

Management's Commentaries and Analysis on the Operation Results  
and Financial Situation of the Company



ARA

**FIRST QUARTER 2007 (1Q07)**

Document sent to BMV on April 23, 2007

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[www.consorcioara.com.mx](http://www.consorcioara.com.mx)

## I. Executive Summary

### First Quarter 2007 (1Q07)

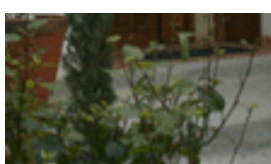
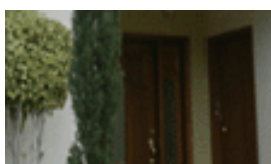
- Sales of \$ 2,127.2 million and an increase of 11.5% compared with the first quarter 2006 (1Q06). Volume of 5,033 units in line with quarterly plans and programs.
- Gross Profit of \$ 638.9 million, with a gross margin of 30%.
- Income from Operations of \$501.6 million, with an operating margin of 23.6%.
- Net Profit of \$ 347.2 million with a net margin of 16.3%
- EBITDA of \$523.7 million, which represents 24.6% of sales. EBITDA level is enough to cover paid interests 14 times.
- Average Price per house, \$355.8 thousand pesos

### Last Twelve Months (LTM) April 06 – March 07

- Sales of \$ 8,465.5 million, an increase of 15.6% compared with the same period of the previous year. Volume of 23,303 units, -equivalent to 39,810 units using the average selling price of the industry.
- Gross Profit of \$ 2,589.5 million, a gross margin of 29.6%
- Income from Operations of \$ 1,978.7 million; an operational margin of 22.6%
- Net Profit of \$ 1,362.7 million; a net margin of 15.6%
- EBITDA of \$ 2,071.4 million; an EBITDA margin of 23.7%
- Average Price per house, \$354.3 thousand pesos

### Liquidity and Capital Resources

- Cash reached a level of \$2,093.7 million
- Accounts receivable of 5.1 months
- Land bank of 35.9 million m<sup>2</sup> suitable to build 131,132 master plan units enough for the next four years of operations
- Cost bearing liabilities of \$1,184.0 million which represents 15.7% of equity
- All of these points reflect financial strength of Consorcio ARA.



## II. Operation results 1Q07

### Sales

Total revenues for the 1Q07 were \$2,127.2 million. Representing a 10.6% increase from 1Q06. During this period, 5,033 units were sold. These are equivalent to 9,669 units at the average selling price of the industry.

The Progresiva segment reported 1,764 units sold; sales reached \$ 402.1 million, an increase of 15.2% more than 1Q06. Of these, 1,364 and 400 units were funded by INFONAVIT and SHF respectively. ARA has given emphasis to this business line and is keeping with the financial plans and programmes of the Mexican mortgage institutions.

Affordable Entry Level reached 1,668 units, the revenues were of \$ 552.2 million, and INFONAVIT posted 752 units with revenues of \$ 244.3 million. SHF posted 738 units reaching revenues of \$ 253.4 million. FOVISSSTE posted 178 units and \$ 54.5 million in revenues

The Middle Income segment posted \$ 784.5 million in revenues an increase of 110.9%. The volume was 1,573 units sold.

Residential revenues posted \$ 51.7 million, and the volume reached 28 units.

Other real estate projects, particularly sales of land with services and rents of commercial property, amounted \$ 336.7 million.

	1Q 2007		1Q 2006		Var. 1Q 06/05	
	Units	Mill.\$	Units.	Mill.\$	Mill.\$	%
Progresiva	1,764	402.1	1,510	349.0	53	15.2
Affordable Entry Level	1,668	552.2	2,302	839.4	(287.2)	(34.2)
Medium Type	1,573	784.5	551	371.9	412.6	110.9
Residential	28	51.7	35	68.6	(16.8)	(24.5)
<b>Total as home builder</b>	<b>5,033</b>	<b>1,790.6</b>	<b>4,398</b>	<b>1,628.9</b>	<b>161.6</b>	<b>9.9</b>
Other real estate projects, land sales, rents of commercial property and others	NA	336.7	NA	294.0	42.7	14.5
<b>TOTAL</b>	<b>5,033</b>	<b>2,127.2</b>	<b>4,398</b>	<b>1,922.9</b>	<b>204.3</b>	<b>10.6</b>

Million pesos as of March 31, 2007

### Average Selling Prices (thousand pesos)

For 1Q07, the average selling price was of \$ 355.8, which is a decrease of 3.9% due to the housing product mix. For 1Q07 the average selling prices breakdown for the four home type products (in thousand pesos) were as follows: Progressive \$ 227.9, Affordable Entry Level \$ 331.1, Middle Income \$ 498.7, and Residential \$1,847.8,



### Cost of Goods Sold (COGS)

At 1Q07, COGS reached \$ 1,488.4 million, representing 70% of sales, an increase of 10.7% compared with 1Q06.



### Gross Profit

At the end of 1Q07, the Gross Profit reached \$ 638.9 million with a gross margin of 30%, an increase of 10.4% compared with 1Q06. The breakdown of margins by home type is as follows: 25%, 28.7%, 30.1%, 30.1% y 37.9% corresponding to Progressive, Affordable Entry Level, Middle Income, Residential, and Land Sales respectively.



### G&A Expenses

G&A expenses include salaries of the corporative personnel. G&A posted \$137.2 million in 1Q06, representing an increase of 9.6% compared to 1Q06.



### Income from Operations

Income from Operations for 1Q07 grew 10.7% compared to 1Q06, because of the improvement in sales volume and mix of goods.



### Financing Cost

Financing costs has a variation of \$ 220.3 million compared to 1Q06, posting a net cost of \$20.8 million. Interests paid amounted 37.4 million due mainly to the credit loan taken in May 2006 for \$1,000 million. Breakdown is as follows:

	1Q07 Mill.\$	1Q06 Mill.\$	Var. 06/05 %
Interest Paid	37.4	8.2	353.6
Interest Earned	(31.9)	(31.5)	1.4
Exchange (Gain) Loss	(0.6)	(4.9)	-87.7
Monetary Loss (Gain)	15.9	10.8	47.2
<b>Integral Financing Cost</b>	<b>20.8</b>	<b>(17.3)</b>	<b>-220.3</b>



### Taxes

Total taxes reported \$134.7 million, which is 3.9% higher than 1Q06.




### Net Profit

Net profit for 1Q07 posted \$ 347.2 million with a net margin of 16.3%, in line with our expectations that represents an increase of 3.5% compared to 1Q06. Net profit already includes interest paid due to the loan credit for \$ 1,000 million granted in 2006.



### EBITDA



During the 1Q07 Consorcio ARA generated an EBITDA of \$ 523.7 million (24.6% of sales), 11.1% greater than 1Q06. Of these only \$ 22.0 million are of depreciation. Current EBITDA could cover interest expenses 14 times.

## Earnings Statement 1TQ06

	1T07	%	1T06	%	Var. 07/06 %
Revenues	2,127.2	100.0	1,922.9	100.0	10.6
Cost of Goods Sold	1,488.4	70.0	1,344.4	69.9	10.7
<b>Gross Profit</b>	<b>638.9</b>	<b>30.0</b>	<b>578.5</b>	<b>30.1</b>	<b>10.4</b>
G & A	137.2	6.5	125.2	6.5	9.6
<b>Operating Profit</b>	<b>501.6</b>	<b>23.6</b>	<b>453.3</b>	<b>23.6</b>	<b>10.7</b>
Financing Cost (income) cost	20.8	1.0	(17.3)	-0.9	-220.3
Other (income) cost	10.0	0.5	6.4	0.3	54.9
(Profit) Lost in Participation	(11.0)	-0.5	(0.9)	0.0	1,091.4
Profit before taxes	481.9	22.7	465.2	24.2	3.6
Deferred Taxes (ISR)	40.3	1.9	30.8	1.6	30.8
Taxes (ISR, IMPAC y PTU)	94.5	4.4	98.9	5.1	-4.5
Total Tax	134.7	6.3	129.7	6.7	3.9
<b>Net Profit</b>	<b>347.2</b>	<b>16.3</b>	<b>335.5</b>	<b>17.4</b>	<b>3.5</b>
Depreciation	22.0	1.0	18.1	0.9	21.4
<b>EBITDA</b>	<b>523.7</b>	<b>24.6</b>	<b>471.5</b>	<b>24.5</b>	<b>11.1</b>

Million Pesos as of March 21, 2007

### III. Results Last Twelve Months (LTM) April 2006 – March 2007

## Units and Sales Comparison Charts LTM

	Apr 06- Mar 07		Apr 05- Mar 06		Var. UDM		Var. UDM	
	Units	Mill.\$	Units	Mill.\$	Unid.	%	Mill.\$	%
Progresiva	8,035	1,834.1	5,280	1,178.2	2,755	52.2	655.9	55.7
Affordable Entry Level	9,485	3,230.0	11,554	4,039.3	(2,069)	(17.9)	(809.3)	(20.0)
Medium Type	5,644	2,937.2	2,473	1,661.5	3,171	128.2	1,275.7	76.8
Residencial	139	254.0	165	304.0	(26)	(15.8)	(50.0)	(16.4)
<b>Total as home developer</b>	<b>23,303</b>	<b>8,255.5</b>	<b>19,472</b>	<b>7,183.1</b>	<b>3,831</b>	<b>19.7</b>	<b>1,072.4</b>	<b>14.9</b>
Land, rents from commercial property and others		502.7		394.8			107.8	27.3
<b>TOTAL</b>	<b>23,303</b>	<b>8,758.1</b>	<b>19,472</b>	<b>7,577.9</b>	<b>3,831</b>	<b>19.7</b>	<b>1,180.2</b>	<b>15.6</b>

Million Pesos as of March 21, 2007

## Earnings Statement LTM

	Abr 06-Mar 07	%	Abr 05-Mar 06	%	Var. 07/06 %
<b>Revenues</b>	<b>8,758.1</b>	<b>100.0</b>	<b>7,577.9</b>	<b>100.0</b>	<b>15.6</b>
Cost of Goods Sold	6,168.6	70.4	5,364.4	70.8	15.0
<b>Gross Profit</b>	<b>2,589.5</b>	<b>29.6</b>	<b>2,213.5</b>	<b>29.2</b>	<b>17.0</b>
G & A	610.9	7.0	553.7	7.3	10.3
<b>Operating Profit</b>	<b>1,978.7</b>	<b>22.6</b>	<b>1,659.8</b>	<b>21.9</b>	<b>19.2</b>
Financing cost (income) cost	52.1	0.6	(47.7)	-0.6	-209.2
Other (income) cost	33.3	0.4	(12.9)	-0.2	-357.5
(Profit) Lost in participation	(33.5)	(0.4)	(10.9)	(0.1)	208.3
Profit before taxes	1,926.8	22.0	1,731.3	22.8	11.3
Deferred Tax (ISR)	147.5	1.7	133.3	1.8	10.7
Taxes (ISR, IMPAC y PTU)	416.6	4.8	345.8	4.6	20.5
Total Tax	564.1	6.4	479.1	6.3	17.7
<b>Net Profit</b>	<b>1,362.7</b>	<b>15.6</b>	<b>1,252.2</b>	<b>16.5</b>	<b>8.8</b>
Depreciation	92.7	1.1	86.5	1.1	7.2
<b>EBITDA</b>	<b>2,071.4</b>	<b>23.7</b>	<b>1,746.3</b>	<b>23.0</b>	<b>18.6</b>

Million pesos as of March 31, 2006

## IV. Financial Position, Cash Flow and Capital Sources

### Cash and Temporary Investments

By March 31, 2007, cash and temporary investments reached \$ 2,093.7 million, higher enough to satisfy on time our capital working needs.

### Accounts Receivable

We have sound and efficient collection policies and practices to secure the recovery of the portfolio. The amount to be recovered is of \$3,636.8 million; this represents a 5.1 months rotation, which means 1.4 months higher with respect to 1Q06. This was due because operational difficulties in the *Cofinavit* mortgage product and delays in collections from FOVISSSTE. Accounts Receivables are in line with our expectations for 2007.

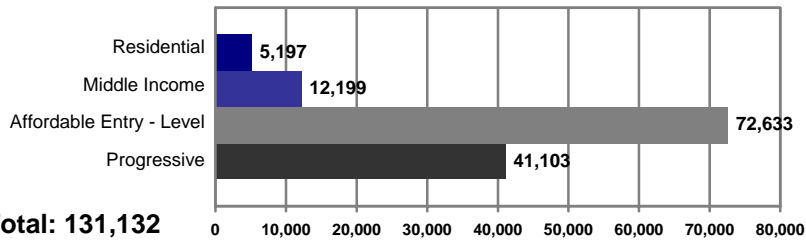
### Inventories

Posted \$5,207.7 million, of which include \$3,590.3 million for land. Land bank is the most important asset for the Company. Inventories also include work in progress and raw material inventories for 1,617.4 million.

It is worth mentioning that ARA has a strategic land reserve to build 131,132 master plan units, consisting of 35.9 million square meters distributed in those



areas of highest economic and demographic development in the country; where we are planning to build the following types of housing.



We have a strong presence in the metropolitan area of the Valley of Mexico and in the Southeast of the country with tourism, where important Affordable Entry Level and Middle-income projects of housing will be developed. We will continue our business activities in those regions where the socio-demographic variables show high potentially for economic and social development. Land bank is distributed geographically as follows:



	Units	%		Units	%
Edo. De Mexico	44,050	33.59	Guanajuato	2,660	2.03
Quintana Roo	37,332	28.47	Nayarit	2,582	1.97
Nuevo León	8,479	6.47	Puebla	2,568	1.96
Baja California	8,071	6.15	Michoacán	1,175	0.90
Jalisco	6,612	5.04	Chihuahua	985	0.75
Querétaro	5,011	3.82	Guerrero	828	0.63
Morelos	3,820	2.91	Distrito Federal	300	0.23
Veracruz	3,725	2.84	Sinaloa	72	0.05
Sonora	2,822	2.15	Tabasco	40	0.03
<b>TOTAL</b>	<b>131,132</b>	<b>100.00</b>			



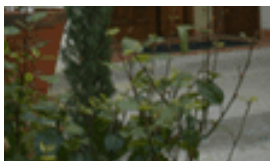
Today the company has a sales plan of land with services of approximately 3.4 million m<sup>2</sup>.

**Installed Capacity**

We are vertically integrated and it allows us to take advantage of important economies of scale. We have the infrastructure to produce all of the concrete (ready mix) and all the building moulds that we need.



By March 31 2007 building, machinery and equipment posted \$ 634.0 million, an increase of 28.1% compared to 1Q06. The investment in machinery & equipment during the present year has been of \$ 28.1 millions.



**Short and Long Term Liabilities**

As part of the reinforcement of our capital structure and to support our new developments, in May 2006, we acquired a debt of \$ 1,000 million pesos; 50% of that debt is on a 10-year contact and the other 50% to 7 years. In both cases, the rate is TIIE + 1 with a limit of the TIIE up to 9%. During 1Q07, \$12.5 millions were paid and the outstanding balance at the end of 1Q07 is \$ 922.6 million. At present time, we have paid a total of \$16.6 millions of the loan.



Additionally we maintain the leasing strategy for the acquisition of equipment and machinery representing \$ 188.3 million. Of those, \$87.8 million is short term and \$100.5 long term.



On the other hand, we are exploring to get \$ 800 million of additional debt. These resources will be used to buy strategic land reserve in places of high growth potential and where there is strong support from municipal and state authorities for housing development

At the end of 1Q07 cost bearing liabilities on Shareholder's Equity is only 15.7%, cost-bearing liabilities to total assets are 9.9%, and cost-bearing liabilities to cash are 56.6%.

Total liabilities to equity is 0.55 times, which confirms our strong financial position

#### Deferred Taxes

Under D-4 principle, deferred taxes up to March 31 2007 posted \$ 1,969.4 million. Leverage calculated as total liabilities to equity is 36.9% and without deferred taxes leverage would be 20.4%.

#### Shareholders Equity

ARA Shareholder's Equity posted \$7,548.9 million by 1Q07. This represents a growth of 1.5% with respect to 1T06.

#### Balance Sheet as of March 31st, 2007

	2007	2006	Var. 07/06
	Million pesos	Million pesos	%
<b>Total Assets</b>	<b>11,961.6</b>	<b>10,528.1</b>	<b>13.6</b>
<b>Current Assets</b>	<b>11,091.7</b>	<b>9,818.6</b>	<b>13.0</b>
Cash and Temporary Investment	2,093.7	2,162.8	(3.2)
Accounts Receivables	3,636.8	2,363.4	53.9
Inventories	5,207.7	5,156.2	1.0
Other Short Term Assets	153.5	136.2	12.7
<b>Fixed Assets</b>	<b>860.1</b>	<b>698.6</b>	<b>23.1</b>
Machinery and equipment - net	634.0	494.8	28.1
Due from JV	181.3	175.1	3.5
Investment in JV	44.8	28.7	56.1
Intangible Assets Labor Oblig.	9.8	10.9	10.1
<b>Total Liabilities</b>	<b>4,412.7</b>	<b>3,092.1</b>	<b>42.7</b>
<b>Short Term Liabilities</b>	<b>1,472.2</b>	<b>1,125.4</b>	<b>30.8</b>
Suppliers	440.1	400.7	9.8
Bank Loans Short Terms	176.4		100.0
Financial Leasing	87.8	44.1	99.1
Taxes	152.5	65.8	131.8
Other Short Term Liabilities	615.4	614.8	0.1
<b>Long Term Liabilities</b>	<b>2,940.5</b>	<b>1,966.7</b>	<b>49.5</b>
Bank Loans Short Term	801.2	0	100.0
Financial Others	56.3	35.6	58.1
Financial Leasing	100.5	37.0	171.6
Deferred Tax (ISR)	1,969.4	1,880.7	4.7
<b>Shareholder's Equity</b>	<b>7,548.9</b>	<b>7,436.0</b>	<b>1.5</b>

Million pesos as of March 31, 2007

## V. Relevant Events

### ARA is recognized as Socially Responsible Business (Empresa Socialmente Responsable)



On February 28, The Mexican Center for Philanthropy (Cemefi) and Alliance for Socially Responsible Business in Mexico (AliaRSE) granted Consorcio ARA the ESR recognition for second consecutive year.

Consorcio ARA got the ESR recognition because of its culture of social responsibility within the organization.

In order to get the ESR recognition, Consorcio ARA went through a self-assessment process applied by a specialized committee of AliaRSE.

The self-diagnosis has 120 indicators from which the companies have to satisfy 75%. The indicators are divided in four categories:

- 1 Business ethics
- 2 Preservation of the environment
- 3 Community relation
- 4 Accomplishment of the principles of the World Agreement (Human Rights, working environment, natural environment, transparency, non-corruption)

This recognition helps ARA to be identified for its social commitment by its clients, employees, stock holders and suppliers

### Split in ARA's stock: four new stock for one old stock

ARA's stock closing price was \$ 67.580 at March 7, 2007. The following day, and because the split, four new stocks are equivalent to one old stock. ARA's stock opening price on March 8, 2007 was \$ 16.895 pesos.

Today the number of stocks in the market is 1,312,847,496

### ARA gets certification in telecommunications by the company 3M

March 14, 2007 ARA got telecommunications certification from 3M, one of the largest manufacturers in telecommunications. The certification backs up ARA's telecommunication infrastructure quality in its housing developments.

Certification and strategic alliances with providers of telecommunications such as MAXCOM and AVANTEL make possible the access to telephone, cable TV, internet, surveillance etc, in ARA's housing developments.

### The Regional Project continues

The Regional Project continues in Consorcio ARA, by decentralizing the operation to give faster and more efficient response to our customers.

Today 8 out of 9 Regional Directors have been appointed. Regional Directors have taken business leadership in their location: David Espinosa, North West



Region (Baja California Sur, Baja California Norte, Sonora, Chihuahua y Durango); Deborah Reyes, North East Region (Coahuila, Nuevo León, Tamaulipas, Zacatecas y San Luis Potosí); Hugo Serrato, Bajío Region (Aguascalientes, Guanajuato, Querétaro e Hidalgo); Eduardo Gurza, West Region (Sinaloa, Nayarit, Jalisco, Colima y Michoacán); Carlos Ávila, Héctor Vallín y Alfredo Torres, Directors of the 3 Metropolitan Regions in D.F. (Poniente, Oriente y Norte respectively); María Concepción Espinoza South Region (Oaxaca, Chiapas, Tabasco, Campeche Yucatán y Quintana Roo).



Center Regional Director (Morelos and Guerrero) will be defined in the next weeks.

Vicente Naves, Operations Director is in charge of the Regional Project.



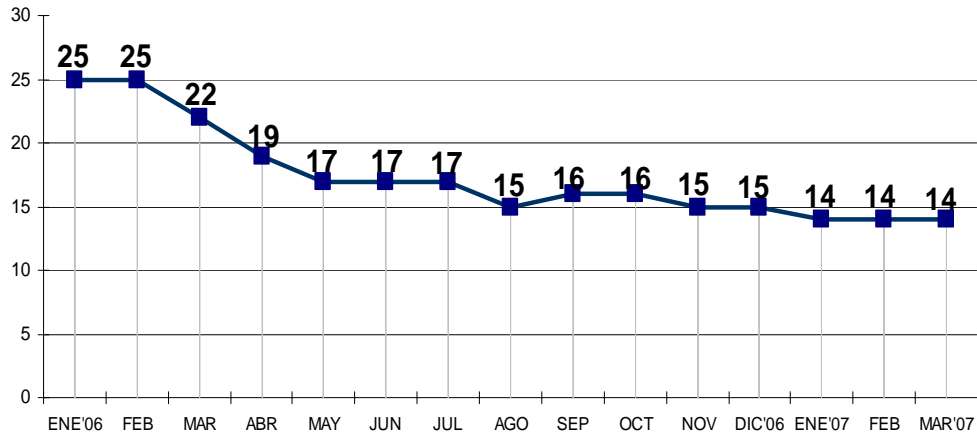
Every Regional Director is responsible of coordination, execution and follows up of sales and construction cycles in order to optimize margins and profitability.

Genaro Martinez Rodriguez, Construction Director left the company. The Corporate Construction Direction is under the supervision of General Director Germán Ahumada Russek. The name of the new Director of Corporate Construction will be given the next coming weeks.



**ARA's stock improves its liquidity during 1Q1007**

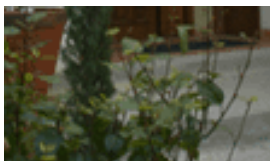
ARA is a high liquidity stock in the Mexican Stock Market (Bolsa Mexicana de Valores). During January, February and March 2007, ARA has maintained the 14<sup>th</sup> place according to the liquidity index monthly published by BMV. In January 2006, ARA had the 25<sup>th</sup> place and it has been improving constantly as it is shown in the next graph:

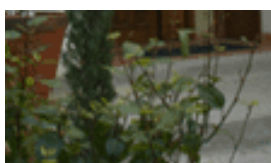
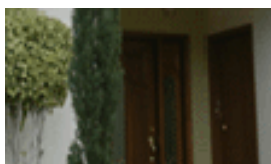


**Dividend payment approved by the General Assembly**

On April 23, 2007, the General Assembly approved a dividend payment corresponding to 2006. It was approved to grant \$ 200,623,500 pesos among the 1,312,847,496 stocks, which are equivalent to grant 0,1528 pesos per stock.

At the end of 2006 stock price was \$ 18.29 so the dividend represents a stock yield of 0.84%





	2005	2006	2007
Acciones en circulación	1,312,847,496	1,312,847,496	1,312,847,496
Monto del dividendo	150.4	1,290.3	200.6
Dividendo por acción	0.1145	0.9828	0.1528
Precio de mercado por acción (cierre del año anterior)	8.38	11.25	18.29
YIELD por Acción	1.37%	8.73%	0.84%

(\*) In 2005 y 2006 is considered the 4 to one stock split for 2007 comparisons.

For any further information or other comments, please do not hesitate to contact

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