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## **DESARROLLADORA HOMEX**

**Moderator: Carlos Moctezuma**

**July 26, 2006**

**8:00 am CT**

Coordinator: Good morning and welcome to the Desarrolladora Homex Second Quarter 2006 Earnings Conference Call. At this time, all participants are in a listen only mode. Later we will conduct a question and answer session and instructions will be given at that time. I would now like to turn the conference over to your host, Mr. Carlos Moctezuma, Head of Investor Relations at Homex. Sir, you may begin.

Carlos Moctezuma: Thank you. Good morning and welcome to the Homex Second Quarter 2006 Results Conference Call. My name is Carlos Moctezuma and I am the Investor Relations Officer of the company.

On the conference call today are Gerardo de Nicolas, Homex's Chief Executive Officer and Mario Gonzalez, our Chief Financial Officer, who will discuss some of the important events that took place during the quarter as well as provide a review of the key figures after which we will open the call for a question and answer session.

I would like to remind you that certain statements made during the course of this conference call about future events and financial results, constitute forward looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements are subject to risk and uncertainties. Discussion of factors that may affect future results are contained in our filings with the Securities and Exchange Commission. We undertake no obligation to correct or update any forward looking statement provided as a result of the new information, future events or even changes in our expectations.

Now, I would like to turn the call over to Gerardo de Nicolas.



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Gerardo de Nicolas: Thank you Carlos. Good morning and thank you for joining us with this call for results for Homex Second Quarter 2006. We reported a strong second quarter following the market close yesterday with over 76% increase in revenues, or 2.9 billion pesos versus 1.6 billion pesos in the same quarter last year. Taking our acquisition of Beta into account for the second quarter of 2005, total second quarter 2006 pro forma revenues show a 23.5% gain over the last year's second quarter.

Middle income revenue increased in terms of its participation in the overall sales mix from 16.7% to 17.8% on a pro forma basis when compared to the second quarter last year driven by the opening of new communities in (unintelligible) and Vallarta, and six new expansion phases that were communities in Acapulco, (unintelligible), Veracruz, Caro, (Majarta) and Jalapa.

During the quarter, we opened seven new phases expanding our affordable entry level communities in La Paz, Cabo, Jalapa, Culiacan, Acapulco, Morelia and San Antonio in the State of Mexico.

During the second quarter, Homex achieved over an 88% increase in the volume of homes sold when compared to the same quarter of 2005. On a pro forma basis, the number of homes sold during the quarter was 17.7% higher than the comparable quarter last year on affordable entry levels, 28% on middle income and 18.4% for the total volume.

Average prices in affordable entry level segment increased 1.9% year over year whereas for the middle income segment increased 2.8%. Bear in mind that the overall house prices continue to increase at inflation pace.



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We continue to make improvements in our profitability which is reflected in our improved EBITDA for the quarter, almost 48% higher than the comparable pro forma EBITDA for the second quarter 2005. EBITDA margins came in at 24%, 390 basis points over the pro forma margin reported in the same quarter last year.

Homex continues growth in the number of middle income homes sold as well as synergies realized by upgrading former Beta branches to Homex's standard contributed to our strong margin improvement.

We remain focused on our geographic diversification and strategy with a role to have a leading presence in the 30 most attractive housing markets in Mexico by year end 2008. We continue to believe that this strategy is the cornerstone of long term leadership in the sector.

New mortgage funding vehicles are appearing in the marketplace, making mortgages attractive to customers and expanding funding of the alternative. At the same time, in front of it with more than 45% of the mortgage back securities market is growing fast. And as a consequence, provided 74% of the mortgage financing to our customers while SOFOL and commercial banks with a major presence in the middle income segment representing 18% of the company's home sales mortgages, leading (unintelligible) with an 8% participation during the quarter.

We also continue to realize the benefits of the acquisition of Beta we made last year. The acquisition of integration of Beta into Homex has been extremely positive and it is now complete. July 1 marked the first anniversary of this acquisition so our next quarterly release will not be on the basis of pro forma results.

We will continue to focus on improving our combined operating efficiencies and working capital management. At the end of the quarter, accounts receivable were 5.2



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billion pesos and as a percentage of the last 12 months, total revenues significantly improved to 48.8% from 62.5% reported at the end of the second quarter 2005. This achievement reflects our continued focus on improving efficiencies with our construction and collection processes. We're also working with the banks and SOFOL to speed up their processes from our perspective.

We also extended the same culture of speeding collections to the former Beta communities providing the managers the tools, IT systems and policies needed to reduce accounts receivables. As of June 30, 2006, accounts receivables turnover using end of period information 174 days, while inventory turnover days without land and utilizing end of period information was 59 days including land and using end of period information, inventory turnover was 224 days.

We continue to follow up carefully planned strategy of maintaining about 2.5 years of future sales in our land bank as well as at least two more years in option land. This strategy provides an efficient use of capital. It is further enhanced by our payment terms by which we pay a portion of the land purchase price up front and make further payments as the relative (unintelligible) process advance. The increase you see in our accounts payable as a percentage of sales during the quarter do reflects this payment approach.

As of June 30, 2006, the company reported a land bank of approximately 146,000 lots of which almost 116,000 were available for affordable entry level and almost 30,000 for building. Homex also maintains approximately 145,000 lots in options land which represents an additional 2.5 years of anticipated sales.

Now our CFO, Mario Gonzalez, will provide you with a brief rundown of the financial results for the quarter.



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Mario Gonzalez: Good morning to all of you. Gerardo informed you at the beginning of the call Homex achieved very strong results for the second quarter '06. Total volume increased 88.1% to 10,603 homes sold during this quarter, 92% of these homes were affordable entry level segments and 8% were the middle income segment. On a pro forma basis, second quarter volume increased 18.4% compared to the same quarter last year.

Total revenues for the quarter were 2.9 billion pesos or 76.5% increase over 1.6 billion pesos reported in the comparable quarter of last year. On a pro forma basis, revenue increased 23.5% over the same period in the prior year primarily driven by a 71.6% gain in near income revenues for the quarter.

Second quarter gross profit rose 84% to 912.6 million pesos. Gross margin increased 130 basis points to 31.8% over second quarter 2005. On a pro forma basis, those margin increased 270 basis points from the 29.1% reported in the same quarter last year and was driven by the synergies realized from Beta acquisition and increased volume of higher margin middle income home sales.

We were able to improve our gross margin for the quarter despite increasing costs for certain materials such as copper plumbing. Over a year ago, we increased the use of (CPVT) plumbing in houses as opposed to copper plumbing, therefore reducing the impact of increasing material costs to a minimum. We're now in the process of renegotiating our steel (unintelligible) procurement agreements. Dealing with increasing steel prices, the impact is less than .5% on our total material cost and we largely expect to be able to parse any cost increases into the final (unintelligible) price that has been in line with inflation for the past few years.



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(Unintelligible) as a percentage of revenue was 9.9% in line with the second quarter of 2005. On pro forma basis, (unintelligible) as a percentage of revenue was reduced from 10.3% reported in the same period of last year.

Operating income increased 87.7% to 629 million pesos with an operating margin of 21.9% for the quarter. On a pro forma basis, operating margin improved 310 basis points from 18.8% in the second quarter of 2005.

Net comprehensive financing costs rose to 175 million pesos in second quarter '06 from 29 million in the comparable period last year. Resulting from higher interest costs associated with higher debt level and a non-cash foreign exchange loss of 37 million pesos compared to a gain of 3.6 million pesos in the second quarter '05.

As previously reported, under FAS 133, Homex has recognized fair volume measurement for hedge derivative instruments. As a result, there is not a cash effect in the re-measurement of the foreign denominated debt or the mark to market of the derivative hedge.

Second quarter net income increased 46.7% to 333 million pesos compared to 227 million pesos reported for second quarter of '05. On a pro forma basis, net income rose 27.3% from 261 million recorded in the same period last year.

Earnings per share reached .99 cents of a peso in the second quarter of this year versus .72 cents of a peso reported in the comparable quarter of last year. In terms of ADS, earnings per share reached approximately 53 cents of a dollar per ADS compared to 38 cents of dollar reported for ADS in the second quarter '05. Also we are reporting higher net income results. The number of shares outstanding increased from 314 million in June '05 to 336 million in June '06 after the Beta acquisition.



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EBITDA for the second quarter increased 88.4% to 689 million pesos with an improved EBITDA margin of 24%. On a pro forma basis, EBITDA rose 47.9% and EBITDA margin improved 390 basis points over the 20.1% margin reported in the second quarter '05.

As of June 30, '06 Homex had attached position of 1.7 billion pesos. As a result, our report to net debt was as well of 1.7 billion pesos. Our net debt to EBITDA ratio is .68 times. A significant improvement over March 31, '06 when the company reported a ratio of .93 times. Homex reported increasing leverage levels with total debt to capitalization at June 30, of .27 times on a gross interest coverage of 6.6 times.

Our reported free cash flow after land purchases and CAPEX during the first half of 2006 was approximately 358 million pesos as a result of improved margin, after construction and collection processes as well as the full impact of the Beta synergies. Homex reported a net working capital cycle of 278 days composed of turnover reported by Gerardo of 174 days of receivables plus 224 days of inventory with land minus 120 days of our accounts payable value at cost and that includes non-payables. The net working capital cycle represents a terms in which all working capital is in use in Homex and represents one of the most efficient one exists in the Mexican homes development industry.

We're pleased with the Homex performance in the second quarter '06 particularly in the revenue growth, the margin expansion, working capital and cycle improvements, particularly in collections and a strong free cash flow position that contributed to a reduction of the reported net leverage.

I will now turn the call back to Gerardo.



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Gerardo de Nicolas: Thank you Mario. We're pleased to continue reporting strong progress on our results from operations. We are affirming the guidance we provided to the investment community in March. We expect revenues for 2006 of approximately 11.8 billion pesos and EBITDA margins in the range of 23.5% to 24%. Free cash flow positive after net acquisition for the full year as we have been in the last two quarters and a net debt to EBITDA ratio below one time.

The Mexican housing market continues to be strong and Homex is prepared to take full advantage of this trend both in the affordable entry level and middle income markets. Affordable entry level will continue to be the largest portion of our business. At approximately 80% of the demand in Mexico is in this segment. But we also expect positive growth trends in the middle income segment that will contribute to potential margin expansion in the future.

I'm sure you're aware, Mexico has experienced a very close presidential election. We believe that the Mexican housing authorities will continue to strongly support the Mexican home building industry as it represents an important job and wealth creation for working class families. And the home building sector in Mexico is a large contributor to the country's GDP and is critical to the future development of the country.

Thank you for your time today and operator, we're now ready for questions.

Coordinator: Thank you. At this time we'll begin the question and answer session. And if you would like to ask a question, please press star 1 on your touchtone phone. Once again that's star 1 if you would like to ask a question. To cancel your request, press star 2.

We have our first question coming from (Vonsalo Fernandez) from (San Cender).



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(Vonsalo Fernandez): Hi, good morning everyone and congratulations on very good results. My question is on working capital. We saw a significant improvement in collection and inventory turnover in the first half. Could you share with us your expectations for these ratios and for the end of the year. Do you think that the collection could slow down the deal in the second half because of this issue of the presidential change? And also which is your target for inventory turnover to maintain it at this level or to probably increase it?

And the second would a technical issue. You mentioned that your debt in dollars is fully hedged, in fact, you don't report your debt and dollar denominated, you reported in pesos, both within the report some exchange losses. So that kind of doesn't (unintelligible).

Mario Gonzalez: Good morning (Vonsalo). Yes the first part of your question I guess we came over with an outstanding working capital cycle. The receivables as you have seen came off from 192 (unintelligible) days to 174 days. We expect even to go farther and reduce these. We have an internal goal of 150 days. In terms of accounts receivable total sales, we reached 48% coming off from 54%.

Regarding inventory we are right now very close to what we want to have. Inventory with land is 224 days, without land it's 59 days. Our goal is to keep it at material inventory at 60 days turnover. So we will keep going forward doing better job in receivables and bringing these important ratio even further down, which is the working capital cycle. We are being focusing in it and we will continue to win it.

Regarding the debt, as previously reported, on there 533, Homex is recognizing fair volume measurement for both the underlying which is \$215 million, U.S. dollar in secured notes, (unintelligible) in secured notes and the hedge of this debt. So every



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quarter we're bringing non-cash changes to both the underlying as well as the hedge derivative. The total amount of these non-cash items for the first quarter were 87 million pesos. For the full year, I mean, the semester, the total non-cash foreign exchange losses that we are recording are 138 million pesos. As explained, these eventually through the time will be recovered since the principal is fully hedged by our derivative and of course, the only part that is non-hedged are the coupons.

(Vonsalo Fernandez): Okay thank you. And if I may do a follow up, you're mentioning that you're expecting positive free cash flow for this year. I don't know if you can be a little more specific, probably to provide a range.

Mario Gonzalez: Yeah we have basically from last year been recording positive cash flows. We're happy about it. The vision for us, the company vision is to continue growing at the top of the industry but at the same time have a good and positive free cash flow generation. Yes we are reporting a total free cash flow for this semester of 358 million pesos. It's basically the third or fourth quarter that we're recording positive free cash flow. We did it also in the first quarter so we expect to continue generating free cash and growing as we move forward in the full year.

(Vonsalo Fernandez): Okay thank you.

Coordinator: Thank you. We do have our next question coming from (Dan McGoey) from Deutsch Bank.

(Dan McGoey): Good morning gentlemen and congratulations on the results. My question just relates a little bit if you look out to 2007, what sort of growth plans you're provisioning for. And specifically, the business continues to see much stronger growth in the affordable, and middle and upper income homes are a fairly small percentage. I'm wondering how you see that mix evolving in 2007.



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Gerardo de Nicolas: Thank you (Dan). As we mentioned, the growth in both segments has been impressive for the quarter. Our growth in middle income compared with the second quarter of 2005 is 28% and at this time, middle income represents 18% of our revenue and we will continue with the trend of increasing middle income as a percentage of our revenues, but taking care of the impact on the working capital cycle. Middle income maybe will be at around 20% of our volume of homes in the future, but we are always considering the impact on the working capital cycle of the new middle income development that we are including every quarter.

(Dan McGoey): Okay so I guess, you know, if I can interpret that to mean that for next year the driver will still very much continue to be the volume growth in the affordable side. Do you have preliminary expectations for 2007 growth and where does Homex really encounter capacity limitations given you're now by far the largest, given the exceptional size of volume production that Homex does on an annual basis?

Gerardo de Nicolas: We have been growing in both segments. We have been consistent with our vision of having a leading presence in the 30 most attractive housing markets. And the next week, we're going to announce a new city that we're going to open in the second half of this year following this trend. And as we mentioned, this is a solid foundation of long term leadership in the sector. We as an overall, Homex is representing around 6%, 6.5% of the total market and we feel comfortable of taking market share in any given city, in any one of these 30 markets where we want to have a leading presence by the year end 2008.

(Dan McGoey): Great. Sorry, sorry I missed it. Did you mention growth expectation for 2007?

Gerardo de Nicolas: Not at this time (Dan).



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(Dan McGoey): Okay.

Gerardo de Nicolas: But we feel comfortable on growing on both segments. We have seen opportunities. Now we have a better (unintelligible) the securitization, it's becoming more common on the industry and that we will support growth in both segments. But at this time, we are not providing any specific guidance for growth in 2007.

(Dan McGoey): Okay thanks. Congratulations on a strong result.

Gerardo de Nicolas: Thank you (Dan).

Coordinator: Thank you sir. We do have our next question coming (Carlos Separalone) from Merrill Lynch.

(Carlos Separalone): Thank you, good morning everyone and congratulations on the very strong results. The question is related to this year's guidance you have given on a pro forma basis, a guidance in revenue growth of 18% to 20% and you have grown about 22%. Do you feel that the second half should be as strong as the first, and if so, would you be thinking of raising your guidance in the next quarter?

Mario Gonzalez: (Carlos) we are really very comfortable and of course very happy to report these results, positive growth of 22%, 23% of revenue growth. We're still not in a position of giving a guidance for the coming year. The market we think is showing an average growth of 15% to 17% so we are above that and we have been above over the last, I guess, four years. So we hope to continue bringing this good and positive sales growth, not yet - we are not yet planning to change of any of our 2006 guidance moving forward.

(Carlos Separalone): Okay. Thank you very much.



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Gerardo de Nicolas: Thank you (Carlos).

Coordinator: We do have a next question coming from (Ivan Berona) from (GBM).

(Ivan Berona): Good morning everyone and congratulations on your report again. Well my question is regarding the company's inventory. Would you mind breaking it down in land work in progress and construction materials.

Mario Gonzalez: Yes (Ivan) receivables total - I'm sorry total inventory with land that we're reporting in terms of days is 224 days. The total inventory in materials that we're reporting is 59 days which has been coming up from 270 days to this 224 days bringing a positive working capital cycle.

The percent I show working - the inventory work in process from the total guidance normally you mean reducing to consider that almost 75% of it is land, 5% of it is materials inside and 20% of it is work in process.

(Ivan Berona): Thank you very much.

Coordinator: Thank you once again as a reminder that's star 1 to ask a question. And we do have our next question coming from (Jorge Coullie) from Morgan Stanley.

(Jorge Coullie): Hi good morning everyone. I have a question on your land options. Can you give us a little bit more detail from them? Are they exclusive do they have an expiration date what is the carrying cost? How many units did we present? You know what geographic distribution they have.



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What distribution by housing segment. You know any color you can give would be greatly appreciated. Also do you have to disclose more details on the options on the US GAAP and if so are you planning to disclose them here? Thanks a lot.

Gerardo de Nicolas: Hi (Jorge) the options land that we have are typically comfort with an expiration date of maybe term of maybe two years. We - in some cases we do a down payment of - ranging from 1% to 3%. And this option land is mainly related to the permitting process. As you can see on our land reserve that we report we have a - a land reserve report for middle - 20% of our land bank is for middle income.

Even in terms of volume middle income at this time represented around 8%. We are working on and having the capabilities of increasing middle income of a percentage of our volume of revenue. And the option land is from the same mix we have around 20% of the option land on middle income to give us a support to increase this segment in the future.

(Jorge Coullie): Thank you.

Gerardo de Nicolas: Thank you (Jorge).

Coordinator: Thank you we do have our next question coming from (Francisco Chavec) from Bank America.

(Francisco Chavec): Yes hello and good morning congratulations for the sold also. I have a question regarding the free cash flow generation. So far this year you have a positive free cash flow of around 360 million Pesos. What is the expectation for the second half of the year? Do you still maintain your guidance of slightly positive free cash flow? And if so what's going to be the investment for the second half - what's going to be the use of the free cash flow.



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Mario Gonzalez: Yes (Francisco) thank you. Yes as we reported we for the first six months have generated a positive free cash flow of 358 million Pesos. At the end of last year also we reported that we have recorded a positive free cash flow. That was after the Beta acquisition.

That means that since we have been able to obtain those synergies - have acquired after that acquisition of Bets we have continually reporting this free cash flow so it's not something new. And thanks to the positive synergies that we have generated after this acquisition we're reporting these positive numbers.

And moving forward we expect the same thing for the coming year. Our guidance has not been changed we will have a positive free cash flow for 2006. And later on we may come with new items for 2007.

(Francisco Chavec): Okay thank you.

Coordinator: Thank you and once again as a reminder that star 1 to ask a question. We do have our next question coming from (Adrian Weta) from JP Morgan.

(Adrian Weta): Hi good morning everyone and congratulations on the good results. I have two questions the first one if can you give us more details on how much land have you acquired in the first quarter and the second quarter that has been fully paid. What basically has been your investments in land in the 1Q and 2Q and how much more land are you expecting to acquire in the second half of this year.

And the second question is regards to the improvement in gross margin which was quite significant over the second quarter of last year. It seems like it was obviously higher than whatever was the level of Homex prior to date. So I guess the



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improvement has to do also more with other improvements rather than all of the efficiencies in the Casas Beta acquisition.

If you could give us the fuller details on where these improvements are coming from please - thanks.

Mario Gonzalez: Yes (Adrian) regarding the first part of the question which is land we have acquired nearly \$70 million of land this first semester. Out of that as you know we have said we do not pay all of the land in cash. We do obtain in a way payable terms of positive way at least that we have been negotiating land acquisition. And we have paid between \$40 and \$50 million out of those that we have acquired in this specific semester.

We expect to purchase another \$70 million of land in the coming second semester. In terms of the efficiencies of land and the progress that we have achieved has not been possible only with the Beta with incorporating Beta to our standards.

We have been improving in both the Beta branches and Homex branches with a special focus on reducing the cost of construction the time of construction. And the SG&A you can see the three main programs be reflective on our higher margins and growth.

We have been working on both parts of the company - on the former Beta branches and the Homex branches. When we do the acquisition of Beta on July 1 2005 we have a small set back on this trend. But now you can see one year later that this trend has been consistent with our tendency of improving having a higher growth and putting the seat for a long term leadership in this sector.



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(Adrian Weta): Thank you so do you feel really comfortable with this level growth margin going forward that you can achieve these levels?

Gerardo de Nicolas: Yes we will continue with our improvement programs with the foreign improvement programs that we have mentioned. And we will continue improving these margins. And as we are moving more on middle income our potential growth on gross margin is a good of opportunity for us as we are not concentrated as other companies on middle income.

(Adrian Weta): Thank you very much.

Coordinator: Thank you we have a follow up question coming from (Jorge Coullie) from Morgan Stanley.

(Jorge Coullie): Sorry I just realized that the second part of my question wasn't answered. The options of land -- do you have to disclose them under Mexican GAAP or US GAAP? Thank you.

Gerardo de Nicolas: (Jorge) not at this time we don't need to disclose it. On your question about what are these options located. These options are located on the cities where we have presence and on the cities where we're going to start having presence on the second half of this year.

Summation in the next weeks we're going to announce the new cities where we're going to open to be consistent with our goal with having a leading presence in the 30 most effective housing markets by year end 2008.

(Jorge Coullie): Thank you - thanks a lot.



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Coordinator: Thank you sir - we do have our next question coming from (Cecilia Del Castillo) from City Group.

(Cecilia Del Castillo): Hello good morning how are you and congratulations again on the results. I apologize because I don't know if you have already answered these questions. But I was wondering if you can give us more color on this (unintelligible) you have followed to reduce the accounts receivable. And what do you expect for the following quarters.

And also if you can comment on the role of - on the (unintelligible) financing what are your expectations for the second half of the year in terms of the effects of your (unintelligible) please.

Gerardo de Nicolas: Yes thank you (Cecilia) the main reason of reducing the accounts receivable has been - there is a full integration of Beta the reduction and the construction cycle on both companies. You know that we measured the time of construction on a daily basis and on a home by home basis.

We have been working with - in front of it with the banks and the performance on reducing the collection process. Maybe you know that we have agreements with City Group where they shall receive with (unintelligible) to consider in order for us to speed up the collection process.

And we are now reducing the number of developments on every city to be more - not just more efficient but more concentrated on the speeding up both times - the collection and the construction time.

On the hedge Mario will elaborate on that. Mario please.



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Mario Gonzalez: Yes good morning (Cecilia) in terms of the interest expense moving forward you may be considering net interest expense between 100 and 105 that we have been reporting last cycle for the quarters. I don't expect any change on that. That's been net interest expense. In terms of growth we're reporting 135 million Pesos.

As you know we have both the amount of cash in banks in business so far 1.730 billion Pesos. So on a net basis it should be between 100 and 105. The foreign exchange loses that we are reporting - our known cash foreign exchange loses under 133 homes we decided to recognize fair value measurement.

We reported these in the past quarter. And as a result there is no cash effect in either the foreign exchange denominated that nor the market of the US hedge both in this quarter had an effect of 87 million Pesos of loss. And for the full year 138 million Pesos of loss.

Moving forward for the next years to come eventually any movement in that line will be recovered completely. So depending upon the effects and the former rates you may be from time to time recording book loss and the recovery of that book loss in the next quarters to come.

Just to remind you the (unintelligible) of the foreign US and secure 250 million note is 40 hedged. The coupons are not hedged. We might to decide in the future to fully hedge the coupons to make it effective or decide to maintain the current stance.

(Cecilia Del Castillo): Okay that was clear thank you.

Coordinator: Thank you we do have our next question coming from (Ivan Berona) from (GBM.)



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(Ivan Berona): Hi everybody again. Well here I have a question regarding suppliers. You can witness a strong view that you grow in this bracket. Would you mind giving us some color on that?

Gerardo de Nicolas: It is difficulty (Ivan) on suppliers from an accounts payable what is your specific questions?

(Ivan Berona): Yes we went into year over year large increase in this bracket from around -let's see here 846% year over year. So would you mind giving us some color from that increase?

Mario Gonzalez: (Ivan) we're in a way from the Beta acquisition improving the way that we've being purchasing land. Which I think is good for all because then we're reporting improved through that working capital cycle our efficiencies in Homex.

The total accounts payable turnover that we have reported is 128 days. It is true that we have reported 3.1 billion Pesos as accounts payable as of June 2006. If we defer to March was not that far away was 2.9 billion Pesos. And in terms of turnover it was even a little bit higher - was 150 days.

So you will see that moving forward accounts payable will remain the same levels - the same turnover levels that we have as I said before the working capital cycle will continue improving through the time. And basically the improvement will come on the receivable side.

Beta suppliers now have the same terms that Homex suppliers. And we are benefiting of those positive synergies.

(Ivan Berona): All right thank you very much.



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Coordinator: Thank you we do have our next question coming from (Adrian Weta) from JP Morgan.

(Adrian Weta): Hi just a follow up I basically just wanted to make a suggestion. It would be great if you guys could include in the next presentation brake down of all of your inventory and also your accounts payable to see how much you really have in land bank and also how much you also have in land payables. That will help us a lot really to understand the evolution of working capital and to forecast the free cash flow going forward as well thank you.

Mario Gonzalez: Yes (Ivan) thanks for the comment. We will eventually take it into consideration.

Gerardo de Nicolas: And improve the presentation in the future.

(Adrian Weta): Thank you then.

Coordinator: Thank you we do have our next question coming from (Paulina Corivoka) from (Bluebay Asset Management).

(Paulina Corivoka): Hi gentlemen thank you for the conference call. I apologize I joined in late I might ask a question that you've answered already. Could you give us some guidance on the 2005 - sorry 2006 cap ex. And the expected land acquisitions. Thank you.

Mario Gonzalez: Yes (Paulina) good morning. Thank you the total topics that we have reported for this semester was 156 million Pesos. Out of that I would say that two thirds comes from our investment in our new offices at Culiacan. We are moving forward



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showing annual cap ex on basically equipment of nearly \$110 million on a year basis. On that regarding may be at a - calculating how much we have paid.

That is 150 - between 120 and 150 million Pesos (Paulina). On the land side we have been acquire so far 1.4 billion Pesos to put everything in Pesos on a year basis to keep within 2.5 times of future sales.

(Paulina Corivoka): Excellent and on the working capital projections I imagine that you plan to improve the working capital management. And do you expect to free cash flow positive by year end? Would you be in a position to give us any quantitative targets let's say like in terms of say your working capital cycle that you expect to achieve by '06?

Mario Gonzalez: Yes (Paulina) actually we don't expect to be positive free cash flow - we already are positive free cash flow. But we do expect as we said on that division of the company to continue growing at the top of the industry.

But at the same time being generating as our guidance is mentioned positive free cash flow we have said that it is the end of last year. We have reported consistently positive free cash flow and we expect to this year.

(Paulina Corivoka): Okay but you did not provide the guidance for example what you expect your working capital day cycle to be by year end. And at the moment you said for example there was 278 days as reported. Would you be in a position to through out the guidance for year end?

Mario Gonzalez: No...

(Paulina Corivoka): No.



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Mario Gonzalez: We're (Paulina) yes the working capital cycle that we have been reporting consistently is coming off we believe and continually improving that working capital cycle because that makes us to bring of course efficiencies. So we feel comfortable with that. The only thing that we have provided not here was that we will continue improving the seeable. And we have said that right now we have reported a turnover greater than 12 months of 174 days.

But we don't have the guidance in there but we do have an internal goal for bringing this seeable to 150 days. And with that in hand yes we have shown a marvelous working capital cycle. I even believe it is one of the best in the industry. But we will continue bringing those good reports in the coming quarters.

(Paulina Corivoka): Okay brilliant and lastly more a general question of the industry dynamics. Are you seeing an increased competition from your main competitors or are you seeing a shift towards different segments. I know you've noticed - well most of your growth last quarter was driven sort of the low income cycle but you're also going to the middle income segment.

If you could just give us a little bit of an update on the competitive landscape thank you.

Gerardo de Nicolas: Yes (Paulina) what we have seen after the successful integration of Bets we have seen a lower performance of medium companies to Homex. Companies that are facing more competition of the big home builder, facing more companies in the Homex with larger development with more amenities than them.

And we are - we believe that in the future we'll be less competitors - less numbers of home builders in the industry. We are seeing to the do it home builder leaving



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Mexico. And we believe that the consolidation plan in Mexico will go faster than in the states. That is what we have seen less competition and more offers to Homex.

(Paulina Corivoka): I see and your strategy your acquisition strategy will remain in place going forward.

Gerardo de Nicolas: Yes we have followed the strategy of increasing how our middle income presence. And we are going to continue with this trend. And we mentioned that we're going to do it taking into consideration that the impact of the middle income projects on the working capital cycle.

Maybe you know that we have only three developments that need right buildings out of 70. Then most of our developments are single homes. And that is how possibly the impact from the working capital cycle. We will continue having more middle income. But not impacting the activity of our working capital cycle.

(Paulina Corivoka): So my question was more related to the - my second question was more in relation to your expansion strategy. In the past your preferred way of expansion is more through acquisition. Is that the method which you are going to follow in the future? And also you mentioned for example the consolidation in the industry. Are you expecting to be one of the main players in the consolidation activity? Thank you.

Gerardo de Nicolas: Yes in the - from 2001 to 2005 the company has been growing or has growth at compounded annual growth rate of around 90% organically. We do the only acquisition in the home building industry in Mexico.

In the future we're planning to grow organically as we mentioned we're growing - we grow in this quarter 23.5% in revenue generating free cash flow. And we will



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continue growing at this rate. We are not planning - at this time we are not having any acquisition on the pipeline.

And we are foreseeing on the future the organic growth.

(Paulina Corivoka): Thank you very much.

Coordinator: Thank you no at this time I show now further questions. I would like to turn the call back over to our speakers for closing remarks.

Gerardo de Nicolas: Thank you very much for the - for joining us on this conference call. We're proud of this successful quarter one of the best in our short history as a public company. With very good improvement in working capital cycle with free cash flow generation with improved margins. With a full impact of the integration of Beta and now the tenure is being shown on our numbers.

And the growth that has been the base for this is strategy of being the leader in the 30 most attractive housing markets in Mexico. We are proud of this team achievement and we will continue giving you information of our growth in the future. I will now turn the call to Carlos Moctezuma.

Carlos Moctezuma: Thank you well thank you all again and just to (unintelligible) this call will be available starting later today by dialing 1-800-489-7525 number that was noted. And (unintelligible) will be also available on the Web site or you can access it through the Homex Web site. Thank you very much for your interest in the company and thank you and have a good day.

Coordinator: Thank you everybody for joining the conference call today. Have a good day - you may disconnect your lines at this time. Thank you.



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### **About Homex**

Desarrolladora Homex, S.A. de C.V. is a leading, vertically-integrated home development company focused on affordable-entry level and middle-income housing in Mexico. It is one of the most geographically diverse home builders in the country. Homex has a leading position in the top four markets in the country and is the largest builder in Mexico, based on the number of homes sold and net income.

For additional corporate information please visit the Company's web site at: [www.homex.com.mx](http://www.homex.com.mx)