,839)
Fair value of plan assets	40,870	41,788
Net liability arising from defined benefit obligation	(978)	(8,051)

20. RISK MANAGEMENT

a. Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, valuation basis and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

b. Categories of financial instruments and risk management policies

The main categories of financial instruments are:

		2018	2017
Cash and cash equivalents	(i)	\$ 2,919,170	\$ 2,235,559
Restricted cash	(i)	50,000	50,000
Accounts receivable			
Customer – Net	(i)	\$ 591,454	\$ 685,949
Due from joint ventures	(i)	20,574	28,601
Amortized cost financial liabilities			
Trade accounts payable	(ii)	\$ 822,245	\$ 615,241
Long-term debt	(iii)	1,142,798	959,066
Finance lease obligations	(iii)	27,280	29,142
Unsecured securities certificates	(iii)	1,331,774	1,327,233

The assets and liabilities of the Entity are exposed to various financial risks including:

- (i) Credit risk
- (ii) Liquidity risk, and
- (iii) Financial market risks (interest rate)

The Entity seeks to minimize potential adverse effects of the above risks on its financial performance through different strategies, which are described below:

c. *Credit risk management*

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in a loss for the Entity. In the case of the Entity, the principal credit risk arises from cash and cash equivalents and accounts receivable. With respect to cash and cash equivalents, the Entity's policy is to conduct transactions only with reputable institutions and high credit. With respect to accounts receivable, the Entity has credit policies that allow you to adequately manage credit risk. They are described in Note 7.

d. *Liquidity risk management*

Liquidity risk refers to the risk that an entity will encounter difficulty filling its obligations associated with financial liabilities that are covered by delivering cash or another financial asset. The Entity manages liquidity risk through the establishment of appropriate policies for monitoring the working capital, which allows management to manage the financing requirements. The excess cash is invested primarily in government paper. 100% of such excess is invested regularly within less than 30 days. The Entity's policy allows the excess may also be invested in bank paper as long as they meet certain requirements of risk and return on investment.

The Entity has continued monitoring of projected cash flows and real and has financial factoring options and lines of credit for working capital.

Additionally, the Entity control the cash flow allocated to the business lines in order to optimize the return on investment, maintaining a balance between the sale and construction program.

The maturities of long-term debt are presented in Note 14 and 15.

The tables have been designed based on undiscounted financial liability cash flows considering the most recent date on which the Entity must make payments. The tables include both interest and principal cash flows. Insofar as interest is at a variable rate, the undiscounted amount derives from the interest rate curves at the end of the reporting period. Contractual maturity is based on the minimum date on which the Entity must make the payment:

At December, 31 2018	Less than 1 year	More than 1 year and less than 3	More than 3 years	Total
Trade accounts payable	\$ 822,267	\$ -	\$ -	\$ 822,267
Unsecured securities certificates (i)	151,437	942,961	697,513	1,791,911
Long-term debt (i)	547,605	520,608	446,830	1,515,043
Finance lease obligations	18,628	12,491	51	31,170
	\$ 1,539,937	\$ 1,476,060	\$ 1,144,394	\$ 4,160,391

At December, 31 2017	Less than 1 year	More than 1 year and less than 3	More than 3 years	Total
Trade accounts payable	\$ 615,241	\$ -	\$ -	\$ 615,241
Unsecured securities certificates (i)	127,581	255,162	1,390,653	1,773,396
Long-term debt (i)	735,813	55,024	286,241	1,077,078
Finance lease obligations	24,181	5,603	2,155	31,939
	\$ 1,502,816	\$ 315,789	\$ 1,679,049	\$ 3,497,654

⁽ⁱ⁾ Include interest, calculated in according with interest rate of each credits, as indicated in Note 14 and 15 are based on TIE rate plus 0.15 to 2.85 percentage points.

e. *Capital risk management*

The Entity manages its capital to ensure that entities in the entity will be able to continue as a going concern while maximizing the return to shareholders through the optimization of debt and equity balances. The overall strategy of the entity not been changed compared to 2017.

The capital structure of the Entity consists of net debt (borrowings as detailed in Note 14 offset by cash and balances and banks) and equity of the Entity (comprising issued capital, reserves and retained earnings as detailed in Note 21).

The Entity is not subject to any externally capital requirement cash equivalents.

The Board of Directors of the Entity reviews the capital structure of the Entity on a quarterly basis. As part of this review, the Board considers the cost of capital and risks associated with each class of capital. The Entity has a gearing ratio of net debt and equity.

– Gearing ratio

The gearing ratio at the reporting period is as follows:

	2018	2017
Debt (i)	\$ 2,501,852	\$ 2,315,440
Cash, cash equivalents and restricted cash	2,969,170	2,285,559
Net debt	\$ (467,318)	\$ 29,881
Equity (ii)	\$ 13,184,253	\$ 12,614,977
Net debt to equity ratio	(3.54)%	0.24 %

⁽ⁱ⁾ The net debt to equity ratio is defined as bank loans, unsecured securities certificates and lease obligations of short and long term, as described in Note 14, 15 and 18.

⁽ⁱⁱ⁾ Equity includes all capital and reserves of the Entity that are managed as capital.

f. **Financial market risk**

Entity activities expose it primarily to financial risks from changes in interest rates and exchange rate.

Management the risk of interest rate - The entity is exposed to risks in the interest rate, because it has contracted variable rate debt (TIIE). To mitigate this risk likely the Entity has a policy of hiring Swap or CAPS which protect the movement of the reference rate TIIE.

- a. On June 6 and 16, 2016, the Entity contracted two interest rate CAPS of \$1,392 and \$969, maturing on June 3 and 14, 2019, respectively, as a strategy to minimize the interest rate volatility risk on the loans contracted for building shopping centers of \$148,180 and \$100,000. The loans bear interest at the TIIE rate plus 2.5 percentage points and with the derivative financial instrument an 8% strike without surtax was agreed to.
- b. On July 20, 2018, the Entity contracted a SWAP of interest maturing on July 14, 2023 to fixed rate of 8.035% monthly without surtax on the loan contracted for Centro San Miguel expansion of \$175,000. The loan bear interest at TIIE rate plus 2.5 percentage points.
- c. As of December 31, 2018 and 2017, the effect in results of derivative financial instruments was a net profit (loss) of \$2,796 y \$(1,674), respectively.
- d. As of December 31, 2018 and 2017, the fair value of such derivative financial instruments is \$4,374 y \$1,578, respectively.

Due to the contractual characteristics of the financial instruments, the Entity does not require liquidity sources.

Management foreign exchange risk - The Entity holds investments in foreign currencies mainly short term as part of the diversification strategy, as well as supporting the needs of the operation. Although the Entity is exposed to fluctuations in the exchange rate, these are marginal because the proportion who keep the assets and liabilities in foreign currency.

At December 31, 2018 and 2017, the foreign currency monetary position is as follows:

	2018	2017
Thousands of U.S. dollars:		
Monetary assets	5,785	6,042
Monetary liabilities	(191)	(198)
Net monetary asset position	5,594	5,844
Equivalent in Mexican pesos	\$ 109,922	\$ 114,893

Transactions denominated in U.S. dollars were as follows:

	2018	2017
	(In thousands of U.S. dollars)	
Offices leases	1,249	1,220

The exchange rates in effect at the dates of the balance sheets and of issuance of the consolidated financial statements were as follows:

	December 31, 2018	December 31, 2017	March 29, 2018
U. S. dollar	\$ 19,65	\$ 19,73	\$ 19,37

g. **Fair value of financial instruments**

The fair value of financial instruments presented below has been determined by the Entity using available market information or other valuation techniques that require judgment in developing and interpreting the estimates of fair values, also uses assumptions that are based on market conditions existing at each of the dates of the consolidated statements of financial position.

Consequently, the estimated amounts presented are not necessarily indicative of the amounts the Entity could realize in a current market exchange. The use of different assumptions and / or estimation methods may have a material effect on the estimated fair value amounts.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped at the levels below, covering the extent to which the fair value is observed.

Level 1, the fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2, the fair value measurements are those derived from indicators other than quoted prices included within Level 1, but including indicators that are observable for the asset or liability, either directly or indirectly quoted prices, i.e. derivatives of these prices, and

Level 3, the fair value measurements are those derived from valuation techniques that include indicators for the asset or liability that are not based on observable market data (unobservable indicators).

The amounts of cash and cash equivalents of the Entity, as well as accounts receivable and payable of third parties and related parties approximate their fair value because they have short-term maturities. The long-term debt of the Entity is recorded at amortized cost, which is debt bears interest at fixed and variable rates that are related to market indicators. To obtain and disclose the fair value of long-term debt, the Entity uses the quoted market prices or quotations for similar instruments.

The fair value of long-term debt is obtained through market prices for instruments similar to those estimated by other techniques, such as estimated cash flows in the case of private debt instruments with interest rates on instruments that reflect the risk of the counterparty, as well as the risk of the same Entity for the reference period.

	December 31, 2018		December 31, 2017	
	Book values	Fair value	Book values	Fair value
Financial liabilities				
Unsecured securities certificates (level 1) (i)	\$ 1,331,774	\$ 1,370,447	\$ (1,327,233)	\$ (1,355,892)
Long term documents (level 2)	1,142,798	1,160,696	(959,066)	(966,804)
Total	\$ 2,474,572	\$ 2,531,143	\$ 2,286,299	\$ (2,322,696)

⁽ⁱ⁾ As of December 31, 2018 and 2017 the book values in the stock certificates is presented net of placement expenses by \$18,291 and \$22,832, respectively.

21. STOCKHOLDERS' EQUITY

- Capital stock as of December 31, 2018 and 2017 consist of 1,312,847,496 ordinary shares, with no par value, no subscription limitations, fully subscribed and paid.
- On April 24, 2018, approved \$180,000 in cash at the Ordinary Annual General Shareholders' Meeting, paid on July were taken from the Net Tax Income Account (CUFIN).
- On April 26, 2017, approved \$111,000 in cash at the Ordinary Annual General Shareholders' Meeting, paid on September 29, 2017 were taken from the Net Tax Income Account (CUFIN).
- At December 31, 2018, the Entity repurchased 18,247,278 shares. The market value of the Entity's shares, as reported on the Mexican Stock Exchange, as of December 31, 2018 \$5.09 per share.
- Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2018 and 2017, the legal reserve was \$212,937.

- f. Stockholders' equity, except restated paid-in capital and tax retained earnings will be subject to income tax payable by the Entity 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. The contributed capital account and consolidated net tax income account as of December are:

	2018	2017
Contributed capital account	\$ 2,237,905	\$ 2,134,794
Net tax income account	8,555,537	8,340,764
	<u>\$ 10,793,442</u>	<u>\$ 10,475,558</u>

22. RELATED PARTY TRANSACTIONS

- a. Transactions with investments in equity method investees, carried out in the ordinary course of business, were as follows:

	2018	2017
Mall management fees	\$ 10,506	\$ 9,437
Income from administrative services	6,083	5,682
Commissions	49	1,541

- b. The Entity carried out transactions with other related parties as follows:

	2018	2017
Revenue:		
Directors, subdirectors and key managerial personal:		
Housing sale to employees	\$ 3,435	\$ 3,551
Costs:		
Directors, subdirectors and key managerial personal:		
Direct benefits	\$ 114,682	\$ 114,791
Members of the board of directors:		
Fees	\$ 1,612	\$ 2,435
Emoluments	2,556	2,485
Shopping malls leasing	2,194	2,012
Publicity	781	781

23. INFORMATION BY BUSINESS ACTIVITY

The Entity obtains revenues from contracts with customers for the transfer of goods and services over time and at a specific moment of the following primary product lines:

	2018	2017
From contracts with clients ⁽¹⁾	\$ 8,080,488	\$ 8,143,024
Leases	129,469	106,234
	<u>\$ 8,209,957</u>	<u>\$ 8,249,258</u>

Includes mainly revenues from home sales for \$7,769,394 and \$8,039,004 in 2018 and 2017, respectively; also, sales of land, services and others for \$311,094 and \$104,020 as of December 31, 2018 and 2017, respectively.

a. Revenue of the main products and services

Revenues from the entity's ongoing operations of the main products and services are:

Segment	December 31, 2018				
	Entry-level	Middle-income	Residential housing	Others	Total
Types of goods or services:					
Housing sale	\$ 3,618,664	\$ 2,069,216	\$ 2,068,842	\$ -	\$ 7,756,722
Others projects income (1)	-	-	-	438,400	438,400
Interest on sale of homes by installments	-	-	14,835	\$ -	14,835
	<u>\$ 3,618,664</u>	<u>\$ 2,069,216</u>	<u>\$ 2,083,677</u>	<u>\$ 438,400</u>	<u>\$ 8,209,957</u>
Total revenue from contracts with customers					
Moment of recognition of income:					
Goods transferred at a point in time	\$ 3,618,664	\$ 2,069,216	\$ 2,068,842	\$ 276,938	\$ 8,033,660
Services transferred over time	-	-	14,835	161,462	176,297
	<u>\$ 3,618,664</u>	<u>\$ 2,069,216</u>	<u>\$ 2,083,677</u>	<u>\$ 438,400</u>	<u>\$ 8,209,957</u>
Total revenue from contracts with customers					

Segment	December 31, 2017				
	Entry-level	Middle-income	Residential housing	Others	Total
Types of goods or services:					
Housing sale	\$ 2,811,195	\$ 2,382,996	\$ 2,838,124	\$ -	\$ 8,032,315
Others projects income (1)	-	-	-	210,253	210,253
Interest on sale of homes by installments	-	-	6,690	\$ -	6,690
Total revenue from contracts with customers	\$ 2,811,195	\$ 2,382,996	\$ 2,844,814	\$ 210,253	\$ 8,249,258
Moment of recognition of income:					
Goods transferred at a point in time	\$ 2,811,195	\$ 2,382,996	\$ 2,838,124	\$ 74,620	\$ 8,106,935
Services transferred over time	-	-	6,690	135,633	142,323
Total revenue from contracts with customers	\$ 2,811,195	\$ 2,382,996	\$ 2,844,814	\$ 210,253	\$ 8,249,258

⁽¹⁾ Included the rents, commercial land sale and other real-estate projects.

b. General information for geographic area

Revenue as developer, service provider and lessor, are obtained solely within Mexico.

Incomes in the normal course operation of the Entity for geographic area are as follows:

	2018	2017
Geographic area:		
Metropolitana	\$ 1,705,938	\$ 1,658,190
Oriente	1,303,793	1,258,700
Sur	878,245	780,302
Valle de Toluca	856,429	720,265
Centro	681,866	550,886
Noreste	563,848	625,056
Noroeste	531,520	555,322
Ciudad de México	423,624	584,382
Occidente	373,640	308,842
Residencial RIALTA	299,639	574,604
Bajío	153,015	422,456
Total revenue from contracts with housing customers	7,771,557	8,039,005
Other real-estate projects	438,400	210,253
Total revenue from contracts with customers	\$ 8,209,957	\$ 8,249,258

24. GENERAL EXPENSES

The main items comprising general expenses (selling, administrative and operating expenses) as of December 31, 2018 and 2017 are as follows:

	2018	2017
Salaries, wages and benefits	\$ 394,849	\$ 431,941
Commissions	265,927	249,415
Advertising	207,202	194,789
Fees	105,054	107,452
Services	74,071	73,198
Depreciation and amortization	59,078	54,754
Leases of real estate and others	41,190	38,020
Employee benefits	27,646	29,195
Salaries, wages and benefits	5,398	4,053
Others expenses	49,406	41,905
	\$ 1,229,821	\$ 1,224,722

25. COMMITMENTS

- a. The Entity leases offices under an operating lease that is renewable annually. The rental expense was \$24,802 and \$25,988 for the years ended December 31, 2018 and 2017, respectively. The contract has a maturity date August 14, 2021.
- b. On August 18, 2004, CIISA signed a transfer of ownership and administration agreement with a departmental store and Banco J.P. Morgan, S.A, Multi-banking Institution, J.P. Morgan Financial Group, Fiduciary Division, through which a portion of the land in the Americas is transmitted to the departmental store, where the Mall of the Americas was developed.

CIISA obligations or the Americas Regional Center, S. de R. L. its affiliate, are among others, a) the obligation to carry and charge your account out the construction and improvement of the mall (except department store), including parking lot of the department store, according to the executive project; b) and operate the mall (except for warehouse department store).
- c. PDCC enter into a "Framework Agreement" with a third party, which establishes processes and procedures related to the investment in future construction projects and operation of malls.
- d. Guarantee and management trust - In July 2006, the Entity celebrated an agreement with Fomento Metropolitano of Monterrey ("Fomerrey"). Fomerrey maintains documentation of consents evidencing its rights for the substantiation and settle for the expropriation of the land with members of "Comisariado Ejidal del Núcleo Agrario San Miguel de los Garza", in Escobedo, Nuevo Leon.

The Entity gave to Fomerrey \$5,000 at the signing of this agreement. As of the date of issuance of these financial statements the Entity has started a trial to demand the compliance of agreement, which currently is in the presentation of evidence stage.

- e. A trust contract was executed in order to construct a commercial mall in the real estate property named "Las Américas", belonging to OULC (trustor "B"), which undertakes to transfer such real property to CI Banco, S. A. (trustee) with all the rights and obligations established by law. Furthermore, Artha Controladora III S. A. P. I. (trustor "A") undertakes to additionally contribute to the trust assets an amount equivalent to the value of the real property with any capital calls required for the project.

The participation percentages at the beginning are 0.0001% for trustor "a" and 99.999999% for trustor "b". As trustor "A" made contributions, the percentage increased until reaching 50% for each one. The trust will remain in effect until all its purposes are completed and will have a maximum duration of 50 years, which may be renewed. As of December 31, 2018 the participation of OULC and Artha Controladora is 50% each.

- f. The Entity is party to various legal actions in the normal course of its business. According to the Entity's legal advisors, it is not involved in or threatened by proceedings for which the Entity believes it is not adequately insured or indemnified or which, if determined adversely, would have a material adverse effect on its financial position and results of operations, therefore the Entity have not yet created a provision to cover such contingencies.

26. AUTHORIZATION TO ISSUE THE CONSOLIDATED FINANCIAL STATEMENTS

On March 29, 2019, the issuance of the consolidated financial statements was authorized by L. C. Alicia Enriquez Pimentel, Director of Finance and Relation with Investors of the Entity. These consolidated financial statements are subject to the approval of the Entity's general ordinary stockholders' meeting, who may modify the consolidated financial statements, based on provisions set forth by the General Corporate Law.

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