

LETTER FROM THE PRESIDENT  
AND VICEPRESIDENT OF THE  
BOARD OF DIRECTORS

During 1999 our country was able to overcome the uncertainty created during the previous year, and the major macroeconomic variables stabilized again. Politically and socially, this year's political competition was outlined, thus enabling corporations to better perform management and forecasting activities.

To Consorcio ARA, 1999 was a year of consolidation, where the company's projects and financial situation enabled us to broaden our scope of action and improve our strengths and competitive advantages. During this time, we took advantage of the positive economic environment in our country, decreased inflation and interest rates, as well as the housing funding projects, to develop a relevant market share and aggressive sales strategies. Thus we were able to fulfill our estimates and improve the company's finances.

The 1999 achievements are actually a continuation of the efforts made in previous years, but they are also a result of the decisions made as a whole to diversify our business, enhance our land bank and produce a large portion of the most important materials we use.

Our talented, hard-working personnel deserves to be specially mentioned; their everyday performance, their daily work and projects have been oriented towards achieving greater operational, administrative, and financial efficiency, offering a quality product to benefit thousands of Mexican families.

1999 brought major challenges in every aspect. In face of a dynamic environment, the organization has kept on adjusting in structure, technology and operations, in order to coordinate the synergies which will consolidate our comprehensive housing development service.

To achieve this, we have our people's knowledge, the experience of a group of professionals, and the support of our partners and shareholders. Results can be seen not only in the numbers, which show a successful performance, but also in the image, presence and consolidation of Consorcio ARA as a successful company, socially responsible and committed to each and every one of its workers, customers, partners and allies.

The position we have attained confirms our commitment to all of you, to start a new stage where the change of a century and a millenium will mark a continuous feature: our best desire and total commitment to reach new goals side by side with all of you.

We would like to end by letting all of our shareholders know that we will maintain and increase our leadership, working hard to offer the best product at affordable prices to a market promising great growth opportunities for Mexico and an increase in the quality of life for thousands of Mexican families.

## General Overview

In 1999, the Mexican economy faced the challenge posed by the uncertainty generated in 1998, maintaining a 3.7% growth rate, a general figure among almost all sectors, except mining.

This growth allowed the industrial and building sectors to keep growing and creating employment, thus originating an open unemployment rate of 2.5% of the working population, one of the lowest in recent years. 706 thousand workers were hired in formal jobs as recorded by the Instituto Mexicano del Seguro Social, confirming strong economic growth.

Additional opportunities and salaries improved the average income for families with formal employment, fostering a reasonable consumption increase, which in time encouraged investment.

Within this context, the policies established by monetary authorities contributed to maintain a decreasing inflation, which by the end of 1999 was 12.7 below the 13 percent originally established goal.

The national markets resumed their place as interesting investment choices for major foreign funds. Thus, in 1999, the value of foreign investment in the Mexican Stock Exchange almost doubled, rising above 60 billion dollars. These incoming funds were accompanied by direct foreign investment funds for 11.5 billion dollars, which allowed to maintain an acceptable current account, and especially to maintain lowcost imports and stabilize the rate of exchange and economy prices.

Although there were risks in the economy's performance, a series of policies to guarantee a fright-free presidential transition could be consolidated. This is relevant inasmuch as social and political events constantly contaminate macroeconomic variables.

Within this context, with a decreasing inflation and consequently decreasing rates of interest, financial markets performed favorably, despite the fact that credits to the private non-financial sector are still shrinking.

Insofar as the building sector, its dynamism during 1999 meant a 4.5% yearly increase with respect to 1998. This was originated in greater infrastructure works, including freeways, highways and roads; as well as development works. In water and drainage, irrigation works, well drillings, drinking water systems and piping, among the most important. To a lesser extent, power and communication works were increased, such as telephone and telegraph installations, and power transmission and distribution lines, among others. Increased building meant a greater demand of materials such as wire rod, PVC, iron and steel pipes, cement, premixed concrete, iron and steel angles, and corrugated rebar.

## A year of contrasts

Although average growth for the building industry was higher than the GDP, 1999 was a year of contrasts for the housing companies all over the country. While affordable entry level housing developers had a period of great growth, the middle sector was still depressed due to the lack of financing and its high cost.

Due to a decreased middle and residential housing activity, the housing sector altogether did not equal the investment levels it had in 1994.

Nevertheless during that year, the 18 month national housing program goal was exceeded: first estimated in 277,536 units, and actually reaching over 290,000 units.

INFONAVIT exceeded its projection of 160,000 by reaching 198,950 by the end of the year, that is, an important increase from 1998, when it delivered 108,000.

FOVI titled 59,047 houses in a 71,711 program. Fonhapo, Vivah and inter-state departments reached the end of the year with around 40,000 units.

Thus, the major housing developers in the country had positive results during the year, and their production levels were increased considerably.

#### ARA'S PERFORMANCE

The results in 1999 confirmed Consorcio ARA as a leading affordable entry level housing developer. The fact that the goals projected one year before were exceeded is evidence that the company is consolidated, and continuous positive results can be expected.

During 1999, there was a total income of 2.58 billion pesos, accounting for a yearly growth of 41.4%; this growth is above the 30% planned goal. Also, net profits had a 66.7% yearly increase, with a 18.9% net margin, which was above the original estimates. Consorcio ARA's financial strength was acknowledged by the authorities of the Mexican Stock Exchange, and ARA's stock was included in that market's index (IPC).

Another noteworthy event that year was the split on the company stock. Due to the positive stock behavior, and in order to give stockholders greater liquidity for their securities, after authorization granted by the General Extraordinary Stockholders Meeting of Consorcio ARA and the pertinent authorities, in September the share of stock was split, 3 for 1. Thus, the amount of shares of stock tripled.

This measure was widely accepted, and so by the end of the year, each share was worth 15.66 pesos, reflecting the rising trend for Consorcio ARA's shares.

One of Consorcio ARA's strengths and strategic advantages is its capacity to produce a large amount of the items it uses as raw materials, such as concrete. The vision of having a self-supplying system also demanded quality standards compatible with the usual housing quality which characterizes the company.

Under these conditions, to insure quality, but also to implement efficient production supply processes, Consorcio ARA faced the challenge of establishing production and distribution systems which would improve timing and safety, efficiently using resources. This led to the capacity to produce and distribute highly re-cognized quality housing.

Thus, in September, Consorcio ARA was granted the International Concrete Award, "Registro 99", an award for the quality and excellence in research, design, and production of concrete granted to the most outstanding professionals in this sector in Latin America.

Thanks to our ongoing effort to improve the quality of our supply, Consorcio ARA is currently the third largest concrete producer in the country. During 1999 Consorcio ARA produced 450,000 m<sup>3</sup> of concrete. Total consumption during the year was 525,000 m<sup>3</sup>. As can be perceived ARA produces most of the concrete it uses.

### 1999 STRATEGY

One of the major steps taken in 1999, besides establishing new communication mechanism among different areas, was efficient coordination between what was built, what was sold, and what was titled.

Revenue was recongnized for the construction of 12,761 houses in 1999, compared to the 9,115 of 1998: a 40% increase. This figure, beyond all expectations, is the result of well accepted houses at the market, as well as an increased production capacity and rational management of financial resources. Also, accounts receivable were reduced from 3.5 months to 2.8 months, and leverage was kept low, at 17.5%

On the other hand, investing on new land reserves promises sustained growth which, together with the considerable increase in Consorcio ARA's income and profits will no doubt derive in a stronger company.

Low indebtedness as well as the company's solvency, profit levels and operational results have resulted in a favorable performance in financial markets.

One important element in the strategy followed by Consorcio ARA consists on constantly improving its human resources management, developing the capacity of its members and ta-king steps towards close coordination and coo-peration among all areas.

### LAND RESERVE AND HOUSE BUILDING

One of the greatest achievements of Consorcio ARA during 1999 was increasing its land reserve, acquired under the best terms and conditions. Thus, without greatly affecting the company's liquidity or leverage, Consorcio ARA kept on strengthening its growth capacity and scope with a strong presence in 13 states.

Currently, the land reserve sums up to 13.6 million square meters, accounting for a developing capacity of 90,370 houses, equivalent to 106,191 affordable entry level homes. It is important to note that the reserve is located at strategic places, and in fast growing states such as Estado de México, Quintana Roo (Cancún), Baja California (Tijuana and Mexicali), Chihuahua (Ciudad Juárez), and Nuevo León.

This Reserve includes the acquisition of land where the Sosa Texcoco plant used to be found. This piece of land alone is 3.3 million square meters, and, if fully developed, it will house around 22 thousand families.

#### House Building

In 1999 Consorcio ARA displayed a great capacity to increase its penetration in different markets. Thus, total house sales increased from 9,115 in 1998 to 12,761 units in 1999, a 40% growth rate.

The mix was 85.4% of affordable entry level houses, followed by middle income houses (7.4%), Prosavi houses (6.4%), and 0.8% residential houses.

#### PROSAVI

Within this context, particularly, Consorcio ARA's operations within Prosavi –816 sold units– generated a 90.4 million pesos income, 35% below the previous year, which is explained by the conclusion and total delivery of one of the two developments of this type of house.

#### AFFORDABLE ENTRY LEVEL

This sector showed great expansion, with a 52.9% volume growth, and a 55.3% income growth.

This impressive growth, which enabled to sell 10,898 social interest houses, was supported by the role of financing elements played by housing development organizations. Here, sales made with INFONAVIT financing showed the greatest volume growth –78.5%–, generating an increase in the income from this source of 80.6%. As to FOVI-FOVISSSTE financed sales, Consorcio ARA had growth of 31.4% in terms of units, and 35.2% in terms of income.

#### Middle Income

As to the middle income house, sales volume increased by 71.5%, and income, 80.4%. From the 943 houses sold in this sector during the year, 746 were placed through FOVI's B3 mortgages, with a 190 m.m.w. sales price, which compares favorably to the 87 B3 houses sold in 1998. This type of mortgage credit is for Consorcio ARA the main instrument for the middle type market. Also, it is important to note the comeback of Bital to the mortgage business through the Bital-ARA system, since it will generate new financing opportunities for this market segment.

## Residential

Volume and income decreased by 14% in the residential segment during 1999, as compared to the previous year. This is mainly due to the overall fall of bank financing for this kind of houses, as well as the lack of projects developed by Consorcio ARA for this segment.

## RELATIONSHIP WITH HOUSING DEVELOPMENT ORGANIZATIONS

Like in 1998, during 1999 Consorcio ARA maintained a productive relationship with housing development organizations and the financial authorities. To Consorcio ARA, it is essential to reinforce and consolidate the important social commitment undertaken in providing houses to the population, as well as working together with this type of development organizations. As a result of the excellent relationship maintained with this type of organizations, an acceptable balance between building and house titling was reached.

One example of how important it is for the company to be in touch with this type of organizations is the relationship held with INFO-NAVIT, an organization which established its goal at delivering 160,000 houses during 1999; this figure was actually exceeded, delivering 198,950 affordable entry level homes during 1999. Likewise, another relevant institution, FOVI, kept on promoting the B3 middle type house development, thus contributing to reactivate this market segment.

## RESULTS

During 1999, Consorcio ARA had a 41.4% real income increase, thus exceeding the original 20% goal and the revised 30% goal. The income level of 2.58 billion pesos was coupled by an important net profit increase, which reached 487.5 million pesos with an actual 66.7% yearly growth rate. Also, the net margin was 18.9% which, like all the above figures, exceeded the 1999 projections. Both the net profit and the net margin increases were above the original goals.

Thanks to an excellent company performance and its operational and financial strength, Consorcio ARA was able to produce profits per share of 1.48 pesos, 66.3% higher than in 1998.

During 1999, general and administration expenditures reached 185.6 million pesos, accounting for 7.2% of the total income, a percentage slightly above the optimum projected long-term level of 7.0%. The above shows the capacity of Consorcio ARA to grow orderly, managing its resources in an efficient way.

Likewise, careful resource planning, administration and use allowed the Integral Financing Cost for 1999 to decrease by 41.3%, from 102.8 to 60.3 million pesos. Note that Consorcio ARA's EBITDA can pay over 9.8 times the Integral Financing Cost, and over 9.8 times the interests paid.

## INTERNAL ORGANIZATION

To Consorcio ARA, being committed to personnel development is more than a mere labor relation: it is an essential strategy to develop and grow with each of its projects. This is why the company has seen that Consorcio ARA's personnel, through all the organizational levels, is sufficiently trained to work intelligently and with coordination, fulfilling the challenges with optimum attitude and know-ledge.

Thus, the best decisions can be made, the best operation and information systems can be implemented, policies and procedures can be enforced, and personnel can be in ongoing training, always updated and prepared to solve problems the best way.

## OUTLOOK AND UNDERTAKINGS FOR THE YEAR 2000

For the year 2000, Consorcio ARA sustains a good growth perspective. Considering that elections will be held during this year, we shall act cautiously when making decisions. Nevertheless, in view of the current projects and the corporate financial good health, this year will no doubt be one of growth.

On the other hand, as follows from the statements by the different presidential candidates for the year 2000 elections, growth policies shall be an essential goal, and these shall be founded to a great extent upon the housing industry. Thus, this year we expect to maintain the excellent results reached in 1999.

To achieve the above and confirm our commitment to those who have favored us with their trust, we repeat: Consorcio ARA's management and personnel will go on acting reliably and honestly to fulfill our commitment: offering Mexican families the best house at the most reasonable price in the market.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Germán Ahumada Russek President of the Board  
Luis Felipe Ahumada Russek Vicepresident of the Board  
Jaime Cortés Rocha Secretary  
Félix Gavito Marco Director

José Alfredo Reynoso Ruiz Director  
Andrés Massieu Berlanga Director  
Marcos Ramírez Miguel Director  
Antonio Castaño Leal Director  
Fausto Villanueva López Alternate Director  
José Antonio Aguilar Obregón Alternate Director  
Carlos Hernández Magallanes Alternate Director  
Ma. Leticia León Rodríguez Alternate Director  
Víctor Martínez Aguilar Alternate Director

#### CHIEF OFFICERS

José Antonio Aguilar Obregón Sales Vicepresident  
Fausto Villanueva López Technical Vicepresident

Donald Forseck Orive Finance Director  
Manuel Aguilera Contreras Post Sale Service Director  
Ernesto Prieto Vallejo Legal Director  
Arturo Hernández Stevens Human Resources Director  
Enrique Sánchez Velázquez INFONAVIT Sales Director  
Germán Ahumada Alduncin General Coordinator  
Patricio Gutiérrez Tommasi Construction Director  
Sacramento Soto Solís Administrative Director  
Eduardo Olivares López Planning Director

#### CORPORATE HEADQUARTERS

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

#### MEXICAN STOCK EXCHANGE LISTING ARA\*

#### INVESTOR INQUIRIES

Please refer all Investor Inquiries to:  
Donald Forseck Orive, Finance Director  
Tel. (525) 251 2970 Fax (525) 251 2980  
email: [donald@mail.consorcioara.com.mx](mailto:donald@mail.consorcioara.com.mx)

#### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Consortio 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, 1999 and 1998, 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, 1999. 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 generally accepted 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 31, 1999 and 1998, 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.

Jorge López

March 6, 2000

CONSOLIDATED BALANCE SHEETS  
 DECEMBER 31, 1999 AND 1998  
 (Thousands of Mexican Pesos of Purchasing  
 Power of December 31, 1999)

| ASSETS | 1999 | 1998 |
|--------|------|------|
|--------|------|------|

CURRENT ASSETS

|  |            |            |
|--|------------|------------|
| Cash and temporary investments           | \$ 354,737 | \$ 350,861 |
| Trade accounts receivable – net (Note 3) | 596,232    | 585,046    |
| Due from related parties (Note 4)        | 34,185     | 12,322     |

Inventories (Note 6) 1,696,746 1,093,507  
 Other assets (Note 7) 47,449 32,326  
 Total current assets 2,729,349 2,074,062

LAND HELD FOR FUTURE CONSTRUCTION (Note 6) 261,506 447,172

INVESTMENT IN JOINT VENTURE AND CORPORATE TRUST (Note 8) 13,341  
 8,023

PROPERTY AND EQUIPMENT - Net (Note 9) 227,573 152,545

TOTAL ASSETS \$ 3,231,769 \$ 2,681,802

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Notes payable to banks (Note 10) \$ 19,694 \$ 98,670  
 Current portion of long-term debt (Note 12) 12,862 -  
 Trade accounts payable 312,453 117,615  
 Accrued expenses and taxes (Note 11) 162,628 82,991  
 Income taxes and tax on assets 3,624 6,551  
 Employee statutory profit-sharing 363 266  
 Total current liabilities 511,624 306,093

LONG-TERM DEBT (Note 12) 45,903 40,506

LABOR OBLIGATIONS 334 242  
 Total liabilities 557,861 346,841

STOCKHOLDERS' EQUITY (Note 13)

Common stock 726,106 724,656  
 Additional paid-in capital 387,015 387,015  
 Reserve for acquisition of own stock 70,079 61,729  
 Gain on sale of repurchased stock 9,911 1,841  
 Retained earnings 1,300,112 814,426  
 Excess in restated stockholders' equity 171,070 336,836  
 Majority stockholders' equity 2,664,293 2,326,503  
 Minority stockholders' equity 9,615 8,458  
 Total stockholders' equity 2,673,908 2,334,961

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 3,231,769 \$ 2,681,802

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999, except majority earnings per share)

|   | 1999         | 1998         |
|---|--------------|--------------|
| REVENUES (Notes 15 and 18)  | \$ 2,580,687 | \$ 1,825,522 |
| COSTS (Notes 15 and 18)   | 1,828,706    | 1,295,478    |
| GROSS PROFIT  | 751,981      | 530,044      |
| GENERAL AND ADMINISTRATIVE EXPENSES   | 185,573      | 125,937      |
| OPERATING INCOME  | 566,408      | 404,107      |
| NET COMPREHENSIVE FINANCING COST  |              |              |
| Interest expense  | 60,367       | 39,629       |
| Interest income   | (62,503)     | (37,996)     |
| Monetary position loss  | 66,411       | 94,137       |
| Foreign exchange fluctuations - net   | (3,932)      | 7,102        |
|   | 60,343       | 102,872      |
| OTHER INCOME - Net (Notes 15 and 19)  | 669          | 2,570        |
| EQUITY IN RESULTS OF JOINT VENTURE AND CORPORATE TRUST                              | 366          | 5,577        |
| INCOME BEFORE PROVISIONS AND EXTRAORDINARY GAIN                                     | 507,100      | 309,382      |
| PROVISIONS (Note 17)  |              |              |
| Income taxes  | 4,974        | 37,864       |
| Tax on assets   | 17,496       | 15,032       |
| Employee statutory profit-sharing   | 375          | 277          |
|   | 22,845       | 53,173       |
| INCOME BEFORE EXTRAORDINARY GAIN  | 484,255      | 256,209      |
| EXTRAORDINARY GAIN – Benefit from tax loss carryforwards from prior years (Note 17) | 3,205        | 36,248       |
| NET INCOME  | \$ 487,460   | \$ 292,457   |
| MAJORITY INTEREST   | \$ 485,686   | \$ 291,171   |
| MINORITY INTEREST   | 1,774        | 1,286        |

NET INCOME \$ 487,460 \$ 292,457

Basic majority earnings per share (Note 14) \$ 1.48 \$ 0.89

Weighted average number of shares outstanding 327,386,291 327,515,625

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS' EQUITY YEARS ENDED

DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999)

| Common Stock<br>Capital<br>of Own Stock<br>Repurchased Stock<br>Stockholders' Equity<br>Equity<br>Equity (Note 13) | Additional Paid-in<br>Reserve for Acquisition<br>Gain on Sale of<br>Retained Earnings<br>Minority Stockholders'<br>Total Stockholders' | Excess in Restated |
|--|--|--------------------|
| BALANCE, JANUARY   |  |                    |
| 1, 1998  | \$ 726,581 \$ 387,015 \$ 73,652 \$ 1,863 \$ 523,255 \$ 554,695 \$ 8,110  | \$ 2,275,171       |
| Repurchase of own<br>stock - net   | (1,925) - (11,923) - - - -   | (13,848)           |
| Loss on sale of repurchased<br>stock - net   | - - - (22) - - -   | (22)               |
| Result from holding<br>nonmonetary assets  | - - - -- (217,859) (938)   | (218,797)          |
| Net income   | - - - - 291,171 - 1,286 292,457  |                    |
| BALANCE, DECEMBER  |  |                    |
| 31, 1998   | 724,656 387,015 61,729 1,841 814,426 336,836 8,458   | 2,334,961          |
| Sale of own<br>stock - net   | 1,450 - 8,350 - - - -  | 9,800              |
| Gain on sale of repurchased<br>stock - net   | - - - 8,070 - - -  | 8,070              |
| Result from holding  |  |                    |

nonmonetary assets - - - - - (165,766) (617) (166,383)

Net income - - - - 485,686 - 1,774 487,460

BALANCE, DECEMBER

31, 1999 \$ 726,106 \$ 387,015 \$ 70,079 \$ 9,911 \$ 1,300,112 \$ 171,070 \$ 9,615 \$ 2,673,908

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION YEARS ENDED DECEMBER 31, 1999 AND 1998  
(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999)

1999 1998

OPERATING ACTIVITIES

Net income before extraordinary gain \$ 484,255 \$ 256,209

Items that did not require resources:

Depreciation 28,956 20,273

Labor obligations 92 71

Equity in results of joint venture and corporate trust (366) (5,577)

512,937 270,976

Changes in operating assets and liabilities:

Trade accounts receivable - net (11,186) 13,566

Related parties (21,863) (18,906)

Inventories (583,956) (258,382)

Other assets (15,123) 9,685

Trade accounts payable 194,838 30,843

Accrued expenses and taxes 79,637 33,890

Income taxes and tax on assets (2,927) 4,064

Labor obligations - 65

Employee statutory profit-sharing 97 93

Resources provided by operating

activities before extraordinary gain 154,454 85,894

Extraordinary gain 3,205 36,248

Net resources provided by operating activities 155,659 122,142

FINANCING ACTIVITIES

Notes payable to banks and long-term debt - net (60,717) 63,858

Gain (loss) on sale of repurchased stock - net 8,070 (22)

Sale (repurchase) of own stock - net 9,800 (13,848)

Resources (used in) provided by

financing activities (42,847) 49,988

#### INVESTING ACTIVITIES

Investment in property and equipment - net (103,984) (69,005)  
 Investment in joint venture and corporate trust (4,952) 27,332  
 Resources used in investing activities (108,936) (41,673)

INCREASE IN CASH AND TEMPORARY INVESTMENTS 3,876 130,457

#### CASH AND TEMPORARY INVESTMENTS

At the beginning of year 350,861 220,404  
 At the end of year \$ 354,737 \$ 350,861

See accompanying notes to consolidated financial statements.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999, except majority earnings per share)

#### 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.

Basis of presentation - 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.

| Subsidiary  | Percentage of ownership<br>1999 / 1998 |
|---|--|
| 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 %

## 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 is valued at acquisition cost and is 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. Unearned intercompany profits are eliminated in applying the equity method.

d. Property and equipment - Property and equipment are initially recorded at acquisition cost and are restated using the National Consumer Price Index ("NCPI"). Depreciation is computed using the straight-line method based on the remaining estimated useful lives of the related assets, as follows:

Average  
Years

Building 33

Machinery and equipment 5 - 14

Vehicles 5

Office furniture and fixtures 7 - 11

e. Labor obligations - Seniority premiums are recognized as costs 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 housing 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 federal government, which grants a 20% subsidy through the Ministry of Finance and Public Credit to allocate housing to persons earning up to three minimum wages in the Federal District.

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.

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 - For the years ended December 31, 1999 and 1998, ARA and its subsidiaries filed separate tax returns. Provisions for income taxes and employee statutory profitsharing are recognized in results of the year in which incurred and are adjusted for the effects of temporary items that are recognized for tax purposes in years other than those in which they are recognized for accounting purposes, are nonrecurring and are expected to reverse within a definite period of time. Tax on assets in excess of income taxes is recognized in results of the year in which incurred.

h. Concentrations of credit risk - The financial instruments which potentially expose the Company to credit risk are trade receivables. To reduce credit risk, the Company periodically evaluates the financial position of its customers, but does not require guarantees from them. The Company believes that its concentration of credit risks is minimal because these receivables are guaranteed by the bank granting the loan to the customers and by INFONAVIT, FOVI and FOVISSSTE, which finance housing for the home buyers.

i. Use of estimates - Preparation of the financial statements in accordance with accounting principles generally accepted in Mexico requires management to make estimates and assumptions which affect the figures 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 results from maintaining a net asset monetary position.

### 3. TRADE ACCOUNTS RECEIVABLE

|   | 1999       | 1998       |
|---|------------|------------|
| As developer:                                 |            |            |
| Unbilled revenues on developments in progress | \$ 600,899 | \$ 588,835 |
| As contractor:                                |            |            |
| Billings on contracts                         | 559 448    |            |
|   | 601,458    | 589,283    |
| Less - reserve for bad debts                  | 607 817    |            |
| Less - reserve for contract cancellations     | 4,619      | 3,420      |
|   | \$ 596,232 | \$ 585,046 |

### 4. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

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

1999 1998

|   |           |          |
|---|-----------|----------|
| Constructora y Urbanizadora ARA, S. A. de C. V., A. en P. | \$ 11,040 | \$ 5,214 |
| Inmobiliaria ACRE, S. A. de C. V., A. en P.               | -         | 6,972    |
| Controladores Independientes, S. A. de C. V.              | -         | 136      |
| Corporate Trust (ACRE and Confraco, S. A. de C. V.)       | 23,145    | -        |

\$ 34,185 \$ 12,322

## 5. 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. Sales value represents the aggregate estimated sales price for the homes in backlog.

1999 1998

Number of homes \$ 17,350 \$ 14,123

Estimated sales value \$ 3,910,576 \$ 2,752,770

## 6. INVENTORIES

a. Inventories are as follows:

1999 1998

|                                   |            |            |
|-----------------------------------|------------|------------|
| Work in process                   | \$ 471,166 | \$ 335,833 |
| Developments in progress          | 468,367    | 274,219    |
| Land held for future construction | 660,241    | 410,572    |
| Construction materials            | 55,972     | 43,596     |
| Advances to suppliers             | 41,000     | 29,287     |

\$ 1,696,746 \$ 1,093,507

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

#### 7. OTHER ASSETS

|  | 1999      | 1998      |
|--|-----------|-----------|
| Other accounts receivable                      | \$ 14,912 | \$ 18,055 |
| Recoverable taxes, primarily value added taxes | 7,272     | 6,996     |
| Advance payments                               | 11,472    | 3,556     |
| Deposits                                       | 13,793    | 3,719     |
|  | \$ 47,449 | \$ 32,326 |

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

|  | Amount    |          |      |      |
|--|-----------|----------|------|------|
| Ownership Interest                                       | 1999      | 1998     | 1999 | 1998 |
| Constructora y Urbanizadora ARA, S. A. de C. V. A. en P. | \$ 4,968  | \$ 8,023 | 50%  | 50%  |
| Corporate Trust (ACRE and Confraco, S.A. de C.V.)        | 8,373     | -        | 50%  | -    |
|  | \$ 13,341 | \$ 8,023 |      |      |

The entities above develop real estate projects. Construction and sales services are provided by the Company.

#### 9. PROPERTY AND EQUIPMENT

|                                 | 1999       | 1998       |
|---------------------------------|------------|------------|
| Building                        | \$ 27,906  | \$ 27,937  |
| Machinery and equipment         | 251,498    | 171,647    |
| Vehicles                        | 57,254     | 45,260     |
| Office furniture and fixtures   | 22,543     | 17,273     |
|                                 | 359,201    | 262,117    |
| Less - accumulated depreciation | 131,628    | 109,572    |
|                                 | \$ 227,573 | \$ 152,545 |

## 10. NOTES PAYABLE TO BANKS

1999 1998

Construction financing loans, denominated in UDI's, secured by the related developments, bearing interest at an annual average interest rate of 9.9% in 1999 and 1998. \$ 19,318 \$ 98,283

Loans denominated in Mexican pesos, secured by the related developments, bearing interest at an annual average interest rate of 23.75% and 34.23% in 1999 and 1998, respectively 376 387

\$ 19,694 \$ 98,670

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, 1999 and 1998 is \$2.671267 and \$2.362005 (historical pesos), respectively.

## 11. ACCRUED EXPENSES AND TAXES

1999 1998

Taxes, other than income taxes and tax on assets \$ 5,565 \$ 4,468

Accrued expenses 23,642 13,599

Interest payable 438 738

Advances 113,910 51,129

Deposits 19,073 13,057

\$ 162,628 \$ 82,991

## 12. LONG-TERM DEBT

1999 1998

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. \$ 33,765 \$ 40,506

Medium-term note, denominated in Mexican pesos, average rate of 22.78%. (1) 25,000 -

58,765 -

Current portion of the long-term debt (12,862) -

\$ 45,903 \$ 40,506

(1) On July 26, 1999, CIISA issued a medium-term note for \$25,000 due in July 2000 under a line of credit. Interest is payable monthly and is generated on the terms established in the note. Average for 1999 interest was 22.78%. The maximum amount available under the line of credit, which expires on December 31, 2001, is \$250,000. Accordingly borrowings under this line of credit have been classified as long term. The guarantors for said note are ARA, CUARA, PUESA and ACRE.

Maturities of long-term debt at December 31, 1999 are as follows:

| Year | Amount    |
|------|-----------|
| 2001 | \$ 32,143 |
| 2002 | 7,143     |
| 2003 | 5,999     |
| 2004 | 618       |

\$ 45,903

### 13. STOCKHOLDERS' EQUITY

a. Stockholders' equity at December 31, 1999, is as follows:

|  | Number of<br>Shares | Historical<br>Amounts | Effects of<br>Inflation | Total |
|--|---------------------|-----------------------|-------------------------|-------|
|--|---------------------|-----------------------|-------------------------|-------|

Common stock:

|   |             |             |            |                 |
|---|-------------|-------------|------------|-----------------|
| Fixed capital                           | 328,110,874 | \$ 437,481  | \$ 288,625 | \$ 726,106      |
| Additional paid-in capital              |             | -           | 221,535    | 165,480 387,015 |
| Reserve for acquisition                 |             |             |            |                 |
| of own stock                            |             | - 49,707    | 20,372     | 70,079          |
| Gain on sale                            |             |             |            |                 |
| of repurchased stock                    |             | - 9,096     | 815        | 9,911           |
| Retained earnings                       |             | - 1,259,651 | 40,461     | 1,300,112       |
| Excess in restated stockholders' equity |             | -           | -          | 171,070 171,070 |
| Minority stockholders' equity           |             | - 7,048     | 2,567      | 9,615           |

328,110,874 \$ 1,984,518 \$ 689,390 \$ 2,673,908

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 \$73,659 (\$51,000 historical pesos), the maximum amount of stock authorized to be repurchased is 2% of outstanding common stock.

c. At the stockholders' special meeting on July 1, 1999, the Company agreed to triple the number of shares of common stock outstanding by means of a "Split" and payment thereof to stockholders as paid-in shares, in the proportion of two shares for each share already issued by the Company. Therefore, capital stock consists of 328,211,874 ordinary shares, with no par value, with no subscription limitations, and fully subscribed and paid.

d. In 1999 and 1998, the Company purchased and sold its own stock resulting in a gain (loss) of \$8,070 and \$(22), respectively.

At December 31, 1999, the Company held 101,000 shares repurchased during December 1999. At December 31, 1999, the market value of the Company's shares was \$15.66 per share.

e. Excess 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.

f. 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. Amendments to the income tax law, effective January 1, 1999, require withholding tax on dividends paid to foreign individuals or residents at a rate of 7.57% if the profits come from years prior to 1999, or at a rate of 7.69% if the profits were obtained after 1998. These rates may be modified due to the benefits granted by double taxation treaties signed between Mexico and the countries in which the foreign entities reside.

g. At December 31, 1999, stockholders' equity includes the effect of restating fixed assets, which will result in income tax and employee statutory profit-sharing liabilities when the respective assets are sold. The respective tax restatement, which may differ from the accounting restatement, is considered in determining the income tax liability.

#### 14. EARNINGS PER SHARE

1999 1998

Pesos

|  |         |         |
|--|---------|---------|
| Income before extraordinary gain per share | \$ 1.47 | \$ 0.78 |
| Extraordinary gain per share               | 0.01    | 0.11    |

|                                   |         |         |
|-----------------------------------|---------|---------|
| Basic majority earnings per share | \$ 1.48 | \$ 0.89 |
|-----------------------------------|---------|---------|

Earnings per share for the year ended December 31, 1998 has been adjusted to give retroactive effect to the stock split discussed in Note 13.

#### 15. RELATED PARTY TRANSACTIONS

The Company carried out transactions with the joint venture and corporate trust discussed in Note 8, in the ordinary course of business, as follows:

1999 1998

|                                |           |           |
|--------------------------------|-----------|-----------|
| Administrative services income | \$ 160    | \$ 1,178  |
| Commissions income             | \$ 3,925  | \$ 1,685  |
| Contractor sales               | \$ 66,990 | \$ 63,652 |
| Interest income                | \$ 175    | \$ 30     |

#### 16. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

Foreign currency transactions are recorded at the applicable exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency are converted into Mexican pesos at the applicable exchange rate at the date of the financial statements. Exchange fluctuations are recorded in results of operations.

a. Monetary balances denominated in foreign currency at December 31, 1999 were as follows:

|               |         |  |
|---------------|---------|--|
| Equivalent in |         |  |
| U.S. Dollars  | Mexican |  |
| (Thousands)   | Pesos   |  |

|             |          |           |
|-------------|----------|-----------|
| Assets      | \$ 1,201 | \$ 11,408 |
| Liabilities | (8,847)  | (84,034)  |

Net liability position \$ (7,646) \$ (72,626)

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

(Mexican Pesos)

|  |      |      |
|--|------|------|
|  | 1999 | 1998 |
|--|------|------|

|                |           |           |
|----------------|-----------|-----------|
| Land purchases | \$ 97,323 | \$ 50,221 |
|----------------|-----------|-----------|

|                        |           |           |
|------------------------|-----------|-----------|
| Equipment acquisitions | \$ 17,097 | \$ 13,628 |
|------------------------|-----------|-----------|

c. The exchange rate in effect at December 31, 1999 and 1998, as reported by the Central Bank of Mexico, was

\$ 9.4986 and \$9.8963 respectively, per one U.S. dollar.

#### 17. PROVISIONS FOR INCOME TAXES AND TAX ON ASSETS

a. For the years ended December 31, 1999 and 1998, ARA and its subsidiaries recorded provisions for income taxes and tax on assets as follows:

December 31,

|  |      |      |
|--|------|------|
|  | 1999 | 1998 |
|--|------|------|

|       |           |           |
|-------|-----------|-----------|
| CIISA | \$ 14,936 | \$ 10,285 |
|-------|-----------|-----------|

|       |       |        |
|-------|-------|--------|
| CUARA | 4,699 | 34,837 |
|-------|-------|--------|

|     |     |       |
|-----|-----|-------|
| ARA | 312 | 1,413 |
|-----|-----|-------|

|      |   |       |
|------|---|-------|
| ACRE | - | 1,774 |
|------|---|-------|

|      |     |     |
|------|-----|-----|
| GAVI | 845 | 494 |
|------|-----|-----|

|         |     |       |
|---------|-----|-------|
| COVENSA | 924 | 1,122 |
|---------|-----|-------|

|       |     |       |
|-------|-----|-------|
| PUESA | 754 | 2,971 |
|-------|-----|-------|

|  |        |        |
|--|--------|--------|
|  | 22,470 | 52,896 |
|--|--------|--------|

|  |       |        |
|--|-------|--------|
| Benefit from tax loss carryforwards from prior years | 3,205 | 36,248 |
|--|-------|--------|

|  |           |           |
|--|-----------|-----------|
|  | \$ 19,265 | \$ 16,648 |
|--|-----------|-----------|

For the years ended December 31, 1999 and 1998, certain companies used tax loss carryforwards of \$55,043 and \$106,611 respectively. The respective tax benefits of

\$3,205 and \$36,248 net of tax on assets, are presented in the statements of income as extraordinary gains.

b. Effective January 1, 1999, the income tax rate increased from 34% to 35%, with the option to pay the tax each year at the rate of 30% (temporarily 32% in 1999) and the remaining 5% (3% in 1999) upon dividend distribution.

c. Remaining restated tax losses in the amount of \$241,329 may be used to offset taxable income generated in the future and expire between the years 2003 and 2009.

Remaining restated tax on assets in the amount of \$70,098 may be used to offset income taxes payable in the future and expire between the years 2000 and 2009.

Amounts by subsidiary are as follows:

| Company | Tax on<br>Tax Loss | Assets    |
|---------|--------------------|-----------|
| ARA     | \$ 66,795          | \$ 485    |
| ACRE    | 9,958              | 1,778     |
| PUESA   | 4,428              | 2,468     |
| CUARA   | 48,406             | 16,042    |
| CIISA   | 111,742            | 49,325    |
|         | \$ 241,329         | \$ 70,098 |

d. At December 31, 1999, there are net temporary items for which no deferred tax asset (liability) has been recorded because they are recurring or will not reverse within a definite period of time, as follows:

Difference between book and tax bases of:

|  |                |
|--|----------------|
| Trade accounts receivable                | \$ (515,180)   |
| Inventories                              | (1,712,107)    |
| Fixed assets                             | (83,527)       |
| Reserves of assets and liabilities - net | 75,862         |
|  | \$ (2,234,952) |

## 18. 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:

|               | 1999         | 1998         |
|---------------|--------------|--------------|
| Revenues:     |              |              |
| As developer  | \$ 2,512,315 | \$ 1,754,399 |
| As contractor | 68,372       | 71,123       |
|               | \$ 2,580,687 | \$ 1,825,522 |

|               |              |              |
|---------------|--------------|--------------|
| Costs:        |              |              |
| As developer  | \$ 1,780,969 | \$ 1,244,105 |
| As contractor | 47,737       | 51,373       |
|               | \$ 1,828,706 | \$ 1,295,478 |

#### 19. OTHER INCOME

|                         | 1999    | 1998     |
|-------------------------|---------|----------|
| Machinery rental        | \$ -    | \$ 83    |
| Sale of fixed assets    | (1,202) | (382)    |
| Administrative services | 160     | 1,178    |
| Commissions             | 3,925   | 1,685    |
| Other                   | (2,214) | 6        |
|                         | \$ 669  | \$ 2,570 |

#### 20. NEW ACCOUNTING PRINCIPLE

In May 1999 the Mexican Institute of Public Accountants issued a new Bulletin D-4, "Accounting Treatment of Income Tax, Tax on Assets and Employee Statutory Profit-sharing" ("D-4"). Bulletin D-4 is effective for financial statements for the fiscal year beginning as of January 1, 2000.

D-4 includes accounting rules for recognizing income tax, tax on assets and employee statutory profit-sharing incurred in a period, and the deferred effects arising from transactions and other economic events recognized in the financial statements in periods different from those considered in company tax returns. The deferred effects of income taxes are determined by comparing financial statement and tax values of the Company's assets and liabilities, which are used to determine temporary differences. For the deferred

effects of employee statutory profit-sharing, temporary differences are determined based on the reconciliation between the net accounting income for the year and taxable income. The respective rate is applied to the temporary items to determine deferred tax assets and liabilities. Deferred tax assets are recognized only when there is a high probability of recovery.

The estimated effects of this change in accounting on the Company's financial statements at the beginning of the year 2000 and tax on assets are that a net liability of approximately \$636,000 is recognized, with the same amount charged to a stockholders' equity account. The adjustment to results of operations for the year 2000 and thereafter for deferred income taxes and statutory profit sharing will depend on the difference resulting from comparing the balance of deferred income tax and employee statutory profit-sharing net asset or liability at the beginning and end of the year, and subtracting or adding the deferred tax effects recorded directly to stockholders' equity and the increase in the balance of deferred taxes caused by inflation during the year.

As with the current Bulletin D-4, the deferred tax assets and liabilities generated are considered accounts receivable and payable for purposes of determining the monetary gain or loss for the respective period.