

Annual Report 2001 Consorcio ARA

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## Letter from the President and Vicepresident

During 2001, Mexico underwent a period full of political and economic difficulties. The American recession had a negative impact on our operations even before the tragic September 11th events, which worsened the situation even further.

Despite all the hardships of 2001, this was a year of consolidation, thanks to our intense activity in all of our projects. We have attained major achievements which will have a favorable impact to continue developing and projecting our corporation. This strength will enable us to best profit from the opportunities of the following years. These will no doubt be the best the housing industry in Mexico has ever had.

Actually, the achievements attained by Consorcio ARA in 2001 are the continuation of efforts made over the years. In the future, we will continue to implement our diversification strategy among the different housing segments and regions. We will continue to offer the highest quality integral service for the market segments where we participate in.

In fact, our personnel at the corporate office and different developments daily focuses daily on achieving greater operational, administrative, and financial efficiency, thus enabling us to emerge from a difficult year worldwide strong enough to keep succeeding within an increasingly competitive environment.

The last twelve months were very complex. The Mexican economy showed some signs of recovery during the first semester of 2001, nevertheless this recovery soon changed to become a difficult time. The world environment had a negative influence in the development of our national economy, demanding the best of our efforts to overcome the year. This was overly achieved, since we were able to move forward in spite of all the expectations. In 2001, Consorcio ARA reached volume levels equal to those of the largest housing developers in the United States.

Set in a dynamic and changing environment Consorcio ARA has continued to implement structural, technological and operational adaptations to establish and coordinate the synergies necessary to consolidate our corporation. Simultaneously, ARA's characteristic cash flow and solvency were maintained, its land bank was increased, and steady growth levels were achieved

It should be noted that by the end of 2001, the corporate accounts had cash levels equivalent to the amount received in from the capital markets. The big difference is that, the land bank is three times larger than it was at the time and the balance sheet is absolutely debt-free.

It is worth saying that a year such as 2001 made us face new challenges, which we will confront with the experience acquired, the capacity and talent of our personnel, as well with the support of our associates and investors.

## General Overview

In 2001, the Mexican economy had a slower growth rate. Nevertheless, simultaneously, the macroeconomic indicators continued to improve. Undoubtedly, the ability to visualize ahead was increased, which strengthened the capacity to plan, project and manage corporations.

The financial armor plating, implemented with the presidential transition in mind, prevented the recurring crisis which appeared at the end of every presidential term, and which would have had a negative impact on all the social sectors and the economy.

2001 had a promising start for the global economy, and then turned into a difficult time.

The United States slowdown hindered the development of economies overly dependent on it, as well as the financial development worldwide. The September 11th aggravated this. This combination of external elements decreased the availability of capital in the so-called emerging markets, such as the Mexican economy.

Mexico could not remain untouched by the impact of this crisis on all the economies of the globalized world. Besides the expected organizational stumbles and inexperience of the first non-PRI government in decades, the close financial relationship between Mexico and the United States brought many unforeseen problems, such as the negative impact of the global insecurity on the tourism industry. All this, together with massive layoffs, further aggravated the social crisis.

In 2001, inflation in Mexico reached 4.4% after 8.9% the previous year; there was a 6% improvement in salaries in actual terms, barely above inflation. The economic slowdown reduced the GNP growth, which instead of the projected 5% increase, actually decreased 0.3%. On the other hand, interest rates reached a historic minimum of 5.5% by the end of the year from 18% in. Inflation closed at a yearly rate of around 5%, and foreign exchange rate was, for the third year in a row, unusually strong. This indicates that Mexico is far from the so-called recurring crisis.

This year, the construction industry faced difficulties originated in the economic slowdown. All in all, although the expectations could not be fulfilled, the goals

achieved were enough to guarantee a difficult but safe transition from one year to the next.

For the housing sector, 2001 was a year where many positive things were sown, starting with the Federal Government commitment to building and selling 750,000 houses by 2006.

It is worth noting the great success and excellent coordination existing among all the parties within the sector, since goals were attained throughout the year. The organizations necessary for this to be permanent such as the Consejo Nacional de Vivienda (National Housing Council), Sociedad Hipotecaria Federal (Federal Mortgage Corporation), and Bolsa de Vivienda en Internet (Internet Housing Exchange) were created.

During the year, the housing commitment was surpassed. For example, INFONAVIT not only fulfilled the goal of granting 205,000 credits, but it delivered another 15,000 by the end of the year. FOVI titled 47,542 houses, and FOVISSSTE, 18,000. FONHAPO, VIVAH and other organizations finished the year with almost 42,000 units.

Thus, 2001 was a particularly difficult year because of the macroeconomic environment, which tested Consorcio ARA's strengths but filled with promises for the coming years. Here, the results attained by the company become more relevant and confirm its leading position within the sector.

### ARA's Performance

During 2001, Consorcio ARA's performance was good, since it worked within a difficult, restrained framework, worsened after the September 11th attacks. The company continued working in line with expectations; its financial strength and soundness enabled it to overcome the difficulties generated by the national uncertainty and world-wide instability.

Within the housing sector, Consorcio ARA is a leading company, with outstanding strength and growth levels. The maintenance of its market diversification, has enabled it to participate in the growth of different segments of within the sector. The professionalism and unparalleled service offered by its people was reflected in an outstanding performance. Thus, management delivered quality of life, continuing business and satisfaction to its clients, suppliers and employees.

Thus, in 2001, Consorcio ARA's reported total revenues of 3.830.5 million pesos, accounting for an real yearly 10.1% increase, which is much greater than what most of the economy was able to deliver. Gross profit was around 1.08 million

pesos, reflecting a gross margin of 28.2%, and net profit was 482.7 million pesos, with a 12.6% net margin.

The expectations for the construction industry, but especially the housing sector and Consorcio ARA's performance within this context, increased the (ARA\*) share value by 42.5% in the Mexican Stock Exchange. It is worth mentioning that during this period, the company shares continued to be among the most appealing for investors.

Consorcio ARA received the Investor Relations Award for the year in question from the Association For Investment Management Research, the largest association on investment research in the world, together with the Sociedad Mexicana de Análisis Financiero (SOMAF – Mexican Financial Research Association).

Consorcio ARA's leadership in this sector is the result of its proven ability to offer the best housing quality, easy access to credits and large construction volume.

#### Strategy 2001

One of the goals of Consorcio ARA was to maintain true communication among all of its areas, to achieve efficient coordination between construction, sales and collections.

Another important fact was maintaining efficient operations in resource management, in order to reach attractive profitability levels, leveraging and cash flow.

Additionally during 2001 our personnel was trained intensively. Thus greater operational, administrative, and financial efficiency in our daily tasks at our regional facilities, work sites and developments was attained. This enabled us to keep offering great quality levels.

Our firm response to the challenge posed by population growth and housing needs resulted in once more combining our abilities, talent and capacity with the required technical skill. Additionally ARA will continue to acquire new land reserves.

#### Land Reserve and House Building

Consorcio ARA increased its land bank as it has been doing for the last years, without generating additional financial burden.

Like in previous years, its presence in areas with fast economic and demographic growth is evident: the metropolitan area of the Valley of Mexico, the Northern maquiladora band, and the touristic South-East, as well as another dozen locations.

Currently, Consorcio ARA has 43 developments in 15 states of the Mexican Republic.

By the end of 2001, Consorcio ARA's land bank amounted to 20.0 million square meters, enough to build 106,177 homes, equivalent to 120,700 affordable entry level homes.

### House Building

During 2001, Consorcio ARA sold 15,803 units, accounting for a 10.1% increase with respect to the previous year. 12.4% of this total real accounts for affordable entry level units, -8.0% for middle income units, 47.5% to residential units, and 21.0% to PROSAVI-Progresiva.

Consorcio ARA has continued to increase its land bank, thanks to its broad experience in finding, negotiating, and buying it. This has been and will continue to be one of our major competitive advantages, and it is also the reason why our company is currently present in 15 states of the Mexican Republic.

### Affordable Entry Level Units

Consorcio ARA sold 15,803 house-holds during the year 2001, affordable entry level segment sales were 12,387 units, accounting for a 6.7% growth 11,607 units in 2000.

This sector will experience constant growth, since population rates continue to expand, as well as the need to produce decent housing. The cities, as well as the urban areas around them, will continue to grow and so will the need for all kinds of construction.

### Middle Income

The new reality of our country has created additional growth opportunities in the Middle Income. Within this sector, Consorcio ARA sold 1,079 units, decreasing from 1,163 units in 2000. This was because permits and licenses were not issued during the year, due to the new reality and the political and lobbying complications in our country. During 2002, this will be reversed.

## Residential

The residential household segment was increased during 2001: 131 units against 116 in 2000. This was due to trust generated in the market by the new economic situation. During the next years, and thanks to the return of mortgage credit for this sector of the population, these market segments will no doubt show interesting growth rates.

It is worth remembering that Consorcio ARA has in this sector a segment called Touristic Residential which is set touristic zones. Naturally, building house-holds in these areas generates jobs and chances to improve their inhabitants' life quality.

## PRPSAVI-Progresiva

The PROSAVI program started during the fourth quarter of 1997 through FOVI. Consorcio ARA has very successfully served in this segment, thanks to the Backlog existing within the company.

In the second quarter of 2000, Consorcio ARA started the sale of Vivienda Progressive, similar to PROSAVI's, but placed through INFONAVIT at a higher selling price. This is why the company re-named the PROSAVI sector as PROSAVI-Progresiva.

During 2001, the PROSAVI-Progresiva units reached a significant volume of 2,089, with respect to the 1,790 homes sold in 2000.

## Relations with Housing Organizations

Consorcio ARA has the social commitment to provide housing for the all population. Consequently, it maintained excellent relations with housing organizations during 2001.

Consorcio ARA continued to strengthen its already excellent relations with them.

## Results Summary

During 2001, Consorcio ARA reported a total income 3,830.5 million pesos, accounting for an actual yearly 10.1% increase. On the other hand, net profit in 2001 was 482.7 million, with a 12.6% net margin.

Consorcio ARA's average selling prices for 2001 showed a mixed performance, since Social PROSAVI-Progresiva, and residential prices were increased in real terms. Middle Income ones were slightly reduced due to a change in sales mix.

The highest growth in volume was from PROSAVI-Progresiva sales, increasing 16.7% in units. The income from this type of operation was increased in 21.0%, while affordable entry level sales increased in 19.4% in real terms.

The income originated in residential household sales had a 47.5% increase.

Thus, total unit sales grew from 15,222 units in 2000 to 15,803 units in 2001. During that year, the unit mix of was 13.2% from PROSAVI-Progresiva, 78.4% affordable entry level, 7.6% Middle Income, and 0.8% residential.

Consorcio ARA continues to have the optimal land bank to operate from a strategic, operational and financial point of view. The land bank amounts up to 20.0 million square meters, enough to build 106,177 homes, equivalent to 120,700 affordable entry level homes.

## Graphs

### Perspective and Commitments for 2002

Lowering nationwide housing lags continues to be an unavoidable strategic demand for the Mexican society. The Federal Government has clearly stated its goals on this subject; Consorcio ARA has undertaken in leadership role and become an important participant in the effort to fulfill the goals of the current Mexican Government.

Thus, providing the Mexicans with households, the main reason for Consorcio ARA to exist, is still a powerful motivation for our corporation, and it can be safely said that its efforts in this area will suffice to maintain it as a leader in the construction sector.

## Internal Organization

A Professional corporation is able to properly fulfill the needs of those who approach it. Consorcio ARA is this kind of corporation; it consistently fulfills all of its clients' and associates' requirements, as well as establishes high-level relations with other social organizations.

Consorcio ARA's professionalism is behind all of its actions. It sets high standards with its employees across all basic areas; these requirements are strategic: a well-trained element offers the best product with the service; the best service generates the most reliable and best-quality commercial relationships.

In view of the big and fast changes we live in, Consorcio ARA strives to maintain its flexibility in operations, therefore it is always ahead in training and development. Only by generating structures that provide irreproachable service with high professionalization standards can the corporation receive the trust and respect of clients, friends, and even competitors.

## Financial Statements

### Independent Auditor's Report

To the Board of Directors and Stockholders of  
Consorcio ARA, S. A. de C. V.:

We have audited the accompanying consolidated balance sheets of Consorcio ARA, S. A. de C. V. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended, all expressed in thousands of Mexican pesos of purchasing power of December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles

in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Consorcio ARA, S. A. de C.V. and subsidiaries as of December 31st, 2001 and 2000, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

The accompanying financial statements have been translated into English for the convenience of users.

C.P.C. Jorge López Rodrigo  
March 13, 2002

CONSOLIDATED BALANCE SHEETS DECEMBER 31,  
2001 AND 2000  
(Thousands of Mexican Pesos of Purchasing Power of December 31, 2001)

ASSETS	2001	2000
CURRENT ASSETS:		
Cash and temporary investments	\$ 701,321	\$ 555,263
Trade accounts receivable – net (Note 3)	986,221	731,454
Due from related parties (Note 4)	-	20,001
Inventories (Note 5)	2,419,026	2,262,981
Other current assets (Note 6)	81,103	51,440
Total current assets	4,187,671	3,621,139
LAND HELD FOR FUTURE CONSTRUCTION (Note 5)	145,553	193,403
INVESTMENT IN JOINT VENTURE AND CORPORATE TRUST (Note 7)	12,742	19,580
INTANGIBLE ASSET FOR LABOR OBLIGATIONS (Note 11)	2,771	-
PROPERTY AND EQUIPMENT - net (Note 8)	390,628	289,574
TOTAL ASSETS	\$ 4,739,365	\$ 4,123,696

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Notes payable to banks (Note 9) \$	866	\$	27,093
Current portion of long-term debt (Note 12)	-		10,957
Trade accounts payable	268,573	260,950	
Accrued expenses and taxes (Note 10)		295,648	300,005
Due to related parties (Note 4)	2,223	-	
Income taxes and tax on assets payable		32,695	2,458
Employee statutory profit-sharing payable	685	548	
Total current liabilities	600,690	602,011	
LONG-TERM DEBT (Note 12)	-	12,810	
LABOR OBLIGATIONS (Note 11)	2,771	-	
DEFERRED INCOME TAX (Note 16)	1,053,738	883,414	
Total liabilities	1,657,199	1,498,235	

STOCKHOLDERS' EQUITY (Note 13):

Common stock	825,429	823,512	
Additional paid-in capital	440,246	440,246	
Reserve for acquisition of own stock	74,444	59,610	
Gain on sale of repurchased stock	13,671	10,905	
Retained earnings	2,470,683	1,990,006	
(Insufficiency) excess in restated stockholders' equity			(32,135)
13,135			
Cumulative effect of deferred income tax		(721,244)	(721,244)
Majority stockholders' equity	3,071,094	2,616,170	
Minority stockholders' equity	11,072	9,291	
Total stockholders' equity	3,082,166	2,625,461	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 4,739,365 \$ 4,123,696

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2001 AND 2000

(Thousands of Mexican Pesos of Purchasing Power of December 31, 2001, except majority earnings per share)

2001 2000

REVENUES (Notes 14 and 17):	\$ 3,830,508	\$ 3,479,621
COSTS (Note 17)	2,750,103	2,474,583
GROSS PROFIT	1,080,405	1,005,038
GENERAL AND ADMINISTRATIVE EXPENSES	289,938	247,912
OPERATING INCOME	790,467	757,126
NET COMPREHENSIVE FINANCING COST:		
Interest expense	88,741	103,445
Interest income	(60,423)	(63,675)
Monetary position loss (gain)	6,120	(12,699)
Foreign exchange fluctuations - net	(281)	1,442
	34,157	28,513
OTHER INCOME - net (Notes 14 and 18)	(11,304)	(1,177)
EQUITY IN RESULTS OF JOINT VENTURE AND CORPORATE TRUST	4,738	(2,460)
INCOME BEFORE PROVISIONS	762,876	732,250
PROVISIONS (Note 16):		
Income taxes	278,403	215,209
Tax on assets paid, not recoverable	1,042	3,542
Employee statutory profit-sharing	677	541
	280,122	219,292
CONSOLIDATED NET INCOME \$	482,754	\$ 512,958
NET INCOME OF MAJORITY INTEREST	\$ 480,677	\$ 511,073
NET INCOME OF MINORITY INTEREST	2,077	1,885
CONSOLIDATED NET INCOME \$	482,754	\$ 512,958
Basic majority earnings per share	\$ 1.47	\$ 1.57
Weighted average number of shares outstanding	327,401,365	
	327,155,582	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES  
 IN STOCKHOLDERS' EQUITY YEARS ENDED  
 DECEMBER 31, 2001 AND 2000  
 (Thousands of Mexican Pesos of Purchasing Power of December 31, 2001)

BALANCE,							
JANUARY 1, 2000	\$ 825,976	\$ 440,246	\$ 79,718	\$ 11,274	\$		
1,478,933	\$ 194,600	\$	-	\$ 10,937	\$ 3,041,684		
Repurchase of own stock - net	(2,464)	-	20,108)	-	-	-	-
-	(22,572)						
Loss on sale of repurchased stock - net	-	-	-	(369)	-	-	-
-	(369)						
Net comprehensive loss	-	-	-	-	-	511,073	
(181,465)	(721,244)	(1,646)	(393,282)				
BALANCE,							
DECEMBER 31, 2000	823,512	440,246	59,610	10,905			
1,990,006	13,135	(721,244)	9,291	2,625,461			
Sale of own stock - net	1,917	-	14,834	-	-		
-	-	16,751					
Gain on sale of repurchased stock - net	-	-	-	2,766	-	-	-
-	2,766						
Net comprehensive income	-	-	-	480,677	(45,270)	-	
1,781	437,188						
BALANCE,							
DECEMBER 31, 2001	\$ 825,429	\$ 440,246	\$ 74,444	\$ 13,671	\$		
2,470,683	\$ (32,135)	\$ (721,244)	\$ 11,072	\$ 3,082,166			

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION  
 YEARS ENDED DECEMBER 31, 2001 AND 2000  
 (Thousands of Mexican Pesos of Purchasing Power of December 31, 2001)

2001 2000

OPERATING ACTIVITIES:

Consolidated net income	\$ 482,754	\$ 512,958	
Items that did not require resources:			
Depreciation	44,372	42,290	
Labor obligations	(380)		
Deferred taxes	171,543	148,229	Equity in
results of joint venture			
and corporate trust	4,738	(2,460)	
	703,407	700,637	

Changes in operating assets and liabilities:

Trade accounts receivable - net	(254,767)	(45,444)	
Due from related parties	20,001	18,888	
Inventories	(154,980)	(399,847)	Other assets
(29,663)	(5,234)		Trade accounts payable
(94,477)			7,623
	Due to related parties	2,223	-
Accrued expenses and taxes	(4,357)	115,009	
Income taxes and tax on assets payable	30,237	(1,665)	
Employee statutory profit-sharing payable	137	135	
Resources provided by operating activities	319,861	288,002	

FINANCING ACTIVITIES:

Notes payable to banks			
and long-term debt - net	(49,994)	(38,391)	
Sale (repurchase) of own stock – net	19,517	(22,941)	
Cumulative effect of deferred income tax:			
Increase in liabilities	-	721,244	
Decrease in stockholders' equity	-	(721,244)	
Resources used in financing activities	(30,477)	(61,332)	

INVESTING ACTIVITIES:

Investment in property and equipment	(145,426)	(72,991)	
Investment in joint venture and corporate trust		2,100	(1,943)
Resources used in investing activities	(143,326)	(74,934)	
<b>INCREASE IN CASH AND TEMPORARY INVESTMENTS</b>	<b>146,058</b>	<b>151,736</b>	

CASH AND TEMPORARY INVESTMENTS:

At the beginning of year	555,263	403,527
At the end of year	\$ 701,321	\$ 555,263

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2001 AND 2000

(Thousands of Mexican Pesos of Purchasing Power of December 31, 2001, except as noted)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of business - Consorcio ARA, S. A. de C. V. and its subsidiaries (collectively "the Company") design, develop, construct and market affordable entry-level, middle-income and residential housing developments and also operate as a contractor for parties that are not affiliated with the Company in the construction, promotion and marketing of commercial and industrial developments. During 2001 the Company started to rent commercial centers and mini-supermarkets.

Basis of presentation –

a. The accompanying consolidated financial statements include the accounts of Consorcio ARA, S.A. de C.V. ("ARA") and its subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation. Subsidiaries of ARA included in these consolidated financial statements are as follows:

Subsidiary	Percentage of ownership	
Consorcio de Ingeniería Integral, S. A. de C. V. ("CIISA")		99.6 %
Proyectos Urbanos Ecológicos, S. A. de C. V. ("PUESA")		99.9 %
Constructora y Urbanizadora ARA, S. A. de C. V. ("CUARA")		99.9 %
Inmobiliaria ACRE, S. A. de C. V. ("ACRE")	99.1 %	
Asesoría Técnica y Administrativa GAVI, S. A. de C. V. ("GAVI")		99.9 %
Comercialización y Ventas, S. A. ("COVENSA")	98.0 %	
Promotora y Desarrolladora de Centros Comerciales, S. A. de C. V. (PDCC)		99.9 %

During 2001, ARA created Promotora y Desarrolladora de Centros Comerciales, S. A. de C. V., who created two new 99.9% owned subsidiaries, Centro San Miguel, S.A. de C.V. and Operadora de Unicentros y Locales Comerciales, S.A. de C.V. These new entities will be dedicated to renting

commercial facilities and mini- supermarkets. These commercial facilities and mini-supermarkets are included in the planning of the overall projects.

b. Comprehensive income – In August 2000 the Mexican Institute of Public Accountants issued Bulletin B-4, “Comprehensive Income” (“B-4”), the application of which is mandatory for the year beginning January 1, 2001. In accordance with the regulations of B-4, the statement of changes in stockholders equity for the year ended December 31, 2000 was restated to present comprehensive income (loss) (see Note 13 e).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s accounting policies are in accordance with generally accepted accounting principles in Mexico and are summarized as follows:

a. Temporary investments - Temporary investments are stated at the lower of acquisition cost plus accrued yields, or net realizable value.

### b. Inventories

1. Work in process and construction materials are valued at acquisition cost and are restated for the effects of inflation using an internal inflation index developed by the Company based on changes in prices of construction materials. The balance of work in process is estimated using the percentage of completion method.

2. Land held for future construction and real estate developments in progress are valued at acquisition cost and restated to replacement cost as determined by independent appraisers.

c. Investment in joint venture and corporate trust - The investments in joint venture and corporate trust are accounted for using the equity method.

d. Property and equipment – Property and equipment are initially recorded at acquisition cost and restated by the method of adjustments due to changes in general price levels, per the NCPI. In accordance with the Fifth Document of Amendments to Bulletin B-10 (Modified), the acquisition cost used to restate property and equipment acquired up to December 31, 1996 were those reported at that date based on net replacement values determined by expert appraisals. Depreciation is computed using the straight-line method based on the remaining useful lives of the related assets, as follows:

Average Years	
Building	31

Building for lease	20
Machinery and equipment	5 - 8
Vehicles	3
Office furniture and fixtures	6 – 10

e. Labor obligations - Seniority premium and pension plan costs are recognized over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates. Severance is charged to results when the liability is determined to be payable.

f. Revenue and cost recognition - Revenues from the Company's activities as a developer and as a contractor are recognized using the percentage-of-completion method, measured based on the percentage of actual costs incurred to total estimated costs for each development and each project. Under this method, estimated gross profits attributable to the development are multiplied by such percentage and the product is added to actual costs incurred to date to determine the amount of recognizable revenue. The Company begins applying the percentage-of-completion method to costs and revenues arising from its activities as a housing developer when the following conditions have been met:

- The home buyer has made the required down payment.
- The home buyer has signed the purchase/sales contract; and
- The home buyer has filed all pertinent official documentation required to obtain a loan and (i) in the case of sales funded by the National Workers' Housing Fund (INFONAVIT) and by the Housing Fund of the Government Workers Social Security and Services Institute (FOVISSSTE), the buyer obtains the minimum approval rating required; (ii) the home buyer has obtained from the bank and/or the Fund for Housing Banking Transactions and Funding (FOVI) approval of its loan for housing purchases; (iii) (a) when a buyer acquires the land from the Company, first a deed is issued and (b) a loan is secured from a bank to build the house, and the bank begins to make prepayments to the Company, based on the progress made, and; (iv) per the Special Program for Housing Loans and Subsidies (PROSAVI), the home buyer pays a minimum of 10% of the value of the house as a down payment, securing authorization for the loan to be granted by FOVI through a bank or funding entities through an auction. This program was established by the Mexican federal government, which grants a 20% subsidy through the Ministry of Finance and Public Credit to allocate housing to persons earning up to three times the minimum wage in the Federal District of Mexico.

The Company applies the percentage-of-completion method to costs and revenues generated by its activities as a contractor upon commencement of such activities under the relevant contract.

Rental revenue is recognized on a straight line basis over the life of the lease agreement. Cost is recognize as incurred. During 2001 this income was recognized as other income of \$930 (see Note 18).

Contract costs include all direct material and labor costs and those indirect costs related to the development of the project, such as indirect labor, supplies, tools, repairs and depreciation costs. General and administrative costs are charged to results when incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

g. Income taxes, tax on assets and employee statutory profit-sharing - Provisions for income taxes and employee statutory profit-sharing are recorded in results of the year in which they are incurred and the deferred effects of temporary differences are recognized. Deferred income tax effects consider all temporary differences determined by comparing the tax and book values of assets and liabilities. If applicable, the benefit from tax loss carryforwards is also included. Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that they will generate a liability or benefit, and there is no indication that this situation will change in such a way that the liabilities will not be paid or benefits will not be realized.

Tax on assets paid that is expected to be recoverable is recorded as an advance payment of income tax and is presented with deferred income taxes.

As of January 1, 2000, the Company implemented Bulletin D-4, "Accounting Treatment of Income Tax, Tax on Assets and Employee Statutory Profit-sharing" (D-4), which was reported as a cumulative effect of deferred income tax of \$721,244 recorded directly to stockholders' equity.

h. Foreign currency transactions - Transactions denominated in foreign currencies are recorded at the rate of exchange in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into the Company's functional currency at the rate of exchange in effect at the balance sheet date; the effect of changes in exchange rates is recorded in the results of operations.

i. Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in Mexico requires management to make estimates and assumptions which affect the amounts reported in the financial statements and the accompanying notes. Although these estimates are based on management's best knowledge of current events, actual results may differ.

j. Majority earnings per share - Basic majority earnings per share results from dividing net income attributable to the majority interest by the weighted average number of common shares outstanding during the year.

k. Monetary position - Monetary position is calculated by applying the NCPI to the monthly net monetary position. A loss (gain) results from maintaining a net asset (liability) monetary position.

### 3. TRADE ACCOUNTS RECEIVABLE

	2001	2000		
As developer:				
Unbilled revenues on developments in progress	\$ 991,701	\$ 737,974		
As contractor:				
Billings on contracts		4,050	845	
	995,751	738,819		
Less - reserve for bad debts	554	580		
Less - reserve for contract cancellations			8,976	6,785
	\$ 986,221	\$ 731,454		

### 4. DUE FROM RELATED PARTIES

Accounts receivable from related parties consist of construction receivables recognized under the percentage of completion method and consist of the following:

	2001	2000		
Constructora y Urbanizadora ARA, S.A. de C.V., A. en P.	\$ 5,552	-	\$	-
Corporate Trust (ACRE and Confraco, S.A. de C.V.)	14,422	-	-	
Operadora de Clubs de Palya y Deportivos, S.C.	-	27	-	27
	\$ -	\$ 20,001		

Payable for taxes to:

Constructora y Urbanizadora ARA, S.A. de C.V., A en P	\$ 2,223	\$
-		

### 5. INVENTORIES

a. Inventories are as follows:

	2001	2000		
Work in process	\$ 752,321	\$ 800,834		
Developments in progress	548,455	441,257		
Land held for future construction	904,497	855,397		
Construction materials	69,270	62,762		
Advances to suppliers	144,483	102,731		
	\$ 2,419,026	\$ 2,262,981		

b. The Company's policy is to locate and acquire land each year, classifying in current assets land in progress or land planned to be developed within the next year, and in long-term all remaining land.

#### 6. OTHER CURRENT ASSETS

	2001	2000		
Other accounts receivable		\$ 14,448	\$	12,812
Recoverable taxes, primarily value added taxes			24,858	16,827
Advance payments	10,674	9,294		
Deposits	31,123	12,507		
	\$ 81,103	\$ 51,440		

#### 7. INVESTMENT IN JOINT VENTURE AND CORPORATE TRUST

			Amount
Ownership			
	2001	2000	Interest
Constructora y Urbanizadora ARA, S.A. de C. V., A. en P.	\$ 6,000	\$ 6,785	50%
Corporate Trust (ACRE and Confraco, S.A. de C.V.)	6,742	12,795	50%
	\$ 12,742	\$ 19,580	

As of December 31, 2001 the Company was in the process of concluding the joint venture contract with Corporación Aero Angeles, S. A. de C.V.

#### 8. PROPERTY AND EQUIPMENT

	2001	2000		
Building	\$ 31,725	\$ 31,725		
Building for lease	22,089	-		
Machinery and equipment		361,975	336,445	
Vehicles	83,235	78,680		
Office furniture and fixtures		33,729	31,895	
	532,753	478,745		
Less - accumulated depreciation		228,207	189,171	
	304,546	289,574		
Land	19,081	-		
Construction in progress	67,001	-		

\$ 390,628 \$ 289,574

The construction in progress will be a total investment of approximately \$112,000. The Company is planning to conclude the construction at the end of the year 2002.

#### 9. NOTES PAYABLE TO BANKS

	2001	2000
Construction financing loans, denominated in UDI's, secured by the related developments, bearing interest at an annual average interest rate of 10% and 9.8%, respectively.	\$ 866	\$ 26,700
Loans denominated in Mexican pesos, secured by the related developments, bearing interest at an annual average interest rate of 23.86% as of December 31, 2000.	-	393
	\$ 866	\$ 27,093

References herein to "UDI" are to "Unidad de Inversión", a peso currency equivalent indexed for Mexican inflation.

The value of one UDI at December 31, 2001 and 2000 is \$3.055273 and \$2.909158 (historical pesos), respectively.

#### 10. ACCRUED EXPENSES AND TAXES

	2001	2000
Taxes, other than income taxes and tax on assets	\$ 12,414	\$ 11,807
Accrued expenses	41,771	37,690
Interest payable	4	451
Advances from customers	202,122	217,484
Deposits	39,337	32,573
	\$ 295,648	\$ 300,005

#### 11. PENSION PLAN AND SENIORITY PREMIUM

Net periodic cost for obligations resulting from the pension plan and seniority premium was \$2,012 and \$1,902 in 2001 and 2000, respectively. The related liabilities at December 31, 2001 and 2000 were \$2,771 and \$100, respectively. At December 31, 2001 a transition asset for \$2,771 is also recognized. Other disclosures required under generally accepted accounting standards are not considered material.

## 12. LONG-TERM DEBT

	2001	2000
Notes payable denominated in UDI's, secured by land, principal due from 2001 to 2004, bearing interest at an annual interest rate of 9.75% in both years; fully repaid in 2001	\$ -	\$ 23,767
Current portion of the long-term debt	-	(10,957)
	\$ -	\$ 12,810

## 13. STOCKHOLDERS' EQUITY

a. Stockholders' equity at December 31, 2001, is as follows:

Effects of	Total	Number of Shares	Historical Amounts
Inflation			
Common stock	327,811,871	437,083	\$ 388,346
Additional paid-in capital	-	221,535	218,711
Reserve for acquisition of own stock	74,444	-	45,697
Gain on sale of repurchased stock	13,671	-	11,486
Retained earnings	-	2,178,035	292,648
Insufficiency in restated stockholders' equity	(32,135)	-	-

Cumulative effect of deferred income tax				
-	(634,037)	(87,207)	(721,244)	
Minority stockholders' equity	-	10,661	411	11,072
	327,811,871	\$ 2,270,460	\$ 811,706	\$ 3,082,166

b. At the ordinary stockholders' meeting of ARA, held on April 25, 1997, authorization was granted to create a reserve for the repurchase of the Company's own stock of \$83,790 (\$51,000 historical pesos), the maximum amount of stock authorized to be repurchased is 2% of outstanding common stock.

c. Capital stock consists of 328,211,874 ordinary shares, with no par value, with no subscription limitations, fully subscribed and paid.

d. In 2001 and 2000, the Company purchased and sold its own stock resulting in a net (loss) gain of \$2,766 and \$(369) respectively.

At December 31, 2001, the Company held 400,003 shares repurchased. At December 31, 2001, the market value of the Company's shares was \$16.25 per share.

e. Net comprehensive income (loss) presented in the accompanying statements of changes in stockholders' equity represents the Company's total activity during each year, and includes the net income (loss) of the year, plus other comprehensive income items of the same period, which, in accordance with accounting principles generally accepted in Mexico, are presented directly in stockholders' equity without affecting the statement of income. In 2001 and 2000, other comprehensive income items consist of insufficiency in restated stockholders' equity and the result of the investment of minority shareholders. Furthermore, in 2000 net comprehensive income includes the cumulative effect of deferred income tax.

f. Insufficiency in restated stockholders' equity represents the accumulated monetary position result through the initial restatement of the financial statements and the increase in the restated value of inventories below inflation.

g. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a 35% dividend tax, payable by the Company, in the event of distribution. Beginning January 1, 2003, such rate will be reduced by one percentage point each year until reaching 32% in 2005. Any income tax paid on such distribution may be credited against future income tax payable by the Company in the three fiscal years following such payment. (see Note 17)

h. The contributed capital account generated by Consorcio ARA, S.A. de C.V. and the consolidated net tax income account and reinvested net tax income account at December 31, are as follows:

	2001	2000
Contributed capital account	\$ 1,096,363	\$ 1,096,363
Net tax income account	50,173	74,002
Reinvested net tax income account	136,107	10,911
<b>Total</b>	<b>\$ 1,282,643</b>	<b>\$ 1,181,276</b>

#### 14. RELATED PARTY TRANSACTIONS

The Company carried out transactions with the joint venture and corporate trust in the ordinary course of business, as follows:

	2001	2000
Administrative services income	\$ 180	\$ 943
Commissions, included in other income	\$ 5,612	\$ 288
Contractor sales	\$ 35,686	\$ 112,862

#### 15. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

a. Monetary balances denominated in foreign currency at December 31, 2001:

	Equivalent in U.S. Dollars (Thousands)	Mexican Pesos
Assets	\$ 1,850	\$ 16,963
Liabilities	(8,368)	(76,730)
<b>Net liability position</b>	<b>(6,518)</b>	<b>\$ (59,767)</b>

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

(Mexican Pesos)

	2001	2000
Land purchases in México	\$ 57,747	\$ 50,147

Equipment acquisitions \$ 18,737 \$  
31,334

c. The exchange rate in effect at December 31, 2001 and 2000 was \$9.1695 and \$9.6098 respectively, per one U.S. dollar.

## 16. INCOME TAXES AND TAX ON ASSETS

Consortio ARA, S. A. de C. V. and subsidiaries file individual returns for income tax and tax on assets.

a. The provision for income taxes consists of the following:

	2001	2000
Income tax:		
Current	\$ 76,493	\$ 7,670
Deferred	201,910	207,539
	\$ 278,403	\$ 215,209

For the years ended December 31, 2001 and 2000, certain companies used tax loss carryforwards of \$59,282 and \$168,691, respectively. The respective tax benefit for tax loss carryforwards was recorded as a decrease in the deferred income tax liability in 2001.

b. Remaining restated tax losses in the amount of \$45,435 may be used to offset taxable income generated in the future. Such carryforwards expire between 2006 and 2011.

An asset tax, equivalent to an alternative minimum tax, is payable at the rate of 1.8% on the net amount of certain assets and liabilities, but only when the amount of asset tax exceeds the income tax due. Asset tax paid may be recovered in the following 10 years, to the extent income tax exceeds asset tax in those years.

Remaining restated tax on assets in the amount of \$82,647 may be used to offset income taxes payable in the future. Such carryforwards expire between 2002 and 2011.

Carryforward amounts by subsidiary are as follows:

Company	Tax Loss	Tax on Assets
ARA	\$ 38,582	\$ 2,940
ACRE	-	2,119
PUESA	3,782	5,089
CUARA	-	19,963

PDDC	3,071	-
CIISA	-	52,536
	\$ 45,435	\$ 82,647

c. The Mexican income tax rate is 35% with the obligation to pay 30% currently and the option of postponing payment of the remaining 5% until profits are distributed. Beginning January 1, 2003, such rate will be reduced by one percentage point each year until reaching 32% in 2005. Reconciliation of the statutory income tax rate and the effective rate as a percentage of income before provisions for the year ended December 31, 2000 is shown below. The effective income tax rate for the year ended December 31, 2001 also differs from the statutory rate, although by a smaller proportion than that for 2000, mainly due to permanent differences such as nondeductible expenses and the effects of inflation.

Statutory rate	35%
Effect of permanent differences	0.24
Effects of inflation	(4.15)
Other	(1.14)
Effective rate	29.95%

d. Subsequent changes in the income tax law – Changes to the income tax law were enacted by the Mexican government on January 1, 2002, included the following:

- In addition to the reduction in the income tax rate mentioned above, the Company no longer has the option of deferring the payment of 5% of taxable income until distribution of related profits.
- Any income tax paid on distributed dividends may be credited against future income tax payable by the Company in the three fiscal years following such payment.
- The obligation to withhold income tax for dividends paid to individuals or nonresidents is eliminated.
- Profit-sharing paid is no longer deductible against income taxes.

The effects of these changes on the calculation of deferred taxes must be recorded as of January 1, 2002, using the tax rate applicable when the temporary

differences are expected to reverse. The Company has not fully quantified the net effect derived from these changes.

e. At December 31, 2001 the main items comprising the balance of deferred income tax are follows:

	2001	2000
Deferred income tax liabilities:		
Inventories	\$ (823,159)	\$ (765,609)
Unbilled revenues on developments in progress		(323,246)
(228,540)		
Property, plant and equipment	(46,328)	(56,390)
Total deferred income tax liabilities	(1,192,733)	(1,050,539)
Deferred income tax assets:		
Advances from customers	44,213	50,759
Reserve for bad debts and contract cancellations		3,335
2,578		
Effect of tax loss carryforwards	15,902	33,285
Other	4,630	385
Net current liability	68,080	87,007
Recoverable tax on assets	82,647	85,883
Valuation allowance (1)	(11,732)	(5,765)
Net liability	\$ (1,053,738)	\$ (883,414)

(1) A net deferred income tax asset generated individually by Consorcio ARA, S.A. de C.V. was not recorded because there is not a high probability of recovery.

## 17. REVENUE AND COST INFORMATION

The Company operates as a developer and a contractor as discussed in Note 2. Information on revenues and costs relative to these activities is as follows:

	2001	2000
Revenues:		
As developer	\$ 3,778,478	\$ 3,365,943
As contractor	52,030	113,678
	\$ 3,830,508	\$ 3,479,621
Costs:		

2,393,029	As developer	\$ 2,714,224	\$
	As contractor	35,879	81,554
		\$ 2,750,103	\$ 2,474,583

#### 18. OTHER INCOME

	2001		2000		
Administrative services		\$	180	\$	943
Commissions	4,301		288		
Rental income	930	-			
Other	5,893		(54)		
	\$	11,304	\$	1,177	

#### 19. MORTGAGE COMMITMENT BACKLOG

The mortgage commitment backlog is measured in terms of the number of homes for which the Company has received confirmation from mortgage providers that, once qualified home buyers are located, mortgage financing will be made available. For the year ended December 31, 2001, the confirmations received by the Company are for the sale of 17,278 homes at an estimated sales value of \$5,414,637.

#### 20. SUBSEQUENT EVENTS

From January 1, 2002 through March 13, 2002, the Company repurchased 207,194 shares of its own stock; therefore, as of March 13, 2002 the Company held 607,197 repurchased shares, which the Company is in the process of selling. The market value of the Company's shares on March 13, 2002, was \$18.10 per share.

#### 21. NEW ACCOUNTING PRINCIPLES

In December 2001, the Mexican Institute of Public Accountants ("IMCP") issued new Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities, and Commitments" ("C-9"), which is effective beginning January 1, 2003, although early application is encouraged. C-9 supercedes the former Bulletins C-9, "Liabilities" and C-12, "Contingencies and Commitments", and establishes additional guidelines clarifying the accounting for liabilities, provisions, and contingent assets and liabilities, and establishes new standards for

the use of present value techniques to measure liabilities and accounting for the early settlement of obligations.

In January 2002, the IMCP issued new Bulletin C-8, "Intangible Assets" ("C-8"), whose provisions are mandatory for fiscal years beginning January 1, 2003, although early application is encouraged.. C-8 supercedes the former Bulletin C-8, "Intangibles" and establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Any preoperating costs incurred after the effective date of this Bulletin should be recorded as an expense. The unamortized balance of capitalized preoperating costs under the former Bulletin C-8 will continue to be amortized. C-8 requires identifying all intangible assets to reduce as much as possible the goodwill relative to business combinations.

The Company has not fully assessed the effects of adopting these two new accounting principles in its financial position and results of operations.