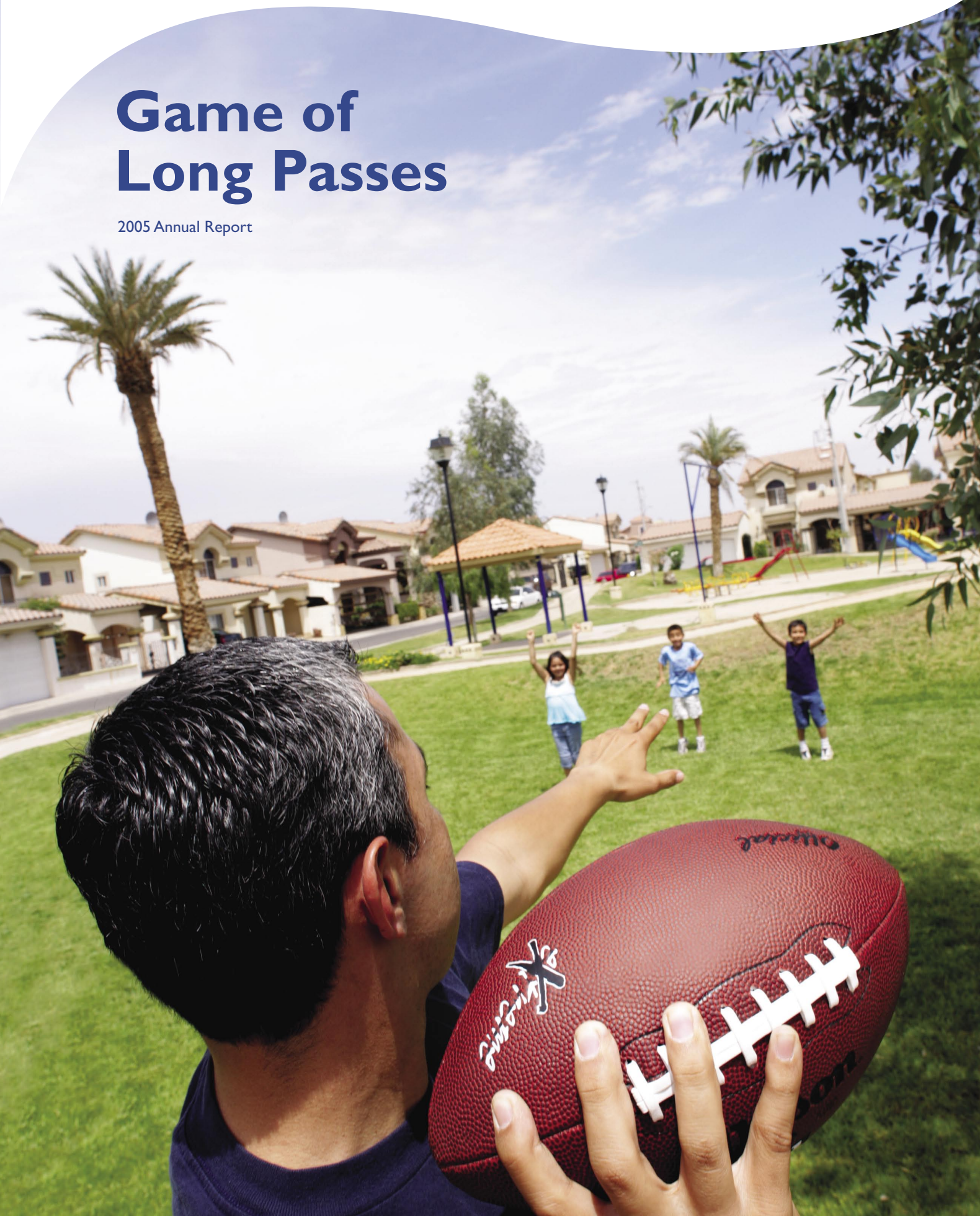


Game of Long Passes

2005 Annual Report



Company Profile

Urbi is a leading housing developer in Mexico and the largest builder in the Northern area, the region with the highest growth. It has an ever-growing presence in the country's main metropolitan areas.

In its 24 years of operations the Company has built and sold more than 175,000 homes. It uses advanced business processes and has outstanding financial performance, which makes it the most profitable company in the sector. Urbi can serve all market segments, but focuses primarily on affordable entry-level and low middle-income housing.

Its advanced business model is supported by UrbiNet, its state-of-the-art IT platform, and an experienced management team that is comprised of more than 70 executives, each with 10 to 25 years of industry experience.

20.6%

Sales Growth

8,193.5

Sales in Millions
of pesos

24,865

Homes Sold

26.2%

EBITDA Margin

25.9%

EBITDA Growth

14.1%

Net Margin

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I The philosophy in a phrase

UrbiVidaResidencial is a concept that encompasses the company principles and strives to create integrated communities where people share rights and obligations in a high-residential setting with clean and organized surroundings that foster family growth and healthy social interaction.

2 A kilo in a hand

If a person gains a kilo, no one will notice. But if that weight is gained in just one of his or her hands, then everyone will. Urbi designs stunning and unique elements in every development, such as beautiful access areas, vast and equipped parks, as well as other symbolic elements for everyone to see, that give the community status, functionality, and prestige.



3 Everything needed.

Behind every Urbi residential community there's a Community Master Plan that brings all necessary services together, such as education, businesses, entertainment, and urban infrastructures aimed at creating peaceful and safe environments.

4 Rights and obligations

When developing a community, Urbi provides its residents with tools such as Internal Regulations and a Neighborhood Association. These tools create the basis to achieve social sustainability and harmonious interactions in the community by promoting rights and responsibilities amongst its members.

5 The value of design

Urbi believes that the design of their houses and developments is a fundamental value. Using innovating techniques, it creates homes of high visual quality, in harmony with their surroundings, whose appearance gives its inhabitants prestige and takes the future growth of their families into account.



Our Commitment

To stimulate, protect and reward any action or thought that develops the Greatness of Spirit, which consists of:

Seeking truth.

Trusting yourself and others.

Seeking well-being.

Giving to grow.

Seeking beauty.

Being part of a whole.



Game of Long Passes

At the beginning of the last century, American football changed its rules to allow long passes and have more dynamic games. Only those teams that trained for the new game conditions beat their opponents by a landslide.

The housing industry in Mexico is changing its rules to respond to future challenges. Urbi is getting ready in every aspect to develop the new type of housing our country needs. With our own game style.



Message to Shareholders

2005 was another great year for Urbi, and the first full fiscal year as a public company in the Mexican Stock Exchange.

Now at the beginning of this new period, we are proud to share our accomplishments and results, and provide you with a description of the conditions and great opportunities in the housing sector:

During 2005, we were able to increase our revenue by 20.6%, improve our profitability levels, and generate a positive cash flow. In fact, as of December 31, 2005, Urbi is the most profitable company in the housing sector in Mexico, with the highest gross, operating and Ebitda margins. This is the result of our outstanding business model, our solid business philosophy, the quality of our management team, and the positive macroeconomic and regional conditions favoring our industry.

The macroeconomic stability of the country, the Federal Government programs and incentives and, the access to financing have created the proper conditions for housing development in Mexico, which has been beyond any doubt the most dynamic industry of the last five years.

Nevertheless, the good news are yet come. Deep changes in the industry currently underway include the approval of certain laws aimed at laying the foundation to ensure growth in the housing industry for the next 20 years.

The outlook is encouraging. Everything points towards a smooth change of government for the next six-year term with no economic or political setbacks, which will only strengthen the foundations laid for the housing sector in the present term.

The presidential candidates have shown a profound interest in the topic and have reiterated their support of a sector of such a strategic importance whose strength lies on their response to the most felt and urgent need of the people: access to decent housing.

Virtuous Circle

The effect of our industry multiplies itself. The housing industry creates 5 jobs per house built, having an impact on over 40 industrial branches, not to mention that over 90% of the products we use are made domestically. But the impact of our work goes beyond the economic sphere to territorial organization and impact the capability of the people for social integration and participation.

In Urbi's vision of the future, housing and education represent the two basic axes with the ability to transform our country and stimulate growth.

The coming together of rights – education and housing – and responsibilities represent the fuel that will allow us to lead people towards the creation of new habits to end the vicious circle of poor education, indifference and low social participation; which in turn will take us to better living and healthier family and social ties.

One of Urbi's main objectives in our developments is to create new ways of life amongst communities based on two elements: the rights and responsibilities of its residents.

Our clients have rights, such as getting high-quality housing, enjoy functional urban facilities, and being part of a community designed based on a Community Master Plan. Nevertheless, when they become part of an Urbi community they also acquire responsibilities, such as participating in the homeowners association, making maintenance payments ontime and living under community regulations aimed at creating clean and environment-friendly surroundings for the benefit of all.

To exercise these rights and responsibilities in our communities helps people exercise democracy as a lifestyle, not as an electoral process.

This is the effect that transcends the most. This new housing communities are having an impact on social mobility and are integrating a new group of middle class homeowners whose core values are the real corner stone of an involved society.

We have been able to see this first-hand in our developments. Our homes are more than four walls and a ceiling. They are communities that give its residents prestige and social recognition. They offer people the great opportunity to lead a respectable family and community life. Thus, the relevance of this sector.

New Rules

Rules and characteristics in Mexico's housing industry are changing. Today, having the expertise to build houses is not enough. The houses need to be built with the highest quality, under new financial and technical conditions and, with a full vision of community life. Urbi is in the process of strengthening its position as a healthy company, capable of responding to the demands and challenges of our time. We call it the Game of Long Passes, which means operating under new rules.

One of our main strategies is to consolidate our presence in the largest metropolitan areas of the country – Mexico City, Guadalajara, and Monterrey – where 24.3% of the population resides, as well as in the middle-size cities directly influenced by these



metropolitan areas; in addition to strengthening our position in the Northern region, where we are the market leaders.

Urbi's business model has helped us to evolve from a simple homebuilding company to a home developer and marketing synchronized process administrator with advanced logistics based on a last-generation technological platform: Urbinet. Our administrative tools are the most sophisticated in our industry and allow us to replicate our business practices anywhere, fast, and at a low cost.

Moreover, internally we pay special attention to the selection and development of our human resources that growth demands. In the same way, we strengthen our corporate culture, the principles and values that gave life to our company and which are still very much alive at almost 25 years of its birth. We strive to be an organization managed by its values.

Urbi's goal is to have healthy profitable growth at a higher rate than the industry's average. In this respect, 2005 saw an increase of 20.6% in sales, totaling 24,865 homes sold and achieving the highest profit margins in the industry.

In 2006 we will celebrate our 25th anniversary and we will reaffirm our position as one of the most outstanding players in the Mexican housing industry. We want to replicate our success. Grow to our highest potential with our feet firmly on the ground.

To all of those who have been with us throughout this process, to our shareholders, collaborators, strategic allies, suppliers, and clients, we would like to thank you for your trust. Ours is a story that fills us with pride, a story of preaching by example, a life experience we want to share with you for many years to come.

Cuahtémoc Pérez Román
Chairman of the Board of Directors
and CEO

and The Management Team



Finance: growth, profitability, liquidity, and margin

Figures

Figures in millions of pesos at December 31, 2005

BALANCE SHEET	2000	2001	2002	2003	2004	2005
Total Assets	4,288	5,213	5,591	8,201	10,314	12,385
Current Assets	4,104	4,410	4,711	6,848	9,263	11,714
Cash and Cash Equivalents	273	388	453	438	1,094	1,816
Accounts Receivable - trade	820	1,076	1,169	1,571	2,802	3,278
Other Accounts Receivable	77	73	87	75	125	239
Inventories	2,760	3,282	3,386	5,461	5,684	6,390
Property, Machinery and Equipment, Net	138	150	193	293	316	372
Total Liabilities	2,863	3,450	3,433	5,463	4,678	5,653
Current Liabilities	1,564	1,945	1,381	2,379	1,939	2,049
Accounts Payable	520	651	679	1,194	864	1,111
Current Financial Liabilities	965	1,155	554	1,002	926	743
Long-Term Liabilities	1,299	1,505	2,052	3,084	2,739	3,604
Long-Term Financial Liabilities	272	178	578	1,271	776	1,460
Stockholders' Equity	1,425	1,764	2,158	2,738	5,636	6,732

INCOME STATEMENT

No. of Homes Sold (units)	14,636	16,058	17,711	20,071	21,791	24,865
Sales	3,481	4,223	4,644	5,688	6,794	8,194
Cost of Sales	2,281	2,757	3,134	3,843	4,542	5,431
Gross Profit	1,200	1,466	1,510	1,845	2,252	2,763
Operating Income	814	1,003	1,010	1,230	1,575	2,007
EBITDA (a)	897	1,086	1,081	1,339	1,702	2,143
Comprehensive Result of Financing	205	261	149	183	157	327
Income Before Income Tax and Asset Tax	605	744	869	1,041	1,434	1,699
Net Income	341	424	524	666	1,140	1,159

ADDITIONAL FINANCIAL INFORMATION

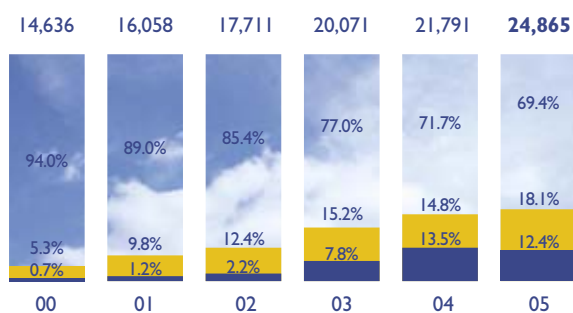
Operating Margin	23.4%	23.8%	21.7%	21.6%	23.2%	24.5%
EBITDA Margin	25.8%	25.7%	23.3%	23.5%	25.0%	26.2%
Net Margin	9.8%	10.0%	11.3%	11.7%	16.8%	14.1%
Net Debt	964	945	678	1,835	608	387
Net Debt / EBITDA	1.07	0.87	0.63	1.37	0.36	0.18
No. of Shares (millions)	298.22	298.22	298.22	290.95	298.59	298.59
Income Per Share	1.14	1.42	1.76	2.29	3.82	3.88
Operating Income per Share	2.73	3.36	3.39	4.23	5.27	6.72
EBITDA per Share	3.01	3.64	3.62	4.60	5.70	7.18
Book Value per Share	4.78	5.91	7.24	9.41	18.87	22.55

(a) Includes capitalized interests

We are a predictable, reliable, transparent company that provides its markets with concise and timely information on its performance and results.

Product Mix Units Sold

CAGR (00-05) = 11.2%



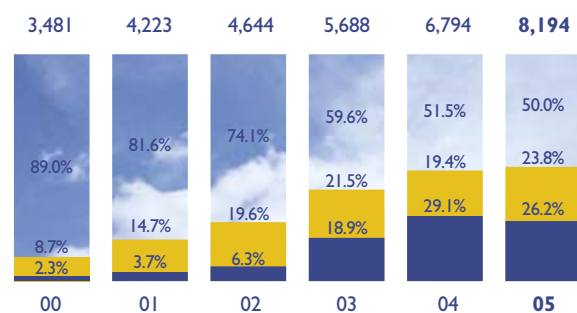
■ Affordable entry level

■ Lower middle income housing

■ Upper middle income and residential housing

Product Mix Sales (millions of pesos)

CAGR (00-05) = 18.7%



In 2005, Urbi's game was margin improvement and cash flow generation. Our Ebitda margin grew 113 basis points, which places us close to our 2008 year-end target of reaching a 26.5% Ebitda margin.

It's important to highlight that during 2004 we had set a goal of increasing Urbi's Ebitda margin by 300 basis points in a period comprising 5 fiscal years. In other words, the goal was set to reach the 26.5% Ebitda margin level by 2008. We believe this margin is sustainable and expect to keep it once we reach it.

These development are mainly due to the standardization of our business model and to our technologic platform, Urbinet. The savings and benefits obtained through information technology have translated mainly in an increased productivity: with the same number of people we build more houses.

We are increasingly becoming a logistics manager, and have created a value chain to use third parties for the simplest processes of our industry, as is the case of construction; the purpose is to maintain internally only those processes that create added-value, such

as product design, quality control and the creation of communities where the ideals of self-improvement, participation and social recognition prevail. This is one of our greatest competitive advantages. For example, in 2005 we managed to subcontract over 90% of the homebuilding and urbanization processes for our developments.

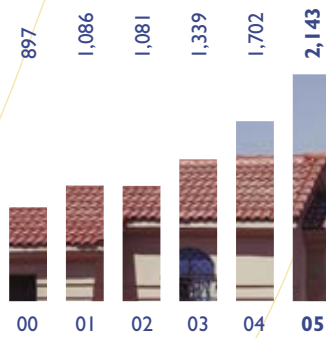
Another business model element worth mentioning is our highly accurate collections method that allows us to generate cash flow and plan medium and long-term growth.

Urbi is the only company in the industry with 4 favorable financial indicators difficult to align: revenue growth, margin improvement, return on equity, and free cash flow generation.

Our revenue grows because we are present in developing markets, such as the main metropolitan areas and Northern Mexico. Moreover, our housing mix comprising affordable entry-level, middle-income, and residential homes gives us access to the best part of the market: a blend of high growth and good margins.

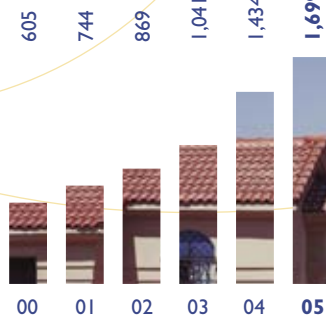
EBITDA

CARG (00-05) = 19.0%



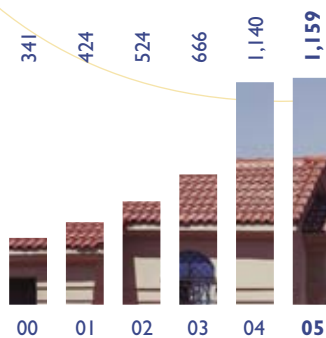
Earnings Before Tax

CARG (00-05) = 22.9%



Net Income

CARG (00-05) = 27.7%



We have one of the strongest and better shaped capital structures in the industry. Our debt is public, low-cost, long-term and unsecured; we have a huge, very-good-quality resource base. This is why, our return on equity is the result of sound asset and capital structures.

2005 is the first year Urbi creates cash flow. Many home developers rise and fall by mismanaging their working capital. In our case, this is an aspect we are able to control with our business model and through Urbinet.

In this context, our objective for 2006 is to increase our revenue by 16 to 18% and improve our Ebitda margin by approximately 35 basis points.



Due to our good performance in the stock exchange in terms of operations and liquidity, as of February 2005, Urbi is one of the sample companies that forms part of the Mexican stock exchange index - the Índice de Precios y Cotizaciones (IPC)-, the primary performance indicator of the Mexican Stock Exchange.

A chain of great economic and productive value

At Urbi we create a value chain and productive alliances that allow us to reduce time and cost while controlling the homebuilding process as a whole.



By the end of 2005, about 80% of the materials we use were supplied through productive alliances with key suppliers. It is because of these long-term agreements that raw material such as steel, concrete, doors and windows, pipes systems, electrical installation, tiles, bathroom fixtures, and paint have maintained a constant price in relation to home prices, allowing us to reach our margin goals.

The integration of our production chain has a positive impact on home price stability and margin control. In addition, the alliances have allowed us to reduce costs through long-term agreements that make room for accurate delivery planning and just-in-time product placement. The goal is to industrialize a process that has been considered a craft to this day.

Rather than a home builder, Urbi strives to be a processes manager, with a sophisticated logistics, that goes from the purchase of the land and the home building to the delivery of a finished home to an owner with financing and deeds included. This business notion is supported by Urbinet, a last-generation technological platform that integrates all steps and allows them to be replicated in any place and under any circumstance.

This effort translates into housing with better-quality finishing and appearance at a lower price.

Our 2006 strategies include the consolidation of our alliances with key suppliers which enhance the value chain and allow the delivery of a better product in less time to our clients. The productive alliance

signed this past December with Outinord, a French concrete-molds manufacturing company, will improve quality and production in metropolitan areas, not to mention the continuous relationship we have had with other productive alliances with renown companies like CEMEX.



Urbi made a productive alliance with Outinord, a French concrete mold manufacturer and one of the leading companies in the European housing industry, that helps to increase the efficiency of our homebuilding processes.

2005, Year of the Urbi Philosophy: Promoting Greatness of Spirit

In the last five years, Urbi has had an amazing growth in terms of people, as well as a greater geographical presence. To spread and reaffirm the company culture at a corporate level, 2005 was declared as the Year of the Urbi Philosophy.



Through participative programs, the Urbi DNA was injected to all the levels of the organization, spreading the principles and values that created the company and fostered its growth. The objective is to ensure the fulfillment of both our vision and mission and strengthen the work life quality of our work teams. We know the quality of our products and services depends on it.

We want motivated people who understand Urbi's structure and apply its basic principles in their daily lives, preaching by example; people who become a driving force towards meeting operating and financial goals through professional and personal self-improvement.

A basic principle of Urbi's philosophy is to develop people, rather than bosses or supervisors; people with Greatness of Spirit; men and women capable of leading themselves, an essential condition to be able to lead others.

People with Greatness of Spirit seek for truth, kindness, and beauty in everything they do.

Seeking for truth means building consensus to reach the most valuable and transcendent concept or answer for the team, the path to be followed. In Urbi, those who strive to seek the truth must be in the team that leads the others.

Seeking for kindness means that the act of giving is the main source of happiness. Giving is the path to personal, professional, and economic growth.

Seeking beauty means making everything beautiful and valuable in our surroundings a part of us. Family, friends, and even ourselves are part of a whole and make up a circle of belonging. We must be willing to put our energy, talent, and passion in our actions to protect and care for our surroundings



and all we consider beautiful. Urbi understands that clients, investors, suppliers, industry, community, and environment are part of a whole, and is willing to protect them and care for them.

Respecting and sticking to this philosophy translates into personal development and organizational growth.

The goal is to add more and better talent; gather will and capabilities. Putting these principles into action creates products and services that are truly valuable to society, and will in turn be rewarded with revenue and profits that will cement our presence in the market and allow us to explore our greatest inner potential as individuals and as a productive organization.

2006 has been nominated Year of the Client. Our intention is to gather strategies and talent, and make and strengthen strategic alliances with our business suppliers to add value to the supply chain and pass such value on to our clients.



“We have never seen anywhere else such an advance in housing development as the one we have witnessed in Mexico; the country’s ability to take advantage of technologies is outstanding, and working with leading companies like Urbi and Cemex proves it.”

Charles Engelken, CEO, Wall Ties and Forms.



Urbi was selected by Business Mexico magazine among the 100 most successful companies of 2005. The Company made it 32nd on the list and is the highest-ranked in the housing industry.

Work competitiveness, a growth tactic

The advances made to simplify processes and align job titles and profiles to the responsibilities and activities of such simplified processes were a fundamental task.



If we want to meet our development goals for the coming years, the best human profiles and talents of the industry most converge at Urbi. With this in mind, we made substantial advances in 2005 in terms of process simplification, job title and profile alignment, and work competitiveness.

We specially strengthened our selection processes to find executives with highly defined profiles at a professional and human level, both inside and outside the industry. Not only did we look for intelligent individuals with human and technical abilities, but for people whose values are parallel with those of Urbi. Above all, we seek to attract young people with high potential to sustain our development in the next ten years and create our own talent factory.

Our selection, recruiting, and training capacities allow us to integrate in only 10 weeks a Strategic Business Unit (SBU) with all the facilities needed to operate anywhere in the country.

In terms of education and development, we have strengthened the training for the sales department and our key employees. Everyone with a key position in the company is signed up for human growth programs that include life and career plans, as well as the development of managerial and technical skills. To this end, we have Urbi University and have agreements with the best local and national colleges.

As for compensation, we went deeper in the process to define a competitive benefits package aimed at achieving results and making our company an even more attractive place to work.



Urbi is part of the MSCI Emergency Markets and MSCI Mexico indexes of Morgan Stanley Capital Internacional, Inc. due to its liquidity and stock value.

UrbiNet: from ERP to ERO

Our technological platform is the most sophisticated in the housing industry, capable of providing –from a computer screen– a complete view of the company and of synchronizing all planning, operating, administrative and financial processes in the company's value chain.



The constant evolution of Urbinet, our technological platform, increases our efficiency and ability to control our overall operations while offering our clients a differential value and the value-added opportunity to know at any given moment the stage where their home is at, with an absolute certainty of the advances made and delivery dates.

In this respect, the trend is to continue evolving towards a Web-based system through a wireless network to cut IT costs, use outsourcing services, and improve our production model to link all internal tasks with our organizational structures.

Under this perspective, the goal for 2006 is to migrate from Enterprise Resource Planning (ERP) to Enterprise Resource Optimization (ERO) through a system that allows us to synchronize and optimize the entire company processes and resources. Among other benefits, Urbinet optimizes construction processes, improves storage and material control, reduces supervising costs and simplifies sales and mortgage approval processes.

Another short-term innovation that will enable us to operate a wireless network is the development of virtual offices to perform long-distance internal services.

Urbinet's information technology gives us a state-of-the-art status in the housing industry. Its maturity and evolution level has made it possible to develop

an efficient business model that can be replicated anywhere in a short period, besides offering a complete real-time panorama of Urbi's status in every front.



Please view the UrbiNet demo on-line:
<http://www.urbi.com/urbinet>

In the last issue of InformationWeek's list of the 50 most innovating Mexican businesses, Urbi took the 21st spot, the highest level reached by a homebuilding company. We obtained this recognition by this magazine thanks to Urbinet, the company's technological platform and a key element of our business model.

The greatest housing land reserve

Our land reserve is one of our main competitive advantages, since it includes the land needed for the next five years of future operations. We are currently the company with the largest land reserve in Mexico in our sector.



Our strategy has been to increase the land reserve in the most important metropolitan areas of the country.

In all, we maintain a land bank of 2,874 hectares, for the development of approximately 155,739 medium-density units.

Of this reserve, approximately 2,550 hectares are suitable for the development of affordable entry-level and low middle-income housing, enough to build 145,387 units. Additionally, 324 hectares are classified for the development of high middle-income

and residential homes, with a building capacity of 10,352 units. Urbi's policy and operating strategy is to maintain a land bank for between 2.5 to 3 years for our future operations in medium-sized cities, and up to 7 years in the metropolitan areas.

The mortgage backlog commitment for the period was 28,026 units.



Urbi was given a recognition award by the Mexican National Worker's Housing Fund Institute (INFONAVIT) during the Second Forum on Economic Housing for being one of the developers that most contributed to the offering of economic housing in Mexico, and whose significant number of homes sold in 2005 helped reach the figures estimated in the National Housing Plan (Plan Nacional de Vivienda).

The renewal of a history

A management team that combines experience and vision with the drive and the latest knowledge and technologies of the new generations.



The story of our company is a combination of individual experiences that come together in a long-term project with a vision that makes us the industry leaders.

This history never stops developing. Every day it feeds from new experiences, new people that joins a life project to share values and enrich the future vision of the company founders.

Our current growth process is based on new work teams, on a generation of young people that pursues the same mission: To build every day with passion infrastructures and environments that foster communities where the ideals of self-improvement, participation and recognition prevail.

Despite their youth, they are very well-prepared, are experts in their work fields, and fill the company with renewed energy. Their talent and professional maturity is outstanding. One of their functions is to implement more sophisticated processes and new technologies into action, and to take big challenges. Today, they are writing Urbi's future history.

Corporate Governance

In Urbi we take corporate governance seriously, not only as a way to fulfill Corporate Best Practices, but as the natural way to exercise our business ethics principles.

Ever since it began trading in the stock exchange, Urbi decided to adhere to the Mexican Stock Exchange Code of Best Practices. This document makes recommendations for better corporate governance in Mexican companies and defines principles that help improve the job of the Board of Directors and the release of information to shareholders.

These recommendations specifically look for companies to:

- Increase the amount of information they provide in terms of their administrative structure and the functions of their Board of Directors and Committees;
- Have mechanisms to ensure they provide enough financial information;
- Have processes that promote participation and communication between board members;
- Have processes that foster proper disclosure to shareholders.

For Urbi, these practices are more than just a requirement that needs to be met, but a fundamental element of business ethics exercised through the Board of Directors and the Committees made for that purpose.

In 2005 we aligned the operations of all the company's decision-making areas, under a corporate governance perspective. The objective is to achieve absolute transparency, communication, and control over decisions made and be at the same level as the most advanced companies in this area worldwide.

According to the Institutional Investor magazine annual survey, Urbi was selected as the best company of the construction sector in Latin America in terms of Corporate Governance, and amongst the industry leaders in terms of Investor Relations.

The Management Team



1



2

 **urbi**
VidaResidencial

1 from left to right:

Feliciano Campos Herrera (50)
Comprehensive knowledge of the business

Marco Moreno Mejía (44)
Discipline and detail-oriented

Daniel Helguera Moreno (33)
Integrator and people-oriented

Rodolfo Luján Fernández (57)
Tolerance and consensus builder

Juan Carlos Cortez Pérez (34)
Firmness when ensuring results

José Uballe Ruvalcaba (37)
A passion for aesthetics and design

Julio Hurtado Pérez (50)
Debate and propose

Netzahualcóyotl Pérez Román (52)
Profound experience and passion for winning

Juan Yi Echaury (39)
Ability to think big

Hugo Ramos Quiroz (47)
Innovative spirit and creation of systems and processes

Cauhtémoc Pérez Román (54)
Corporate culture, strategy, long-term vision

Selene Ávalos Ríos (36)
Drive, energy, and technique



2 from left to right:

Ángel Ante Téllez (47)
Practical experience

José Carlos Cota Arce (52)
The human side of relations

Mario Elizondo Lomelí (44)
Empathy and result-oriented

Jaime Ibarra Caldera (45)
Work team integration and motivation

Luis Manuel Elizondo Lomelí (50)
The voice of the market

Ignacio Corona Hernández (37)
Quality, innovation, and control

3 from left to right:

Salvador González Bravo (37)
Project management

Sergio Guevara Márquez (43)
Ability to integrate teams

Ernesto Garay Cuarenta (46)
Reliability, discipline and holistic vision

Antonio Jorge González (34)
Finance, communications, and people-oriented

Carlos Sandoval Pérez (44)
Ability to negotiate

Mariano Robles Linares (27)
Logistics, processes, and systems

The Board of Directors

The management of Urbi's business is vested in the Board of Directors, which currently consist of nine Directors and nine Alternate Directors.

Directors

Cuauhtémoc Pérez Román (Chairman)
Netzahualcóyotl Rafael Pérez Román
José Carlos Cota Arce
Domingo Javier Moreno Gámez
Francisco Javier Cázares González
Rogelio Carrillo González
Gastón Luken Aguilar*
Pedro Antonio Suárez Fernández*
Alberto Felipe Mulás Alonso*

Alternate Directors

Juan Manuel Carrillo González
Francisca Selene Avalos Ríos
Julio Amado Hurtado Pérez
Mario Danilo Elizondo Lomeli
Marco Antonio Moreno Mexia
Jesús Rodolfo Luján Fernández
Jesús Alberto Ponce de León Torres*
Héctor Corral Caligaris*
Roberto Pérez Hernández*

* Independent Directors

Audit Committee

Pedro Antonio Suárez Fernández, as chairman of the committee,
Gastón Luken Aguilar, José Carlos Cota Arce and Roberto Pérez Hernández.

Planning and Finance Committee

Francisca Selene Avalos Ríos, as chairman of the committee,
Gastón Luken Aguilar, Pedro Antonio Suárez Fernández,
Jesús Alberto Ponce de León Torres and Alberto Felipe Mulás Alonso.

Evaluation and Compensation Committee

Jesús Rodolfo Luján Fernández, as chairman of the committee,
Rogelio Carrillo González and Julio Amado Hurtado Pérez.

2005 Compared to 2004

Sales

Sales increased 20.6% to Ps.8,193.5 million in 2005 from Ps.6,794.1 million in 2004, as a result of an increase in the total number of homes sold, as well as an increase in the average sales price of homes sold as compared with 2004.

Sales by Product Type (In millions of Mexican Pesos)

	2005	%	2004	%	% Change 2005/2004
AEL	4,100.8	50.0%	3,494.9	51.4%	17.3%
LMI	1,947.9	23.8%	1,320.5	19.4%	47.5%
HMI and UI	2,144.8	26.2%	1,978.7	29.2%	8.4%
Total Sales	8,193.5	100.0%	6,794.1	100.0%	20.6%

The total number of homes sold increased 14.1% to 24,865 units in 2005 from 21,791 units in 2004. The number of affordable entry-level housing homes sold increased 10.6% to 17,268 units in 2005 from 15,614 units in 2004. The number of low middle-income homes sold increased 39.4% to 4,510 units in 2005 from 3,236 units in 2004. The number of combined high middle-income and upper-income homes sold increased 5.0% to 3,087 units in 2005 from 2,941 units in 2004.

Units Sold by Product Type

	Jan-Dec 2005	%	Jan-Dec 2004	%	% Change Jan-Dec 2005/2004
AEL	17,268	69.5%	15,614	71.7%	10.6%
LMI	4,510	18.1%	3,236	14.8%	39.4%
HMI and UI	3,087	12.4%	2,941	13.5%	5.0%
Total	24,865	100.0%	21,791	100.0%	14.1%

Our total average sales price per home increased 5.7% to Ps.329,503 in 2005 from Ps.311,777 in 2004, mainly as a result of our increased participation in the low middle-income housing market while maintaining approximately the same level of participation in the affordable entry-level housing market. The average sales price per affordable entry-level housing home increased 6.1% to Ps.237,476 in 2005 from Ps.223,833 in 2004; the average sales price per low middle-income home increased 5.8% to Ps.431,889 in 2005 from Ps.408,052 in 2004 and the average sales price per high middle-income and upper-income home increased 3.3% to Ps.694,798 in 2005 from Ps.672,828 in 2004, in each case, as a result of increased development and sales of higher priced homes within each category, partly due to the increased availability of mortgages as a result of a general improvement in economic conditions from 2004 to 2005 in Mexico.

Average Price by Product Type
(In Mexican Pesos)

	2005	2004	% Change 2005/2004
AEL	237,476	223,833	6.1%
LMI	431,889	408,052	5.8%
HMI and UI	694,798	672,828	3.3%
Total Average Price	329,503	311,777	5.7%

In 2005, 50.0% of sales were derived from development of affordable entry-level housing, 23.8% from low middle-income homes and 26.2% from high middle-income and upper-income homes combined, as compared to 51.5%, 19.4% and 29.1% in 2004, respectively. The increase in the proportion of low middle-income housing compared to affordable entry-level housing and the average sales price reflects the greater availability of mortgages in the low interest rate environment for homes in the low middle-income price range, which we believe led to an increased demand for this category of housing, and our strategy to capitalize on this growing demand by increasing our development of low middle-income housing products. Sales derived from high middle-income and upper-income housing decreased, however, mainly as a result of our strategy to focus on the sales of low middle-income housing.

Cost of Sales

Cost of sales increased 19.6% to Ps.5,430.9 million in 2005 compared to Ps.4,541.9 million in 2004 mainly due to a 14.1% increase in total number of homes sold in 2005 as compared with 2004. Cost of sales as a percentage of total sales was approximately 66.3% in 2005, a slight decrease from 66.9% in 2004.

In 2005, costs of sales of affordable entry-level housing, low middle-income housing, and combined high middle-income and upper-income housing as a percentage of total sales for each such category represented 67.8%, 65.5% and 64.1% of our sales revenue, respectively. In 2004, costs of sales of affordable entry-level housing, low middle-income housing, and combined high middle-income and upper-income housing as a percentage of total sales for each such category represented 68.8%, 65.8% and 64.1%, respectively, of our sales revenue. For a description of cost of sales, see Note 2(i) to the Financial Statements.

Gross Profit

Gross profit increased 22.7% to Ps.2,762.6 million in 2005 from Ps.2,252.2 million in 2004 due to a 20.6% increase in total sales which was partially offset by a 19.6% increase in our cost of sales over the same period discussed above. The overall increase in gross profit was a result of increased construction of low middle-income housing with higher margins than affordable entry-level housing. Our gross margin was approximately 33.7% in 2005, as compared with 33.1% in 2004, as a result of an increase in the total average sales price per home.

General and Administrative Expenses

General and administrative expenses include, among other items, the salaries of administrative and sales personnel, legal and other professional fees and expenses, sales and marketing expenses (including sales commissions) and depreciation.

General and administrative expenses increased 11.5% to Ps.755.3 million in 2005 from Ps.677.5 million in 2004 due to an overall increase in the administrative expenses as a result of the growth in the size of our operations. Our sales and marketing expenses, however, decreased by 2.8% from Ps.302.9 million in 2004 to Ps.294.4 million in 2005. In addition, as a percentage of total sales, our general and administrative expenses decreased to 9.2% in 2005 from 10.0% in 2004. In both cases, the decreases were mainly attributable to our ability to increase the volume of our sales with a decreasing number of employees as a result of the increased efficiencies of our business model and *UrbNet*. Between December 31, 2004 and December 31, 2005, the number of permanent employees decreased 2.5% from 1,747 to 1,703.

Operating Income

As a result of the above, operating income increased 27.5% to Ps.2,007.3 million in 2005 from Ps.1,574.7 million in 2004. As a percentage of total sales, our operating income increased to 24.5% in 2005 from 23.2% in 2004.

EBITDA

EBITDA increased by 25.9% reaching Ps.2,140.8 million in 2005, compared to Ps.1,701.9 million during the same period in 2004. The Ebitda margin for 2005 was 26.15%, compared to 25.05% during 2004, an increase of 110 basis points

	2005	2004	Change
Operating Profit	\$ 2,007.4	\$ 1,574.7	27.5%
Depreciation	\$ 45.0	\$ 41.0	9.9%
Capitalized Interest	\$ 90.7	\$ 86.2	5.2%
EBITDA	\$ 2,143.1	\$ 1,701.9	25.9%

Comprehensive Result of Financing

Our comprehensive result of financing represents the sum of interest income, interest expense, gain or loss on monetary position and net foreign exchange gains and losses. We capitalize interest expense and other components of comprehensive result of financing derived from bank loans used principally for land development, in amounts defined by each project. The expense attributable to capitalized comprehensive result of financing in a given year is included in our cost of sales and is not included in comprehensive result of financing. See Note 2(f) to the Financial Statements.

Our comprehensive result of financing increased 108.4% to Ps.327.0 million in 2005 from Ps.156.9 million in 2004, mainly due to an increase in interest expense, and partially due to the recording of a monetary loss, which was partially offset by an increase in interest income.

Interest expense increased 40.3% to Ps.360.6 million in 2005 from Ps.257.0 million in 2004, mainly attributable to an increase in our total average debt and an increase in *Tasa de Interés Interbancaria de Equilibrio* (the Interbank Equilibrium Interest Rate, or "TIIE").

Interest income increased 15.2% to Ps.56.0 million in 2005 from Ps.48.6 million in 2004, mainly as a result of an increase in the average cash balance of our deposits in commercial banks primarily due to growth in sales.

In 2005, we recorded a monetary loss of Ps.19.8 million compared to a monetary gain of Ps.48.2 million in 2004, attributable partly to a net increase in monetary liabilities over monetary assets, and partly to the monetary gain capitalized as part of the cost of our land development. Excluding the capitalization of the monetary gain on debt, we would have recorded a monetary gain of Ps.5.5 million in 2005.

Income and Asset Tax

Our total income and asset tax expense in 2005 increased by 84.0%, to Ps.540.0 million from Ps.293.4 million in 2004, mainly because our deferred income tax expense calculation in 2004 benefited from a change in Mexican income tax law at the end of that year which were approved reductions of the statutory income tax rate for the next three years (from 33% to 28%), which contributed to a reduction in our effective tax rate in 2004 to 20.5% compared to 31.8% in 2005. See Note 15 to the Financial Statements for a further analysis of these tax rate reductions.

Net Income

As a result of the foregoing, our net income in 2005 increased 1.6% to Ps.1,158.6 million from Ps.1,140.5 million in 2004.

FINANCIAL POSITION AS OF DECEMBER 2005

Assets

By the end of 2005, total assets were MX\$12,384.9 million, an increase of 20.1% compared to MX\$10,313.6 million in 2004.

Cash and Cash Equivalents

By December 2005, cash and cash equivalents grew to Ps.1,816.0 million, an increase of 66.0% compared to December 2004, when this figure was Ps.1,093.7 million.

Accounts Receivable

Accounts receivable increased by 17.0% to Ps.3,278.4 million in 2005 compared to the Ps.2,802.3 million registered in 2004. The accounts receivable rotation was 144 days.

Inventory

The Company's principal asset is its inventory, which includes land for construction, land that is under development, construction in progress, construction materials and several other items. Our inventory value increased to Ps.6,390.1 million in 2005, an increase of 12.4% compared to the Ps.5,683.6 million registered in 2004. Inventory days fell from 450 days to 424 days during the period.

Land Reserve

URBI maintains a land reserve of 2,874 hectares for the development of approximately 155,739 medium-density units. Of this reserve, approximately 2,550 hectares are suitable for the development of affordable entry-level and low middle-income housing, sufficient to build 145,387 units. Additionally, 324 hectares are classified for high middle-income and upper-income housing, with a construction capacity of 10,352 units. Urbi's policy and operating strategy is to maintain land reserves of approximately 2.5-3 years of future operations in medium-sized cities and up to 7 years in major metropolitan areas.

The mortgage backlog commitment for the period was 28,026 units.

The following table shows the land reserve by region:

Region	Total Hectares	Number of Units		
		Totals	AEL and LMI	HMI and UI
Baja California	1,160	59,227	52,962	6,265
Sonora	222	12,106	11,893	213
Sinaloa	41	1,590	298	1,292
Chihuahua	191	11,553	10,667	886
Mexico City's Metropolitan Area	566	45,864	44,640	1,224
Guadalajara's Metropolitan Area	505	16,785	16,313	472
Monterrey's Metropolitan Area	166	7,864	7,864	–
Aguascalientes	23	750	750	–
Total	2,874	155,739	145,387	10,352

Liabilities

Without taking into consideration the effect of the deferred income taxes related to the application of Bulletin D-4, liabilities were Ps.3,585.5 million as of 2005, an increase of 23.7% compared to 2004, when liabilities were Ps.2,899.1 million.

In 2005, total liabilities increased by 20.8%, going from Ps.4,677.9 million in 2004 to Ps.5,652.9 million in 2005.

Deferred Income Taxes

As a result of the application of Bulletin D-4, deferred income taxes increased by 16.2%, to Ps.2,067.4 million in 2005 versus Ps.1,778.8 million in 2004.

Stockholders' Equity

Stockholders' equity increased by 19.5%, to Ps.6,732.0 million in 2005 compared to the Ps.5,635.7 million recorded in 2004.

Report of Independent Auditors

To the Stockholders of Urbi Desarrollos Urbanos, S.A. de C.V. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Urbi Desarrollos Urbanos, S.A. de C.V. and subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 2005. 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 are prepared in accordance with generally accepted accounting principles in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Urbi Desarrollos Urbanos, S.A. de C.V. and subsidiaries as of December 31, 2004 and 2005, and the consolidated results of their operations, their changes in stockholders' equity and their changes in financial position for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in Mexico.

Mancera, S.C.
A Member Practice of
Ernst & Young Global


C.P.C. Edmundo Lugo Domínguez

Mexicali, B.C., Mexico,
March 28, 2006

Consolidated Balance Sheets

URBI DESARROLLOS URBANOS, S.A. DE C.V. AND SUBSIDIARIES
(Amounts in thousands of Constant Mexican Pesos as of December 31, 2005)

	As of December 31,		
	2004	2005	Thousands of U.S. Dollars 2005
Assets			
Current assets:			
Cash and cash equivalents	Ps. 1,093,711	Ps. 1,816,014	US\$ 169,548
Accounts receivable - trade (Note 3)	2,802,290	3,278,391	306,080
Related parties (Note 4)	191,187	48,441	4,523
Other accounts receivable (Note 6)	124,826	238,994	22,314
Inventories (Note 5)	5,028,293	6,168,788	575,936
Prepaid expenses	22,905	163,335	15,249
Total current assets	9,263,212	11,713,963	1,093,650
Long-term accounts receivable - trade (Note 3)	69,966	41,112	3,838
Long-term land held for construction (Note 5)	655,284	221,264	20,658
Property, machinery and equipment, net (Note 7)	315,635	372,479	34,776
Other assets	9,546	36,044	3,365
Total assets	Ps. 10,313,643	Ps. 12,384,862	US\$ 1,156,287
Liabilities and Stockholders' Equity			
Current liabilities:			
Bank loans (Note 8)	Ps. 474,075	Ps. 583,326	US\$ 54,461
Current portion of long-term debt (Note 8)	451,572	159,184	14,862
Accounts payable (Note 10)	863,588	1,111,187	103,743
Taxes and other accounts payable (Note 11)	150,015	194,929	18,200
Total current liabilities	1,939,250	2,048,626	191,266
Long-term liabilities:			
Long-term debt (Note 8)	776,365	1,460,157	136,324
Accounts payable (Note 10)	182,364	61,841	5,774
Derivative instruments (Note 9)	-	14,019	1,309
Labor obligations (Note 12)	1,173	864	81
Deferred income tax (Note 15)	1,778,771	2,067,366	193,015
Total liabilities	4,677,923	5,652,873	527,769
Contingencies and commitments (Note 13)			
Stockholders' equity (Note 14):			
Common stock	162,462	162,462	15,168
Additional paid in capital	2,103,921	2,103,921	196,428
Retained earnings	4,617,439	5,775,997	539,263
Derivative instruments (Note 9)	-	(9,953)	(929)
Deficit from restatement of stockholders' equity	(422,286)	(474,622)	(44,312)
Cumulative effect of adoption of deferred income tax	(825,816)	(825,816)	(77,100)
Total stockholders' equity	5,635,720	6,731,989	628,518
Total liabilities and stockholders' equity	Ps. 10,313,643	Ps. 12,384,862	US\$ 1,156,287

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

URBI DESARROLLOS URBANOS, S.A. DE C.V. AND SUBSIDIARIES

(Amounts in thousands of Constant Mexican Pesos as of December 31, 2005, except for earnings per share)

	Years ended December 31,							
	2003		2004		2005			
					Thousands of U.S. Dollars 2005			
Sales (Note 2i)	Ps.	5,687,799	Ps.	6,794,105	Ps.	8,193,500	US\$	764,968
Cost of sales (Note 2i)		3,843,242		4,541,928		5,430,875		507,042
Gross profit		1,844,557		2,252,177		2,762,625		257,926
General and administrative expenses		614,569		677,487		755,271		70,514
Operating income		1,229,988		1,574,690		2,007,354		187,412
Comprehensive result of financing:								
Interest expense		(229,738)		(256,974)		(360,556)		(33,663)
Interest income		11,939		48,614		55,996		5,228
Foreign exchange (loss) gain, net		(16,565)		3,201		(2,644)		(247)
Monetary gain (loss)		51,738		48,216		(19,799)		(1,848)
		(182,626)		(156,943)		(327,003)		(30,530)
Other (expense) income, net		(6,548)		16,153		18,236		1,702
Income before income tax and asset tax		1,040,814		1,433,900		1,698,587		158,584
Income and asset tax (Note 15)		375,061		293,442		540,029		50,418
Net income	Ps.	665,753	Ps.	1,140,458	Ps.	1,158,558	US\$	108,166
Weighted average shares outstanding in units		297,223,584		283,024,628		298,589,762		298,589,762
Earnings per share	Ps.	2.24	Ps.	4.03	Ps.	3.88	US\$	0.36

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Stockholders' Equity

URBI DESARROLLOS URBANOS, S.A. DE C.V. AND SUBSIDIARIES

Years ended December 31, 2003, 2004 and 2005

(Amounts in thousands of Constant Mexican Pesos as of December 31, 2005, except for number of shares)

	Number of shares		Common stock		Additional paid in capital
Balance as of January 1, 2003	298,219,974	Ps.	161,342	Ps.	49,509
Decrease in equity (Note 14)	(7,273,650)		(3,030)		(32,766)
Net income					
Deficit from holding non-monetary assets, net of deferred taxes					
Balance as of December 31, 2003	290,946,324		158,312		16,743
Decrease in equity (Note 14)	(58,046,310)		(31,574)		
Increase in equity (Note 14)	65,689,748		35,724		2,087,178
Net income					
Deficit from holding non-monetary assets, net of deferred taxes					
Balance as of December 31, 2004	298,589,762		162,462		2,103,921
Net income					
Changes in fair value of derivative instrument, net of deferred taxes (Note 9)					
Deficit from holding non-monetary assets, net of deferred taxes					
Balance as of December 31, 2005	298,589,762	Ps.	162,462	Ps.	2,103,921

The accompanying notes are an integral part of these financial statements.

Retained earnings	Derivative instruments	Deficit from restatement of stockholders' equity	Cumulative effect of adoption of deferred income tax	Total stockholder' equity	Comprehensive income
Ps. 3,082,103		Ps. (308,882)	Ps. (825,816)	Ps. 2,158,256	
665,753				(35,796) 665,753	Ps. 665,753
		(50,447)		(50,447)	(50,447)
3,747,856		(359,329)	(825,816)	2,737,766	Ps. 615,306
(270,875)				(302,449) 2,122,902	
1,140,458				1,140,458	Ps. 1,140,458
		(62,957)		(62,957)	(62,957)
4,617,439		(422,286)	(825,816)	5,635,720	Ps. 1,077,501
1,158,558				1,158,558	Ps. 1,158,558
	Ps. (9,953)			(9,953)	(9,953)
		(52,336)		(52,336)	(52,336)
Ps. 5,775,997	Ps. (9,953)	Ps. (474,622)	Ps. (825,816)	Ps. 6,731,989	Ps. 1,096,269

Consolidated Statements of Changes in Financial Position

URBI DESARROLLOS URBANOS, S.A. DE C.V. AND SUBSIDIARIES
(Amounts in thousands of Constant Mexican Pesos as of December 31, 2005)

	Years ended December 31,			
	2003	2004	2005	Thousands of U.S. Dollars 2005
Operating activities:				
Net income	Ps. 665,753	Ps. 1,140,458	Ps. 1,158,558	US\$ 108,166
Add (deduct) items not requiring the use of cash:				
Depreciation	38,591	40,974	45,024	4,204
Labor obligations	331	354	396	37
Deferred income tax, net of monetary effect	274,274	170,804	314,037	29,319
	978,949	1,352,590	1,518,015	141,726
Changes in operating assets and liabilities:				
Accounts receivable – trade	(411,083)	(1,229,334)	(447,247)	(41,756)
Other accounts receivable, prepaid expenses and other assets	(6,300)	(21,002)	(281,096)	(26,244)
Related parties, net	(23,301)	14,822	147,892	13,808
Inventories	(2,150,776)	(314,275)	(780,187)	(72,840)
Accounts payable to suppliers	514,975	(330,289)	247,599	23,116
Taxes and other accounts payable	97,683	9,611	44,209	4,127
Resources (used in) provided by operating activities	(999,853)	(517,877)	449,185	41,937
Financing activities:				
Decrease in equity	(35,796)	(302,449)	–	–
Increase in equity	–	2,122,902	–	–
New bank loans and long-term debt	1,730,710	654,378	1,579,960	147,509
Payment of bank loans and long-term debt	(588,861)	(1,225,560)	(1,079,305)	(100,767)
Long-term accounts payable to suppliers	30,557	(34,551)	(120,523)	(11,252)
Resources provided by financing activities	1,136,610	1,214,720	380,132	35,490
Investing activities:				
Loans to related parties	(13,347)	22,412	(5,146)	(480)
Acquisition of property, machinery and equipment, net	(138,500)	(63,826)	(101,868)	(9,511)
Resources used in investing activities	(151,847)	(41,414)	(107,014)	(9,991)
Net (decrease) increase in cash and cash Equivalents	(15,090)	655,429	722,303	67,436
Cash and cash equivalents:				
At the beginning of the year	453,372	438,282	1,093,711	102,112
At the end of the year	Ps. 438,282	Ps. 1,093,711	Ps. 1,816,014	US\$ 169,548

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

URBI DESARROLLOS URBANOS, S.A. DE C.V. AND SUBSIDIARIES

Years Ended December 31, 2003, 2004 and 2005

(Amounts in thousands of Constant Mexican Pesos as of December 31, 2005, except where otherwise indicated)

I. DESCRIPTION OF THE BUSINESS

Urbi Desarrollos Urbanos, S.A. de C.V. ("Urbi") and its subsidiaries (collectively the "Company") are engaged primarily in purchasing land and in the designing, developing, constructing and selling of housing developments, for the low, middle income and residential markets. For financial reporting purposes the Company operates in one business segment.

2. ACCOUNTING POLICIES AND PRACTICES

The most important accounting policies and practices followed in the preparation of these financial statements are described below:

a) Basis of Consolidation

The consolidated financial statements include the accounts of Urbi and those of its subsidiaries.

The consolidated subsidiaries of Urbi and Urbi's equity interest in each subsidiary are as follows:

Subsidiary	Equity interest at December 31,	
	2004	2005
Cyd Desarrollos Urbanos, S.A. de C.V.	99.99%	99.99%
Ingeniería y Obras, S.A. de C.V.	99.99%	99.99%
Promoción y Desarrollos Urbi, S.A. de C.V.	99.99%	99.99%
Obras y Desarrollos Urbi, S.A. de C.V.	99.99%	99.99%
Tec Diseño e Ingeniería, S.A. de C.V.	99.99%	99.99%
Propulsora Mexicana de Parques Industriales, S.A. de C.V.	99.99%	99.99%
Constructora Metropolitana Urbi, S.A. de C.V.	99.99%	99.99%
Urbi Construcciones del Pacífico, S.A. de C.V.	99.99%	99.99%

All significant intercompany balances, investments and transactions have been eliminated in the consolidated financial statements.

b) Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the amounts reported in the financial statements and in the accompanying notes. Actual results could differ from those estimates.

c) Recognition of the Effects of inflation

The financial statements include the effects of inflation on financial information as required by Mexican accounting Bulletin B-10, "Accounting Recognition of the Effects of Inflation on Financial Information", issued by the Mexican Institute of Public Accountants (MIPA). Consequently, the amounts shown in the accompanying financial statements and in these notes are expressed in thousands of constant Mexican pesos as of December 31, 2005. The December 31, 2005 restatement factor applied to the financial statements as of December 31, 2003 and 2004 was 1.0870 and 1.0333, which represent the rate of inflation from December 31, 2003 and December 31, 2004 up to December 31, 2005, based on the Mexican National Consumer Price Index (NCPI) published by Banco de México (the Central Bank).

Other non-monetary assets were restated using adjustment factors obtained from the NCPI.

Common stock, additional paid in capital, the cumulative effect of adopting deferred income tax and retained earnings were restated using adjustment factors obtained from the NCPI.

The net monetary gain (loss) represents the impact of inflation on monetary assets and liabilities. The net monetary position gain (loss) of each year is included in the statements of income as a part of the comprehensive result of financing.

The deficit from restatement of stockholders' equity consists of the accumulated monetary gain/loss at the time the provisions of Bulletin B-10 were first applied, and of the result from holding non-monetary assets, which represents the net difference between the restatement of inventories by replacement cost and restatement based on the NCPI.

Bulletin B-12, "Statement of Changes in Financial Position", specifies the appropriate presentation of the statement of changes in financial position based on financial statements restated in constant Mexican pesos in accordance with Bulletin B-10. Bulletin B-12 identifies the sources and applications of resources representing differences between beginning and ending financial statement balances in constant Mexican pesos. In accordance with this bulletin, monetary and foreign exchange gains and losses are not treated as non-cash items in the determination of resources provided by operations.

d) Cash and cash equivalents

Cash and cash equivalents are represented principally by bank deposits and highly liquid investments with maturities of three months or less, and are stated at cost plus accrued interest. The stated value is not in excess of market value.

e) Reserve for doubtful accounts

The Company computes the allowance for doubtful accounts related to customer balances based on the recoverability studies made on the overdue portfolio.

f) Inventories

Houses and construction developments for sale and construction materials were restated by applying the NCPI.

Land held for construction, urbanized land and construction in progress are valued at acquisition cost and was restated to replacement cost, not in excess of the realizable value.

Land held for construction includes capitalized comprehensive result of financing. The Company capitalizes interest expense and other components of comprehensive result of financing derived from bank loans used principally for land development, in amounts defined by each project. The capitalization of these costs begins when activities necessary to develop the property commence and continues during the period in which the Company is actively working in the development of the land. The capitalized comprehensive result of financing in 2003, 2004 and 2005 was Ps. 75,954, Ps. 58,732, and Ps. 65,930, respectively.

Land held for construction presented as long-term are those that the Company cannot use within a year.

g) Property, machinery and equipment

Property, machinery and equipment, was restated by applying the NCPI. Depreciation is computed using the straight-line method based on the estimated useful lives of the related fixed assets.

Whenever there are any indications of impairment in the value of long-lived assets, the related loss should be determined based on the recovery value of the related asset, which is defined as the difference between the asset's net selling price and its useful value. An impairment loss is recognized if the net carrying amount of the asset exceeds the recovery value.

h) Intangible assets

Intangible assets (principally computer software) held by the Company are included in property, machinery and equipment as part of office furniture and equipment.

Project development costs are only capitalized when the following conditions are met:

- i. The product or process is clearly defined and its attributable cost may be identified separately and reliably appraised based on the expected economic benefits derived from the product or process.
- ii. Completion of the product or process for its final use or sale is technically feasible.
- iii. The Company intends and is able to produce and sell or use the product or process.
- iv. There is a market for the product or process or, in the case of products or processes for internal use, their usefulness for the Company must be demonstrated.
- v. There are adequate resources at the present time or it may be demonstrated that there will be adequate resources in the future to terminate the product or process.

Capitalized development costs are recorded initially at acquisition cost and then restated based on the NCPI.

In the case of costs of computer software developed or obtained for internal use, the Company capitalizes its investments in software related to the applications of its technology platform.

The Company capitalizes all related internal and external software costs incurred during the development stage. Costs incurred during the preliminary project in the post implementation/operation stage of the software are expensed as incurred.

Intangible assets are amortized on restated values using the straight-line method based on the estimated useful lives of the related assets. Intangible assets with indefinite useful lives are not amortized.

The value of intangible assets with defined useful lives is reviewed whenever there are indications of impairment in their value. The related loss is determined based on the recovery value of the related asset, which is defined as the difference between the asset's net selling price and its useful value. An impairment loss is recognized if the net carrying amount of the asset exceeds the recovery value.

Intangibles with indefinite useful lives that are not yet available for use and intangibles that are in use but whose amortization period exceeds 20 years from the date they were available for use are tested for impairment at the end of each year.

i) Revenue and cost recognition

Revenues from the Company's activities as a developer are recognized using the percentage-of-completion method in accordance with accounting Bulletin D-7 "Construction contracts", measured as the current percentage of costs incurred compared against the total

estimated costs to be incurred in each development or project. Under this method, the amount of revenues to be recognized is determined by multiplying the percentage of completion of the development by the estimated total gross profit, and the resulting amount is added to the amount of actual costs incurred to that date. The Company applies the percentage-of-completion method to costs and revenues based on equivalent units (cost incurred to total cost estimated for a house), when the following conditions have been met:

- The Instituto del Fondo Nacional para la Vivienda para los Trabajadores (INFONAVIT), Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (FOVISSSTE) or Sociedad Hipotecaria Federal (SHF) has committed to grant mortgages to the Company's customers that comply with the eligibility requirements for a mortgage loan, and
- There is a commitment to buy and, (i) in the case of sales financed by INFONAVIT or FOVISSSTE: the buyer has been approved as a qualified recipient of an INFONAVIT or FOVISSSTE mortgage, as applicable (ii) in the case of sales financed by SHF (Federal Mortgage Partnership): the buyer (a) has been approved as such by the Company and (b) meets the lending requirements of the financial institution providing the loan, or (iii) in the case of sales financed by a commercial bank or a financial institution the buyer has qualified in accordance with the financial institution requirements and the lending institution has committed to the loan.

Cost of sales represents the development cost incurred in connection with homes the Company sold in a given year. Development costs include land, all direct material and labor costs and those indirect costs related to the development of the project, such as indirect labor, equipment, repairs, depreciation expense and the expense attributable to capitalized comprehensive result of financing of land development. General and administrative expenses are charged to results of operations at the time they are incurred. Variations on costs incurred against budgeted cost for each project are made in the period in which such variations are known. Some additional and exceptional cost for concluded projects, are presented in the statements of income under other expenses. In 2003, these costs were Ps.15,869. In 2004 and 2005, there were no costs associated to concluded projects.

j) Foreign currency

Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated at the prevailing exchange rate at the balance sheet date. Exchange rate differences determined from the transaction date to the date in which foreign currency denominated balances are settled, as well as those derived from the translation at the balance sheet date are taken to the comprehensive result of financing, except for those that are capitalized for development projects (see Note 2f).

See Note 16 for the Company's consolidated foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

k) Liabilities denominated in investment units (UDIs)

Liabilities denominated in UDIs are presented in the balance sheet in Mexican Pesos at the UDI value published by the Banco de Mexico as of such date. Differences in the valuation are recognized as interest expense under the comprehensive result of financing. UDIs are units of account whose value in Mexican Pesos is indexed to inflation as measured by the NCPI. At December 31, 2005, 3.637532 UDIs were equivalent to one Mexican Peso.

l) Liabilities, Provisions, Contingent Assets and Liabilities and Commitments

Liability provisions are recognized whenever (i) the Company has current obligations (legal or assumed) derived from past events, (ii) the liability will most likely give rise to a future cash disbursement for their settlement and (iii) the liability can be reasonably estimated.

When the effect of the time value of money is material, provision amounts are determined as the present value of the expected disbursements to settle the obligation. The discount rate is determined on a pre-tax basis and reflects current market conditions at the balance sheet date and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are recognized only when they will most likely give rise to a future cash disbursement for their settlement. Also, commitments are only recognized when they will generate a loss.

m) Labor obligations

Seniority premiums due to employees are determined in accordance with the Mexican labor law.

The Company recognizes the liability for seniority premiums based on actuarial computations made by independent actuaries, using the projected unit-credit method, as required by Mexican accounting Bulletin D-3, *Labor Obligations*, issued by the MIPA.

The revised Mexican accounting Bulletin D-3, "*Labor Obligations*", issued by the MIPA, effective beginning on January 1, 2005, establishes the overall rules for the valuation, presentation and disclosure of so-called "Other post-retirement benefits" as well as their reductions and extinctions, and it modifies the applicable rules for termination payments. The Company recorded the corresponding liability for personnel indemnities based on computations performed by independent actuaries. Prior to the provisions of the revised Bulletin D-3 coming into force, termination pay was charged to operations at the time the decision to terminate the employee was made.

n) Income tax, and asset tax and employee profit sharing

The Company recognizes deferred taxes using the asset and liability method. Under this method, deferred taxes are recognized on basically all temporary differences in balance sheet accounts for financial and tax reporting purposes, using the enacted income tax rate at the balance sheet date, or the rate that will be in effect at the time the differences are expected to reverse.

The Company evaluates periodically the possibility of recovering deferred tax assets and, if necessary, creates or adjusts the related reserve.

Deferred employee profit sharing is recognized only on temporary differences determined from the reconciliation of current year net income for financial and employee profit sharing reporting purposes, provided there is no indication that the related liability or asset will not be realized in the future.

Current year employee profit sharing is charged to results of operations and represents a liability due and payable in a period of less than one year.

The asset tax may be credited against deferred income tax, and a valuation allowance is created to the extent that based on available evidence it is more likely than not that some or all of the asset tax will not be realized.

The cumulative effect of deferred taxes presented in the stockholders' equity represents the first application of the Bulletin D-4, related to deferred taxes.

o) Financial instruments acquired for hedging purposes

In order to reduce its financial costs, the Company uses derivative financial instruments, which at December 31, 2004, were valued using the same method as the one used to value the assets and liabilities being hedged.

As of January 1, 2005, the requirements of Mexican accounting Bulletin C-10, "Accounting for Derivative Instruments and Hedging Activities", issued by the MIPA in April 2004, became effective; consequently, the Company has modified its policy for valuing and recognizing derivatives. In the Company's balance sheet at December 31, 2005, all derivatives are presented at their fair value, which initially consists of the agreed upon amounts (both for assets and liabilities). Transaction costs and cash flows received or delivered to adjust the instrument to its value at the inception of the hedge (excluding premiums on options) are amortized during the life of the hedge. Changes in the fair value of derivatives that do not qualify as hedges are recognized in results of operations.

A financial instrument can be accounted for as a hedge instrument if, among other requirements, (i) at inception of the agreement the hedge relationship is properly documented, (ii) is valued since its inception and during the period of hedge, (iii) the effectiveness of the hedge is valued before its application and measured thereafter on a reliable basis.

Derivatives designated as and that qualify as hedges are classified as either fair value, cash flow or foreign currency hedges, depending on the particular risk being hedged.

For cash flow hedges, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income in stockholders' equity while the ineffective portion of the gain or loss is reported in earnings immediately. The stockholders' equity component included in the comprehensive income item associated with the hedged transaction shall be adjusted to an amount that reflects the lesser of the following (in absolute amounts): (i) The cumulative gain or loss on the hedge instrument and (ii) the cumulative change in the fair value of expected future cash flows from the hedged transaction from the inception of the hedge. If an entity's defined risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness, such excluded component of the gain or loss shall be recognized currently in earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gains and losses that were previously recognized in stockholders' equity as comprehensive income shall be reclassified into earnings in the same period or periods during which the asset acquired or liability incurred affects earnings. Amounts for cash flow hedges recognized in stockholders' equity as comprehensive income shall be reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

The effectiveness of the Company's hedges is determined at the time the derivatives are designated as hedges and is assessed on a regular basis. Hedges considered as highly effective are those in which the fair value or cash flows of the hedged item are offset on a period-by-period or cumulative basis by changes in the fair value or cash flows of the derivative itself by a range of 80% and 125%.

The adoption of this new pronouncement gave rise to no cumulative effects, since at January 1, 2005 the Company held no investments in derivative financial instruments. The derivative financial instrument contracted in 2005 gave rise to a decrease of Ps. 9,953 (net of taxes) in the Company's comprehensive income for the year ended December 31, 2005.

Through December 31, 2004, the gain or loss from valuing derivatives was recognized in results of operations net of costs, expenses and revenues related to the assets and liabilities being hedged. Those instruments not qualifying as hedges were presented at market value and gains or losses arising from changes in such market value was charged or credited to operations.

p) Earnings per share

The Company calculates earnings per share in conformity with Mexican accounting Bulletin B-14, "Earnings per Share", issued by the MIPA.

q) Concentration risk

The Company's financial instruments that are subject to credit risk are cash equivalents and accounts receivable. The Company invests a portion of its surplus cash in deposits with financial institutions. The Company does not consider the credit risk in accounts receivable to be significant, since usually it does not extend unsecured loans and only transfers the property when the customer or financial institution certifies that the corresponding mortgage loan has been approved and the required down-payment has been made.

r) Comprehensive income

The Company's comprehensive income consists of the net income for the year, the result from holding non-monetary assets, the change in the value of the derivative instrument and the related deferred income taxes applied directly to stockholders' equity.

s) **Convenience translation**

United States dollar amounts as of and for the period ended December 31, 2005, shown in the financial statements have been included solely for the convenience of the reader, and are translated from Mexican Pesos with purchasing power as of December 31, 2005, as a matter of mathematical computation only, at an exchange rate of Ps. 10.7109 to US \$1.00, the December 31, 2005, exchange rate as published by Banco de Mexico in the Official Gazette. Such translations should not be construed as a representation that the Mexican Peso amounts have been or could be converted into U.S. Dollars at this or any other rate.

t) **Reclassifications**

Certain amounts shown in the 2003 and 2004 financial statements as originally issued have been reclassified for uniformity of presentation with 2005.

3. ACCOUNTS RECEIVABLE

a) Accounts receivable consist of the following:

	At December 31,	
	2004	2005
Total estimated incurred construction costs	Ps. 1,813,243	Ps. 1,923,239
Estimated gross profit on costs incurred	904,855	974,078
Total unbilled receivables	2,718,098	2,897,317
Advances from customers	(171,047)	(240,624)
Unbilled receivables on developments in progress	2,547,051	2,656,693
Infonavit, SHF and other	342,973	398,175
	2,890,024	3,054,868
Allowance for doubtful accounts	17,768	15,325
	2,872,256	3,039,543
Accounts receivable ceded under financial factoring	-	279,960
	2,872,256	3,319,503
Current portion of long-term accounts receivable	2,802,290	3,278,391
Long-term total	Ps. 69,966	Ps. 41,112

Long-term trade receivables are related to sales of residential land for development and are denominated in U.S. dollars. All such credits mature between 1 and 7 years depending on the amount of the down payment. The loans are secured by the land sold and bear annual interest between 4.0% and 12.5%.

b) As a result of the factoring line of credit entered into with HSBC Mexico, S.A., the Company has been ceding some of its credit collection rights. At December 31, 2005, the Company has drawn down Ps. 279,960 on such line (see Note 8).

4. RELATED PARTIES

a) Below is an analysis of balances due from related parties at December 31, 2004 and 2005. All of the companies are considered as affiliates of Urbi because the Company's principal stockholders are also directly or indirectly stockholders of these related parties.

	2004	2005
Due from affiliates:		
Loans granted (see subparagraph c below):		
Siglo XXI Desarrollos Industriales, S.A. de C.V. (SIGLO XXI)	Ps. 6,509	Ps. 6,638
Operadora Festival Plaza, S.A. de C.V. (OFESA)	2,248	2,376
Alix Desarrollos Turisticos, S.A. de C.V. (ALIX)	34,281	39,427
	43,038	48,441
Other:		
Promotores de Parques Industriales del Pacifico, S.A. de C.V. (PROINPAC)	120,004	-
ALIX	28,145	-
	Ps. 191,187	Ps. 48,441

b) During the years ended December 31, 2003, 2004 and 2005 the Company had the following transactions with related parties:

	2003		2004		2005	
Loans (granted), net of collection	Ps.	(13,347)	Ps.	22,412	Ps.	(5,146)
Revenues:						
Interests collected on loans granted		6,958		10,509		6,822
Building services provided to stockholders		15,103		6,671		-
Cash collections from stockholders		-		20,040		-
Cash collections from related parties		-		-		149,302
Administrative services to Exportación Industrial del Pacifico, S.A. de C.V. (EXINPAC)		2,322		-		-
Expenses:						
Cash payments to stockholders		4,805		8,603		-
Land bought from stockholders		-		7,526		-
Debt substitution:						
Debt substitution between EXINPAC and ALIX		78,092		-		-
Debt substitution between EXINPAC and PROINPAC		26,119		-		-
Debt substitution between EXINPAC and Others		2,136		-		-

c) The Company has granted unsecured revolving lines of credit for up to Ps. 50,000 to some of its affiliates. These loans bear annual interest rate of TIIE plus 2.00%.

d) In December 2003 the Company had accounts receivable from EXINPAC totaling Ps. 106,347. Subsequently, ALIX assumed Ps. 78,092, PROINPAC assumed Ps. 26,119 and other related parties assumed Ps. 2,136 of Exinpac's obligations, thereby replacing EXINPAC as Urbi's debtors at December 31, 2003.

e) In 2003, the Company provided administrative services to EXINPAC related to a financial restructuring and prospecting of the industrial park managed by such company. During 2005, EXINPAC ceased to be an affiliate of the Company.

5. INVENTORIES

Inventories consist of the following:

	At December 31,	
	2004	2005
Land held for construction	Ps. 5,030,012	Ps. 5,451,423
Advances to land suppliers	237,917	494,474
Houses held for sale	72,409	63,741
Construction materials	77,617	41,704
Advances to suppliers for construction	184,124	108,944
Construction in progress	81,498	229,766
	5,683,577	6,390,052
Less: Long-term land held for construction	655,284	221,264
	Ps. 5,028,293	Ps. 6,168,788

6. OTHER ACCOUNTS RECEIVABLE

An analysis of this account is as follows:

	At December 31,	
	2004	2005
Recoverable taxes	Ps. 85,485	Ps. 162,261
Sundry debtors and executives and employee accounts	35,846	63,048
Guarantee deposits	3,495	13,685
	Ps. 124,826	Ps. 238,994

7. PROPERTY, MACHINERY AND EQUIPMENT

- a) An analysis of this caption is as follows:

	Estimated useful life (in years)	At December 31,	
		2004	2005
Land	–	Ps. 23,318	Ps. 27,380
Buildings	20	46,968	50,255
Machinery	4	96,396	136,809
Automotive equipment	4	71,318	65,192
Office furniture and equipment	3 to 10	252,885	278,329
		490,885	557,965
Accumulated depreciation		(175,250)	(185,486)
Property, machinery and equipment, net		Ps. 315,635	Ps. 372,479

Office furniture and equipment as of December 31, 2004 and 2005 included technology hardware and software investments of Ps. 157,746 and Ps. 188,905, respectively.

- b) Depreciation expense for the years ended December 31, 2003, 2004 and 2005 was Ps. 38,591, Ps.40,974 and Ps. 45,024, respectively.

8. BANK LOANS AND BONDS

- a) The outstanding balances of bank loans at December 31, 2004 and 2005 are comprised primarily of construction bridge loans, as follows:

	2004	2005
Bridge loans denominated in Mexican Pesos, secured by housing developments, at an annual interest rate of 10.61%	Ps. 206,660	Ps. –
Uncollateralized working capital loan denominated in Mexican Pesos, bearing annual interest rate at TIIE plus between 1.00 and 5.00%, or fixed rate at 9.80%	258,325	300,000
Others	9,090	3,366
Sub-total	474,075	303,366
Financial factoring line of credit with recourse with HSBC Mexico, S.A. for up to Ps. 700,000.	–	279,960
Total	Ps. 474,075	Ps. 583,326

The weighted average interest rate on short-term notes payable at December 31, 2004 and 2005 was 9.86% and 10.41%, respectively.

- b) In December, 2005, the Company entered into a financial factoring line of credit with recourse for up to Ps. 700,000 with HSBC México, S.A. Institución de Banca Múltiple. for a 2-year term. On December 30, 2005, the Company drew down Ps. 279,960 with a maximum maturity of 90 days and a discount rate of 3.76% (see Note 3).

c) A detail of long-term debt is as follows:

	At December 31	
	2004	2005
Mortgage loan denominated in Mexican Pesos with interest payable monthly, at an annual rate between 3.00 and 6.67% secured by land held for construction, maturing in 2008.	Ps. 10,463	Ps. 9,747
Mortgage loan denominated in Mexican Pesos, secured by housing development, at interest rate of TIIE plus between 2.50 and 3.00%, maturing in 2008.	182,365	91,667
Mortgage loan denominated in US dollars (U.S. \$ 3,552 and U.S. \$2,813 thousand in 2004 and 2005), maturing in 2010, at interest rate of LIBOR plus 9.95%, guaranteed by the stockholders.	40,015	30,127
Mortgage loan denominated in Mexican Pesos, secured by land held for construction and housing developments, bearing annual interest at the TIIE rate plus 4.00 %, maturing in 2006.	188,624	-
Certificados bursátiles* of Ps. 300,000 denominated in pesos, represented by 3,000,000 of certificates with nominal value of \$ 0.1 each bearing quarter interest at TIIE rate plus 2.85, with a maturity date of March 2005.	302,426	-
Certificados bursátiles* of Ps. 500,000 denominated in pesos, represented by 5,000,000 of certificates with nominal value of \$ 0.1, bearing interest at the TIIE rate plus 2.25, plus 0.50 of withholding tax, with a maturity date of June 2008.	504,044	487,800
Certificados bursátiles* of Ps. 1,000,000 denominated in pesos, bearing interest at the TIIE rate plus 2.04, plus 0.50 of withholding tax, with a maturity date of January 2010.	-	1,000,000
	1,227,937	1,619,341
Current Portion of long-term debt	451,572	159,184
Net Total	Ps. 776,365	Ps. 1,460,157

* The Certificados bursátiles are publicly traded debt instruments (bonds).

The average interest rate on long-term notes payable as of December 31, 2004 and 2005 was 9.87% and 11.67%, respectively. The issuance costs of certificados bursátiles are deferred and amortized over the term of the debt and are recorded as comprehensive cost of financing.

A portion of long-term debt is secured mainly by land held for construction in approximately Ps.164,426.

d) The Company is subject to financial and operating covenants under the loan agreements. As of December 31, 2005, the Company was in compliance with these requirements.

e) Long-term debt maturities are as follows:

Year	
2007	Ps. 252,149
2008	597,966
2009	406,695
2010	203,347
	Ps. 1,460,157

f) As of December 31, 2005, the Company has three revolving loan facilities with Bancomer for a maximum of Ps. 350,000, of which the Company withdraw Ps. 100,000. These lines of credit are guaranteed by all of their subsidiaries and impose on them certain financial covenants, which among other things, limits the ability of the Company to incur additional debt, bearing annual interest rate at TIIE plus 2, maturing in February 2007.

As of December 31, 2004, the Company had six revolving loan facilities with Bancomer, Banorte and GE Capital for a maximum of Ps. 701,000, of which the Company withdraw Ps. 653,609. These lines of credit were guaranteed by all of their subsidiaries and impose on them certain financial covenants, which among other things, limits the ability of the Company to incur additional debt, bearing annual interest rate at TIIE plus between 2 and 4, maturing in October 2006.

9. FINANCIAL INSTRUMENTS USED FOR HEDGING PURPOSES

Urbi Desarrollos Urbanos, S.A. de C.V. and subsidiaries face market risks related to interest rate fluctuations. The Company uses financial instruments to offset such risks.

As part of its financial strategy, the Company has entered into a two-year hedge contract to offset variances in cash flows due to interest rate fluctuations derived from a financial debt.

The Company entered into the Ps. 700,000 floating to fixed interest rate swap with Bancomer, S.A. to reduce the potential impact of increases in the interest rate of the certificados bursátiles described in Note 8. Based on the terms of the swap agreement, the Company pays fixed interest at an annual rate of 9.67% and receives TIE plus 2.04 from Bancomer. Settlements are made on a monthly basis. These instruments are recorded at market value.

The related liability is presented in the balance sheet at December 31, 2005 at net realizable value, which is Ps. 14,019, and gave rise to a decrease of Ps. 9,953, net of taxes in the comprehensive income. The Company recognized a net charge of Ps. 187 to the results of operations for the difference in interest paid.

At December 31, 2004, the Company held no hedges.

10. ACCOUNTS PAYABLE

- a) An analysis is as follows:

	At December 31,	
	2004	2005
Suppliers for construction	Ps. 352,576	Ps. 648,942
Land suppliers	501,290	463,837
Hewlett Packard de México, S.A. de C.V. (Hewlett-Packard)	45,661	11,656
Accounts payable for repurchase of equity	146,425	48,593
	1,045,952	1,173,028
Current portion of long-term accounts payable	863,588	1,111,187
Long-term total	Ps. 182,364	Ps. 61,841

- b) The accounts payable to suppliers of land for housing developments have maturities every year through 2007 and bear an average annual interest rate of 5%.
- c) Some land suppliers retain a purchase money mortgage over the land, which allows them to recover the land if the Company does not fulfill its payment obligations. As of December 31, 2005, the Company had approximately Ps. 56,839 of debt secured by purchase money mortgage.
- d) The long-term accounts payable include Ps. 3,646 of obligations to Hewlett-Packard incurred in connection with licensing and maintenance agreements for software maturity in 2008, bearing an annual interest of 8.5%.
- e) Long-term accounts payable maturities are as follows:

Year	2005
2007	Ps. 61,048
2008	793
	Ps. 61,841

11. TAXES AND OTHER ACCOUNTS PAYABLE

This account consists of the following:

	At December 31,	
	2004	2005
Income and asset tax	Ps. 7,744	Ps. 49,220
Value added tax	45,226	55,150
Payroll and income tax withheld from employees	36,863	29,359
Sundry creditors	60,182	61,200
	Ps. 150,015	Ps. 194,929

12. LABOR OBLIGATIONS

The costs for seniority premiums and termination benefits for the years ended December 31, 2003, 2004 and 2005, determined using the projected unit-credit method and charged to results of operations were Ps. 331, Ps. 354 and Ps. 342, for seniority premiums, and Ps. 54 in 2005 for termination benefits, respectively. An analysis is as follows:

Seniority premiums:

	2003		2004		2005	
Labor cost	Ps.	204	Ps.	225	Ps.	219
Financing cost		61		68		57
Amortization of transition liability		66		61		66
Net period cost	Ps.	331	Ps.	354	Ps.	342

Termination benefits:

	2005	
Labor cost	Ps.	29
Financing cost		12
Amortization of transition liability		13
Net period cost	Ps.	54

Information related to seniority premiums as of December 31, 2004 and 2005 is as follows:

	2004		2005	
Projected benefit obligation	Ps.	1,462	Ps.	1,076
Unamortized transition liability		1,026		997
Net projected liability		436		79
Additional liability		737		633
Labor obligations	Ps.	1,173	Ps.	712
Intangible assets (presented in other assets)	Ps.	737	Ps.	403
Actual benefit obligation	Ps.	1,185	Ps.	721

Information related to termination benefits as of December 31, 2005 is as follows:

	2005	
Projected benefit obligation	Ps.	286
Unamortized transition liability		232
Net projected liability		54
Additional liability		98
Labor obligations	Ps.	152
Intangible assets (presented in other assets)	Ps.	98
Actual benefit obligation	Ps.	155

The transition liability will be amortized over a 19 years, which is the estimated average remaining working lifetime of the Company's employees.

Rates considered in the actuarial computation were as follows:

	2004	2005
Discount rate	5%	5%
Rate of compensation increase	2%	2%

13. CONTINGENCIES AND COMMITMENTS

- a) Federal, state and municipal tax authorities have the right to perform reviews of the taxes paid by Mexican Companies for a period of five years.
- b) The Company currently is not subject to pending legal proceedings, other than routine litigation incidental to its business, against which the Company believes it is adequately insured or which it believes is not material.
- c) As required by Mexican law, the Company provides a one-year warranty to its customers for construction defects, which could be derived either from their operations or from defects in materials supplied by third-parties or other circumstances outside the Company's control. However, the Company obtains a security bond from its contractors to cover the claim from their customers and withholds a guarantee deposit, which is reimbursed to the contractors once the warranty periods expire. In addition, the Company also obtains insurance against any defects, hidden or visible, that the construction may have, which also covers the warranty period.
- d) As a result of its investment in computer equipment, the Company has an operating lease commitment for the use of computer equipment of Ps. 29,593 (US\$ 2,762), payable over 39 months.

At December 31, 2005, minimum future rents under operating lease for terms of less than one year are as follows:

Year ended December 31,	Amount
2006	Ps. 21,927
2007	5,864
2008	1,783
2009	19
Total	<u>Ps. 29,593</u>

14. STOCKHOLDERS' EQUITY

- a) The Company's capital stock consists of fixed capital of Ps. 162,462 (Ps. 87,915 at nominal value), with no withdrawal rights, and variable capital. Capital stock is represented by 298,589,762 paid-in shares with no par value.
- b) At an extraordinary stockholders' meeting held on December 30, 1997 a stock option plan for executives was approved. Total shares of the plan were 12,979,020 of which 5,664,822 (1,888,274 prior to the stock split) were subscribed and fully paid on that same date, and were exercised for Company's executives. The remaining 7,273,650 (2,424,550 prior to the stock split) shares, were fully paid on July 29, 1999. All shares of the stock option plan were held by a trust. On November 12, 2003, on an extraordinary stockholders' meeting held on that same date, the stockholders approved the cancellation of the remaining unexercised shares (7,273,650) through a capital distribution for Ps. 35,796. As of December 31, 2005, the Company does not have any stock option outstanding.
- c) On an extraordinary stockholders meeting held on February 2, 2004 a reduction in equity of Ps.31,574 (Ps. 17,091 at nominal value) was approved and 58,046,310 shares (19,348,770 prior to the stock split) were cancelled. The total of the reduction was Ps. 302,449 (Ps. 280,000 at nominal value). In that meeting the Company agreed to pay this amount by making an initial payment equal to 20% of the transaction and the remaining 80% will be paid in five semiannual payments. The outstanding balances bear interest equal to UDI plus 2%. The reduction of equity will generate an income tax payment, which has been estimated as Ps. 146,736. Tax payments become due at the time the equity payments are made, and such tax can be credited against the income tax expense of the year in the following two years. A total of 46,437,060 shares of two of the Company's stockholders have been placed in an irrevocable guaranty trust with HSBC México, S.A. in order to guarantee the indebtedness of the Company in connection with the above mentioned reduction of equity.
- d) At an extraordinary stockholders meeting held on March 19, 2004, the stockholders approved the increase on that same date in the number of outstanding shares by means of a three-for-one stock split. All per share and shares outstanding data in these financial statements, have been retroactively restated to reflect the three for one stock split.
- e) At an extraordinary stockholders meeting held on April 25, 2004, the stockholders agreed to increase the Company's capital stock in an amount of up to Ps. 35,724 (Ps. 19,339 nominal amount) by issuing 65,689,748 shares representing 22% of the Company's capital stock after the issuance. On May 7, 2004, such shares were placed through a public offering on the Mexican Stock Exchange, and privately in other foreign markets. The capital raised due to the placement of shares aggregated Ps. 2,246,120, of which Ps. 2,087,178 corresponds to the net increase in the stock premium, after considering the expenses incurred on the placement, which amounted to Ps. 123,218.
- f) In conformity with the Mexican Corporations Act, at least 5% of net income of the year must be appropriated to increase the legal reserve. This practice must be continued each year until the legal reserve reaches at least 20% of capital stock issued and outstanding.
- g) Earnings per share are obtained by dividing net income for the year by the average weighted number of shares issued and outstanding during the period.

15. INCOME TAX, ASSET TAX AND EMPLOYEE PROFIT SHARING

- a) Each of Urbi and its subsidiaries, individually, are subject to payment of both income tax and asset tax. Income tax is computed at the rate of 30% over the current year net income for tax reporting purposes. The 1.8% asset tax (which is a minimum tax) is payable on the average value of most assets net of certain liabilities. Since income tax paid may be credited against the asset tax, the latter is actually payable only to the extent that it exceeds income tax. Asset tax paid may be recovered to the extent income tax exceeds asset tax in the following 10 years. The asset tax paid for the years ended December 31, 2003, 2004 and 2005 was Ps. 8,419, Ps. 16,132 and Ps. 11,444, respectively.
- b) Under the Mexican Labor Law, each of Urbi and its subsidiaries are required to pay employees, in addition to their agreed compensation and benefits, employee profit sharing at the statutory rate of 10% of taxable income for this purpose. Employee profit sharing is computed based on taxable income, excluding the inflationary component and the restatement of depreciation expense. For the years ended December 31, 2003, 2004 and 2005, no profit sharing payments were required to be made.
- c) As of December 31, 2003, 2004 and 2005, income tax charged to income was as follows:

	2003		2004		2005	
Income tax	Ps.	10,551	Ps.	–	Ps.	152,578
Asset tax		8,419		16,132		11,444
Deferred income tax		356,091		277,310		376,007
Total income tax	Ps.	375,061	Ps.	293,442	Ps.	540,029

- d) An analysis of the effects of temporary differences on deferred tax liabilities (assets) is as follows:

	At December 31,	
	2004	2005
<u>Deferred tax assets</u>		
Reserve for doubtful accounts	Ps. (5,330)	Ps. (4,444)
Liabilities	(199,693)	(51,866)
Derivate instruments	–	(4,066)
Tax loss carryforward	(91,205)	(352,648)
Asset tax paid in prior years	(56,596)	(69,321)
	(352,824)	(482,345)
<u>Deferred tax liabilities</u>		
Unbilled receivables on developments in progress	815,430	840,222
Fixed assets	10,217	9,105
Inventories	1,293,790	1,662,615
Prepaid expenses	12,158	37,769
	2,131,595	2,549,711
Net deferred income tax liability	Ps. 1,778,771	Ps. 2,067,366

The effect of deferred income tax included in the result from holding non-monetary assets and derivative instruments in equity for the years ended December 31, 2003, 2004 and 2005 was Ps. 24,846, Ps. 28,543 and Ps. 25,442, respectively.

- e) The major items that gave rise to a difference between the statutory tax rate and the effective income tax rate are as follows:

	At December 31,		
	2003	2004	2005
Statutory tax rate	34.0%	33.0%	30.0%
Inflation effects	0.9%	0.4%	0.5%
Non deductible expenses	3.2%	2.4%	2.5%
Others	3.5%	3.6%	3.3%
Effective income tax rate before the reduction	41.6%	39.4%	36.3%
Reduction of the effective income tax rate	(5.6%)	(18.9%)	(4.5%)
Effective income tax rate	36.0%	20.5%	31.8%

As of December 31, 2004, a reduction of the statutory income tax rate of 33% in 2004 was approved, to 30% in 2005, 29% in 2006 and 28% in 2007. The effect of this reduction in the tax rate was recognized in the computation of deferred taxes in the years ended December 31, 2003, 2004 and 2005, and represented a benefit of Ps. 58,285, Ps. 270,533 and Ps. 76,436, respectively.

- f) Effective as of 2005, the Income Tax Law was modified so as to allow for the tax deduction of cost of sales rather than purchases. As a result of this change, the beginning balance of inventories will be taxable equally over 12 years since the Company's inventory has a turnover of 0 to 1. However, a tax deduction on the purchase of land for construction is still allowed.
- g) As of December 31, 2005, the balance of the Restated Contributed Capital Account (CUCA) was Ps. 2,379,903 the balance of the Net Tax Profit Account (CUFIN) was Ps. 437,972. Any distribution of earnings in excess of these account balances will be subject to payment of corporate income tax at the enacted tax rate at that time.
- h) The Company has tax loss carryforwards, which, in conformity with the current Mexican income tax law, may be carried forward, restated for inflation and applied, against taxable earnings generated in the next ten years.
- i) An analysis of the available tax loss carryforwards and recoverable asset tax as of December 31, 2005, restated for inflation, is as follows:

Available tax loss carryforward				
Year of loss or of tax payment	Year of expiration	Restated amount	Deferred tax effect	Restated recoverable asset tax
1996	2006			Ps. 6,202
1997	2007			4,829
1998	2008	Ps. 52	Ps. 15	5,226
1999	2009	—	—	7,652
2000	2010	—	—	4,271
2001	2011	4,577	1,327	3,316
2002	2012	—	-	694
2003	2013	1,758	510	9,118
2004	2014	85,399	24,766	16,569
2005	2015	1,124,243	326,030	11,444
		Ps. 1,216,029	Ps. 352,648	Ps. 69,321

16. FOREIGN CURRENCY TRANSACTIONS

The financial statements as of December 31, 2004 and 2005 include the following U.S. Dollar denominated assets and liabilities:

	(Thousands of U.S. Dollars)	
	2004	2005
Current assets and total assets	17,004	27,881
Bank loans and total liabilities	(19,808)	(20,091)
Net (short) position	(2,804)	7,790

The exchange rates used to translate the above-mentioned assets and liabilities were Ps. 11.2648 and Ps. 10.7109 per U.S. Dollar as of December 31, 2004 and 2005, respectively, as published by Banco de Mexico in the *Official Gazette*.

The exchange rate as of March 28, 2006 was Ps. 10.8568.

17. SUBSEQUENT EVENTS

- a) On January 1, 2006, the requirements of the Mexican Financial Information Standards Research and Development Board (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.* or CINIF) went into effect and replaced certain the standards previously issued by the MIPA. The Company expects that the adoption of these new rules will not give rise to any changes in the Company's financial structure or in the significant disclosures in its financial statements.
- b) On March 27, 2006, the Company executed a U.S. dollar currency hedge agreement with UBS AG and expects to execute a U.S. dollar currency hedge agreement with Merrill Lynch Capital Markets AG. These currency hedge agreements will have a combined aggregate notional amount of US\$105.0 million.

Something about Urbi's Vocabulary

Urbi's sound original corporate culture is also shown by the existence of its own vocabulary. This has developed naturally over the years, to describe particular attitudes and situations of the business.

Our Philosophy. A set of principles and values that guide our daily behavior and the search for consistency in what we say and what we do.

The Chicken. Without chicken there's no chicken broth. Without sales and collections there's no business.

Seekers of Truth. It is a consensus process that over time and in different places the most valuable and important concept for everyone, the path to be followed, becomes clear. To replace "Either this or that", with "And also". At Urbi, one engaged in seeking truth must be on the management team. The one who finds it must lead the team.

Seekers of Well-Being. Giving is the most important source of enjoyment, of happiness. At Urbi, we believe that the path to personal, professional and economic growth comes only from giving. Giving to grow.

Seekers of Beauty. That which is beautiful and valuable we make it a part of us, our person, our family, our friends, we are part of a whole. This whole is part of our circle of belonging. We are willing to hand over our whole energy, talent and passion to protect and take care of all that which we consider to be ours. If we grow our circle of belonging, our energy, talent and passion would also grow.

At Urbi we understand our customers, investors, people, suppliers, industry, community and our environment as part of our whole. We are willing to protect them and take care of them.

The Greatness of Spirit. It is the search for truth, well-being (giving) and beauty (understanding that we are part of a whole). Our directors are developing their ability to lead themselves and therewith they are developing the primary quality to lead others. Urbi's commitment is to stimulate, protect and reward any action and/or idea that develops the Greatness of Spirit.

Talent. The knowledge, energy, discipline and passion, which together make up our talent, constitute the most valuable resource we have.

Complementarity. It is the sum of the vectors. The team is strengthened when the strengths and weaknesses of its members are complemented.

Become responsible for yourself. Winning teams are not formed by leads and employees. Nor with leaders and followers. They are formed with people who become responsible by themselves. People willing to give their best. Urbi seeks to fill itself with individuals who become responsible by themselves.

Giving Our Best. A working team is only in balance when each of the members gives his best.

Leap. To accelerate growth.

No First-Class Tickets. It denotes a resource-saving attitude, one of austerity, with everyone sharing the vision of being owners of the company.

Green Green [a play on "Seeing Clearly"]. Don't take what is obvious for granted. Make agreements very clear. Verify that both parties have correct information. Insist on clarity in agreements.

The Name of the Game. What is the name of the game we are playing? What is the objective, what is the goal we are pursuing?

The Kilo in Hand. When resources are scarce, we must centralize and optimize their use, to make them more efficient and valuable.

Market Research: the Names of the Dogs. When conducting research, it is necessary to go into detail, including knowing how many dogs there are on the block. It is a matter of accurately understanding the needs and potential of our target market.

Equal If Equals, Unequal If Not. Tasks and rewards must be balanced and fair. Differentiating, not mediatizing the contribution.

The Eye of the Tiger. The will to excel, of fighting, of winning, of facing the obstacle, the challenge. Not turning one's back on problems.

Keep your Claws Sharp. That the potentiality of our people and their thrust become evident.

Eggs and Ham. We know the difference between commitment and participation. Commitment means conviction regarding what we want, certainty that the described future exists and that it is ours. Participation means hoping for the benefits of shared effort, the usefulness of a hoped-for result. Commitment generates enjoyment, enthusiasm, decision, energy and discipline. Participation generates mistrust, uncertainty and hesitation. In a breakfast of eggs and ham, the hen participates, the pig is committed. At Urbi we want committed personnel.

The Prestige of Doing. I obtain prestige and recognition with the result of my performance. To give, one has to do.

Enjoying the Process. Enjoying the Work, the Contribution.



“Notre Dame shows
the most sensational football
the nation have ever seen”
Baltimore Sun (1912)

The Forward Pass.

Probably the biggest change that opened up the game to more fan interest was the rule legalizing the forward pass. At first players could pass the ball only under narrow restrictions, and the pass did not become a major offensive tool until rules modifications in 1912 allowed more passing flexibility. Notre Dame, then an excellent but little-known team, spent the entire summer preparing for what everyone else was calling an intricate and unreliable move.

In 1912 Notre Dame called the entire nation’s attention to the new weapon when it used the pass to shock powerful Army at West Point, the only defeat the Cadets suffered in 1912.

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We would like to thank all of Urbi’s children for their enthusiastic collaboration.

As a precautionary note to the reader, except for the historical information herein provided, certain statements included in this annual report may constitute forward-looking statements and are based on management’s expectations regarding the economic conditions in Mexico and other countries as well as the fluctuation of the Mexican peso compared to the US dollar and/or other currencies or other factors that could affect the Company’s development.

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URBI



Our brand values:

Harmony
Tranquility
Prestige
Transcendence

 **urbi**
VidaResidencial