

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

### Executive Summary

#### Second quarter 2005:

- Volume of 4,596 homes, equivalent to 7,000 units using the ASP of the industry, revenue posted \$ 1,539.8 million, up to 15.8% in real terms
- Gross profit of \$ 445.4 million with a gross margin of 28.9% resulting in 15.8% growth
- Operating profit of \$ 325.2 million with a 21.1% margin resulting in 16.5% growth
- Net profit of \$ 227.7 million with a margin of 14.8% resulting in 34.2% growth
- EBITDA of \$ 344.6 million with a margin of 22.4% resulting in 15.6% growth
- Consorcio ARA's ASP of \$ 333.2 thousand pesos, an increase of 5.0%

#### LTM 2005/2004

- Volume of 17,979 homes, equivalent to 28,070 units using the ASP of the industry, revenue posted \$ 6,175.5 million, growth of 13.9% in real terms
- Gross profit of \$ 1,793.3 million with a gross margin of 29.0% resulting in 14.3% growth
- Operating profit of \$ 1,322.9 million with a 21.4% margin resulting in 15.2% growth
- Net profit of \$ 1,122.0 million with a margin of 18.2% resulting in 40.6% growth
- EBITDA of \$ 1,398.6 million with a margin of 22.6% resulting in 14.1% growth
- Consorcio ARA's ASP of \$ 333.0 thousand pesos, an increase of 1.8%

#### Financial Structure Highlights (June 30, 2005):

- Cash of \$ 970.8 million, that is 7.4% lower than the previous year
- Financial leasing increased 18.5% in the short term and decreased 22.7% in the long term
- Cost bearing liabilities represent 31.1% of our cash
- Land Bank of 136,766 master plan units
- Backlog of 28,508 mortgages, resulting in 14.5% growth, enough for more than a year of future sales

## Second Quarter 2005:

### I) Operation Results

#### Sales

Second quarter revenues were \$ 1,539.8 million. Year on year these were 15.8% stronger. During the period in question 4,596 units were sold. These are equivalent to 7,000 units at the ASP of the industry.

The Progresiva segment posted 840 units, of these, 581 were funded by INFONAVIT and 259 by SHF. Sales reached \$ 165.3 million and represent 10.7% of total revenues. An increase of 194.7% compared to the 2004, due to the high emphasis of the institutions to provide more mortgages for the most affordable segment.

INFONAVIT sales reached \$ 459.8 million, 4.9% lower than previous year, due payment delays for this product line. They posted 1,523 units.

SHF volumes posted 1,198 units, reaching \$ 381.2 million, 6.7% higher than previous year. FOVISSSTE volumes posted 390 units and revenues of \$ 116.9 million, 0.1% decrease in real terms compared with 2004.

The middle income segment reached \$ 354.0 million in revenues, representing a 42.6% increase compared 2Q2004. Middle income volume was 612 units, 39.4% higher than the previous year. Of these 406 were financed by SHF. New projects that have been put in line have strengthened sales in this segment, and we will continue this strategy in the near future.

Residential volumes posted 33 units. These result in \$ 54.4 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 it is difficult to produce for low volume homebuilders.

Going forward ARA will strengthen this segment with a completely new product which includes a fully equipped golf course and club house. This type of product at the targeted price point is non-existent in Mexico. The second project of the sort will be developed in Cancun area.

The breakdown is as follows:

	2°Qtr. 2005		2°Qtr. 2004		2°Qtr. 2003		Var. 05/04	
	Units	Mill.\$	Units	Mill.\$	Units	Mill.\$	\$	%
<b>Progresiva</b>	<b>840</b>	<b>165.3</b>	<b>296</b>	<b>56.1</b>	<b>349</b>	<b>60.5</b>	<b>109.2</b>	<b>194.7</b>
Infonavit	1,523	459.8	1,790	483.4	1,539	409.8	-23.6	-4.9
SHF	1,198	381.2	1,205	357.3	562	182.5	23.8	6.7
Fovissste	390	116.9	391	117.0	938	254.9	-0.2	-0.1
<b>Affordable Entry Level</b>	<b>3,111</b>	<b>957.8</b>	<b>3,386</b>	<b>957.7</b>	<b>3,039</b>	<b>847.2</b>	<b>0.1</b>	<b>0.0</b>
<b>Middle Income</b>	<b>612</b>	<b>354.0</b>	<b>439</b>	<b>248.2</b>	<b>362</b>	<b>188.0</b>	<b>105.8</b>	<b>42.6</b>
<b>Residential</b>	<b>33</b>	<b>54.4</b>	<b>33</b>	<b>56.5</b>	<b>27</b>	<b>58.2</b>	<b>-2.0</b>	<b>-3.6</b>
Total as Developer	4,596	1,531.5	4,154	1,318.5	3,777	1,153.9	213.1	16.2
Commercial Land	--	3.2	--	3.6	--	1.9	-0.4	-10.0
Construction	--	2.5	--	5.2	--	0.9	-2.7	-51.3
Commercial Buildings	--	2.6	--	2.5	--	6.7	0.1	4.0
<b>TOTAL</b>	<b>4,596</b>	<b>1,539.8</b>	<b>4,154</b>	<b>1,329.7</b>	<b>3,777</b>	<b>1,163.5</b>	<b>210.1</b>	<b>15.8</b>

By the second quarter of 2005 average selling prices posted a real increase of 5.0% as show in the following table:

(Thousands \$)	2°Qtr 2005	2°Qtr 2004	2°Qtr 2003	Var %. 05/04
Progresiva	196.7	189.5	173.3	3.8
Infonavit	301.9	270.0	266.3	11.8
SHF	318.2	296.5	324.7	7.3
Fovissste	299.7	299.3	271.8	0.1
Affordable Entry Level	307.9	282.9	278.8	8.8
Middle Income	578.4	565.3	519.4	2.3
Residential	1,649.3	1,711.1	2,155.4	-3.6
<b>Total</b>	<b>333.2</b>	<b>317.4</b>	<b>305.8</b>	<b>5.0</b>

### Cost of Goods Sold

Cost of Goods Sold increased by 15.8% posting \$ 1,094.4 million, representing 71.1% of revenues.

### Gross Profit

The Gross Profit reached \$ 445.4 million, with a gross margin of 28.9%.

A breakdown by home type follows:

	2°Qtr 2005	2°Qtr 2004	2°Qtr 2003	Var. PPs 05/04
Progresiva	24.9%	24.0%	24.1%	0.9
Affordable Entry Level	28.8%	28.6%	28.4%	0.2
Middle Income	30.8%	30.3%	30.3%	0.5
Residential	30.6%	30.9%	30.6%	-0.3
Developer	28.9%	28.8%	28.6%	0.1
Builder	28.4%	28.1%	25.1%	0.3
Commercial Land	32.2%	41.6%	40.1%	-9.4
Commercial Building	47.8%	48.6%	49.1%	-0.8
<b>TOTAL</b>	<b>28.9%</b>	<b>28.8%</b>	<b>28.8%</b>	<b>0.1</b>

### G&A Expenses

G&A expenses include salaries of the technical and administrative teams as well as the sales group. G&A posted \$ 120.2 million. As a percentage of sales it shrunk from 7.9% on 2Q2004 to 7.8% on 2Q2005 of sales.

### Operating Profit

Operating profit grew 16.5% in real terms, due to good cost and expenditure controls.

### EBITDA

During the second quarter of 2005 Consorcio ARA generated an EBITDA of \$ 344.6 million (22.4% of sales), 15.6% bigger in real terms than 2004's. Of these only 19.5 million are explained by depreciation. Current EBITDA levels could cover interest expenses 24.3 times.

## Financing Cost

Financing costs decreased 190.3% posting a negative net amount of \$ 9.3 million. Similarly, interest earned and the impact of monetary position, present a considerable variation due to the efficient use of resources. Breakdown is as follows:

	2°Qtr 2005	2°Qtr 2004	2°Qtr 2003	Var%. 05/04
Interest Paid	10.6	22.7	18.2	-53.3
Interest Earned	22.8	14.8	11.9	54.0
FX Loss (Profit)	2.5	-1.9	-0.8	231.6
Monetary Position Loss (Profit)	0.4	4.3	-0.3	-90.7
<b>Integral Financing Cost</b>	<b>-9.3</b>	<b>10.3</b>	<b>5.2</b>	<b>-190.3</b>

## Taxes

Total taxes generated posted \$ 99.5 million that is 4.7% lower than the 2Q2004. This was due primarily to the decrease in the corporate tax rate in 300 basis points.

## Net Profit

Net profit grew 34.1% posting \$ 227.7 million with a margin of 14.8%.

The EPS for the last twelve months resulted in a multiple of 3.41 as calculated in the following table:

		LTM
Net Profit	(pesos)	1,117,445,156
Shares	(Average)	328,029,516
<b>EPS</b>		<b>3.41</b>

## Earnings Statement, second quarter 2005

	2°Qtr. 2005		2°Qtr. 2004		2°Qtr. 2003		Var.
	Mill. Pesos	%	Mill. Pesos	%	Mill. Pesos	%	05/04
Revenues	1,539.8	100.0	1,329.7	100.0	1,163.3	100.0	15.8
Cost of Goods Sold	1,094.4	71.1	945.0	71.1	828.8	71.2	15.8
<b>Gross Profit</b>	<b>445.4</b>	<b>28.9</b>	<b>384.7</b>	<b>28.9</b>	<b>334.5</b>	<b>28.8</b>	<b>15.8</b>
G&A	120.2	7.8	105.6	7.9	90.9	7.8	13.8
<b>Operating Profit</b>	<b>325.2</b>	<b>21.1</b>	<b>279.2</b>	<b>21.0</b>	<b>243.6</b>	<b>20.9</b>	<b>16.5</b>
Financing Cost	-9.3	-0.6	10.3	0.8	5.2	0.4	-190.3
Other Income	-2.1	-0.1	6.3	0.5	12.8	1.1	-133.3
JV Result	-5.2	-0.3	-1.1	-0.1	0.0	0.0	-372.7
Pre Tax Profit	327.2	21.2	274.1	20.6	251.2	21.6	19.4
Deferred Tax	75.5	4.9	68.8	5.2	70.0	6.0	9.7
Tax Paid	24.0	1.6	35.6	2.7	27.4	2.4	-32.6
Total Tax	99.5	6.5	104.4	7.8	97.4	8.4	-4.7
<b>Net Profit</b>	<b>227.7</b>	<b>14.8</b>	<b>169.7</b>	<b>12.8</b>	<b>153.8</b>	<b>13.2</b>	<b>34.2</b>
Depreciation	19.5	1.3	18.9	1.4	15.2	1.3	3.2
<b>EBITDA</b>	<b>344.6</b>	<b>22.4</b>	<b>298.1</b>	<b>22.4</b>	<b>258.8</b>	<b>22.2</b>	<b>15.6</b>

## Results LTM 2005, 2004 and 2003

### Units and Sales Comparison Charts

	Jul 04/ Jun 05		Jul 03/ Jun 04		Jul 02/ Jun 03		Var. 05/04		Var. 05/04	
	Units	Mill.\$	Units	Mill.\$	Units	Mill.\$	Units	%	Mill.	%
<b>Progresiva</b>	<b>2,994</b>	<b>586.1</b>	<b>1,498</b>	<b>281.0</b>	<b>1,933</b>	<b>340.6</b>	<b>1,496</b>	<b>99.9</b>	<b>305</b>	<b>108.5</b>
Infonavit	6,257	1,812.5	6,821	1,901.8	6,717	1,795.4	-564	-8.3	-89	-4.7
SHF	4,146	1,294.0	4,170	1,260.7	3,383	1,017.9	-24	-0.6	33	2.6
Fovissste	1,919	571.6	1,852	558.5	2,378	629.9	67	3.6	13	2.3
<b>Affordable Entry Level</b>	<b>12,322</b>	<b>3,678.1</b>	<b>12,843</b>	<b>3,721.0</b>	<b>12,478</b>	<b>3,443.3</b>	<b>-521</b>	<b>-4.1</b>	<b>-43</b>	<b>-1.2</b>
<b>Middle Income</b>	<b>2,467</b>	<b>1,402.7</b>	<b>1,970</b>	<b>1,079.0</b>	<b>1,962</b>	<b>921.9</b>	<b>497</b>	<b>25.2</b>	<b>324</b>	<b>30.0</b>
<b>Residential</b>	<b>196</b>	<b>320.0</b>	<b>162</b>	<b>304.8</b>	<b>89</b>	<b>180.8</b>	<b>34</b>	<b>21.0</b>	<b>15</b>	<b>5.0</b>
Total as Developer	17,979	5,986.9	16,473	5,385.9	16,462	4,886.6	1,506	9.1	601	11.2
Comercial Land		22.4		4.2		10.6			18	430.1
Construction		155.4		10.7		7.7			145	1,355.4
Comercial Buildings		10.7		20.9		27.1			-10	-48.9
<b>TOTAL</b>	<b>17,979</b>	<b>6,175.5</b>	<b>16,473</b>	<b>5,421.8</b>	<b>16,462</b>	<b>4,932.1</b>	<b>1,506</b>	<b>9.1</b>	<b>754</b>	<b>13.9</b>

### AVERAGE SELLING PRICE LTM

(000'S \$)	Jul 04/ Jun 05	Jul 03/ Jun 04	Jul 02/ Jun 03	Var%. 05/04
Progresiva	195.8	187.6	176.2	4.4
Infonavit	289.7	278.8	267.3	3.9
SHF	312.1	302.3	300.9	3.2
Fovissste	297.8	301.6	264.9	-1.3
Affordable Entry	298.5	289.7	276.0	3.0
Middle Income	568.6	547.7	469.9	3.8
Residential	1,632.8	1,881.7	2,031.3	-13.2
<b>Total</b>	<b>333.0</b>	<b>327.0</b>	<b>296.8</b>	<b>1.8</b>

### EARNINGS LTM

	Jul 04/ Jun 05		Jul 03/ Jun 04		Jul 02/ Jun 03		Var. 05/04
	Mill. Pesos	%	Mill. Pesos	%	Mill. Pesos	%	%
<b>Revenues</b>	<b>6,175.5</b>	<b>100.0</b>	<b>5,421.7</b>	<b>100.0</b>	<b>4,932.1</b>	<b>100.0</b>	<b>13.9</b>
Cost of Goods Sold	4,382.2	71.0	3,852.6	71.1	3,518.2	71.3	13.7
<b>Gross Profit</b>	<b>1,793.3</b>	<b>29.0</b>	<b>1,569.1</b>	<b>28.9</b>	<b>1,413.9</b>	<b>28.7</b>	<b>14.3</b>
G&A	470.4	7.6	420.4	7.8	380.9	7.7	11.9
<b>Operating Profit</b>	<b>1,322.9</b>	<b>21.4</b>	<b>1,148.7</b>	<b>21.2</b>	<b>1,033.0</b>	<b>20.9</b>	<b>15.2</b>
Financial Cost	-4.3	-0.1	23.2	0.4	27.8	0.6	-118.5
Other Income	-12.0	-0.2	64.3	1.2	50.7	1.0	-118.7
JV	14.1	0.2	-3.2	-0.1	-4.1	-0.1	540.6
Pre Tax Profit	1,329.3	21.5	1,186.6	21.9	1,051.8	21.3	12.0
Deferred Tax	41.4	0.7	260.8	4.8	235.8	4.8	-84.1
Tax Paid	165.9	2.7	127.8	2.4	113.8	2.3	29.8
Total Tax	207.3	3.4	388.6	7.2	349.6	7.1	-46.6
<b>Net Profit</b>	<b>1,122.0</b>	<b>18.2</b>	<b>798.1</b>	<b>14.7</b>	<b>702.2</b>	<b>14.2</b>	<b>40.6</b>
Depreciation	75.7	1.2	77.0	1.4	62.4	1.3	-1.7
<b>EBITDA</b>	<b>1,398.6</b>	<b>22.6</b>	<b>1,225.7</b>	<b>22.6</b>	<b>1,095.4</b>	<b>22.2</b>	<b>14.1</b>

## II) Financial Position, Cash and Capital Sources.

### Cash

By June 30, 2005 cash reached \$ 970.8 million, lower by 7.4% in real terms to 2004. This is due to infrastructure investments in some of our developments, as well as, payment delays of some agencies.

### Accounts Receivable

Sound and efficient collection policies and practices have resulted in 3.9 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 12.7% due to our investment in infrastructure in some developments as well as the purchases of new pieces of land from "ejidos" and private owners.

It is worth mentioning that Consortio ARA owns the largest Land Bank in the industry: 136,766 units strong consisting of 32.0 million square meters distributed in those areas of highest economic and demographic development in the country.

The Land Bank's breakdown is as follows:

By June 2005 Units	
Progresiva	29,274
Affordable Entry Level	90,169
Middle Income	11,621
Residential	5,702
<b>TOTAL</b>	<b>136,766</b>

And it is well diversified and distributed geographically as follows:

	Units	%
Mexico City Metro Area	49,078	35.9
Quintana Roo	21,177	15.5
Toluca, State of Mexico	12,126	8.9
Baja California	11,510	8.4
Nuevo León	9,032	6.6
Morelos	5,947	4.4
Puebla	4,844	3.6
Veracruz	4,456	3.2
Jalisco	3,762	2.8
Guanajuato	3,165	2.3

	Units	%
Querétaro	2,918	2.1
Sonora	2,822	2.0
Michoacán	2,112	1.6
Guerrero	1,822	1.3
Chihuahua	1,496	1.1
Distrito Federal	411	0.3
Sinaloa	48	0.0
Tabasco	40	0.0
<b>TOTAL</b>	<b>136,766</b>	<b>100.0</b>

### 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 the fifth largest producers in Mexico.

Machinery and equipment posted \$ 443.1 million, a decrease of 5.1%. The investment in machinery & equipment was \$ 19.3. 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 Consortio 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 \$ 292.5 million, with a turnover of 46 days. This figure has been increased 166.4%.

### **Short and Long Term Liabilities**

Liabilities posted \$ 99.5 million and were configured by leasing arrangements for the acquisition of machinery and equipment of which \$ 40.9 million are short term. Cost bearing liabilities to ShareHolder's Equity is only 5.0%.

Cost bearing liabilities to total assets are 3.3%. Cost bearing liabilities to cash are 31.1%. We have access to \$ 1,741.0 million in active lines of credit which are practically unused. Finally, total liabilities to equity of 0.50 times confirm our unsurpassed financial position.

### **Deferred Taxes**

Deferred taxes posted \$ 1,752.2 million. As such total liabilities to total assets represent 33.6%. Without taking into account their effect, leverage would be only 14.4%.

### **Shareholders Equity**

ARA's Shareholder's Equity grew 17.3% posting \$ 6,076.1 million by June 30, 2005. This growth was mainly due to accumulated net profits.

<b>BALANCE SHEET June 30, 2005.</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>Var%. 05/04</b>
	<b>Mill Pesos</b>	<b>Mill Pesos</b>	<b>Mill Pesos</b>	<b>%</b>
<b>Total Assets</b>	<b>9,145.4</b>	<b>7,967.3</b>	<b>6,988.0</b>	<b>14.8</b>
Short Term Assets	8,397.8	7,358.2	6,433.2	14.1
Cash	970.8	1,048.1	1,065.8	-7.4
Accounts Receivable	1,888.0	1,406.2	1,496.6	34.3
Land	3,452.4	2,805.6	2,252.4	23.1
Inventories	1,947.6	1,984.2	1,485.9	-1.8
Other Short Term Assets	139.0	114.1	132.4	21.8
Fixed Assets	747.6	609.1	554.8	22.7
Machinery and Equipment	496.2	522.7	332.9	-5.1
Due from JV	197.9	80.7	--	145.2
Investment in JV	53.5	5.7	221.9	838.6
<b>Total Liabilities</b>	<b>3,069.3</b>	<b>2,787.5</b>	<b>2,421.7</b>	<b>10.1</b>
Short Term Liabilities	1,064.5	917.9	785.2	35.6
Land Suppliers	167.5	12.7	57.1	1,218.9
Material Suppliers	125.0	97.1	78.2	28.7
Bank Loans	150.0	104.3	108.9	43.8
Short Term Financial Leasing	41.0	34.6	24.4	18.5
Taxes	1.1	33.5	5.5	-96.7
Other Short Term Liabilities	579.9	635.7	511.1	-8.8
Long Term Liabilities	2,004.8	1,869.6	1,636.5	7.2
Long Term Financial Leasing	58.6	75.8	55.9	-22.7
Other Long Term Liabilities	194.0	14.2	--	1,266.2
Deferred Liabilities	1,752.2	1,779.6	1,580.6	-1.5
<b>Shareholder's Equity</b>	<b>6,076.1</b>	<b>5,179.8</b>	<b>4,566.3</b>	<b>17.3</b>

### Backlog

As part of the operational requirements of the business Consorcio ARA has a mortgage commitment backlog from different agencies. This stands currently at 28,508 mortgages, 14.5% 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:

	<b>Units 2° Qtr 05</b>	<b>Mix %</b>	<b>Units 2° Qtr 04</b>	<b>Mix %</b>	<b>Var %</b>
Progresiva	1,671	5.9	1,066	4.3	56.8
Affordable Entry	19,849	69.6	16,695	67.1	18.9
Infonavit	6,609	23.2	5,066	20.4	30.5
SHF-Fovissste	13,240	46.4	11,629	46.7	13.9
Middle Income	6,805	23.9	6,862	27.6	-0.8
Residential	183	0.6	265	1.0	-30.9
<b>TOTAL</b>	<b>28,508</b>	<b>100.0</b>	<b>24,888</b>	<b>100.0</b>	<b>14.5</b>

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