

Management's Discussion on the 2nd Quarter's Results and Financial Position.

EXECUTIVE SUMMARY

Second Quarter 2004:

- Unit volume of 4,154 homes, equivalent to 6,069 units using the ASP of the industry, revenue posted \$ 1,274.5 million, growth of 14.3% in real terms
- Gross profit of \$ 368.8 million with a gross margin of 28.9% resulting in 15.0% growth
- Operating profit of \$ 267.6 million with a 21.0% margin resulting in 14.6% growth in real terms
- Net profit of \$ 162.7 million with a margin of 12.8% resulting in 10.4% growth
- EBITDA of \$ 285.7 million with a margin of 22.4% resulting in 15.2% growth in real terms
- ASP of \$ 306.8 thousand pesos, growth of 3.9%

Financial Structure Highlights (June 30 2004):

- Cash of \$ 1,004.6 million
- Cost bearing liabilities represent 22% of cash
- Without taking into account deferred taxes, leverage remains low at 12.6% to total assets
- Land Bank of 113,016 master plan units equivalent to 128,607 affordable entry level units
- Backlog of 24,888 mortgages, resulting in 18.6% growth, enough for more than a year of future sales



Second Quarter 2004:

1) OPERATION RESULTS.

Sales

Second quarter revenues were \$ 1,274.5 million. Year on year these were 14.3% stronger. During the period in question 4,154 units were sold.

The Prosavi-Progresiva segment posted 296 units. Sales reached \$ 53.8 million and represent 4.2% of total revenues. These posted \$ 58.0 million during the second quarter of 2003.

Infonavit sales reached \$ 463.3 million, 18.0% higher than the previous year. They posted 1,790 units.

SHF volumes posted 1,205 units, reaching \$ 342.5 million, representing a 95.8% increase in revenues year on year.

Fovissste volumes posted 391 units, and revenues of \$ 112.2 million.

The ASP for the quarter was \$ 306.8 thousand pesos. It grew 3.9% compared with 2003. The residential segment was the exception due to the emphasis of the company on offering a lower priced product. This focuses our attention on a segment with higher demand and lower competition.

The middle income segment reached \$ 237.9 million in revenues, representing a 32.0% increase compared with the same quarter of 2003. Middle income volume was 439 units, 21.3% higher than the previous year. Lower interest rates have strengthened sales in this segment thus new projects are being put in line..

Residential volumes expanded 22.2% posting 33 units in contrast to the 27 homes registered during the previous 2nd quarter. These result in \$ 54.1 million in revenues. ARA has lowered the average selling price of its residential housing in order to tap the 1.5 million bracket which has SHF funding and is difficult to produce for low volume, inefficient builders.



The breakdown is as follows:

	2°quarter 2004		2°quarter 2003		2°quarter 2002		Var. 04/03		Var. 03/02	
	Units	Mill.\$	Units	Mill.\$	Units	Mill.\$	\$	%	\$	%
Prosavi-Progresiva	296	53.8	349	58.0	530	95.3	-4.2	-7.3	-37.3	-39.2
Infonavit	1,790	463.3	1,539	392.8	1,985	516.3	70.5	18.0	-123.5	-23.9
Fovi	1,205	342.5	562	174.9	653	188.4	167.6	95.8	-13.5	-7.2
Fovissste	391	112.2	938	244.3	-155	-38.6	-132.2	-54.1	282.9	-732.7
Affordable Entry Level	3,386	918.0	3,039	812.0	2,483	666.1	106.0	13.1	145.9	21.9
Middle Income	439	237.9	362	180.2	314	140.6	57.7	32.0	39.6	28.2
Residential	33	54.1	27	55.8	23	52.3	-1.7	-3.0	3.5	6.7
Commercial Land	--	5.0	--	0.9	--	0.0	4.1	451.7	0.9	100.0
Total as Developer	4,154	1,268.7	3,777	1,106.8	3,350	954.3	161.8	14.6	152.6	16.0
Contractor	--	3.4	--	1.8	--	0.0	1.6	88.5	1.8	100.0
Commercial Space	--	2.4	--	6.4	--	3.9	-3.9	-61.8	2.5	64.5
Middle Income (JV)										
Joint Venture Total										
TOTAL	4,154	1,274.5	3,777	1,115.0	3,350	958.2	159.5	14.3	156.8	16.4

By the second quarters of 2004 and 2003 average selling prices posted real term increases of 3.9% and 3.6% respectively as show in the following table:

(Thousands \$)	2°quarter 2004	2°quarter 2003	2°quarter 2002	Var %. 04/03	Var %. 03/02
Prosavi-Progresiva	181.6	166.1	179.8	9.3	-7.6
Infonavit	258.8	255.2	260.1	1.4	-1.9
Fovi	284.2	311.2	288.5	-8.7	7.9
Fovissste	286.9	260.5	249.3	10.1	4.5
Affordable Entry Level	271.1	267.2	268.2	1.5	-0.4
Middle Income	541.9	497.8	447.9	8.9	11.2
Residential	1,640.1	2,065.9	2,275.3	-20.6	-9.2
Total	306.8	295.2	284.9	3.9	3.6

Cost of Goods Sold

Cost of Goods Sold increased by 14.0% posting \$ 905.7 million, representing 71.1% of revenues, 10 basis points lower than the previous year.

Gross Profit

The Gross Profit reached \$ 368.8 million, with a gross margin of 28.9%. This represents an improvement of 50 basis points since 2002. This can be explained in part due to the higher control in expenditures and higher efficiencies in the construction process.



A breakdown by home type follows:

	2°quarter 2004	2°quarter 2003	2°quarter 2002	Var. Points 04/03	Var. Points 03/02
Prosavi-Progresiva	24.1%	24.1%	23.9%	0.0	0.2
Affordable Entry Level	28.6%	28.4%	28.4%	0.2	0.0
Middle Income	30.3%	30.3%	31.0%	0.0	-0.7
Residential	30.9%	30.6%	30.2%	0.3	0.4
Developer	28.8%	28.6%	28.4%	0.2	0.2
Contractor	28.1%	25.1%	0.0%	3.0	25.1
Commercial Space	48.6%	49.1%	67.2%	-0.5	-18.1
TOTAL	28.9%	28.8%	28.4%	0.1	0.4

G&A Expenses

G&A expenses include salaries of the technical and administrative teams as well as the sales group. G&A posted \$ 101.2 million, which means 16.1% growth in real terms. Nevertheless as a percentage of sales it reached 7.9% vs. the 7.8% of the previous year.

Operating Profit

Operating profit grew 14.6% in real terms due to good cost and expenditure controls.

EBITDA

During the second quarter of 2004 Consorcio ARA generated an EBITDA of \$ 285.7 million (22.4% of sales), 15.2% bigger in real terms than 2003's. Of these only 18.1 million are explained by depreciation. Current EBITDA levels could cover interest expenses 13.1 times.

Financing Cost

Financing costs increased 98.0% posting a net amount of \$ 9.9 million. Said expansion can be explained by the higher backlog investment. This is consistent with our strategy. These costs are included in the Interest Paid line.

Breakdown is as follows:

	2°quarter 2004	2°quarter 2003	2°quarter 2002	Var%. 04/03	Var%. 03/02
Interest Paid	21.8	17.5	16.5	24.6	6.1
Interest Earned	14.2	11.4	8.8	24.6	29.5
Exchange Rate (Loss) Profit	1.8	0.8	-2.7	125.0	129.6
Monetary (Loss) Profit	-4.1	0.3	-3.9	-1,466.7	107.7
Financing Cost	9.9	5.0	14.3	98.0	-65.0

Taxes

Total taxes generated posted \$ 100.0 million that is 7.1% higher than the previous second quarter. Income Tax and Profit Sharing provisions were maintained within the same ratios.

Net Profit

Net profit grew 10.4% posting \$ 162.7 million with a margin of 12.8%.

The EPS for the last twelve months resulted in a multiple of 2.32 as calculated in the following table:

	LTM June 2004
Net Profit (pesos)	761,788,847
Shares (Average)	328,037,316
EPS	2.32



Earnings Statement, Second Quarter 2004

	2°quarter 2004		2°quarter 2003		2°quarter 2002		Var.	Var.
	Mill. Pesos	%	Mill. Pesos	%	Mill. Pesos	%	04/03	03/02
Revenues	1,274.5	100.0	1,115.0	100.0	958.3	100.0	14.3	16.3
Cost of Goods Sold	905.7	71.1	794.4	71.2	686.5	71.6	14.0	15.7
Gross Profit	368.8	28.9	320.6	28.8	271.8	28.4	15.0	18.0
G&A	101.2	7.9	87.1	7.8	75.1	7.8	16.1	16.0
Operating Profit	267.6	21.0	233.5	20.9	196.7	20.6	14.6	18.7
Financing Cost	9.9	0.8	5.0	0.4	14.3	1.5	98.0	-65.0
Other Income	6.0	0.5	12.3	1.1	0.5	0.0	-51.2	2,360.0
Result in Joint Venture	-1.0	-0.1	0.0	0.0	0.0	0.0	-100.0	--
Pretax Profit	262.7	20.6	240.8	21.6	182.9	19.1	9.1	31.7
Deferred Taxes	65.9	5.2	67.1	6.0	65.3	6.8	-1.8	2.8
Taxes	34.1	2.7	26.3	2.4	20.0	2.1	29.7	31.5
Total Tax	100.0	7.8	93.4	8.4	85.3	8.9	7.1	9.5
Net Profit	162.7	12.8	147.4	13.2	97.6	10.2	10.4	51.0
Depreciation	18.1	1.4	14.6	1.3	12.4	1.3	24.0	17.7
EBITDA	285.7	22.4	248.1	22.2	209.1	21.8	15.2	18.7

Results July to June 2004, 2003 and 2002

Units and Sales July to June 2004, 2003 and 2002

	Jul-Jun 2004		Jul-Jun 2003		Jul-Jun 2002		Var. 04/03		Var. 04/03		Var. 03/02		Var. 03/02	
	Units	Mill.\$	Units	Mill.\$	Units	Mill.\$	Units	%	Mill.	%	Units	%	Mill.	%
Prosavi-Progresiva	1,498	269.4	1,933	326.5	2,342	397.1	-435	-22.5	-57	-17.5	-409	-17.5	-71	-17.8
Infonavit	6,820	1,822.8	6,717	1,720.9	6,609	1,660.4	103	1.5	102	5.9	108	1.6	60	3.6
Fovi	4,171	1,208.5	3,383	975.7	3,384	959.9	788	23.3	233	23.9	-1	0.0	16	1.6
Fovissste	1,852	535.3	2,378	603.8	2,182	566.9	-526	-22.1	-68	-11.3	196	9.0	37	6.5
Affordable Entry Level	12,843	3,566.6	12,478	3,300.4	12,175	3,187.3	365	2.9	266	8.1	303	2.5	113	3.5
Middle Income	1,970	1,034.2	1,962	883.6	1,232	501.2	8	0.4	151	17.0	730	59.3	382	76.3
Residential	162	292.2	89	173.3	125	296.0	73	82.0	119	68.6	-36	-28.8	-123	-41.5
Commercial Land		10.2		7.4		-21.2			3	38.5			29	-134.9
Total as Developer	16,473	5,172.7	16,462	4,691.1	15,874	4,360.4	11	0.1	482	10.3	588	3.7	331	7.6
Contractor		4.1		10.2		18.0			-6	-60.4			-8	-43.0
Commercial Space		20.1		26.0		6.9			-6	-22.9			19	
Middle Income						23							-23	-100.0
Total Joint Ventures						23							-23	-100.0
TOTAL	16,473	5,196.8	16,462	4,727.4	15,897	4,385.2	11	0.1	469	9.9	565	3.6	342	7.8



AVERAGE SELLING PRICES LTM 2004

	Jul-Jun 2004	Jul-Jun 2003	Jul-Jun 2002	Var%. 04/03	Var%. 03/02
Prosavi-Progresiva	179.8	168.9	169.6	6.5	-0.4
Infonavit	267.3	256.2	251.2	4.3	2.0
Fovi	289.7	288.4	283.7	0.5	1.7
Fovissste	289.0	253.9	259.8	13.8	-2.3
Affordable Entry Level	277.7	264.5	261.8	5.0	1.0
Middle Income	525.0	450.4	406.8	16.6	10.7
Residential	1,803.6	1,947.0	2,367.8	-7.4	-17.8
Total	313.4	284.5	275.9	10.2	3.1

ACCUMULATED EARNINGS STATEMENT, LTM 2004

	Jul-Jun 2004		Jul-Jun 2003		Jul-Jun 2002		Var.	Var.
	Mill. Pesos	%	Mill. Pesos	%	Mill. Pesos	%	04/03	03/02
Revenues	5,196.8	100.0	4,727.4	100.0	4,385.3	100.0	9.9	7.8
Cost of Goods Sold	3,692.8	71.1	3,372.2	71.3	3,144.8	71.7	9.5	7.2
Gross Profit	1,504.0	28.9	1,355.2	28.7	1,240.5	28.3	11.0	9.2
G&A	402.9	7.8	365.1	7.7	336.2	7.7	10.4	8.6
Operating Profit	1,101.1	21.2	990.1	20.9	904.3	20.6	11.2	9.5
Financial Cost	22.2	0.4	26.6	0.6	40.8	0.9	-16.5	-34.8
Other Income	61.6	1.2	48.6	1.0	7.5	0.2	26.7	548.0
Join Venture	-3.1	-0.1	-3.9	-0.1	-3.9	-0.1	-20.5	--
PreTax Profit	1,137.4	21.9	1,008.2	21.3	867.1	19.8	12.8	16.3
Deferred Taxes	250.0	4.8	226.0	4.8	247.3	5.6	10.6	-8.6
Taxes	122.4	2.4	109.1	2.3	89.4	2.1	12.2	22.0
Total Tax	372.4	7.2	335.1	7.1	336.7	7.7	11.1	-0.5
Net Profit	765.0	14.7	673.1	14.2	530.4	12.1	13.7	26.9
Depreciation	73.8	1.4	59.8	1.3	50.0	1.1	23.4	19.6
EBITDA	1,174.9	22.6	1,049.9	22.2	954.3	21.8	11.9	10.0

II) Financial Position, Cash and Capital Sources.

Cash

By June 30 cash reached \$ 1,004.6 million, lower by 1.7% in real terms to 2003. This can be explained by our decision to finance operations with our own resources. This was motivated by the temporary delay in payment to developers from the different agencies.

We maintain a "no dividend" policy. This has allowed us to allocate that cash to the building of homes, acquisition of land and payments to suppliers without the need to use outside financing. The benefit is a tight control on cash flow.

Accounts Receivable

Sound and efficient collection policies and practices have resulted in 3.3 months of sales which continue to be the best in the industry.

Inventories

These include land, ARA's most important physical asset, as well as work in progress and raw material inventories. This line grew 28.1% due to our investment in work in progress derived from payment delays in the agencies. Additionally, we invested in infrastructure in some developments.



It is worth mentioning that we own the largest Land Bank in the industry: 128,607 affordable entry level units strong consisting of 24.7 million square meters distributed in the highest growth areas in the country.

The Land Bank's breakdown is as follows:

	June 2004 Units	Affordable Entry Level Equivalent Units	Equivalent Sales Million \$
Prosavi-Progresiva	26,435	17,783	4,834.8
Affordable Entry Level	74,678	74,678	20,303.6
Middle Income	8,879	17,479	4,752.2
Residential	3,024	18,667	5,075.3
TOTAL	113,016	128,607	34,965.9

...and is geographically distributed like this:

	Units	%
Metropolitan Area of Mexico City	54,898	48.6
Quintana Roo	21,381	18.9
Baja California	6,395	5.7
Toluca, State of Mexico	5,640	5.0
Morelos	5,461	4.8
Sonora	2,822	2.5
Guanajuato	2,719	2.4
Veracruz	2,689	2.4
Puebla	2,628	2.3
Michoacán	2,303	2.0
Nuevo León	2,419	2.1
Jalisco	1,565	1.4
Querétaro	839	0.7
Chihuahua	629	0.6
Mexico City	411	0.4
Guerrero	129	0.1
Sinaloa	48	0.0
Tabasco	40	0.0
TOTAL	113,016	100.0

Installed Capacity

Our installed capacity allows us to generate important economies of scale. It is worth mentioning that we have the infrastructure to produce all of the concrete (ready mix) that we need. This fact makes us one of the four largest producers in Mexico.

Machinery and equipment posted \$ 501.0 million, decrease of 5.8%. The investment in machinery & equipment was \$ 56.4 million and it represents 9.7% of total assets. This line includes the new maintenance plant for our concrete, machinery and paneling division (COMACI). It also includes commercial space developed for the convenience of our customers. These buildings are developed by Promotora y Desarrolladora de Centros Comerciales S.A. de C.V. (PDCC), subsidiary of Consorcio ARA. On november 11th 2003 it signed a 50% - 50% agreement with O'Connor Capital Partners to develop and operate commercial malls. The agreement includes investments for 100 million U.S. Dollars in four years.

Suppliers

We are one of the founding members of the "Cadenas Productivas" program by NAFINSA. This facility allows our suppliers, many of them small enterprises, to have access to credit which would otherwise be



unavailable. The suppliers' accounts amount up to \$ 105.2 million, with a turnover of 18 days. This figure has been decreased 18.9% due to payments of liabilities to different suppliers.

Short and Long Term Liabilities

Liabilities posted \$ 225.6 million and were configured by leasing arrangements for the acquisition of machinery and equipment of which \$ 33.1 million are short term. Cost bearing liabilities to ShareHolder's Equity is only 4.5%. Cost bearing liabilities to total assets are 2.9%. Cost bearing liabilities to cash are 22.5%. We have access to \$ 1,332.0 million in active lines of credit which are practically unused. Finally, total liabilities to equity of 0.54 times confirm our unsurpassed financial position.

Deferred Taxes

Deferred taxes posted \$ 1,705.8 million. As such total liabilities to total assets represent 35.0%. Without taking into account their effect, leverage would be only 12.6%.

Shareholders Equity

ARA's Shareholder's Equity grew 13.4% posting \$ 4,964.9 million by June 30, 2004. This growth was due in part to accumulated net profits.

Treasury Policies

Consortio ARA has in place a series of policies and procedures which have as an objective the proper management of cash flow. This effort is centralized at our corporate headquarters. We have a strict control of our cash and only invest it in AAA securities. We have strict and efficient collection procedures and controls that contribute to outstanding receivable figures. Disbursements to suppliers are done with high attention to their required timing as well as strict care to the safe keeping of our resources.

BALANCE SHEET, June 30, 2004.

	2004	2003	2002	Var.	Var.
	Mill. Pesos	Mill. Pesos	Mill. Pesos	04/03	03/02
				%	%
Total Assets	7,636.7	6,698.0	5,789.0	14.0	15.7
Short Term Assets	7,052.8	6,166.2	5,315.7	14.4	16.0
Cash	1,004.6	1,021.6	753.1	-1.7	35.6
Accounts Receivable	1,347.8	1,434.5	1,301.7	-6.0	10.2
Inventories	4,591.0	3,583.1	3,096.0	28.1	15.7
Other Assets	109.4	127.0	164.8	-13.9	-22.9
Fixed Assets	583.9	531.8	473.3	9.8	12.4
Building and Equipment	501.0	531.8	467.4	-5.8	13.8
Accounts Receivable with Affiliates	77.4	--	--	-100.0	--
Joint Ventures	5.5	--	5.9	100.0	-100.0
Total Liabilities	2,671.8	2,321.2	2,196.7	15.1	5.7
Short Term Liabilities	879.8	752.6	900.2	16.9	-16.4
Accounts Payable	105.2	129.7	277.1	-18.9	-53.2
Bank Loans	100.0	104.4	164.2	-4.2	-36.4
Financial Leasing	33.1	23.4	5.5	41.5	325.5
Taxes	32.1	5.2	13.3	517.3	-60.9
Other Short Term Liabilities	609.3	489.9	440.1	24.4	11.3
Long Term Liabilities	86.2	53.6	4.4	61.0	1,118.2
Other Liabilities	13.6	--	--	100.0	--
Financial Leasing	72.6	53.6	4.4	35.4	1,118.2
Deferred Liabilities	1,705.8	1,515.0	1,292.1	12.6	17.3
Deferred Taxes	1,705.8	1,515.0	1,292.1	12.6	17.3
Shareholder's Equity	4,964.9	4,376.8	3,592.3	13.4	21.8



Prospects and Trends

Starting in 2000 the current presidential administration launched an important effort to increase the housing industry's yearly output to 750,000 units by the year 2006. This program will depend for the most part in Infonavit, SHF - Sociedad Hipotecaria Federal (previously Fovi) and Fovissste's efforts. The growing influences of the Sociedades Financieras de Objeto Limitado (Sofoles) as well as the resurgence of commercial bank mortgages will also contribute to volume increases especially in the affordable entry level and middle income segments.

Falling interest rates have contributed greatly to the industry's explosive growth. These new interest rate levels have generated mortgage supplies to individuals who would have otherwise been constrained by the existing financing alternatives.

We have a strong presence in the Metropolitan Area of Mexico City, the maquiladora area to the northwestern part of the country as well as the Caribbean tourist areas. These regions will continue to see important developments in housing. Thus, we will continue to develop our product in areas that have promising macroeconomic trends.

Backlog

As part of the operational requirements of the business we have a mortgage commitment backlog. This stands currently at 24,888 mortgages, 18.6% stronger than a year ago and more than a year of sales. The source of these is mainly the Infonavit and the Sociedad Hipotecaria Federal.

The breakdown is as follows:

	2° Quarter 2004	Mix %	2° Quarter 2003	Mix %	Variation %
Prosavi-Progresiva	1,066	4.3	517	2.5	106.2
Affordable Entry Level	16,695	67.1	15,302	72.9	9.1
Infonavit	5,066	20.4	5,355	25.5	-5.4
Fovi-Fovissste	11,629	46.7	9,947	47.4	16.9
Middle Income	6,862	27.6	4,799	22.9	43.0
Residential	265	1.1	359	1.7	-26.2
TOTAL	24,888	100.0	20,977	100.0	18.6

IV) Agreements

During the second quarter of 2004, Consorcio ARA formalized various agreements with different AAA companies.

- 1.- JV with GE Capital / General Hipotecaria: Preferential mortgage conditions, furniture credit line, affiliation credit card.
- 2.- JV with Banamex / Citibank: Preferential mortgage conditions, access to client data base and employee data base.
- 3.- JV with ITESM university: Access to "Sorteo TEC" customer database, access to ITESM sales force data base.
- 4.- INFONAVIT & BANCOMER Co-financing program: Pioneering implementation of Infonavit's new facility. The co-financing of mortgages between both institutions increases the purchase capability of the ARA's clients.

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