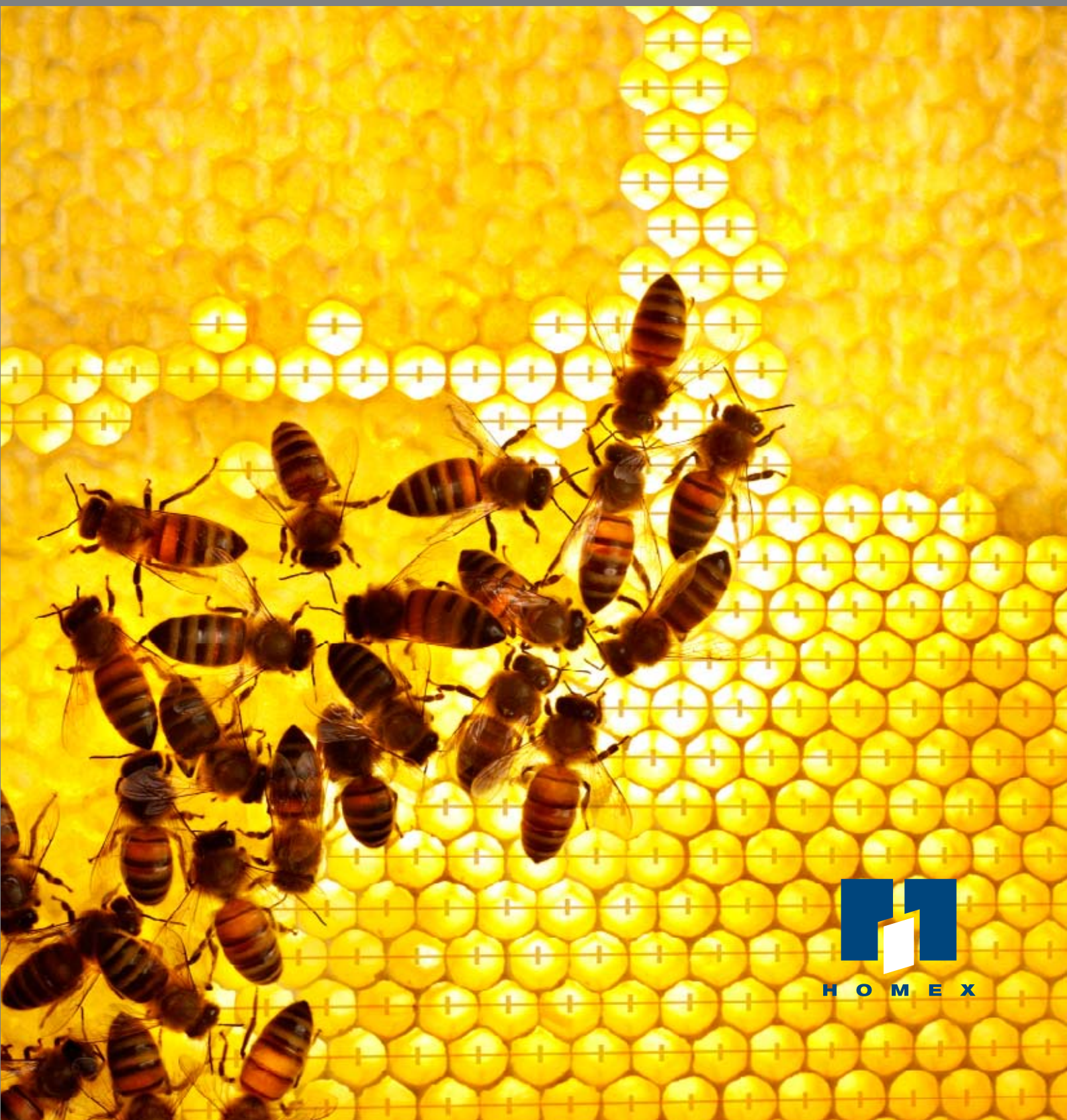


# Strategic by Nature

ANNUAL REPORT 2011



H O M E X



**OUR VISION**

Building Successful Communities.

**OUR MISSION**

To improve the quality of life of our community through superior quality real estate developments.

**OUR VALUES AND PRINCIPLES**

Our Ethics and Values help Homex to choose the right decisions for the common wealth. As well it allows us to build a healthy relation and team work to succeed in our objectives and commitments. As such, at Homex our daily work is dictated by the following values:

**Commitment**

Is what we promise to do. We honour our word. What we say that we will do, we do.

**Responsibility**

Is being the cause of something, or the origin of it, the reason or motive for which things happen. An attribute of serious and trustworthy persons.

**Clear, Honest and Open Communication**

Transparent untainted, precise and straightforward, spontaneous and frank, incapable of deceit.

**Innovation and Vanguard**

The capacity to constantly bring new ideas into every stage of our work, allowing us to stand ahead of our competition as we blaze new trails and implement new trends for our company.

**Integrity**

Is being true to our word. Being consistent in what we think, what we say and what we do—in a word, being reliable.

**Quality**

Satisfying the requirements of internal and external clients.

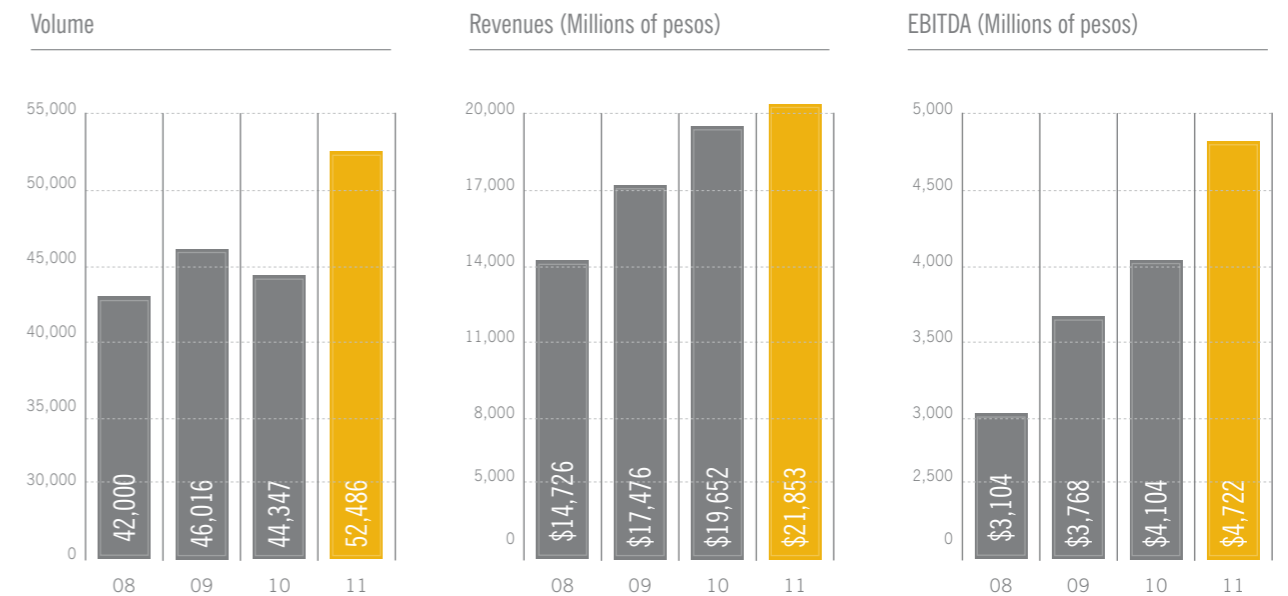
## Financial and Operating Highlights

Thousands of pesos	2011	2010	Change %
Volume (Homes)	52,486	44,347	18.4%
Revenues	\$ 21,853,279	\$ 19,652,309	11.2%
Gross profit	\$ 7,050,822	\$ 6,683,157	5.5%
Operating income	\$ 4,282,848	\$ 3,702,778	15.7%
Net income <sup>(1)</sup>	\$ 1,618,231	\$ 1,649,534	-1.9%
EBITDA <sup>(2)</sup>	\$ 4,721,623	\$ 4,104,084	15.0%
Gross margin	32.3%	34.0%	
Operating margin	19.6%	18.8%	
Net income margin	7.4%	8.4%	
EBITDA margin	21.6%	20.9%	
Earnings per share	\$ 3.90	\$ 4.52	
EBITDA / Net Interest	3.0x	3.2x	
Net Debt / EBITDA	2.4x	2.3x	
Accounts receivable (days) period-end	33	36	
Inventory turnover (days) period-end	696	727	
Inventory (w/o land) turnover (days) period-end	443	408	
Payables turnover (days)	95	110	

Gross Profit and Operating income figures and margins are presented adjusted by the application of MFRS D-6: "Capitalization of Comprehensive Financing Cost"

(1) Net Income and net income margin adjusted by FX

(2) EBITDA is defined as net income plus depreciation and amortization, net comprehensive financing cost, income tax expense, employee statutory profit sharing expense and capitalized interest.



## Our History

**89**

Homex was founded in Culiacán, Sinaloa.

**91**

The Company expands its operations into the Affordable Entry – Level housing segment.

**92**

Initiates expansion into other states.

**93**

Intensifies strategic planning and geographical expansion. Starts development of proprietary information systems.

**97**

Ten branches under operations.

**99**

ZN México Funds acquires a minority stake.

**02**

Equity International Properties acquires a minority stake.

**03**

Homex re-entry to the Middle-Income housing segment.

**04**

Intensifies Geographical Expansion. Completes dual listing of shares on the New York Stock Exchange (NYSE) and Mexican Stock Exchange (BMV).

**05**

Casas Beta acquisition and Issuance of US \$250 million Senior Guaranteed Notes due 2015.

**06**

Emphasizes on Corporate Governance initiatives.

**07**

Strategic purchases for a new construction technology based on aluminum moulds.

**08**

Integration of two new divisions: International and Tourism.

**09**

5th Anniversary as a Public Company and 20 years of un-stopped operations  
Delivery of the first homes at Brazil.

**10**

Creation of the Infrastructure Division which focus is to serve as subcontractor of the Mexican government

**11** Successful transition into the new construction model of vertical construction in México.

## Geographic Distribution

### MÉXICO

Baja California Norte  
Baja California Sur  
Chiapas  
Chihuahua  
Coahuila  
Durango  
Estado de México  
Guanajuato  
Guerrero  
Hidalgo  
Jalisco  
Michoacán  
Morelos  
Nuevo León  
Oaxaca  
Puebla  
Querétaro  
Quintana Roo  
Sinaloa  
Sonora  
Tamaulipas  
Veracruz

### BRAZIL

Sao Paulo  
Mato Grosso do Sul



**77.0%** OF MEXICO'S POPULATION AND  
**22.9%** OF BRAZIL'S POPULATION COVERED BY OUR OPERATING FOOTPRINT.



**TO OUR SHAREHOLDERS AND FRIENDS,**

It is our privilege to share with you our 2011 accomplishments, our commitments for 2012 and our vision for Homex 2020. Investments in Homex aim to provide for greater financial returns, but equally important, as we see it, they enable a social return, which results from the positive impact that we create, enriching the livelihoods of families in Homex communities throughout Mexico and Brazil. Our mission, “Building Successful Communities,” continues as the foundation of our goals and activities.

During 2011 we were witness to how the new global financial order continued to materially impact and adjust economies around the globe. For us, 2011 has been a year of consolidation and maturation of strategic initiatives throughout our business lines.

Our **Mexico Division** is the core of our business operations, and we are highly focused on the vast potential for growth opportunities in our own backyard. During 2011, our ability to successfully mainstream vertical construction into our production mix has been a testament to our innovative spirit; the versatility of our business model; our learning and deep experience over the past 22 years, building quality and enduring homes for thousands of satisfied customers; and the flexibility of our aluminum mould construction technology, all of which has encouraged us to keep thinking of a promising future for our Mexico operations.

At our **International Division** during 2011, we achieved steady and remarkable progress in our first international project in Brazil. The Brazilian housing market has been an ideal target for our international expansion activities, principally because of the strong fundamentals and early stage of development of the housing industry in the country, and the fact that the Brazilian government, as well, is deeply concerned about its housing shortage and has also developed programs of banking subsidies and incentives for its lower income population. It is important to note that the close comparison of market, government and social demographics is a primary reason why our housing construction business model has been so successfully replicated in Brazil.

Through almost two years of ground experience in Brazil, we have gained important insights into the special attributes of the market there, and we continue to be confident in this growing market opportunity, particularly as we have made important improvements in operating efficiencies and working capital management.

**Our mission,  
“Building Successful  
Communities,” continues  
as the foundation of our  
goals and activities.**

**Our Infrastructure Division has become an important source of additional revenues for the Company.**

Our operations in the country are still relatively small compared to our overall business, where revenues from Brazil represented approximately 2.8 percent of total revenues during 2011; but we have only just begun in the Brazilian market and we are excited about the growth opportunities ahead.

Our **Infrastructure Division** has become an important source of additional revenues for the Company. We are excited about our initial contracts with federal and state governments and proud of our ability to leverage our years of exposure as a housing construction company into additional, affiliated areas, such as the work we have been doing for the government, including our two key contracts for the construction of new, correctional facilities in Morelos and Chiapas. These special projects we undertake for the government represent attractive returns and margins for Homex.

Homex **Tourism Division** represents a longer-term growth opportunity for us, yet here too we feel a strong affinity for this business because of our years of experience in the home building and real estate development industry. The second-home/vacation home market continues to be activating in Mexico after somewhat of a lull caused by worldwide financial challenges. We have aligned our product offering and development initiatives more to current economic conditions and have made our premier properties more affordable to a wider market audience.

In summary, considering the performance of our four divisions; during 2011 we made important inroads in improving efficiencies, evidenced by the stability of our EBITDA margin and the important reduction in Selling, General and Administrative expenses (SG&A). Achieved efficiencies in our SG&A were principally driven by two reasons: smarter marketing, which means more personal and closer attention to our customers' needs; and a culture of operating efficiency leveraged by our IT platform and systems, which have enabled us to reduce overhead and enhance profitability.

We feel good about our overall performance during 2011, and certainly our achievements and learnings have helped us shape our 2012 objectives and expectations.

In 2011, some companies opted for reducing their size as a response to the economic pressure. We took the decision to consolidate our strategic initiatives to secure a sustainable and more

profitable growth in the future, at the same time concentrating on the generation of positive free cash flows at each of our four divisions.

In our **Mexico division 2012**, we will continue working to gain market share in the markets where we have operations today, as we see less competitive pressures and more consumer recognition of our quality product offerings.

We will remain strategically focused on the affordable entry-level sector of the market, as a result of our strategy of following mortgage and demand trends. Our land reserve is sufficient to cover six years of future operations, considering our new, vertical construction standards. As well, we will remain focused on attending to the affiliated demand, while at the same time monitoring the development of a new program at the affordable entry-level which will address the non-affiliated segment of the market, which in 2012 anticipates the origination of some 20,000 additional mortgages.

We will continue to work closely as a team with the Mexican government and the housing institutions to build a strong and sustainable industry. At the same time we will align with new employment conditions, demographic trends and to the implementation of advances in eco-technologies, thus continuing to be an active promoter of an orderly maturity of the industry; a process that began approximately 15 years ago, and in which we have been playing an active role ever since.

In Brazil, we anticipate that the most relevant challenges that we will continue to face, at least for the nearer term, are the administrative bureaucracies within the mortgage system, specifically with respect to the transference of property titles, labor costs and availability. Despite these probable challenges, we are confident about our ability to continue to grow our operations in Brazil, and in 2012 we plan to provide new homes for approximately 1,800 Brazilian families.

For 2012, our Infrastructure Division will have two separate and independent sources of revenue; the first is related to the continued execution of building service contracts we have with both federal and state agencies as subcontractors, and where projects are cash positive from the start; and the second is related to our contracts with Mexico's Public Security Secretary, regarding the two prisons mentioned above. Once prison construction is completed,

**We will remain strategically focused on the affordable entry-level sector.**

at the end of 2012, we will start receiving annualized payments from the operation of the Federal penitentiaries, which will cover an ensuing 20-year period, and provide Homex a steady and continuing revenue source.

At our Tourism Division in 2012, we will continue to work with an open mind to create second and vacation home communities that address prospective customer needs and expectations, offering high quality homes and an environment where they can have fabulous moments and long standing memories with their families.

#### HOMEX 2020 VISION

*"The best way to predict the future is to create it now."*

-Peter Ferdinand Drucker - influential thinker and author of management theory and practice

Looking to the future, in 2011 we began to carve out and develop a 10-year vision of the future for Homex which subsequently will be the source of our actions and accomplishments.

In our 10-year vision, we are committed to transforming the culture of Homex. Transforming culture means shifting the nature or context of Homex from a place where people come to work to support their livelihood to an opportunity for people to come to work to express themselves through the performance of a service and the act of building houses. In other words, people are not working just for paycheck, security or for a title, rather they are coming to work to express themselves through their professional expertise (as an architect, painter, engineer, janitor, accountant, CEO, programmer, manager, etc..). Such transformation translates to a high performing culture with a positive impact on the community and the quality of homes we build, more satisfied customers, sustained future sales, a productive work place with higher qualified employees, and with an increased recognition of the Homex brand... all of which translates to higher bottom-line profitability.

During the decade 2011-2020 our aim is to cause breakthroughs in both financial and social ROI, through expanding our capacity both as employees and as an organization to serve more clients, thus creating successful communities, where our client's families buy the homes they love and love the homes they bought, and where customers value the Homex home as a preferred place to raise their families.

At Homex, we will continue to be ever mindful of our fiduciary commitment to all our stakeholders. As our investors, we thank you for your confidence and support in the decisions we've taken during the year and for being part of the continued success of our Company. We look forward to the opportunities that lie ahead, strategically focused on tapping growth opportunities at our four different divisions and mindful of the importance of achieving growth alongside positive cash flow generation.

Sincerely,



**Eustaquio de Nicolás**  
CHAIRMAN OF THE BOARD



**Gerardo de Nicolás**  
CHIEF EXECUTIVE OFFICER



Homex has been a vertical construction pioneer in Mexico and is well positioned to respond to the government's new initiatives.

## MEXICO DIVISION

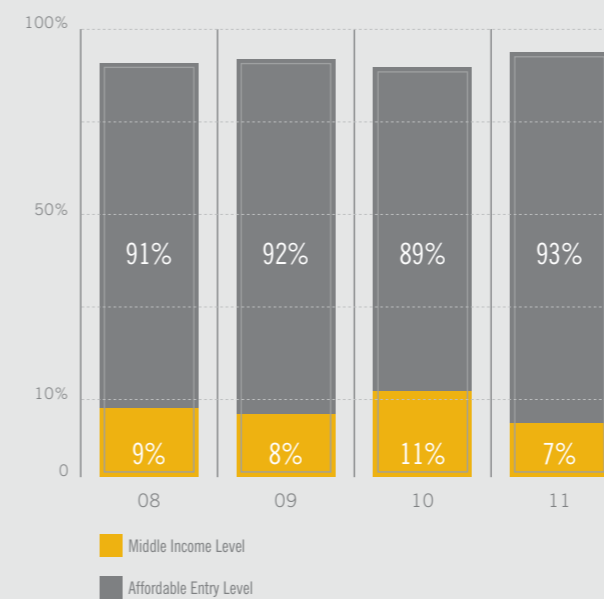
### THE MEXICAN EAGLE

The eagle, or aguila, has long been considered a symbol of prominence and sacredness, from ancient civilizations to modern-day cultures, throughout the world. And as a literal symbol of Mexico, the Mexican Eagle (the crested caracara) is thought to be the bird depicted on the country's original national emblem and flag, whereas the modern Mexican emblem and flag now display the golden eagle. Its size, speed and agility make the Mexican Eagle one of the most powerful predators in North America. They can dive towards prey at speeds of more than 150 miles per hour.

While they remain a dominating force in nature, Mexican Eagles are also master builders at heart, as both males and females participate in constructing enormous and durable nests. These nests serve as homes to which they may return for several breeding years. And much like the Mexican Eagle, Homex continues to be a strong competitor in its environment, ultimately recognizing a responsibility for creating quality and long-lasting homes for those living in its socially-conscious communities. Homex mirrors many of the strong and swift qualities shown by the Mexican Eagle.

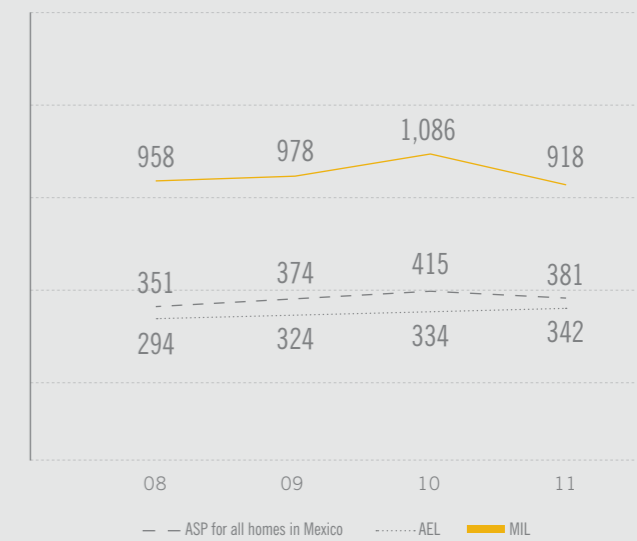


Volume



Average Sales Price (ASP)

(thousands of pesos)



#### HOMEX MEXICO DIVISION

2011 was an important year for the housing industry in Mexico, as key changes and incentives came down from the governments, that suggest a promising future in years to come. That future is encouraged as well by demand for housing that continues to outstrip the supply of new homes.

The level of available mortgage financing for the affordable entry-level has continued to grow in part as a result of Mexican government policies and incentive programs. President Calderon's Administration's goal is to finance six million mortgages during his administration, which concludes in 2012. Thus far, some 5.7 million mortgages have been financed under President Calderon, satisfying 95 percent of this goal.

The actions of the current administration to secure housing for Mexican families and mortgage supply in Mexico have resulted in an active housing industry, supported by solid private and public institutions. The developer-built market has continued to expand due to continued availability of mortgage financing, especially through Mexican housing dedicated funds, such as INFONAVIT and FOVISSSTE. In November, INFONAVIT published its five-year plan, and it alone plans to provide 2.7 million mortgages in the five years following December, 2011, on the other hand, FOVISSSTE has been outspoken about its ability to provide at least 70,000 mortgages in an annual basis.

At Homex, we have maintained emphasis on our legacy business, the affordable entry-level segment of the market, where we are decidedly one of the market leaders in Mexico. One of the most important achievements in the year was the successful transition of our housing construction mix to vertical construction. We see continued opportunities to grow our market share in this sector primarily in the markets where we currently have a presence (some 35 cities) with improved product offerings and further alignment to vertical construction of three to four story buildings. We continue to experience high demand for affordable entry-level homes due to the large deficit of housing stock, a growing young population, high rates of urban growth, new household formation and a decreasing number of competitors.

While we remain in the middle income housing construction sector, we have mindfully reduced our exposure in this area, due to the fact that mortgage financing for the sector continues to be credit constrained. Only 6.9 percent of our total units were in the middle income sector in 2011.

A major industry milestone during 2011 was a change in INFONAVIT law, whereby starting in May 2012, the Institute will provide follow-on mortgages for those subscribers who have paid off their first mortgage. This usage is expected to add approximately 56,000 new mortgage awards, annually, which are not included in the institute's five year plan.



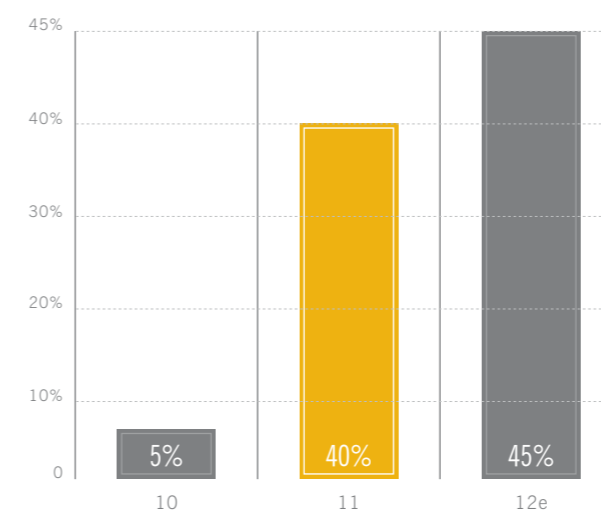
There is also greater government focus on creating better planned communities through increased construction density that creates economic, social and environmental benefits for Mexican families and the country. As an encouragement to homebuilders to support this new government focus on higher density projects, CONAVI and INFONAVIT have created some very real incentives, such as (1) access to more and larger subsidies for consumers; (2) an exclusive budget of subsidies; (3) higher priority given to vertical housing mortgage applications; and (4) permanent registration with INFONAVIT for vertical housing mortgage applications. Furthermore, INFONAVIT during 2012 will roll out a program that should encourage builders, with an advance of 50 percent of the total mortgage monies applied for in a vertical building that is 75 percent complete.

Homex has been a vertical construction pioneer in Mexico and is well positioned to respond to the government's new initiatives and incentive programs. By year end 2011, nearly 40 percent of our product mix was in vertical construction, and we expect that in 2012 that proportion will rise to 45 percent of total construction in process. It is important to note, as well, that we have applied our aluminum mold construction technology to our vertical construction process, which adds significantly to construction economies and time to completion. Homex is already in compliance with sustainability and competitive scoring standards set by CONAVI and INFONAVIT.

Homex has also long emphasized planned, eco-friendly and socially conscious communities through the incorporation of schools, day-care facilities, parks and houses of worship and

other social services in its various developments, throughout Mexico. Homex launched its "Homex Community" concept in 2008 and has continued to expand this idea to date. This concept is designed to improve urban and environmental planning and offer integrated services, attractive to a younger population, providing social interaction and shopping along with the convenience of services and entertainment, essentially improving the quality of life.

% of Vertical Construction





Our successful projects in Brazil reinforce our ability to leverage on our successes in Mexico.

## INTERNATIONAL

### THE MONARCH BUTTERFLY

Though small in size, the delicate and beautiful Monarch Butterfly accomplishes more than meets the eye. Every year, millions of monarchs undertake a journey of up to 2,500 miles in their annual migration from Canada and the U.S. to their wintering grounds in Mexico. Once in Mexico, the monarchs congregate in the oyamel fir trees of Michoacan and Mexico states, forming the Monarch Butterfly Biosphere Reserve, which has been recognized by UNESCO as a world heritage site. Covering over 200 square miles, these reserves offer visitors the opportunity to witness and surround themselves with thousands of fluttering butterflies.

The Biosphere Reserve is truly a wonder of nature as the monarchs, in their own way, gather to form a solid ground carpet. These monarchs have thus created a home that is not only beautiful, adorned with the many vibrant colors of their wings, but also structurally sound. As the Monarch Butterfly, Homex operations at Brazil are prepared to undertake a promising journey of growth and success at the time that developments in both Mexico and Brazil are built with a solid community infrastructure at the forefront.



#### HOMEX INTERNATIONAL DIVISION

With respect to our International Division, we have made great progress over the past few years

As a result of extensive market research, Homex identified Brazil as its first tangible, international project and delivered its first homes in this market in 2009, from its first 1,300-unit affordable entry-level development in Sao Jose dos Campos, northeast of Sao Paulo.

The Brazilian economy has shown strong signs of breakout activity, which at least initially looks to be sustainable, and the housing market has responded accordingly. There are accompanying signs of government encouragement for the housing market in the country, the model for which is very similar to the Mexican system of subsidies and incentives, particularly for the lower income sector. So, Homex sees very promising, near-term opportunities for its developments in Brazil, particularly since we have gained valuable knowledge and practical experience on the ground in this market.

The Brazilian government through its last two administrations, has strongly supported and facilitated the housing mar-

ket in the country. The government's social housing program, called Minha Casa Minha Vida (My House, My Life), allows Brazilians earning up to 10 times the minimum monthly wage to buy their own home through mortgage banking facilities and receive a subsidy according to their monthly income provided by the Caixa Economica Federal Bank, which is the largest public bank in Latin America and leads the Brazilian mortgage market. Qualifying families of Minha Casa Minha Vida homes receive preferential mortgages and tax exemptions or reductions. This low income housing initiative is devoted to responding to the country's housing deficit with access to three million new homes throughout Brazil by the end of 2014.

Our successful projects in Brazil reinforce our ability to leverage on our successes in Mexico, to develop new opportunities in other under-served housing markets. The replication of our homebuilding business model in similar economic environments is strongly supported by our integrated and proprietary IT system, which strategically supports sales and construction and monitors both in real time, helping Homex to attain more efficient and timely

working capital management. We will continue to cautiously evaluate prospective, new markets without losing focus on Mexico, our primary and still opportunistic market.

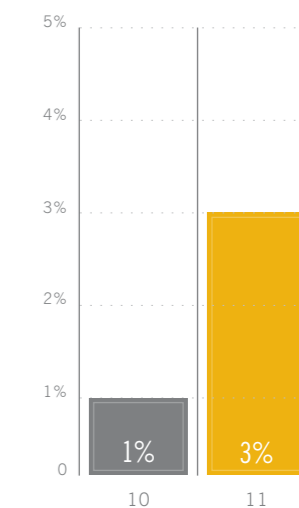
During 2011, Homex was able to maintain a sustainable rhythm in work-in-process at its housing developments, which demonstrates the company's capability to exploit acquired expertise and the compatibility of its proven business model and construction technology based on the use of aluminum moulds in the Brazilian market.

The company's international expansion policy is to target foreign markets with the attributes of continued, under-served demand for housing; population density; strong government attention to lower income housing challenges, including subsidies and incentives. As well as a economic and political stability. Homex feels that its proven business model can be replicated in such markets all over the world, particularly in the affordable entry-level housing sector.

During 2012, Homex will continue to focus on its three current projects in Brazil, located in the states of Sao Paulo and Mato Grosso do Sul in the cities of Sao Jose dos Campos, Marilia and Campo Grande. These three projects, under construction, are the equivalent to approximately 5,800 homes.

We look forward to expanding Homex's reach around the world by applying our business model to other lower income sectors in need of affordable housing.

% of International Division Contribution to Total Revenues





# INFRASTRUCTURE

## MEXICO'S JAGUAR

As the largest cat in the Americas, the Mexican Jaguar is a force to be reckoned with. It has been depicted in Native American cultures as a symbol of strength and power – a true warrior. The Mexican Jaguar is the third largest living feline species, after the tiger and the lion. Its compact stature combined with incredibly powerful jaws and an exceptionally powerful bite gives the jaguar a major hunting advantage in nature. They are a keystone species that play an important role in stabilizing the ecosystem and regulating the populations of the animal kingdom.

Above all, the species is opportunistic and fiercely independent, much like Homex's attitude and activities in the homebuilding arena. Homex is extremely attentive and an important investor in the ecosystems of its many developments in Mexico and Brazil. The company strives to stay at the top of the affordable housing food chain while keeping its competitors at bay. It is opportunistic, as well, developing businesses that drive off its core competencies, such as infrastructure and penal system construction projects.

Our infrastructure work with the Mexican government is an attractive opportunity as it contributes to the generation of continuous cash flows and positive cash management.



#### HOMEX INFRASTRUCTURE DIVISION

The Infrastructure Division was established in 2009, when the Mexican federal government first invited Homex to bid as a subcontractor on federal construction projects of a diverse nature. Since then, we have taken on several projects and our work has expanded as subcontractor among various state agencies as well.

Homex is uniquely qualified to handle these state and federal contribution and services contracts because of our scalable and standardized business processes, which have been so successful since our inception 22 years ago, and have allowed us to enter new markets so rapidly and efficiently. Our proprietary information technology systems are intended to integrate and monitor our operations throughout the construction process and provide for efficiency, financial controls and timely working capital management, whether in homebuilding or other construction activities.

Our infrastructure work with the Mexican government is an attractive opportunity as well, in that, unlike the homebuilding model, Homex is paid for its work on an advance-of-construction basis, which always involves down payments and progress payments, and which of course, contributes to the generation of continuous cash flows and positive cash management.

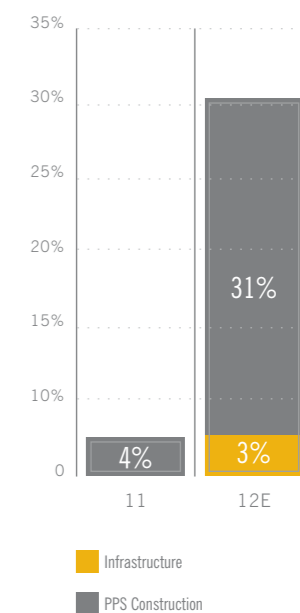
During 2010, Homex has been awarded by Mexico's Public Secretary two separate contracts to construct and operate federal correctional facilities in the states of Morelos and Chiapas. The contracts call for completion of these two, new prisons during 2012, and construction is well underway.

Importantly, and in addition to prison construction to occur during 2012, Homex has been contracted to provide ongoing services, such as laundry, food services, gardening and maintenance, which we will begin upon delivery of the facilities and continue for the ensuing 20-year period.

Similar to its highly efficient homebuilding processes, Homex utilizes its aluminum mold construction technology in prison construction; and other materials used in the construction process already exist within Homex's supply chain. Homex works with a well known team of outside prison construction and design specialists to oversee the design and execution of both projects.

There is a move afoot in the Mexican government office of the Secretary of Public Security considering upgrading the country's penal system facilities on a broader scale and should this come to pass, Homex is certainly well positioned to benefit by such initiatives.

% of Infrastructure Division Contribution to Total Revenues





A long-term growth opportunity for Homex concentrated on new, luxury vacation and second home developments in very unique and privileged locations in Mexico.

## TOURISM

### GRAY WHALES OF MEXICO

The Gray Whales of Mexico are known to be very human-friendly creatures, and surprisingly warm to the touch. They make the longest annual migration known of any mammal, traveling some 6,000 miles along the North American coastline from Baja California to the cold waters of the Bering and Cukchi seas off of Alaska (and back). The Gray Whale travels slowly for months, without food, during day and night, and is persistent in its pursuit. Many are pregnant females that seek protection in safe havens to bear their calves. The mothers are often the last to depart when it is time to leave, as they wait until their newborns are ready for the migration. Though this journey is a long one, it demonstrates the steadfast nature of the Gray Whales of Mexico. Migration and nurturing are instincts to the Gray Whale, no matter what the obstacle may be.

Similar to the Gray Whales of Mexico, Homex demonstrates not only persistence but also professional instinct in all homebuilding and development projects, even when the journey to get there takes time. And in the same way that the warm and friendly Gray Whales of Mexico care for their families, Homex remains committed to developing quality homes and active lifestyles for those in its communities, and to its award-winning corporate social responsibility endeavors. At the same time, residents and visitors to our touristic projects, Las Villas de Mexico development in Loreto and Los Cabos, enjoy whale watching in the Gulf of California.



**HOMEX TOURISM DIVISION**

The Tourism Division continues to be a long-term growth opportunity for Homex. With world economies strained over the last few years, the second home/vacation home market has not been as buoyant as in the past; so, Homex has taken a more conservative investment attitude towards developing this business. Nonetheless, the Company is committed to this market, which it believes shows a great deal of promise, and has shown initial signs of resurgence.

The Tourism Division concentrates on new, luxury vacation and second home developments in very unique and privileged locations in Mexico, some virtually untouched, on beautiful land and seascapes. For the near term, Homex has stepped up its marketing and promotional activities for its three main properties in Loreto, Los Cabos and Cancun.

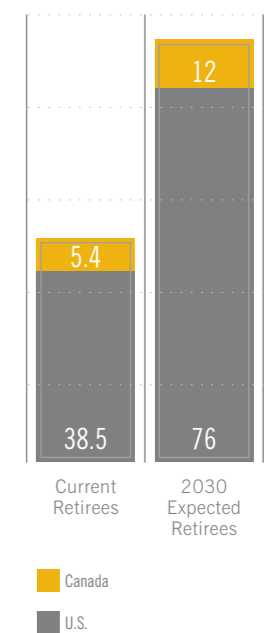
For example, the development in Loreto, Las Vilas de Mexico, represents a leisure lifestyle that comes with a high quality home, five-star services and other amenities. Whether situated on one of the Mexico's most beautiful beaches, on a top rated golf course or in a romantic mountain setting, these locations incorporate the very best of their respective regions.

Developments at each of our destinations will have different housing styles: residential villas of up to 2,150 square feet in typical lots of 3,230 square feet; townhouses of up to 1,725 square feet in typical lots of 2,690 square feet; and apartments or condominiums of up to 1,500 square feet in buildings of up to six floors. Each style has been developed to maximize space but still provide privacy and avoid the perception of high density.

The developments in each area will feature architectural and landscaping elements unique to the geographic region. Owners will have the opportunity to choose from among the different layouts and a variety of architectural and landscaping designs, as well as to tailor a property to individual tastes. Developments will feature either a private beach or country club, with premier golf, day spa, state-of-the-art fitness facilities, full-time concierge, and exclusive commercial and service areas. Overall, each development offers a thriving community, filled with spectacular beauty and amenities, ensuring nothing but wonderful vacation and residential experiences for those who travel there.

**Demand - U.S. and Canada Retirees**

(millions)



# 2011 Corporate Social Responsibility Report

Undeniably, 2011 was a year of expectations and challenges. Our smooth transition into vertical construction and the continued evolution and consolidation of new business lines, such as the Infrastructure Division, allowed us to prove ourselves on the road to change, innovation and adaptability to new paradigms, which have always been essential to Homex' success and sustainability. Our commitment to Corporate Social Responsibility (CSR) also has been an important element in the Company's strategic planning. It has also been key to the evolution of our businesses, as human resource development has become more important, not only in day to day operations but also on the spreading of our culture, and reputation, as it is freely practiced every day by honoring the Company's ethical values and our commitments to our stakeholders

Throughout the years, we have worked intensely to achieve and to be in full compliance with the highest standards of CSR. Every employee's efforts have once again contributed in 2011. The Company's inclusion in the Social Responsibility and Sustainability Index (ISRS) of the Mexican Stock Exchange (BMV) and the Corporate Sustainability Transparency Index (ITSC) developed by the Social Management and Cooperation Association and the IPADE Center for Studies on Institutional Governability (CEGI), evidenced Homex' full commitment in this regard. In addition, in the Affordable Entry Level Housing category, Homex was awarded the "Obras Cemex" prize, which is an international award granted annually to the best home-builders; and, for the ninth consecutive year, we received the Socially Responsible Corporation award from the Alliance for the CSR in Mexico (AliARSE) and the Mexican Philanthropy Institute (CEMEFI).

Reflecting our commitment to inform and communicate our CSR initiatives and actions on three major standards--- economic, social and environmental performance, for the fifth consecutive year we have published our annual sustainability report. Through this communication on progress (CoP), developed using the standards defined by the Global Reporting Initiative (GRI) and the United Nation's Global Compact principles, we inform all our stakeholders, including our investors, employees, customers, suppliers and government agencies, about the main results from our various CSR programs during 2011, always aligned to five comprehensive measures: employee well-being, happy customers and communities, satisfied suppliers, corporate/financial health and good governance.

## 1. Employee well-being

At Homex, employee well-being is a consequence of actively living our values and culture. We are convinced that the Company's success is essentially based on the successful results of our people, in both facets, professionally and personally. Thus, we implement programs, evaluating and monitoring our employees' self-managed long-term career plans, helping them

along the way to ensure their success and satisfaction in the execution of their goals, while at the same time recognizing their achievements, thus strengthening their foundation and the Company's future.

As part of our commitment to our employees and their families' well-being, we offer them special benefits for their personal development, as well as appropriate and secure working conditions and competitive remuneration, based on their responsibilities and performance. This way, we value and strive to reward their work with dignity.

Every year, we reaffirm our adherence to human and labor rights, the prohibition of child labor, gender equity and values and principles, which make us a Social and Family Responsible Company, thus, continuing to be an example of best practices in regard to recruitment, selection and promoting our workers by privileging their capacity, experience and responsiveness to the Company's values and Code of Ethics, which adheres to the highest standards of corporate ethics best practices, and serves as a guideline for our workers' internal and external behavior.

## GENDER EQUITY MODEL

During 2006, the National Women Institute (INMUJERES) awarded Homex with the Gender Equity Model Certification (MEG:2003), which validates those companies with a gender equity perspective within their internal politics. During 2011, the Company ratified its commitment to guarantee that women and men enjoy equal opportunity for career growth at Homex.

## HOMEX UNIVERSITY

Homex University was created in 2007 to support the development of our employees' talents with a focus on career and personal growth, resulting in better performance and overall, better productivity at the Company. The program is based on three standards: human development; labor and technical competencies training; and career professional development.

During 2011, Homex University offered 5,313 training programs to nearly 8,800 employees across Homex' corporate headquarters and branches of our four divisions. In addition, 145 scholarships were granted for professional career development, such as bachelor and masters degrees, seminars, second language and specialization programs.

## EMPLOYEES' CAREER AND LIFE PLAN:

We have designed the implementation of three important initiatives to promote our employees' development:



### 1. Employees' career and life plan

The main objectives of this program are:

- To identify and develop Homex' talent.
- To align our employees' vision to their career plans.
- Create training, development and high performance programs.

### 2. Leaders' Incubator

The objective of this innovative program is to support, through all our project and team leaders, continuous communication skills development and active involvement, to achieve the best results.

### 3. Radar

This program was created in 2011 as a pilot program in our corporate headquarters. It aims to provide instruments for our employees to help define personal, professional and growth objectives, as well as to keep track of their performance and provide a timely feedback to encourage the advancement of our employees within the Company, which also contributes to internal control.

The program consists of three areas of action to support employees:

- Internal talent search to generate opportunities for internal promotion.
- Career plans management.
- Performance tracking based on objectives and indicators.

### INTERNAL OPPORTUNITIES

Based on results, the Human Resources Department encourages every employee to participate in all the internal selection process, in order to promote their own progress within the Company. During 2011 internal promotions increased by 10 percent compared to the previous year.

### 2. Happy Customers and Communities

At Homex, our customers' satisfaction is our main motivation, and service and innovation are our distinctive attributes. Our homes respond to our customers expectations as a result of the continuous improvement of the quality of life of the communities we develop, always focusing on our objective of offering not only a home with the highest quality standards, but developing successful communities where our clients have the opportunity to improve quality of life by easy access to health care, education and sport programs.

Always for positive impact on our communities, we participate in the formation of 243 "neighbor committees" at our developments. One of the main objectives of these committees is to organize the community efficiently, in order to develop neighbor projects to improve the image of their own development and the planning of programs focused on personal and family development.



We are convinced that education and values are the key motivating factors in personal development. Significantly, some 2,585 students have already completed our educational program “Homex High School” from 6,258 students who were enrolled. As a result of our commitment to education, we launched a new community center, bringing to a total of 13 centers that we have built thus far in conjunction with the National Institute for Adult Education (INEA). The results of this initiative had been very gratifying as every person who takes this program enriches their cultural and educational level and character formation, which opens more windows of opportunities for better jobs.

During 2011, we continued to actively support sports programs within our Homex communities, organizing 82 tournaments for our “Homex Fut” league, comprised of kids and youth teams out of some 4,000 participants. Promoting this way, values such as respect, companionship and learning to play fairly in games and consequently in life. Aware of the importance of health and well-being in every community development, in conjunction with the Mexican Social Security Institute (IMSS), health centers and the municipal and state ministry of health, we organized 71 fairs and 511 health campaigns directly benefiting some 35,000 people.

### 3. Satisfied Suppliers

Considering our suppliers as a strategic cog in the value chain, their improvement and advancement in the road to excellence, positively influences on our results. For us, this means working hand in hand with our suppliers to ensure their stability, permanence, and above

all, to strengthen our relationship with them, with Homex as their best client, meeting their preference and satisfaction. Accordingly, we have continued implementing several programs to develop our supplier chain, especially with PYMES (small and medium enterprises). During 2011, we continued developing cutting edge electronic invoice systems to strengthen our supplier relationships.

Homex currently has 3,638 active suppliers, and we have taken special care in following strict processes and policies on purchasing. In addition, we have internal controls and mechanisms to report any potential challenge to our Code of Ethics, which evidences our firm commitment to avoid any type of corruption.

### 4. Financial Health

The Company’s strategic actions and decisions are always oriented to maintaining financial integrity. We are committed to increasing the value of investment in Homex, aligning the company’s strategy to not only generating profits but creating social value. As sustainability is the key to the creation of successful communities, which means well-being and improvement in quality of life for our employees, clients and suppliers, CSR has a multiplying effect on each of these groups, ultimately helping us to achieve the creation of long-term value and permanence in our business.

As a reflection of our commitment to our stakeholders, Homex was one of the 26 Mexican companies selected out of a group of 70 companies to be included in the Social Responsibility



and Sustainability Index (ISRC) of the Mexican Stock Exchange (BMV). One of the objectives of the ISRC index is to internationally recognize those companies which have assumed a sustainable commitment and promote the continued delivery of information on this area, which is frequently required in the course of investment decision-making.

In addition, Homex is included in the Corporate Sustainability Transparency Index (ITSC) developed by the Social Management and Cooperation Association and the IPADE Center for Studies on Institutional Governability (CEGI), which recognizes and identifies those Mexican companies with the inclusion of sustainable actions in their business strategy, highlighting the relationship between stakeholders, corporate governance, communication, performance and strategic vision.

#### 5. Corporate Governance

At Homex, we are seriously committed to following the best practices of corporate governance, an essential element to our long-term success. Transparency, integrity, trustworthiness and responsibility are some of the main values that we embrace to keep building a solid reputation.

We have been historically reporting our results with objectivity and integrity, in full compliance with the Mexican Stock Exchange (BMV) and the requirements of the Mexican Banking and Market Commission (CNBV); the New York Stock Exchange (NYSE); and the requirements of the Securities and Exchange Commission (SEC).

Additionally, in order to meet international standards that enable this company to be more competitive and transparent in its management of corporate/financial affairs, and to offer greater confidence to its investors, we adopted the Best Corporate Practices Recommendations of the CNBV.

Our Board of Directors, which is our highest governing body, meets four times a year to analyze financial and operating information, to establish and update general business practices, and to protect the interests of our shareholders, clients, suppliers and employees. It is made up of a majority of independent members and has four committees: Executive, Audit, Corporate Practices and Compensation, and Risks.

# Mexican Housing Sector

## Mexican Economy and Homebuilding Sector Performance in 2011

2011 began with a bright start based on the optimistic view that the global economy was finally in recovery from the Great Recession. However, as the year moved onward, the world economy was hit by several events: oil prices surged as conflict broke out in North Africa and the Middle East, a catastrophic earthquake and tsunami devastated Japan, Greece stood on the precipice of default and contagion spread to parts of the core euro zone and the political divide in the United States brought a near-default on government debt payments in early August, followed by the first-ever downgrade of U.S. sovereign debt. However, during 2011 the Mexican economy continued a recovery process after surpassing, by the beginning of the year, the maximum levels of economic activity observed prior to the global financial crisis.

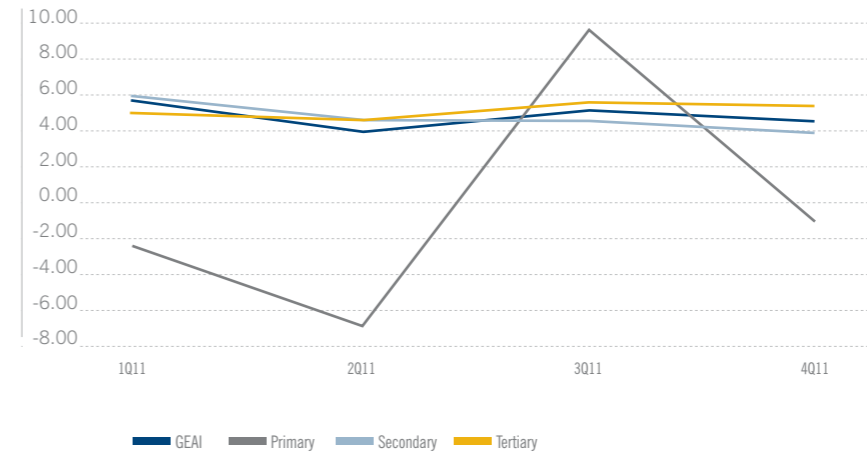
### 2011 Economic Overview:

The Mexican economy has been somehow resilient to the slowdown in the global economic activity and the reason for this is partly due to the U.S. economy performance which for the first time in many years, while not booming, has remained relatively stable compared to other regions of the world, growing at a rate of 1.7 percent during the year. This has led to growth stability in the Mexican economy.

The economic output of the primary sector—agriculture, cattle and fisheries, decreased on the year by 0.6 percent compared to a growth of 2.7 percent during the previous year, mainly due to a slowdown during the last quarter of the year as agricultural activity was affected by the drought observed in the North Central region during the spring-summer planting period and livestock activity was also impacted by water shortages during this period. Meanwhile, secondary sector output, which includes manufacturing, construction, public utilities and the mining sector, increased by 3.8 percent during the year. The tertiary sector, composed of the service economy, was the strongest sector in 2011, growing by 4.2 percent overall.

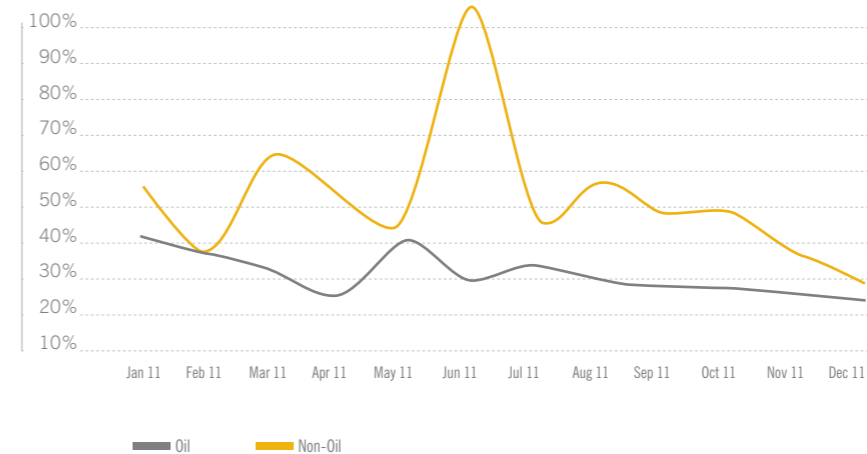
Overall, the two best performing sectors of the Mexican economy during the year were manufacturing and commerce growing at an annual rate of 5.2 percent and 7.6 percent respectively. Manufacturing sector performance was benefited from the outstanding auto production which hit a high record in 2011 at 2.5 million cars and light trucks, an increase of 13.1 percent over the 2010 production level, passing Spain and Canada. In only a few years Mexico joined the club of the ten largest auto producers, going from 11th in 2007 to 8th in 2011.

Sector - Annual Variation (%)



In turn, gains in manufacturing have been made possible by manufacturing exports and non-oil exports such as agricultural and mining. Consequently, on the trade front 2011 was a strong year for Mexico with a deficit of only \$1,288 million dollars for the third consecutive year in which the shortfall has declined and significantly below the levels prior to the recession of 2009.

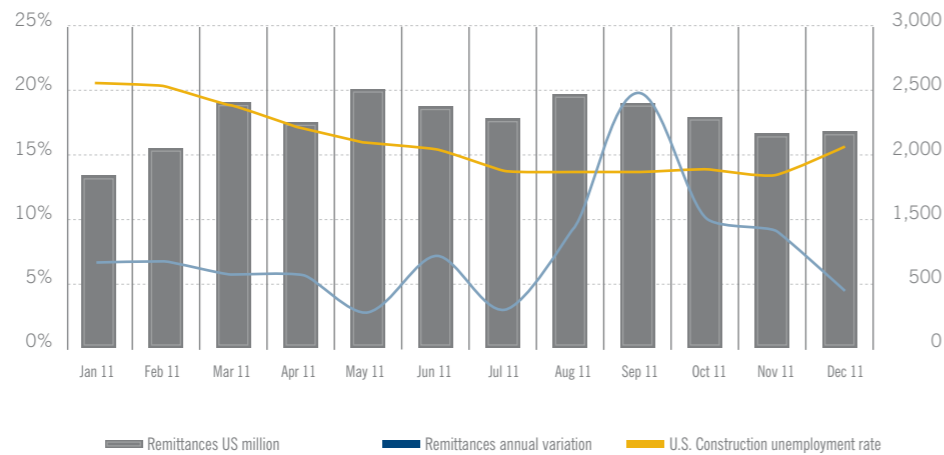
Exports- Annual Variation (%)



The most recent behavior of consumption as of December 2011 is in line with the evolution of some of its main determinants where consumption has decrease from a growth rate of 4.9 percent during the third quarter of 2011 to a growth rate of 4.2 percent in the fourth quarter of the year. The decline of the U.S. unemployment rate in 2011, to 8.5 percent as of December 2011, has benefitted the employment prospects of Mexicans living in the United

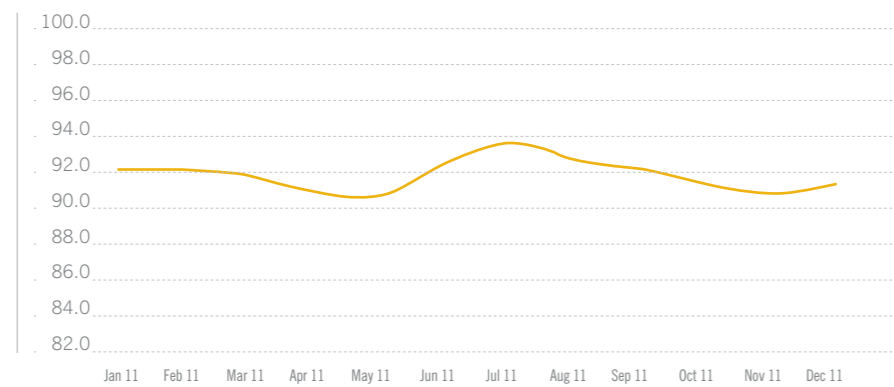
States. In turn, the improvement of labor conditions has led to an increase of remittances to Mexico in 2011 which rose nearly 7 percent, the biggest annual increase in money transfers by migrants in five years, accordingly to the Central Bank. Remittances from January 2011 through December 2011 totaled nearly \$23 billion. Remittances represent a significant source of income for many Mexican families, as well as being the second most important source of foreign currency after oil exports. Ultimately, consumption growth for the year ended at 4.6 percent.

Remittances and U.S. Construction Employment-Annual Variation (%)

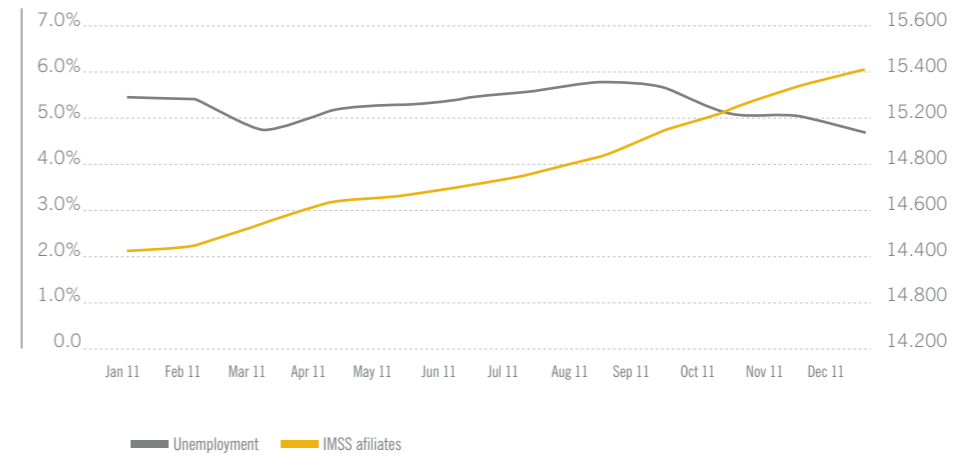


Global economic uncertainty continued to impact consumer confidence in Mexico. After improving in 3Q11 to 92.4 pts, the Mexican consumer confidence index then fell in both November and December ending the year at a 90.8 pts level. On a positive side, steady economic growth in 2011 led to the creation of about 600,000 formal private sector jobs last year, and a similar number of jobs are expected to be created in 2012.

Consumer Confidence Index

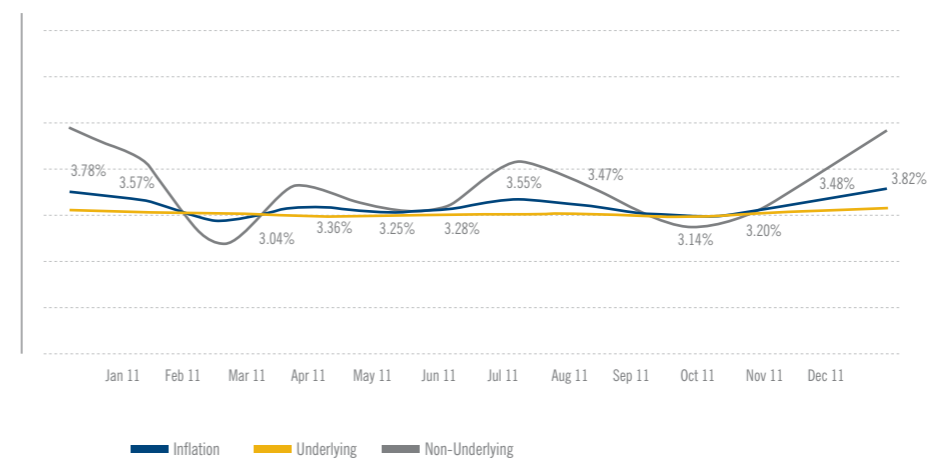


Unemployment Rate



During 2011, monetary policy continued to be consistent with the 3 percent inflation target established. The policy interest rate has been kept at 4.5 percent since July 2009. As a result, contrary to inflation trends in most Latin American economies, Mexico's rate of inflation has continued to be mild ending 2011 up 3.8 percent, pressured mainly by agricultural prices and transportation costs, but it came in below the previous year and within the target range of 2 percent to 4 percent as set by Mexico's central bank, Banxico.

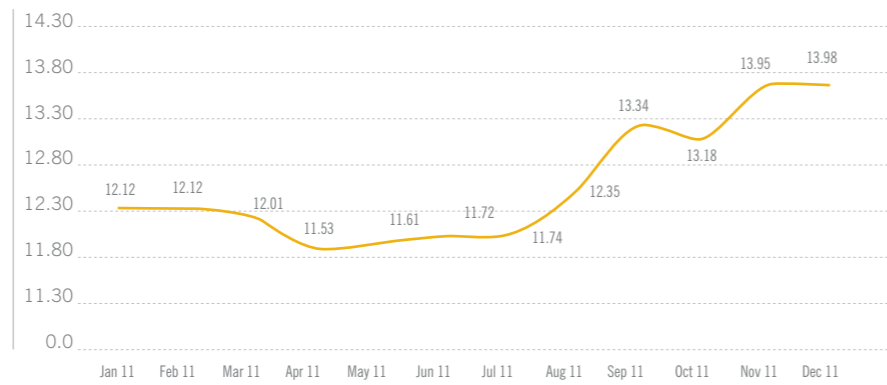
Inflation



Impacted by the uncertainty of the European debt crisis and the slowdown of the U.S. economy, investors have been exiting positions in emerging market currencies. As a result, Mexico's currency experienced a sharp depreciation during September 2011, its worst month since 2008. The weakness of the Mexican peso against the U.S. dollar also limited stock market gains and exaggerated losses among foreign investors, who make up a significant part of the

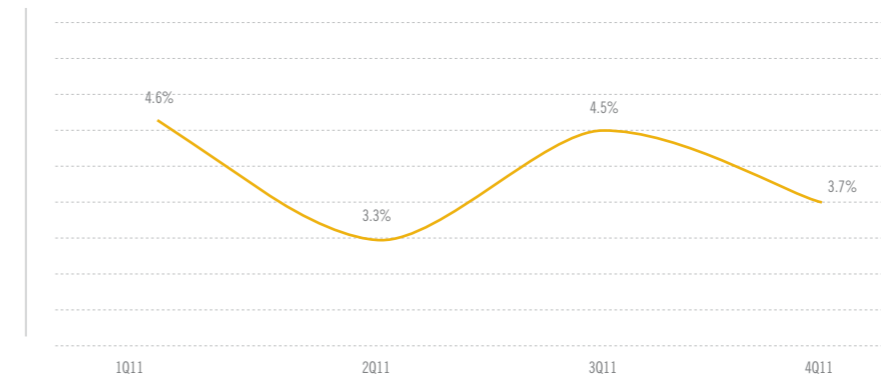
IPC's volume. The peso ended at \$13.97 to the U.S. dollar, according to the Bank of Mexico's final reference price for the year, equivalent to a 11.5 percent depreciation from its \$12.36 level at the end of 2010, and off nearly 18 percent from its strongest point of 2011 reached in early May.

Exchange Rate - Peso-US Dollar



Thus, based on the above facts, the Mexican economy has come out of the severe 2009 recession well, though slowed in 2011 compared with the growth rate of 5.4 percent achieved during 2010, but nonetheless, the economy has remained relatively strong with a GDP growth rate of 3.9 percent for the year as a whole.

GDP Variation (%)



### Mexican Economy 2012 Outlook

In face of a complex global scenario, Mexico has relevant strengths linked to its macroeconomic policies and its relative exposure to the global environment, which, in the year now starting, would eventually translate into a growth higher than 3 percent, although lower than that posted in 2011. The pillars sustaining the macroeconomic strength are, on one hand, the country's proximity with regard to trade flows to the United States, in contrast with Europe, and, on the other, the continuity of trustworthy macroeconomic policies directed toward stability, in addition to a financial system without exposure to global risks. Thus, the marked integration of the Mexican economy with that of the United States, together with the solvency and stability of the financial system, will be key for Mexican growth to maintain its moderate slowdown path in the following months and in a scenario such as that described above.

## Homebuilding Sector Performance

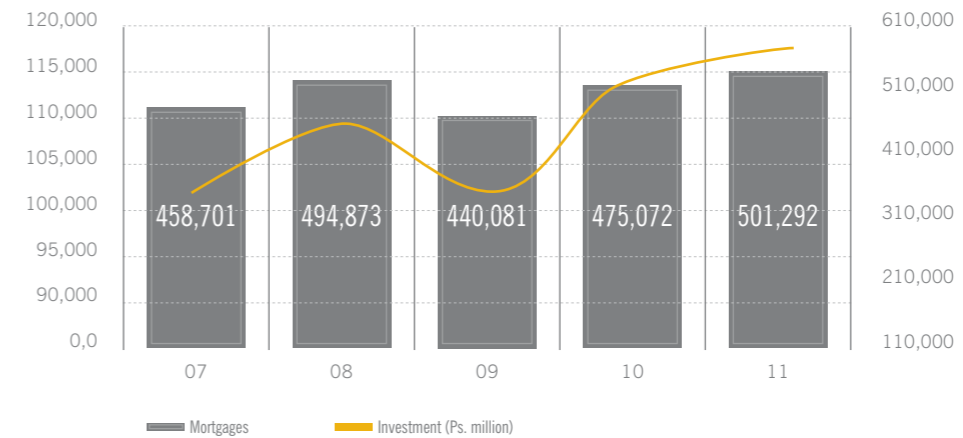
### Homebuilding Industry Trends

Despite the macroeconomic volatility, the homebuilding industry had a good performance during 2011, a recovery year for the sector, evidenced on the performance of several segments and granted loans. This notable performance was supported by various factors: a) strong public finances and a robust banking system which allows for ongoing supply of credit for home acquisition at competitive interest rates and b) the institutionalization of housing agencies, the enduring support from the government and the implementation of new programs and incentives which certainly will keep strengthening the sector. As a result, the perspective for 2012 is very positive in terms of housing demand and credit availability for acquiring a home or home improvement that will enhance the industry's dynamic growth rates.

### Affordable Entry-Level Lending

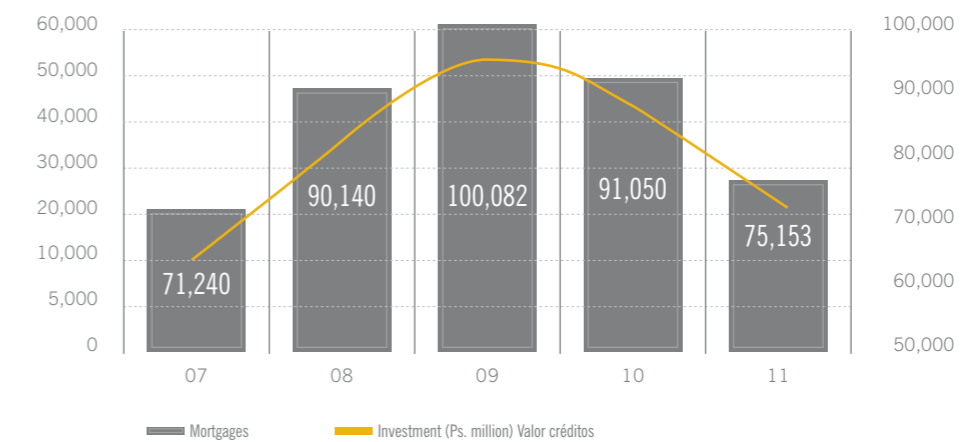
During 2011, INFONAVIT experienced its most successful year in history formalizing 501,292 mortgages, a 5.5 percent increase when compared to 2010. For 2011 the INFONAVIT goal was of 480,000 credits. At the same time, during the last months of the year INFONAVIT's non-performing loan (NPL) rate decreased to 5.15 percent, compared with its goal of 5.0 percent for the year, and registering similar levels of those experienced in 2010. In addition, during 2011, a positive change occurred and the approval of the reform to INFONAVIT's law was made, bringing new areas of opportunities for both, homebuilders and the institution. The most important change with a positive impact for homebuilders was that once workers' first loan is paid in full, they can request a second loan, expanding credit demand and engaging housing mobility. INFONAVIT is now conceived as a different institution far from what it was 10 years ago when its goal was exclusively to originate an increasing number of loans. Today, its objective is to maximize social development through mortgage loans promoting a better quality of life for workers. As of 2011, 75 percent of the total mortgages granted by the institution were green mortgages and from the total 501,292 granted mortgages 65 percent were for new homes. For 2012, INFONAVIT expects to originate at least 490,000 loans representing an investment of approximately \$108 billion.

INFONAVIT 2007-2011 Formalized Mortgages



On the other hand, FOVISSSTE, as of December 31, 2011 formalized 75,163 mortgages, reaching 83.5 percent of its 2011 annual goal of 90,000 mortgages, however, the institution did surpass its investment goal reaching Ps. 34.4 billion from its 2011 goal of Ps. 30.2 billion. During 2011, FOVISSSTE issued Ps. 11.6 billion in MBS setting a new record and reflecting the market's confidence towards the institution. The lower formalization of mortgages from FOVISSSTE in 2011 was due to administrative constraints due to a change in their credit origination criteria as well as the bottle necks that the allocation of mortgages through a raffle system creates. For 2012, FOVISSSTE expects to allocate 75,000 mortgages with an estimated spillover effect of Ps. 57.5 billion representing an increase of 67.1 percent compared to the 2011 investment, suggesting that during 2012 the average mortgage should be around Ps. 767 thousand compared to Ps.458 thousand during 2011. This should support growth in the middle income sector of the market.

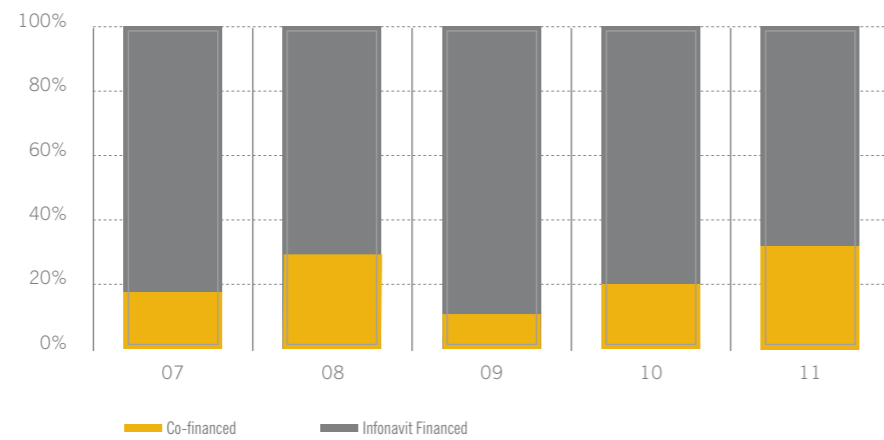
FOVISSSTE 2007-2011 Formalized Mortgages



**Middle Income Lending:**

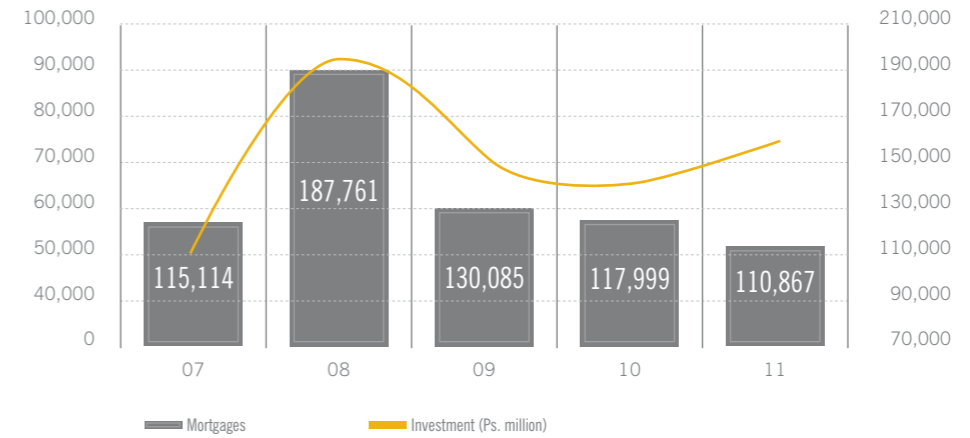
Since the recent crisis and due to less access to financing and a contraction of the market, smaller-scale home builders, better positioned to serve the middle and high-income segments were the most affected, while for the large home builders, their strategy was to become better positioned in the lower income segment more stable and less risky due to the scale of operations and efficiencies created due to their size as well as from mortgage financing availability for clients from INFONAVIT and FOVISSSTE. This trend continued during the following years and consequently private intermediaries reflected this change as 2008 levels have not been reached yet.

INFONAVIT 2007-2011 Formalized Mortgages



In the case of commercial banks mortgage lending (in peso terms) increased as of December 2011, with banks' mortgage portfolio growing at 8.1 percent to Ps.359 billion compared to a growth of 15.8 percent growth in the year ago period, which is explained by a low 2010 base comparison. Sofoles did not performed as good as commercial banks and contracted their lending (in peso terms) by 11.5 percent, on average, because of continued liquidity constraints and re-structuring processes.

Commercial Banks and Sofoles 2007-2011 Formalized Mortgages



**2012 Mortgage Lending Outlook:**

2012 outlook points for a better performance and will be a year of consolidation. With this, the high home production levels achieved in 2008 should finally be recovered. The challenge will be more on the supply side which should keep up with demand and together, federal and local governments and the housing industry will coordinate their efforts to ensure the permanence of the foundations of growth, programs and incentives, leading to a housing sector based on sustainability and verticality.

	2012		2011		%	
	Mortgages	Investment Ps. Million	Mortgages	Investment Ps. Million	Mortgages	Investment Ps. Million
INFONAVIT	490,000	107,169	501,292	131,974	-2.3%	-18.8%
FOVISSSTE	70,000	26,332	75,163	34,404	-6.9%	-23.5%
Financial Entities	138,235	97,298	110,867	78,472	24.7%	24.0%
Other Entities	23,650	4,900	27,371	6,596	-13.6%	-25.7%
TOTAL	721,885	235,699	714,693	251,446	1.0%	-6.3%

## A Perspective on 2011 Homex Equity Valuation, Ownership Structure and Investor Relations Outreach

Initial expectations for the year 2011 were overall positive, with market analysts initially projecting a growth of up to 20 percent for the main indices, such as the S&P500. But the year did not unfold nearly as expected. To start, on top of the deep and lingering concerns about the sovereign debt crisis in European countries, such as Greece, Portugal, Ireland, Italy, Spain and certain others, the first quarter of 2011 was over shadowed by political events in Egypt where protests demanding political freedom ultimately led to the resignation of President Hosni Mubarak. The economic impact of this action was immediate, as oil prices began to rise, and by the end of the quarter, West Texas intermediate crude oil rose to US\$106.72 per barrel; at the same time, the stock market started to tumble, and political unrest spread deeper in the Middle East, into Lybia. Growing concerns in the investment community reverberated throughout the global economy. Then, during the first days of March, an earthquake of 8.9 on the Richter scale and the resulting monstrous tsunami devastated Japan's eastern coastline and caused massive damage to several nuclear reactors.

Despite the gloomy news around the world, the major U.S. indices managed to record a gain for the first quarter of 2011 on the back of what seemed to be a steady improvement in the U.S. economy. The S&P500 recorded a gain of 5.6 percent to 1,325.83 points and The Dow Jones Industrial Average closed at 12,319.73, and improvement of 4.2 percent.

Meanwhile, the Mexican homebuilding industry index, the Habita index, closed the quarter with a quarterly decline of 16.9 percent, lagging the performance of the major indices (IPC Mexico's index was up 0.6 percent at 37,128.37 points during the first quarter), mainly driven by investors' negative reaction to the published Fourth Quarter 2010 Corporate Results, where homebuilders reported mixed results, with Homex recording positive revenue growth, while Geo missed FCF generation targets, mainly the result of increased investments in inventories (construction in progress and land) to accommodate business models, in respect of the government's impending shift towards vertical housing. On the other side of the coin, homebuilders that missed their expected revenue growth for the year only achieved minimum FCF generation. On top of this, during February at the Mexican Housing Day, INFONAVIT, Mexico's main mortgage supplier, presented its long-term mortgage outlook. They said that starting 2015 the institute was projecting a decline in its mortgage lending rhythm, on the assumption that the current home deficit was abating and that lower household formation was expected due to demographic dynamics. Further, they reasoned that the institute had no flexibility to attend to the non-affiliated market or the ability to grant second mortgages

to those subscribers who had successfully paid off their initial loans. It is worth noting that during the year important changes did happen regarding the above, where INFONAVIT will now be able to grant second mortgages; and pilot programs have already started to serve the non-affiliated segment.

The above mentioned factors created a concern among investors regarding the sustainability of the housing industry in Mexico as well as the ability of homebuilding companies to generate positive cash flow generation while growing their businesses. Reflecting investors' concerns and cautiousness, Homex share price for the quarter closed off some 22.3 percent at Ps.54.08, while Homex' ADRs declined 19.9 percent at US\$27.25.

As 2011 progressed, it became increasingly evident that the sovereign debt situation in Europe was getting worse. Greece's problems came to fore in the media as early as 2009, and this illuminated the challenges facing other European countries, as well. The European crisis had been a slow-moving, evolving drama, weighing on markets worldwide. This contributed to a continued cutback in the stock market during the second quarter. The declines in the U.S. stock market were also a reaction to the slowdown in the U.S. economy. The tone of economic and geo-political news became increasingly negative during the course of the second quarter, and in reaction to the disappointing news on the economy and continuing concerns about the Greek debt crisis, the S&P 500 declined 7.2 percent from April 29 to June 15. It then rallied on indications that there might be a solution to the Greek debt problem. Ultimately, the S&P 500 was down -0.9 percent during the second quarter while the Dow Jones Industrial average recorded a gain of 0.3 percent. The IPC index declined 3.2 percent to 36,502.18 points.

Despite the fact that First Quarter 2011 reports of Mexican homebuilding companies were broadly in line with market expectations, homebuilding stocks continued to lag the performance of major indices, mainly driven by macro concerns as well as by the overall skepticism about homebuilding companies' ability to generate FCF for the year. During 1Q11, the Habita index declined 16.2 percent to 423.69 points. Homex was down 13.8 percent to Ps.49.14 while Homex' ADRs decline 12.8 percent to US\$25.23.

During the Third Quarter of the year, rising concerns over the Greek debt crisis and the increasing fear that the global slowdown might evolve into another worldwide recession,

coupled with the downgrade of U.S. long-term debt led to the worst quarterly stock market performance since the last recession. On top of that, in the U.S. the housing market continued to show signs of weakness during the quarter, and we continued to see a large inventory of foreclosed homes and a high delinquency rate. The Dow Jones Industrial Average closed at 10,913.38 with a loss of 13.3 percent. The S&P 500 index closed at 1,131.42, down 15.5 percent. Mexico's IPC index declined 9.0 percent to 32,895.97 points.

Mexican homebuilding stocks performance was no exception during the period, and for the third consecutive quarter the Habita Index declined, this time by 32.2 percent to 287.11. The decline of course, was driven by the global negative news that affected all other major indexes, but as well by the reported results from the companies, where FCF guidance was adjusted by two of the major homebuilding companies, from positive cash generation to negative expected results for year-end (as mentioned before, FCF generation is today's most important indicator for the market). As well, collection delays from Mexico's Federal Government subsidy program also affected quarterly results, and consequently companies registered lower revenue growth. In the case of Homex, these delays were the reason behind Homex' revenue growth adjustment announced during 3Q11 results, from an initial revenue growth guidance of 13 to 16 percent to 12 to 14 percent. Homex' common shares declined by 35.9 percent to Ps.31.16 and Homex' ADRs declined 46.2 percent to US\$13.5.

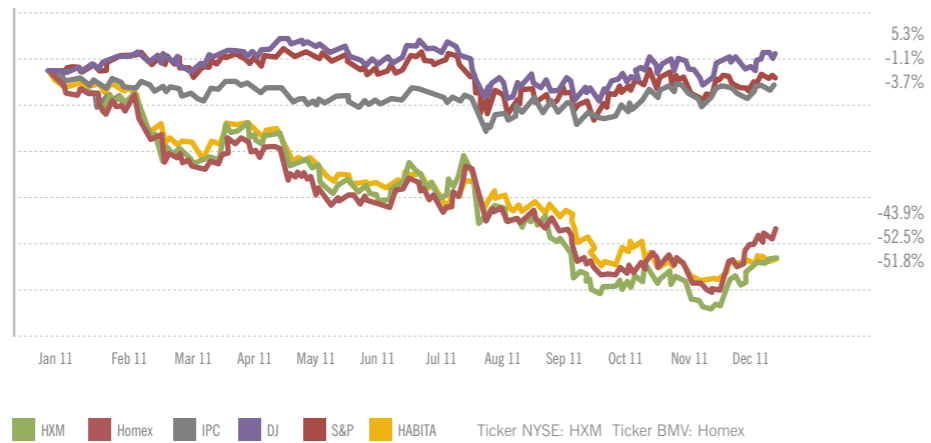
Wrapping up, the year 2011 danced to the tone of global negative news centered mainly on: the ongoing sovereign debt crisis throughout Europe, the tsunami in Japan, and the historic down grade of U.S. long term debt, accompanied as well by the downgrading of debt ratings (to junk status) in Ireland, Portugal and, of course, Greece. Nonetheless, the stock market rallied during the last quarter of the year; in the U.S. the economic reports released during the fourth quarter generally reinforced the picture of an economy growing relatively slowly, with persistent problems in employment and the housing industry, but performing better than had been the case earlier in the year. The unemployment rate at year-end was 8.5 percent, still high, but somewhat better than had been generally expected. On October, the reported real GDP growth for the third quarter was 2.5 percent reinforcing a positive sentiment (it is worth noting that at the end of the fourth quarter, this growth rate was revised to show an increase of only 1.8 percent). Moving to Europe, during 4Q11 the announced plans to deal with the crisis in a more substantive manner also sparked a rally.

The S&P 500 finished the year close to where it started at 1,257.60 points as the index enjoyed a positive rally of 14.4 percent during 4Q11. The Dow Jones industrial Average index, increased by 14.6 percent during the last quarter of the year to 12,217.56 points, to an annualized growth of 4.7 percent. Mexico's IPC index climbed 11.9 percent during the 4Q11 to 37,077.52 points, ending the year with a loss of 3.7 percent.

The Habita index, closed the year with an annual significant loss of 51.8 percent, mainly driven by investors' negative sentiment towards the complexities added to business models as a result of the transition to the government's preference for vertical construction, where the construction cycle is longer, thus adding significant pressure to FCF generation. Nonetheless during 4Q11, the index registered a positive growth of 2.7 percent on the back of positive announcements about a new INFONAVIT's law, whereby subscribers are now able to obtain a subsequent mortgage if they have already secured and paid their first mortgage, and the initiation of a pilot program of approximately 20,000 units directed to attend the non-affiliated market, in addition to a larger subsidy program for 2012, where vertical units are privileged.

Towards year-end investors had a more positive sentiment towards home building. For Homex, this was driven by the Company's 2012 guidance, enhanced by the announcement of a contract awarded by Mexico's Federal government for Homex to build and operate over a period of 20 years two federal prisons, bringing an important and stable source of revenues to the Company. In addition to this, Homex guided for a consolidated growth in its other divisions of 12 to 14 percent, while generating positive FCF for 2012. As a result of this, Homex stock rallied 25.3 percent during the last quarter of the year to Ps.39.03 and the ADR increased 28.8 percent to US\$16.87. Despite the positive performance of Homex stock and ADR prices, during the last quarter of the year, Homex' common share closed down by 43.9 percent and the ADR 52.5 percent, but with an overall market positive sentiment towards the Company's performance for 2012.

The value-based trading volumes (on an annual basis) of Homex common shares and ADRs decreased year-on-year 38.1 percent to Ps.15,711.6 million in 2011 compared to Ps.25,372.0 million in 2010 and a 59.9 percent to US\$1,895.3 million in 2011 compared to US\$4,724.7 million in 2010, respectively. Primarily driven by a price decline, nonetheless trading volumes also experienced a decrease.



**KEY DATA**

	2008	2009	2010	2011	Chg. % 11-10
Earnings per Share	2.77	4.68	4.52	3.90	-17.4%
Earnings per ADR <sup>1</sup> presented in US	1.23	2.15	2.19	1.67	-26.8%
Share Price High	122.00	96.00	77.90	69.62	-10.6%
Share Price Low	26.29	25.90	51.50	26.33	-48.9%
Share Price Year-End	52.05	73.50	70.00	39.03	-44.2%
ADR Price High	70.71	44.38	36.77	34.01	-7.5%
ADR Price Low	11.45	9.96	23.06	11.40	-50.6%
ADR Price End	22.83	33.62	33.81	16.87	-50.1%
Market Capitalization at year-end, (Ps. Thousand)	17,429,984	24,610,005	23,432,360	13,065,214	-44.2%
Weighted Average Shares Outstanding (thousand) <sup>2</sup>	334,870	334,830	334,748	334,748	0.0%
ADR's Outstanding (thousand) <sup>3</sup>	33,542	35,752	33,111	33,203	0.3%

Source: JP Morgan Monthly Board Report, IPREO and Homex Audited Financial Statements

<sup>1</sup> US\$ values estimated using an exchange rate of Ps.13.9787 per US\$1.00 as of December 31, 2011, Ps.12.3817 per US\$1.00 as of December 31, 2010, Ps.13.0587 per US\$1.00 as of December 31, 2009, and Ps.13.5383 per US\$1.00 as of December 31, 2008

<sup>2</sup> Number of shares outstanding as of December 31

<sup>3</sup> Common share/ADR ratio: 6:1. Number of ADR's outstanding as of December 31,

**OWNERSHIP STRUCTURE**

Since June 29, 2004, the date that the company completed its Initial Public Offering through December 31, 2011, Homex has maintained a full dual-listing at the New York Stock Exchange (NYSE) and the Mexican Stock Exchange (BMV). As of year-end 2011, Homex had a total of 334.7 million shares outstanding and a market capitalization of Ps.13,065 million or US\$934.61 million. Of total outstanding shares at year-end, 65 percent represented free-floating shares among public individual and institutional investors, while the Homex founding group, the de Nicolas family, held ownership of 35.1 percent. According to publically available filings as of December 31, 2011, Lazard Asset Management, L.L.C., a core-value focus investor, based in the U.S., was the company's second largest shareholder with approxi-

mately 12.3 percent of total equity ownership. Institutional investors, including Lazard Asset Management, dominate Homex shareholder structure, accounting for 87.2 percent of the free-float ownership.

On a by-region analysis, the majority of Homex' investors, (excluding the de Nicolás family and including its common shares and ADR's) were concentrated in the U.S., with 83 percent ownership, followed by the U.K. with 11 percent.

Homex shareholder ownership structure by investment type is varied with a higher concentration on investors who follow a value strategy representing 27.5 percent, followed by those investors with a strategy focused on growth which represented 15.7 percent as of December 31, 2011.

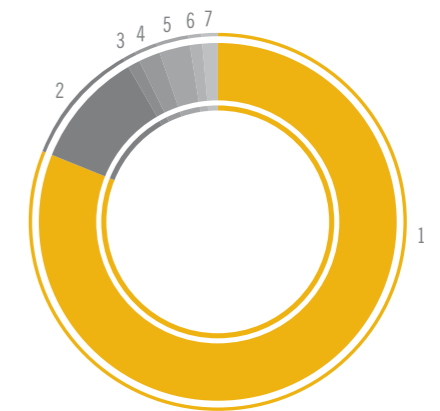
**2011 SHAREHOLDER STRUCTURE**



- 1. Free Float 65%
- 2. De Nicolas Family 35%

87.2% held by Institutional shareholders

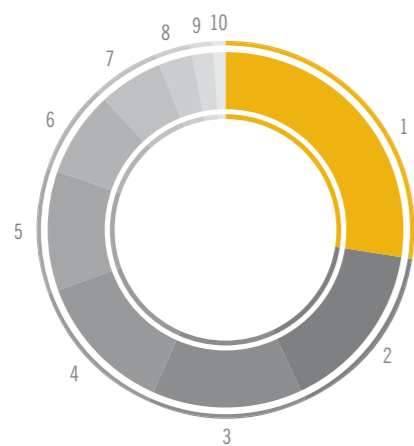
**2011 SHAREHOLDER STRUCTURE BY COUNTRY**



- 1. US 83.1%
- 2. UK 11.0%
- 3. France 0.2%
- 4. Tokyo 0.3%
- 5. Netherlands 3.0%
- 6. Australia 0.9%
- 7. Sweden 1.4%

<sup>1</sup> US\$ values estimated using an exchange rate of Ps.13.9787 per US\$1.00 as of December 31, 2011

## 2011 SHAREHOLDER OWNERSHIP BY INVESTMENT STYLE



1. Value	28%
2. Growth	16%
3. Broker	14%
4. Index	13%
5. Alternative	11%
6. GARP	8%
7. Not Disclosed	6%
8. Specialty	3%
9. Yield	2%
10. Deep Value	1%

### Investor Relations Outreach

At Homex' Investor Relations department, maintaining active, clear, transparent and timely communications with shareholders, investors and market analysts, is a top priority. For the team, it is acknowledged that credibility is critical to the market valuation process. The Company's Investor Relations department reports directly to the Chief Financial Officer, at the same time maintaining a close relationship with the Chief Executive Officer and Board of Directors, while ensuring a direct communication channel throughout the Homex Management team among the Company's Four different divisions.

During 2011, Homex participated in several Equity and Fixed income conferences through USA, Europe and Brazil, among others: Morgan Stanley Latin America CEO Conference, Santander's Annual Latin American Conference, Mexican Housing Day at New York and London, Citibank Latin

America Conference in New York, UBS 13th Annual CEO Round Table and Global Emerging Markets Conference, ITAU Annual Latin American CEO Conference at New York, HSBC Mexico & Brazil Real Estate Week in New York and London, Credit Suisse Midsummer Latin America Conference, Merrill Lynch Global Real Estate conference at New York and The Year Ahead Conference at Mexico city, Goldman Sachs Latin America One-on-One Conference. In addition, Homex conducted a Non-Deal Road Show with Deutsche Bank, Merrill Lynch and HSBC with key institutional investors at Mexico, Brazil, Chile and Argentina, respectively.

### Analyst Coverage

Homex actively pursues the coverage of well known sell side analysts to maintain the Company's visibility within the financial community. As of December 31, 2011, Homex was covered by 22 different institutions including Equity and Fixed analysts and including local analysts in Mexico.

## Management's discussion and analysis of Financial condition and results of operations

The following discussion should be read in conjunction with our audited consolidated financial statements and their accompanying notes included elsewhere in this report. Our consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards ("MFRS").

### Sales volume

For the year 2011, units closed increased 18.4 percent to 52,486 homes, from 44,347 homes in 2010. Affordable entry-level sales volume in Mexico increased by 21.9 percent in 2011 representing 91.2 percent of total titled volume. Middle-income sales volume decreased 25.5 percent compared to 2010 levels reflecting the Company's strategy to reduce its exposure to the high-middle-income segment and concentrate its product offering at a price where middle-income homes can be readily financed through co-financing

mortgage programs and in view of continued mortgage financing constraints through commercial banks and sofoles. The Company has continued to concentrate on increasing its market share in its core business, the affordable entry-level segment, where mortgage financing availability is strongly supported by Infonavit and Fovissste, as well as state housing funds. For the full year 2011, homes titled in Brazil totaled 1,065 units or 2.0 percent of total titled units, a 277.6 percent increase from the 282 units, or 0.6 percent of total titled units, titled during 2010.

The average price for all homes sold was Ps.385 thousand, a decrease of 7.5 percent when compared to 2010. The Company's average price reflects Homex' strategy to actively respond to mortgage availability, demand trends and niche opportunities.

### AVERAGE PRICE

(thousands of pesos)	2011FY	2010FY	Change 11/10	Low	High
Affordable-entry	\$ 346	\$ 336	3.1%	\$ 195	\$ 540
Middle Income	\$ 918	\$ 1,086	-15.5%	\$ 541	\$ 1,885
Average price for all homes	\$ 385	\$ 416	-7.5%		

Including AEL homes from Brazil

### Revenues

Total housing revenues in 2011 increased 11.2 percent to Ps.21,853.3 million from Ps.19,652.3 million in 2010, driven by volume growth within the affordable entry-level segment, confirming Homex' focus on organic growth in Mexico in attractive home markets that provide continued growth opportunities. The middle-income segment represented 14.9 percent of total revenues in 2011 compared to 26.3 percent in 2010 as a result of our proactive measures

to reduce exposure to the segment. Revenues from Brazil represented 2.7 percent of our total revenues in 2011 compared to 0.9 percent during 2010, reflecting Homex's improved operations and increased experience in the country, which we believe confirms our ability to successfully replicate our housing business model in the lower income housing segment in countries with inherent housing demand. Other revenues remained relatively stable at 7.5 percent of total revenues during 2011 from 6.0 percent during 2010.

### Gross Profit

Pursuant to the application of MFRS D-6, we are required to capitalize a portion of our CFC, which includes interest expense, exchange gains and losses and, monetary position gains and losses and to apply capitalized CFC to cost of sales as the related inventory is sold in future periods.

During the year ended December 31, 2011, the Company's capitalized CFC that was applied to cost of sales increased 79.8 percent to Ps.1,363.3 million compared to Ps.758.3 million during the same period in 2010, primarily as a result of:

- a) a 32.5 percent increase in capitalized interest expense to Ps.1,046.4 million during the year ended December 31, 2011 from Ps.789.8 million as of December 31, 2010, reflecting the 18.9 percent increase in total debt in connection with an increased investment in construction-in-process inventory; and
- b) capitalized foreign exchange loss applied to cost of sales of Ps.306.6 million, compared to a gain of Ps.27.9 million during the same period in 2010, reflecting the depreciation of the Mexican peso relative to the US dollar.

Costs of sales increased by 17.8 percent for the year ended December 31, 2011 to Ps.16,165.8 million from Ps.13,727.4 million for the same period in 2010, due primarily to the increase in our capitalized CFC. On a pro-forma basis (without considering the application of MFRS D-6 in 2011 and 2010) our gross margin in 2011 was 32.3 percent, compared to 34.0 percent in 2010. The decrease in gross margin was mainly driven by our product mix change where middle-income segment revenue contribution decreased from 26.3 percent during 2010 to 14.9 percent as of December 31, 2011. At the same time the lower margin reflects a lower average price for all homes titled which decreased from Ps.416 thousand as of December 31, 2010 to Ps.385 thousand as of December 31, 2011.

### Selling, General and Administrative ("SG&A") Expenses

Selling, general and administrative expenses decreased by 7.1 percent to Ps.2,767.9 million in 2011 compared to Ps.2,980.3 million in 2010. As a percentage of total revenues, SG&A expenses decreased to 12.7 percent in 2011 compared to 15.2 percent in 2010. The decrease in SG&A for the full year 2011 was mainly derived from efficiencies generated during the year from expenses as advertising, outsourcing and general expenses in both Mexico and Brazil.

### Income from Operations

In 2011, income from operations decreased by 0.8 percent to Ps.2,919.6 million compared to Ps.2,944.4 million in 2010. On a pro-forma basis (without considering the application of MFRS D-6), our operating margin in 2011 increased 73 bps to 19.6 percent compared to 18.8 percent in 2010. The higher margin is mainly driven by lower SG&A expenses during 2011 as previously explained in the SG&A discussion.

### Net Comprehensive Financing Cost

Net comprehensive financing cost (comprised of interest income, interest expense, foreign exchange gains and losses and valuation effects of derivative instruments) increased to Ps.394.8 million in 2011 compared to Ps.314.7 million in 2010, primarily as a result of the following:

- a) net interest expense increased to Ps.196.6 million in 2011 from Ps.177.2 million in 2010, primarily due to an increase in the Company's total debt of 18.9 percent;
- b) the Company had a foreign exchange loss of Ps.265.8 million in 2011 compared to a loss of Ps.97.8 million in 2010; and
- c) the net valuation effects of financial instruments decreased to a gain of Ps.67.6 million from a loss of Ps.39.6 million in 2010 as a result of the changes in the mark-to-market of the Company's financial instruments during the year.

### Foreign Exchange Exposure and Currency Derivatives

As of December 31, 2011, Homex's US Dollar denominated debt mainly consisted of two US\$250 million bonds issued in 2005 and 2009 with single principal payments due at maturity in 2015 and 2019, respectively. In connection with its US\$250 million bond maturing in 2015, the Company entered into an interest-only swap to hedge the foreign exchange risk in respect of the interest payable on this debt at an average rate of Ps.13.89 per U.S. dollar through 2012. In connection with its US\$250 million bond maturing in 2019, the Company entered into a principal-only swap to hedge the foreign exchange risk associated with the principal amount of this debt at a rate of Ps.12.93 per U.S. dollar through 2019 and at an average weighted cost of 4.39 percent. In addition, the Company entered into an interest-only swap to hedge the foreign exchange risk in respect of the interest payable on this debt at an average rate of Ps.11.67 per U.S. dollar through 2012.

The net valuation effects of financial instruments for the years ended December 31, 2011 and 2010 were Ps.(67.6) million and Ps.39.6 million, respectively.

### Income Tax Expense

Income tax expense decreased by 4.5 percent to Ps.865.9 million from Ps.906.9 million in 2010. The effective tax rate was 39.7 percent in 2011 compared to 36.5 percent in 2010. The effective tax rate increased in 2011 due to the increase in the tax losses allowance from the Company's Brazil operations

### EBITDA

For 2011 EBITDA increased 15.0 percent to Ps.4,721.6 million compared to Ps.4,104.1 million registered during 2010. EBITDA margin during 2011 was 21.6 percent compared to 20.9 percent during 2010.

### Land reserve

The Company believes that its geographic diversity is one of the strongest among homebuilders in Mexico, reflected by its operations in 35 cities located in 22 Mexican states as of December 31, 2011.

As of December 31, 2011, Homex' land reserve was 79.3 million square meters, which includes primarily land reserves in Mexico and approximately 2.3 million square meters of land reserves for the Company's operations in Brazil. Homex' land reserves include both titled land and land in the process of being titled. The Company estimates it could build approximately 407,064 affordable entry-level homes, approximately 29,6924 middle-income homes and approximately 2,222 homes targeting the tourism market on our land reserves.

#### **Liquidity**

Homex' total indebtedness increased to Ps.15,364.1 million as of December 31, 2011 from Ps.12,921.1 million as of December 31, 2010, mainly as a result of working capital requirements and the effects of the peso depreciation against the dollar in relation to the Company's dollar denominated debt.

As of December 31, 2011, our short-term debt was Ps.3,851.3 million, including Ps.544.7 million of various revolving credit lines granted by financial institutions. The Company's long-term debt was Ps.11,512.8 million, which includes mainly the long-term portion of equipment lease obligations in the amount of Ps.154.9 million, a line of credit granted by Inbursa for Ps.2,078 million, a line of credit granted by Banco Nacional de México, S.A. for Ps.1,110.3 million, a line of credit granted by Ficade for Ps.400 million, a line of credit granted by Banorte for Ps.33.8 million, a line of credit granted by Deutsche Bank for Ps.956.7 million, the Senior Guaranteed Notes due 2015 in the aggregate principal amount of Ps.3,494.7 million and the Senior Guaranteed Notes due 2019 in the aggregate principal amount of Ps.3,494.7 million.

On September 28, 2005, we issued US\$250 million of Senior Guaranteed Notes due 2015 with a coupon rate of 7.50 percent, payable semiannually.

On December 11, 2009, we issued US\$250 million of Senior Guaranteed Notes due 2019 with a coupon rate of 9.50 percent, payable semiannually.

In 2012, the Company intends to continue following a conservative strategy to improve cash generation and maintain a stable debt level while minimizing land investments and capital expenditures.

#### **Working Capital Cycle**

The Company's Working Capital Cycle was 635 days compared to 652 days as of December 31, 2010, the improvement was mainly driven by a 31 days decrease in inventory.

Year-over-year total inventory decreased 31 days to 696 days from 727 days as of December 31, 2010. On an annual basis, inventory balance (adjusted by the capitalization of CFC) increased by Ps.2.6 billion mainly derived from the migration into vertical construction, where the initial invested capital is higher compared to horizontal construction, in addition to a longer construction cycle that vertical construction requires. As a percentage of total construction, vertical construction has increased to 40 percent as of December 30, 2011

compared to less than 5 percent as of December 31, 2010. In addition, the inventory balance increased due to infrastructure investments in the Company's housing projects in Mexico made in advance to complete the building and infrastructure process simultaneously, as well as from construction investments in relation to the Company's building contracts with the Mexican government.

Additionally during the last quarter of 2011, the Company started the construction of the penitentiaries, where Homex has booked approximately Ps.130 million of construction in progress in relation to the start-up of these projects.

Accounts Receivable decreased 3 days from 36 days as of December 31, 2010 to 33 days as of December 31, 2011. The Company's accounts receivable level for both periods reflect the balance from the infrastructure division due to the nature of contracts for which revenues are booked under the percentage of completion accounting methodology.

Accounts Payable days decreased to 95 days when compared to 110 days as of December 31, 2010. The accounts payable decrease when compared to December 31, 2010 derives from a decrease in days of credit with material suppliers reflecting liquidity and credit constraints incurred by the Company's material suppliers resulting in lower days of credit for Homex.

## Report of Independent Auditors

### CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009 WITH REPORT OF INDEPENDENT AUDITORS

#### CONTENTS:

#### Report of Independent Auditors

#### Consolidated Financial Statements:

- Consolidated Balance Sheets
- Consolidated Statements of Income
- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated financial statements

TO THE STOCKHOLDERS OF  
DESARROLLADORA HOMEX, S.A.B. DE C.V.

We have audited the accompanying consolidated balance sheets of Desarrolladora Homex, S.A.B. de C.V. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in equity and cash flows for each of the three years ended December 31, 2011. 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 are prepared in conformity with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial reporting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Desarrolladora Homex, S.A.B. de C.V. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations, changes in equity and cash flows for each of the three years ended December 31, 2011, in conformity with Mexican Financial Reporting Standards.

Our audit opinion and the accompanying consolidated financial statements and footnotes have been translated from original Spanish version into English for convenience purposes only.

Mancera, S.C.

A member practice of  
Ernst & Young Global



**C.P.C. Alejandro Valdez Mendoza**

Culiacán, Sinaloa, México

April 26, 2012

# Desarrolladora Homex, S.A.B. de C.V. and Subsidiaries

## Consolidated Statements of Income

(Figures in thousands of Mexican pesos (Ps.) except earnings per share)

For the years ended December 31,

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 5)	Ps. 3,992,653	Ps. 3,435,222
Trade accounts receivable, net (Note 6)	1,993,023	1,975,203
Due from related parties (Note 7)	174,073	-
Inventories (Note 8)	18,412,586	17,121,857
Prepaid expenses and other current assets, net (Note 9)	1,000,347	742,191
Total current assets	25,572,682	23,274,473
Land held for future development and construction-in-process (Note 8)	12,859,328	10,591,499
Property and equipment, net (Note 10)	786,137	1,002,572
Goodwill (Note 3k)	731,861	731,861
Other assets, net (Note 11)	554,822	261,811
Deferred income taxes (Note 24)	867,471	779,268
Total assets	Ps. 41,372,301	Ps. 36,641,484
<b>Liabilities and equity</b>		
Current liabilities:		
Current debt and current portion of long-term debt (Note 12)	Ps. 3,662,357	Ps. 1,728,513
Current portion of long-term capital leases (Note 14)	188,937	169,604
Trade accounts payable (Note 16)	3,075,409	3,410,579
Land suppliers (Note 17)	1,172,293	778,141
Advances from customers	669,851	624,644
Taxes other than income taxes	1,056,606	754,264
Income taxes	91,586	37,531
Employee statutory profit-sharing	67,420	1,540
Provision for uncertain tax positions (Note 24f)	1,599,642	775,946
Total current liabilities	11,584,101	8,280,762
Long-term debt (Note 12)	11,357,909	10,787,601
Long-term capital leases (Note 14)	154,933	235,430
Financial derivative instruments (Note 13)	12,226	508,160
Long-term land suppliers (Note 17)	-	41,441
Employee benefits obligations (Note 15)	74,115	90,478
Deferred income taxes (Note 24)	4,501,539	4,377,101
Total liabilities	27,684,823	24,320,973
<b>Equity (Note 18):</b>		
Common stock	528,011	528,011
Additional paid-in capital	3,290,861	3,290,861
Treasury stock, at cost	(102,053)	(98,412)
Retained earnings	9,962,265	8,657,851
Financial derivative instruments, net of deferred taxes (Note 13)	15,701	(330,709)
Other equity accounts	(206,760)	82,984
Equity of controlling interest	13,488,025	12,130,586
Non-controlling interest in consolidated subsidiaries	199,453	189,925
Total equity	13,687,478	12,320,511
Total liabilities and equity	Ps. 41,372,301	Ps. 36,641,484

See accompanying notes to these consolidated financial statements.

# Desarrolladora Homex, S.A.B. de C.V. and Subsidiaries

## Consolidated Statements of Income

(Figures in thousands of Mexican pesos (Ps.) except earnings per share)

For the years ended December 31,

	2011	2010	2009
Revenues	Ps. 21,853,279	Ps. 19,652,309	Ps. 17,476,489
Cost of sales	16,165,752	13,727,484	12,285,836
Gross profit	5,687,527	5,924,825	5,190,653
Operating expenses (Note 21)	2,767,974	2,980,379	2,471,680
Income from operations	2,919,553	2,944,446	2,718,973
Other (expenses) income, net (Note 22)	(344,867)	(142,765)	5,320
Net comprehensive financing cost (Note 8):			
Interest expense (Note 23)	390,618	340,115	325,710
Interest income	(194,009)	(162,887)	(184,140)
Exchange loss (gain), net	265,811	97,860	(59,510)
Valuation effects of financial derivative instruments, net (Note 13)	(67,616)	39,654	66,451
	394,804	314,742	148,511
Income before income taxes	2,179,882	2,486,939	2,575,782
Income taxes (Note 24)	865,940	906,997	994,389
Consolidated net income	Ps. 1,313,942	Ps. 1,579,942	Ps. 1,581,393
Net income of controlling interest	Ps. 1,304,414	Ps. 1,511,763	Ps. 1,565,869
Net income of non-controlling interest	9,528	68,179	15,524
Consolidated net income	Ps. 1,313,942	Ps. 1,579,942	Ps. 1,581,393
Weighted average shares outstanding (in thousands)	334,700	334,748	334,830
Basic and diluted earnings per share of controlling interest	Ps. 3.90	Ps. 4.52	Ps. 4.68

See accompanying notes to these consolidated financial statements.

# Desarrolladora Homex, S.A.B. de C.V. and Subsidiaries

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2011, 2010 and 2009

(Figures in thousands of Mexican pesos (Ps.))

	Common stock	Additional paid-in capital	Treasury stock at cost (Note 18)
<b>Balances as of January 1, 2009</b>	Ps. 528,011	Ps. 3,280,223	Ps. (99,342)
Shares repurchased for stock option plan			(3,188)
Shares repurchased (Note 18e)			(1,398)
Share-based compensation transactions (Note 18d)		10,638	
Comprehensive income			
<b>Balances as of December 31, 2009 as restated</b>	528,011	3,290,861	(103,928)
Share-based options exercised (Note 18d)			5,516
Comprehensive income			
<b>Balances as of December 31, 2010</b>	528,011	3,290,861	(98,412)
Share-based options exercised (Note 18d)			2,796
Shares repurchased (Note 18e)			(6,437)
Comprehensive income			
<b>Balances as of December 31, 2011</b>	Ps. 528,011	Ps. 3,290,861	Ps. (102,053)

Retained earnings	Financial derivative instruments	Other equity accounts	Equity of controlling interest	Equity of non-controlling interest	Total equity (Note 18)
Ps. 5,580,219	Ps. -	Ps. 53,307	Ps. 9,342,418	Ps. 106,222	Ps. 9,448,640
			(3,188)		(3,188)
			(1,398)		(1,398)
			10,638		10,638
1,565,869	(87,872)	(42,401)	1,435,596	15,524	1,451,120
7,146,088	(87,872)	10,906	10,784,066	121,746	10,905,812
			5,516		5,516
1,511,763	(242,837)	72,078	1,341,004	68,179	1,409,183
8,657,851	(330,709)	82,984	12,130,586	189,925	12,320,511
			2,796		2,796
			(6,437)		(6,437)
1,304,414	346,410	(289,744)	1,361,080	9,528	1,370,608
Ps. 9,962,265	Ps. 15,701	Ps. (206,760)	Ps. 13,488,025	Ps. 199,453	Ps. 13,687,478

# Desarrolladora Homex, S.A.B. de C.V. and Subsidiaries

## Consolidated Statements of Cash Flows

(Figures in thousands of Mexican pesos (Ps.))

For the years ended December 31,

	2011	2010	2009
<b>Operating activities</b>			
Items related to investing activities:			
Income before income tax	Ps. 2,179,882	Ps. 2,486,939	Ps. 2,575,782
Items related to investing activities:			
Depreciation and amortization	432,237	465,614	483,409
Loss (gain) on sale of property and equipment	2,170	(4,246)	26,706
Interest income	(194,009)	(162,887)	(184,140)
Gain on sale of other investment	-	-	(11,676)
Equity earnings in associate	(18,979)	-	-
Items related to financing activities:			
Interest	1,735,639	1,290,903	886,149
Share-based payment transactions	-	-	10,638
Valuation effects of financial derivative instruments	(67,616)	39,654	66,451
Deferred profit-sharing	-	-	26,606
Exchange loss (gain)	779,108	(170,830)	(184,346)
	4,848,432	3,945,147	3,695,579
(Increase) decrease in trade accounts receivable	(17,820)	(1,455,729)	756,012
Increase in inventories and land held for future Developments	(3,558,558)	(4,061,504)	(1,974,028)
(Increase) decrease in prepaid expenses and other assets	(500,304)	546,533	(318,835)
Interest income collected	194,009	162,887	184,140
(Decrease) increase in trade accounts payable	(335,170)	1,210,498	(1,665,751)
Increase (decrease) in accounts payable to land suppliers	352,711	(593,303)	(1,318,577)
Increase (decrease) in other liabilities	608,988	(813,374)	1,246,549
(Decrease) increase in employee benefits obligations	(16,363)	(7,709)	13,037
Termination payments for financial derivative contracts	(24,863)	-	(123,271)
Income tax (paid) recovered	(186,221)	(33,658)	43,272
Net cash flows from operating activities	1,364,841	(1,100,212)	538,127

For the years ended December 31,

	2011	2010	2009
<b>Investing activities</b>			
Increase in the investment in associate	(18,000)	-	-
Increase in notes receivable from related parties	(174,073)	-	-
Business acquisition	-	(290,478)	-
Acquisition of property and equipment	(38,547)	(279,644)	(89,352)
Proceeds from sale of property and equipment	9,436	81,192	30,625
Net cash flows from investing activities	(221,184)	(488,930)	(58,727)
<b>Financing activities</b>			
Proceeds from new borrowings	43,732,641	20,969,560	15,749,151
Payments of notes payable	(42,578,524)	(17,912,788)	(13,337,871)
Interest paid	(1,734,417)	(1,265,649)	(874,911)
Shares repurchased	(6,437)	-	(4,586)
Share-based payments exercised	2,796	5,516	-
Net cash flows from financing activities	(583,941)	1,796,639	1,531,783
Net increase of cash and cash equivalents	559,716	207,497	2,011,183
Adjustment to cash flows due to exchange rate fluctuation	(2,285)	(23,691)	(27,952)
Cash and cash equivalents at the beginning of the year	3,435,222	3,251,416	1,268,185
Cash and cash equivalents at the end of the year	Ps. 3,992,653	Ps. 3,435,222	Ps. 3,251,416

See accompanying notes to these consolidated financial statements.

# Desarrolladora Homex, S.A.B. de C.V. and Subsidiaries

## Notes to Consolidated Financial Statements

For the years ended December 31, 2011, 2010 and 2009

(Figures in thousands of Mexican pesos (Ps.), except as otherwise indicated)

### 1. Nature of business

Desarrolladora Homex, S.A.B. de C.V. and its subsidiaries (the "Company") is comprised of a group of companies engaged primarily in the promotion, design, development, construction and sale of affordable entry level and middle income residential housing. Substantially all sales are made in Mexico.

To carry out its activities, the Company engages in land acquisition, obtaining permits and licenses, designing, constructing, marketing and selling homes, obtaining individual financing for its customers and developing communities to satisfy housing needs in Mexico.

The Company participates in housing supply offers from the main housing funds in Mexico, such as the National Workers' Housing Fund, or Instituto Nacional del Fondo de Ahorro para la Vivienda de los Trabajadores ("INFONAVIT"), the Social Security and Services Institute Public-Segment Workers' Housing Fund, or Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado ("FOVISSSTE") and the governmental mortgage providers such as the Federal Mortgage Society, or Sociedad Hipotecaria Federal ("SHF"). Additionally, the Company participates in the market, where mortgage financing is provided by commercial banks and cash transactions.

For the years ended December 31, 2011, 2010 and 2009, revenues obtained through INFONAVIT mortgage financing accounted for 75%, 75% and 76% respectively, of the Company's total revenues, with other sources accounting for 25%, 25% and 24%, respectively.

Homex's operations include 142 developments in 35 cities located in 22 Mexican states. In 2011, 30.09%

of Homex's revenues originated in the Mexico City Metropolitan Area, the largest city in Mexico, and 13.84% in the state of Jalisco. The remaining revenues were originated throughout 31 cities.

Approximately, Ps. 598,678 and Ps. 173,272 of the Company's 2011 and 2010 revenues, respectively, originated in Brazil. For its Brazilian operations, the Company participates in housing supply offers with the governmental institution Caixa Economica Federal ("Caixa") that is similar in nature to the INFONAVIT in Mexico in that it provides financing to lower income homebuyers.

The Company's operations are on a seasonal basis: normally, the highest volume of sales takes place in the second half of the year. Construction times of real-estate developments vary depending on the type of housing: entry-level, middle-income or upper-income.

As disclosed in Notes 3b and 25b, in 2010 the Company signed a contract to build and then subsequently operate a prison for the Mexican Government.

On April 26, 2012, the Financial Director (CFO), Carlos Moctezuma Velasco, and the Administrative and Accounting Officer, Ramón Lafarga Bátiz, authorized the issuance of the Company's consolidated Mexican Financial Reporting Standards (Mexican FRS) financial statements its and notes as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011. Those consolidated financial statements have been approved by the Audit Committee and, the Board of Directors on April 26, 2012, and by the Company's stockholders at its meeting held on April 27, 2012.

### 2. Basis of preparation

#### a) Consolidation of financial statements

The consolidated financial statements include those of Desarrolladora Homex, S.A.B. de C.V. and its subsidiaries, whose shareholding percentage in their capital stock is shown below:

Company	Ownership percentage		Activity
	2011	2010	
Proyectos Inmobiliarios de Culiacán, S.A. de C.V. ("PICSA")	100%	100%	Promotion, design, construction and sale of entry-level, middle-income and upper-income housing.
Nacional Financiera, S.N.C. Fid. del Fideicomiso AAA Homex 80284	100%	100%	Financial services.
Administradora Picsa, S.A. de C.V.	100%	100%	Administrative services and promotion related to construction industry.
Altos Mandos de Negocios, S.A. de C.V.	100%	100%	Administrative services.
Aerohomex, S.A. de C.V.	100%	100%	Air transportation and lease services.
Desarrolladora de Casas del Noroeste, S.A. de C.V. (DECANO)	100%	100%	Construction and development of housing complexes.
Homex Atizapán, S.A. de C.V.	67%	67%	Promotion, design, construction and sale of entry-level and middle-income.
Casas Beta del Centro, S. de R.L. de C.V. <sup>(1)</sup>	100%	100%	Promotion, design, construction and sale of entry-level and middle-income.
Casas Beta del Norte, S. de R.L. de C.V.	100%	100%	Promotion, design, construction and sale of entry-level.
Casas Beta del Noroeste, S. de R.L. de C.V.	100%	100%	Promotion, design, construction and sale of entry-level.
Hogares del Noroeste, S.A. de C.V. <sup>(2)</sup>	50%	50%	Promotion, design, construction and sale of entry-level and middle-income housing.
Opción Homex, S.A. de C.V.	100%	100%	Sale, lease and acquisition of properties.
Homex Amuéblate, S.A. de C.V.	100%	100%	Sale of housing related products.
Homex Global, S.A. de C.V. <sup>(3)</sup>	100%	100%	Holding company for foreign investments.
Sofhomex, S.A. de C.V. S.F.O.M. E.R.	100%	100%	Financial services.
Nacional Financiera, S.N.C. Fid. del Fideicomiso Homex 80584	100%	100%	Employee stock option plan administration.
HXMTD, S.A. de C.V.	100%	100%	Promotion, design, construction and sale of upper-income tourism housing.
Homex Central Marcaria, S.A. de C.V.	100%	100%	Administration of industrial and intellectual property.
Homex Infraestructura, S.A. de C.V. <sup>(4)</sup>	100%	100%	Design and construction services for public or private services.
CRS Morelos, S.A. de C.V.	100%	100%	Construction services to government.
CT Prop, S. de R.L. de C.V. <sup>(5)</sup>	100%	100%	Promotion, design, construction and sale of tourism housing.

Company	2011	2010	Activity
CT Loreto, S. de R.L. de C.V.(5)	100%	100%	Promotion, design, construction and sale of tourism housing.

Significant intercompany balances and transactions have been eliminated during the consolidation of these entities.

- (1) Casas Beta del Centro, S. de R.L. de C.V. (CBC) owns 100% of the outstanding stock of superAbastos Centrales y Comerciales, S.A. de C.V. and 50% of the outstanding stock of promotora Residencial Huehuetoca, S.A. de C.V. (Huehuetoca), which are engaged in the promotion, design, construction and sale of entry-level housing. Huehuetoca is fully consolidated in accordance MFRS B-8 Consolidated or Combined Financial Statements, since the Company has control over this subsidiary. Through October 20, 2009, CBC owned 100% of the outstanding stock of Comercializadora Cántaros, S.A. de C.V. That company was sold to a third party on that date.
- (2) Hogares Del Noroeste, S. A. de C.V. is a 50% owned and controlled subsidiary of desarrolladora Homex, S.A.B. de C.V., which is engaged in the promotion, design, construction and sale of entry-level and middle-income housing. This entity is fully consolidated in accordance with MFRS B-8, since the Company has control over this subsidiary.
- (3) Homex Global, S.A. de C.V. (Homex Global) owns the outstanding stock of the following companies:
  - (a) Homex Global owns 100% of the outstanding stock of Homex India Private Limited, a subsidiary located in India and that is to perform the construction and development of entry-level and middle-income housing in India. This company has had no significant operations to date.
  - (b) Homex Global owned 15% of the outstanding stock of Orascom Housing Communities S.A.E., a company located in Cairo, Egypt that performs the construction and development of entry-level and middle-income housing in Egypt. Pursuant the application of MFRS C-7, Investments in Associates and Other Permanent Investments, effective January 1, 2009, this company was no longer considered an associate but another permanent investment. On December 31, 2009 the Company sold its total investment in this company to a third party.
  - (c) Homex Global owns 100% of the outstanding stock of Desarrolladora de Sudamérica, S.A. de C.V., a Mexican company that had no significant operations during the periods presented herein.
  - (d) Homex Global owns 100% of the outstanding common stock of Homex Brasil Participacoes Limitada (Homex Brasil), through its subsidiaries Éxito Construcoes e Participacoes Limitada, HMX Empreendimentos Imobiliários Limitada and MCA Incorporacoes S.A. Through twenty three subsidiaries, Homex Brasil performs construction and development of entry-level housing in Sao Paulo, Brazil. During 2009, Homex Brasil started operations in Brazil with a

1,300-unit affordable entry-level development in San Jose dos Campos, northeast of Sao Paulo. During the years ended December 31, 2011 and 2010 the Company recognized revenues from its Brazilian operations of Ps. 598,678 and Ps. 173,272, respectively.

- (e) Effective June 2011, Homex Global owns 100% of the outstanding stock of MCA Incorporacoes, S.A., a subsidiary located in Brazil that entered into a line of credit with Deutsche Bank S.A. (See Note 12).
  - (f) In December 2011, Homex Global acquired 55% of the outstanding stock of Homex Alesayi Company Limited, a subsidiary located in Saudi Arabia and that is to perform the construction and development of entry-level and middle-income housing in Saudi Arabia. This company had no operations during 2011.
  - (4) Homex Infraestructura, S.A. de C.V. owns 100% of the outstanding common stock of Homex Infraestructura Concesiones, S.A. de C.V. and Homex Infraestructura Obras, S.A. de C.V., which are engaged to design and construction for public or private services.
  - (5) These companies were acquired in 2010 through the Loreto Bay business combination explained in Note 4 to the consolidated statements. CT Prop, S. de R.L. de C.V. owns 100% of the outstanding stock of CT Commercial Properties, S. de R.L. de C.V.
- b) Incorporation of Foreign Subsidiaries.**
- The accounting records of foreign subsidiaries are maintained in the local currency and in accordance with MFRS. For incorporation into the Company's consolidated financial statements, each foreign subsidiary's individual financial statements are as of the same period as the Company's consolidated financial statements and also are restated into Mexican pesos, as described as follows:
- For inflationary economic environments- the inflation effects of the country of origin are recognized, and the financial statements are subsequently translated into Mexican pesos using the year-end exchange rate.

- For non-inflationary economic environments- assets and liabilities are translated into Mexican pesos using the period-end exchange rate, shareholders' equity is translated into Mexican pesos using the historical exchange rate, and the income statement is translated using the average exchange rate of each month.

Average exchange rate were as follows:

Country	Functional / Recording Currency	2011	2010	2009
Mexico	Mexican peso	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000
Brazil	Reais	7.5155	7.4366	7.5183
India	Rupee	0.2579	0.2714	0.2788

Variances in the net investment in foreign subsidiaries generated in the translation process are included in the cumulative translation adjustment, which is recorded in equity as a cumulative other comprehensive income item.

The translation of assets and liabilities denominated in foreign currencies into Mexican pesos is for consolidation purposes and does not indicate that the Company could realize or settle the reported value of those assets and liabilities in Mexican pesos. Additionally, this does not indicate that the Company could return or distribute the reported Mexican peso value equity to its shareholders.

### 3. Summary of significant accounting policies

The accompanying consolidated financial statements were prepared in conformity with Mexican Financial Reporting Standards (MFRS).

#### a) New accounting standards

##### Effective in 2011:

#### MFRS B-5, Reporting Financial Information by Segment

This MFRS replaces MFRS B-5, *Reporting Financial Information by Segment* and establishes the criteria to identify the entity's segments to disclose as well as the disclosures about those segments. In addition, MFRS B-5 establishes certain other disclosure requirements.

The main changes of this MFRS are as follows: (a) MFRS B-5 includes a managerial approach, while previous MFRS B-5, although it referred to managerial approach, required that the information to disclose were referred to identified segments based on the products or services, geographical areas and customers homogeneous groups, also requiring that that information would be segregated in primary and secondary information; (b) new MFRS does not require that business areas are subject to different risks amongst them, in order to qualify as operative segments, while previous MFRS B-5 did; (c) in accordance to new MFRS B-5, business areas in development stage could be catalogued as operative segment, while previous MFRS B-5 required operative segments to generate revenues; (d) MFRS B-5 requires to disclosure of segments interest income and interest expense, as well as other comprehensive financial cost items to the extent that those items are part of the financial information relied upon by Chief Operating Decision Maker, while previous MFRS B-5 did not require this information; and (e) MFRS B-5 requires to disclose the amounts of liabilities that are included in the usual information of an operative segment that the Company normally uses to make decisions, while previous MFRS B-5 did not require this and let management the option to do so or not.

The adoption of this MFRS did not significantly change the periodic segment disclosures made by the Company.

#### MFRS C-4, Inventories

In November 2010, the CINIF issued MFRS C-4, effective for fiscal years beginning on or after January 1, 2011 and replaced Mexican accounting Bulletin C-4, *Inventories*. Accounting changes resulting from the adoption of this standard related to changes in the formula for assigning inventory costs are recognized retrospectively. Changes in valuation methods must be recognized prospectively.

The principal difference between Mexican accounting Bulletin C-4 and MFRS C-4 is that the new standard does not allow using direct costs as the inventory valuation method nor does it allow using the LIFO cost method as the formulas (former method) for the assignment of unit cost to the inventories. MFRS C-4 establishes that

inventories must be valued at the lower of either acquisition cost or net realizable value. Such standard also establishes that advances to suppliers for the acquisition of merchandise must be classified as inventories provided the risks and benefits are transferred to the Company. Lastly, MFRS C-4 includes guidelines for the valuation of the inventories of service suppliers.

This MFRS was adopted as of January 1, 2011, with retrospective application to prior accounting periods presented with these 2011 consolidated financial statements as required by MFRS B-1 *Accounting Changes and Error Corrections*. The application of MFRS C-4 to the consolidated financial statements had the following effects with respect to the year ended December 31, 2010 consolidated balance sheet:

	As originally issued	Adjustment	As adjusted 2010
Assets:			
Cash and cash equivalents	Ps. 3,435,222	Ps. -	Ps. 3,435,222
Trade accounts receivable	1,975,203	-	1,975,203
Inventories and land held for Development	17,236,366	(114,509)	17,121,857
Prepaid expenses and other current assets, net	627,682	114,509	742,191
Total current assets	Ps. 23,274,473	Ps. -	Ps. 23,274,473

Consolidated statement of cash flow information related to 2010 and 2009 has also been adjusted to reflect the change in classifications disclosed above.

#### MFRS C-5, Prepaid Expenses

In November 2010, the CINIF issued MFRS C-5, which is effective for fiscal years beginning on or after January 1, 2011. MFRS C-5 replaces Mexican accounting Bulletin B-5. Any accounting changes resulting from the adoption of this standard must be recognized retrospectively.

This standard establishes that the main characteristic of a prepaid expense is that it does not result in the transfer to the entity of the benefits and risks inherent to the

goods or services to be received. Consequently, prepaid expenses must be recognized in the balance sheet as either current or non-current assets, depending on the item classification in the statement of financial position. Moreover, MFRS C-5 establishes that prepaid expenses made for good or services whose inherent benefits and risks have already been transferred to the entity must be carried to the appropriate caption.

The adoption of this MFRS required the Company to reclassify certain amounts in the December 31, 2010 balance sheet, from inventories to other current assets. The impact of the adoption of this MFRS is presented above.

#### MFRS C-6, Property, Plant and Equipment

MFRS C-6 was issued by the CINIF in December 2010 to replace Mexican accounting Bulletin C-6, Property, Machinery and Equipment, and is effective for fiscal years beginning on or after January 1, 2011, except for the changes related to the segregation of property, plant and equipment into separate components for those assets with different useful lives. For entities that have not performed this component segregation, the provisions of this new standard will be effective as of January 1, 2012. As of December 31, 2011 the Company had not yet adopted the component segregation elements of MFRS C-6.

The new standard establishes that for acquisitions of free-of-charge assets, the cost of the assets must be null, thus eliminating the option of performing appraisals. In the case of asset exchanges, MFRS C-6 requires entities to determine the commercial substance of the transaction and the amount to be depreciated is the cost of acquisition less the asset's residual value. Prepaid expenses for the acquisition of assets are to be recognized as a component of the asset as of the time the benefits and risks inherent to such assets are transferred. In the case of retirement of assets, income is recognized when the requirements for income recognition outlined under the standard have been met. MFRS C-6 also outlines specific new disclosures for public entities presented in Note 10.

The adoption of this MFRS did not have any effects on the Company's consolidated financial statements.

#### Effective in 2010:

#### Interpretation to Mexican Financial Reporting Standards (IMFRS) 14, Construction, Sales and Services Agreements related to Real Estate

In December 2008 IMFRS 14 was issued by the Consejo Mexicano de Normas de Información Financiera, A.C. (the Mexican Financial Information Standards Board or "CINIF") to complement Bulletin's D-7, *Construction Agreements and Manufacturing of Certain Capital Assets*. This Interpretation is applicable to the recognition of revenues, costs and expenses for all entities that

undertake the construction of capital assets directly or through sub contractors.

Due to the application of this Interpretation, effective January 1, 2010, the Company stopped recognizing its revenues, costs and expenses based on the percentage-of-completion method. At that date, the Company began to recognize them based on methods mentioned in this Interpretation. Revenue and cost recognition will then more closely approximate what is often referred to as a "completed contract method" (or "deposited accounting method") in which revenues, costs and expenses should be recognized, when all of the following conditions are fulfilled:

- the Company has transferred the control to the home-buyer, in other words, the significant risks and benefits due to the property or the assets ownership;
- the Company does not retain any continued participation of the actual management of the sold assets, in the usual grade associated with the property, nor does retain the effective control of the sold assets;
- the revenues amount can be estimated reliably;
- it is probable that the Company will receive the economic benefits associated with the transaction; and
- the costs and expenses incurred or to be incurred related to the transaction can be estimated reliably.

The above conditions are typically met upon the completion of construction, and signing by the Company, the customer and (if applicable) the lender the legal contracts and deeds of ownership (escritura) over the property. At that time, the customer would have the legal right to take possession of the home.

This Interpretation was adopted as of January 1, 2010, with retrospective application to prior accounting periods as required by MFRS B-1 *Accounting Changes and Error Corrections*.

#### MFRS C-1, Cash and cash equivalents

Mexican FRS C-1 was issued by the CINIF in November 2009 to replace Mexican accounting Bulletin C-1, Cash, and is effective for fiscal years beginning on or

after January 1, 2010. The main differences between Mexican FRS C-1 and Mexican accounting Bulletin C-1 lie in the presentation of restricted cash and the substitution of the term “short-term investments” by the new term “liquid investments”, which are those investments whose maturities do not exceed three months.

The adoption of this MFRS did not have significant effects on the Company's consolidated financial statements, except for the reclassification of restricted cash to cash and cash equivalents in the consolidated balance sheet, with related effects on the consolidated statement of cash flows.

#### **Effective in 2009:**

The most relevant standards that came into force in 2009 are described below:

#### **MFRS B-7, Business Acquisitions**

This MFRS substitutes Bulletin B-7 *Business Acquisitions* and was issued by the CINIF to replace Mexican accounting Bulletin B-7 Business Acquisitions. This standard establishes general rules for the initial recognition of net assets, non-controlling interests and other items, as of the acquisition date.

According to this statement, purchase and restructuring expenses resulting from acquisition process, should not be part of the consideration, because these expenses are not an amount being shared by the business acquired.

In addition, MFRS B-7 requires a company to recognize non-controlling interests in the acquiree at fair value as of the acquisition date.

#### **MFRS B-8, Consolidated or Combined Financial Statements**

The CINIF issued in December 2008, MFRS B-8 *Consolidated or Combined Financial Statements* which replaces Mexican Bulletin B-8 *Consolidated Financial Statements* and describes general rules for the preparation, presentation and disclosure of consolidated and combined financial statements.

The main changes of this MFRS are as follows: (a) this rule defines “Specific-Purpose Entity” (SPE), establishes the cases in which an entity has control over a SPE, and when a company should consolidate this type of entity; (b) addresses that potential voting rights should be analyzed when evaluating the existence of control over an entity; and, (c) set new terms for “controlling interest” instead of “majority interest,” and “non-controlling interest” instead of “minority interest.”

The adoption of this MFRS did not have any effect on the Company's consolidated financial statements.

#### **MFRS C-7, Investments in Associates and Other Permanent Investments**

MFRS C-7 was issued by CINIF in December 2008 and describes the accounting treatment for investments in associates and “other permanent investments”, which were previously treated within Bulletin B-8 *Consolidated Financial Statements*. This MFRS requires the recognition of a Specific-Purpose Entity, through equity method. Also, this MFRS establishes that potential voting rights should be considered when analyzing the existence of significant influence.

In addition, this rule defines a procedure and a limit for the recognition of losses in an associate.

The adoption of this MFRS required the Company to consider the associate in Egypt as another permanent investment effective January 1, 2009, and no longer as an associate, and therefore to stop applying the equity method of accounting to this company.

#### **MFRS C-8, Intangible Assets**

This rule substitutes Bulletin C-8 *Intangible Assets*. The new rule defines intangible assets as non-monetary items and broadens the criteria of identification, indicating that an intangible asset must be separable; this means that such asset could be sold, transferred, or used by the entity. In addition, intangible asset arises from legal or contractual rights, whether those rights are transferable or separable from the entity.

This standard also establishes that preoperative costs should be eliminated from the capitalized balance (derecognized), affecting retained earnings, and without restating prior financial statements.

The adoption of this MFRS did not have any effect on the Company's consolidated financial statements.

#### **MFRS D-8, Share-Based Payments**

MFRS D-8 establishes the recognition of share-based transactions. When an entity purchases goods or pay services through share-based transactions, the entity is required to recognize those goods or services at fair value and the corresponding increase in equity. According with MFRS D-8, if share-based payments cannot be settled with equity instruments, they have to be settled using an indirect method considering MFRS D-8 parameters, and thus recorded as a liability.

The adoption of this MFRS did not have a material effect on the Company's consolidated financial statements.

#### **IMFRS 18, Effects on Recognition from the 2010 Tax Reform Bill in Income Taxes**

On December 15, 2009 the CINIF published the Interpretation 18 of Mexican Financial Reporting Standards with the objective to provide guidance in regards to the 2010 Tax Reform Bill about the accounting recognition that should be completed in the companies' financial statements.

This IMFRS establishes certain parameters for the recognition of changes to the new Tax Reform, mainly in regards to Income Tax rates changes, changes to the consolidation regime (fundamentally related to tax losses), losses on stock transfers, special consolidation terms, distributed dividends not from Net Tax Profit Account (CUFIN), consolidation tax benefits and differences between CUFIN. The effects of the application of IMFRS 18 are disclosed in Note 24.

#### **b) Revenue and cost recognition**

##### **Home sales**

Revenues, costs and expenses from the Company's homes sales are recognized when all of the following conditions are fulfilled:

- a) the Company has transferred the control to the homebuyer, in other words, the significant risks and benefits due to the property or the assets ownership;
- b) the Company does not retain any continued participation of the actual management of the sold assets, in the usual grade associated with the property, nor does retain the effective control of the sold assets;
- c) the revenues amount can be estimated reliably;
- d) it is probable that the Company will receive the economic benefits associated with the transaction; and
- e) the costs and expenses incurred or to be incurred related to the transaction can be estimated reliably.

The above conditions are typically met upon the completion of construction, and signing by the Company, the customer and (if applicable) the lender, the legal contracts and deeds of ownership (escritura) over the property. At that time, the customer would have the legal right to take possession of the home.

The cost of sales represents the cost incurred in the development of housing revenues by the Company during the year. These costs include land, direct materials, labor and all the indirect costs related to the development of the project such as indirect labor, equipment, repairs, depreciation and the capitalization of the comprehensive financing costs.

##### **Construction services**

Construction services revenues and costs are recorded pursuant to the percentage-of-completion method,

measured by the percentage of actual costs incurred to total estimated costs for each development and each project, in accordance to Bulletin D-7. Under this method, the estimated revenue for each development and project is multiplied by such percentage to determine the amount of revenue to be recognized. Management periodically evaluates the fairness of estimates used to determine the percentage of completion. If, as a result of such evaluation, it becomes apparent that estimated costs on uncompleted projects exceed expected revenues, a provision for estimated costs is recorded in the period in which such costs are determined.

During the years ended December 31, 2011 and 2010 the Company provided construction services only to Mexican Government entities.

#### Concession Arrangement

During 2011, the Company entered into the CRS Morelos Facility Contract with the Mexican Government to build and then subsequently assist in the operation of a prison facility in Mexico. Construction service revenues and related costs are recorded pursuant the percentage-of-completion method of accounting as described above. Once the project has begun operations, the services revenues will be recognized on a monthly basis (See Note 25b).

#### c) Recognition of the effects of inflation

Beginning January 1, 2008 the Company discontinued inflationary accounting in accordance MFRS B-10, Effects of Inflation. Based on this Standard, the Company operates in a non-inflationary economy, and accordingly did not recognize the effects of inflation in the financial information for the years ended December 31, 2011, 2010 and 2009.

Cumulative inflation in Mexico over 2009, 2010 and 2011 is less than 26% and therefore, in conformity with MFRS B-10, Mexico's current economic environment is considered non-inflationary. Furthermore, the three year cumulative inflation in both of the

Company's foreign locations (Brazil and India) is also less than 26% through December 31, 2011. Accordingly, the Company's financial information for 2011, 2010 and 2009 was prepared without recognizing the effects of inflation.

The 2011, 2010 and 2009 inflation, based on the Mexican National Consumer Price Index was 3.81%, 4.40% and 3.57%, respectively. The cumulative inflation for the last three years was 12.26%. Regarding Brazil, the 2011, 2010 and 2009 inflation was 6.5%, 5.91% and 4.31% respectively, the cumulative inflation for the last three years was 17.50% that in accordance to MFRS is considered a non-inflationary environment.

#### d) Use of estimates

In conformity with MFRS, the preparation of financial statements requires the use of estimates and assumptions in certain areas. Actual results could differ from these estimates.

#### e) Cash and cash equivalents

Cash and cash equivalents consist basically of bank deposits and highly liquid investments with purchased maturities of less than three months. These investments are stated at cost plus accrued interest, which is similar to their market value.

#### f) Allowance for doubtful accounts

The Company's policy is to provide for doubtful accounts based on balances of uncollected accounts receivable, applying several percentages based on their aging status.

#### g) Inventories and costs of sales

Construction-in-process, construction materials and land for development and future development are recorded at acquisition cost.

Land for future developments refers to land reserves to be developed by the Company beyond 2012. The Company's policy is to locate and acquire land each

year, classifying land currently being developed and land planned to be developed within the next year as part of current assets, and classifying all remaining land as non-current assets.

MFRS D-6 establishes the determination of the amount from the comprehensive financing cost (CFC) that shall be capitalized. The land under development inventories and construction-in-process include the capitalized CFC. The Company capitalizes the CFC that results from the application of the weighted average rate of the debt to the weighted average of the construction-in-process investment and the land under development during the acquisition period. In regards to debt in foreign currency, the capitalized CFC includes the corresponding exchange gains and losses (see Note 8).

The Company reviews the carrying amounts of its inventories annually or earlier when an impairment indicator suggests that such amounts might not be recoverable. If events or changes in circumstances indicate that the carrying value may not be recoverable an assessment is undertaken to determine whether carrying values are in excess of their net realizable value. Net realizable value is the estimated sales price in the ordinary course of business, less estimated costs for completion and effecting a sale.

During the year ended December 31, 2011, the Company adjusted the value of its inventory in-process at each of its three Brazilian projects whereby total inventory balances were written down by approximately Ps. 131,079, given that such projects had been operating at a negative profit margin. The carrying value of the Brazilian inventory is Ps. 994,539 after such write-down.

Net realizable value for development properties is based on internal project evaluations where assumptions are made about the project's expected revenues and expenses. Valuation of these projects is performed according to lower cost of market principle. If the car-

rying amount of a project exceeds the net realizable value, a provision is recorded to reflect the inventory at the recoverable amount in the balance sheet.

#### h) Prepaid expenses

Prepaid expenses are recognized by the amount paid in the moment that is realized, only if an estimated future benefit is associated with the Company. Once that the service or good is received, the Company recognizes the amount related to the prepaid expense as an asset or expense in the period, depending how certain is that the service or good will provide benefits to the Company.

The Company reviews the prepaid expenses capacity to generate future benefits, as well as its recoverability; the amount considered as not recoverable is recognized as an impairment loss.

#### i) Property and equipment

Property and equipment is recorded at acquisition cost. Depreciation is calculated using the straight-line method based on the useful lives of the related assets, as follows:

	Years
Buildings	20
Machinery and equipment	4 and 10
Transportation equipment	4
Air transportation equipment	10
Office furniture and equipment	10
Computers	4
Communication equipment	4

The value of property and equipment is reviewed whenever there are impairment indicators. When the recovery value of an asset, which is the greater of its selling price and value in use (the present value of future cash flows), is lower than its net carrying value, the difference is recognized as an impairment loss. At December 31, 2011 and 2010, no impairment losses have been recognized with respect to the Company's property and equipment.

#### **j) Leases**

The Company classifies agreements to lease property and equipment as operating or capital, in conformity with the guidelines of Bulletin D-5, Leases.

Lease arrangements are recognized as capital leases if they meet at least one of the following conditions:

- a) Under the agreement, the ownership of the leased asset is transferred to the lessee upon termination of the lease.
- b) The agreement includes an option to purchase the asset at a reduced price.
- c) The term of the lease is basically the same as the remaining useful life of the leased asset.
- d) The present value of minimum lease payments at the inception of the lease is substantially equal to the market value of the leased asset, net of any residual value (90% or more).

When the lessor retains the risks or benefits inherent to the ownership of the leased asset, the agreements are classified as operating leases and rent is charged to results of operations.

#### **k) Goodwill**

Goodwill represents the excess over the purchase price paid in a business acquisition and the fair value of the net assets acquired at the date of acquisition in accordance with the purchase method of accounting.

Goodwill is recorded at acquisition cost.

Goodwill is not amortized; however, it is subject to annual impairment tests, and when circumstances indicate that the carrying value may be impaired and is adjusted for any impairment losses. Goodwill is allocated to the cash generating unit in order to test for

impairment losses. The Company allocated the goodwill to the affordable entry-level segment, which is considered the cash generating unit.

Goodwill as of December 31, 2011 and 2010 was Ps. 731,861.

#### **l) Impairment of indefinite lived assets**

The Company reviews the carrying amounts of assets with indefinite useful life annually or earlier when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows using an appropriate discount rate, or the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the amounts mentioned above. The impairment indicators considered for these purposes are, among others, the operating losses or negative cash flows in the period if they are combined with a history or projection of losses; depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than that of previous years; obsolescence; reduction in the demand for the products manufactured; competition; and other legal and economic factors.

As of December 31, 2011 and 2010, no impairment has been recognized with respect to the Company's assets with indefinite lives.

#### **m) Other assets**

Expenses related to the placement of the various borrowings disclosed in Note 12 are recorded at cost. These amounts are amortized under the straight-line method over the respective loan terms and disclosed in Note 11.

#### **n) Investment in associate**

The investment in an associate company is initially recognized at acquisition cost and is subsequently accounted for using the equity method, by which the

Company recognizes its participation in the results of operation and the associate's equity. Associate is considered the investment on which the Company has significant influence.

The associate's financial statements are prepared under the same accounting policies and periods of the Company.

#### **o) Employee retirement obligations**

The Company grants seniority premiums and termination pay, covering all its employees. The related calculations are based on the provisions of the Mexican Federal Labor Law (FLL). Under FLL, workers are entitled to certain benefits at the time of their separation from the Company under certain circumstances. Seniority premiums and termination payments are recognized using the projected unit-credit method and financial assumptions.

#### **p) Financial derivative instruments**

Financial derivative instruments are used for hedging purposes. At December 31, 2011 and 2010, all derivative instruments were recognized in the balance sheet at fair value, initially represented by the amount of consideration agreed between the parties (both assets and liabilities). Transaction costs and cash flow received or delivered to adjust these instruments to fair value at the beginning of the transaction, not related to premiums on options, are amortized during the respective term.

The changes in the fair value of financial derivative instruments that do not qualify as hedging instruments for accounting purposes are recognized in the consolidated statements of income as part of the "valuation effects of financial derivative instruments" caption. The valuation of financial derivative instruments that qualify as hedging instruments for accounting purposes are recognized in equity as part of other comprehensive income.

#### **q) Liabilities, provisions and contingent assets and liabilities**

Liabilities and provisions are recognized whenever (i) the Company has a present obligation (legally binding or assumed) derived from past events, (ii) is probable that a future cash disbursement will be required for its settlement and (iii) can be reasonably estimated.

The Company recognizes a liability for a loss contingency when it is probable (i.e. the probability that the event will occur is greater than the probability that it will not). That certain effects related to past events, will materialize and can be reasonably quantified. These events and the financial impact are also disclosed as lost contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized.

The Company evaluates its income tax positions to determine whether they meet the more-likely-than-not threshold to be recognized in the financial statements at the largest amount of benefit that is more likely than not of being realized upon ultimate settlement with the tax authority. The Company accrues interest, and penalties related to its balance of unrecognized tax benefits.

#### **r) Deferred taxes**

The Company recognizes deferred taxes using the liability method. Under this method, deferred taxes are recognized on all temporary differences between the book and tax values of assets and liabilities, using the enacted income tax or flat rate business tax (IETU) rate at the time the financial statements are issued, which is the enacted rate that will be in effect at the time the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

Deferred tax assets are evaluated periodically in order to determine their recoverability.

Deferred tax consequences on unremitted foreign earnings are accounted for as temporary differences, except to the extent that the Company is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future. Taxes paid on remitted foreign earnings are able to be offset against Mexican taxes, thus to the extent that a remittance is to be made, the deferred tax would be limited to the incremental difference between the Mexican tax rate and the rate of the remitting country. As of December 31, 2011 and 2010, the Company has not provided any deferred taxes related to unremitted foreign earnings given that its foreign subsidiaries have not recognized profits to date.

**s) Deferred employee statutory profit sharing**

The Company uses MFRS D-3, Employee Benefits that considers the accounting treatment for Employee Statutory Profit-Sharing. This Standard establishes the Companies to use the liability method to compute and recognize the deferred liability or asset for profit-sharing, in a similar manner as the deferred income tax computation.

The current year deferred employee profit-sharing expense is presented as an part of other expenses in the consolidated statement of income rather than as part of taxes on profits.

The deferred asset effect generated during 2011 and 2009 was Ps. 77,723 and Ps. 52,392 respectively. The Company created a valuation allowance to full reserve the balance for both years, which according with the Company's projections were more likely than not to not be recovered. At December 31, 2010, there was not deferred profit-sharing to be recognized.

**t) Foreign currency balances and transactions**

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican

pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the consolidated statements of income.

See Note 19 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.

**u) Stock option plan**

The Company has implemented different plans through which certain of its executives and company officials receive remuneration in the form of share-based payments, whereby these individuals render services as consideration for equity instruments.

Given the settlement feature contained within one of the plans, the awards were treated as "liability awards" from its implementation and through December 31, 2008. Compensation cost was measured by reference to the fair value of the awards at each balance sheet date. During 2009, and as a result of certain modifications made to the plan, the awards were modified so as to become equity-settled. The Company recognizes the fair value of the services received as an increase in equity.

During 2011 the Company implemented a new plan which awards are treated as liability awards. The fair value of share based compensation is determined using an appropriate pricing model (see Note 18d).

**v) Earnings per share**

Earnings per share are calculated by dividing net income of controlling interest by the weighted average number of shares outstanding during the year. The Company does not have any dilutive securities beyond the stock options disclosed in Note 18d, the effects of which were immaterial in all periods. Accordingly basic and diluted earnings per share presented were the same during such periods presented herein.

**w) Comprehensive income**

Comprehensive income is represented by net income, the effect of the currency translation of the financial statements of the foreign subsidiaries and the effect of the change in the fair value of financial derivative instruments (and underlying instruments) that meet the criteria of hedge accounting. The effects of these concepts and the changes in financial derivative instruments and other equity accounts in equity (including the comprehensive income for each period) are shown as follows:

	Financial derivate Instruments	Other equity Accounts
<b>Balance as of December 31, 2008</b>	Ps. -	Ps. 53,307
Changes in fair value of financial derivative instrument	(125,531)	-
Deferred tax related to the changes in fair value of financial derivative instrument	37,659	-
Translation effects of the foreign subsidiaries financial statements	-	(42,401)
<b>Balance as of December 31, 2009</b>	(87,872)	10,906
Changes in fair value of financial derivative instrument	(337,273)	-
Deferred tax related to the changes in fair value of financial derivative instrument	94,436	-
Exchange gain of the Senior Guaranteed Notes due 2019	-	137,075
Deferred tax of the exchange gain of the Senior Guaranteed Notes due 2019	-	(38,381)
Translation effects of the foreign subsidiaries financial statements	-	(26,616)
<b>Balance as of December 31, 2010</b>	(330,709)	82,984
Changes in fair value of financial derivative instrument	481,125	-
Deferred tax related to the changes in fair value of financial derivative instrument	(134,715)	-
Exchange loss of the Senior Guaranteed Notes due 2019	-	(399,250)
Deferred tax of the exchange loss of the Senior Guaranteed Notes due 2019	-	111,790
Translation effects of the foreign subsidiaries financial statements	-	(2,284)
<b>Balance as of December 31, 2011</b>	Ps. 15,701	Ps. (206,760)

**x) Statement of income presentation**

The costs and expenses reflected in the statement of income are presented according to their function, since this classification allows an adequate analysis of gross profits and operating margins. The Company's operating income is presented because it is an important indicator of its overall performance and results, and includes ordinary income, operating costs and expenses. Other ordinary income (expenses) is therefore excluded.

**y) Segment reporting**

Segment reporting is presented in accordance with the information used by the Company's Chief Operating Decision Maker for decision making process. The information is presented according to the type of housing on sale by the Company and others.

#### 4. Business acquisition

On December 22, 2009 the Company entered into an Equity Interest Purchase Agreement to acquire three companies: CT Prop, S. de R.L. de C.V, CT Commercial Properties, S. de R.L. de C.V, and CT Loreto, S. de R.L. de C.V. (all together referred as the Loreto Companies). In accordance to the agreement, the Company was to deposit US \$5 million into an escrow account. At December 31, 2009 the Company had deposited US \$0.5 million (equivalent to Ps. 6,533); the rest was deposited on January 15, 2010. Depending on the satisfaction of diverse legal requirements, of which the most relevant was to evidence that the title of the asset transferred to the entities that will own them, is free and clear from any encumbrance, the Company was going to acquire through the Loreto companies different assets (hotel, golf course and land). On July 20, 2010 the legal requirements for the majority of the assets were satisfied, and

the Company was able to acquire 100% of the common shares of CT Prop, S. de R.L. de C.V., which owns 100% of the outstanding stock of CT Commercial Properties, S. de R.L. de C.V. On December 31, 2010 the legal requirements for rest of the assets were fulfilled and the Company acquired the 100% of the common shares of CT Loreto, S. de R.L. de C.V.

As of December 31, 2010, the Company had fully paid the total purchase price of US\$ 22.5 million (Ps. 290,478). Part of the payment was done through a credit line granted by Banco Nacional de México, S.A., of which the outstanding balance as of December 31, 2010 was Ps. 99,358 and was fully paid during 2011 (see Note 12).

The fair value of the net assets identified at the acquisition date is shown as follows:

	Fair value recognized at the date of the acquisition	Adjustment to purchase Price	Purchase Price
Land inventory	Ps. 288,502	Ps. -	Ps. 288,502
Golf course	242,066	(240,090)	1,976
Hotel	119,073	(119,073)	-
Other fixed assets	14,918	(14,918)	-
Net assets at fair value	Ps. 664,559	Ps. (374,081)	Ps. 290,478

This business acquisition was recorded using the purchase method. Since net assets at fair value were greater than the purchase price, the Company adjusted the value of the acquired assets in accordance to the order established in MFRS B-7, allocating the adjustment to the non-monetary assets that were the hotel, golf course and other minor assets.

The results of operations of the Loreto companies have been included in the Company's consolidated financial statements since the date of the acquisition. Among the main reasons for the acquisition of these companies was the ability to construct a tourism develop-

ment of 850 units including amenities such as a golf course and a hotel in the city of Loreto, Baja California Sur. The acquisition of these companies is expected to strength the Company's position in the tourism domestic market, enhancing its presence in the Baja California Sur state.

Pro-forma financial information as if this business combination had been completed as of January 1, 2009 has not been presented as the pro-forma statement of operations figures for 2010 and 2009 would not be materially different from those presented in the consolidated financial statements.

#### 5. Cash and cash equivalents

	2011	2010
Cash	Ps. 239,243	Ps. 121,593
Cash equivalents	3,753,410	3,313,629
	Ps. 3,992,653	Ps. 3,435,222

Cash and cash equivalents consist of bank deposits and highly liquid investments. Cash equivalents include restricted cash as of December 31, 2011 and 2010 for Ps. 132,303 and Ps. 127,530, respectively.

#### 6. Trade accounts receivable

	2011	2010
As promoter:		
Due from customers and financing institutions <sup>(1) (2) (3)</sup>	Ps. 1,585,956	Ps. 1,581,158
Construction services <sup>(4)</sup>	632,341	488,169
Services and other	41,796	46,894
	2,260,093	2,116,221
Allowance for doubtful accounts	(111,357)	(78,852)
	2,148,736	2,037,369
Trade accounts receivable, long-term <sup>(5) (6)</sup>	(155,713)	(62,166)
	Ps. 1,993,023	Ps. 1,975,203

The Company does not believe that it has a significant concentration of credit risk. While some of its receivables are from homebuyers, the majority are from entities in the home finance business, whose characteristics differ from other receivables.

(1) These amounts include balances due from INFONAVIT, FOVISSSTE, SOFOLES (*Sociedades Financieras de Objeto Limitado*), commercial banks and homebuyers. With the exception of commercial banks, all such categories exceed 10% of accounts receivable balances as of December 31, 2011 and 2010.

(2) The Company participates in a program referred to as "Programa de Entrega Anticipada de Vivienda INFONAVIT". This program provides for factoring of INFONAVIT receivables without recourse, thereby providing for more timely collection.

(3) The Company participates in a factoring program with Mexico's National Development Bank (NAFIN), which provided FOVISSSTE with

a funding source to complement its housing programs. This program provides for factoring of FOVISSSTE receivables without recourse, thereby providing for more timely collection.

(4) This receivable is related to construction services provided by the Company to the Mexican Federal Government accounted using the percentage of completion method.

(5) Ps.41,525 and Ps. 62,166 of the long-term trade account receivable as of December 31, 2011 and 2010 is due to an agreement with the Housing Institute of the Federal District, or Instituto de Vivienda del Distrito Federal ("INVI"), on which it was agreed that the Company will receive monthly payments, including interest at a rate of TIIE plus 4%, during a five-year period, beginning June 2009, due to the sale of houses in Mexico City.

(6) Ps.114,188 of the long-term trade account receivable as of December 31, 2011 is due to the account receivable (financial asset) to the CRS Morelos Facility Contract revenues recognized pursuant the percentage-of-completion method of accounting (See Note 3b). Collection of such amounts will be as described in Note 25.

## 7. Transactions and balances with related parties

### Makobil

The Company has a 24% equity interest in Makobil, S. de R.L. de C.V. ("Makobil"), a Mexican entity. The other shareholder in Makobil is the Arendal Group, a well-known Mexican construction contractor. Makobil has been granted a contract by the Mexican Government for the construction and subsequent operation of a prison facility in Chiapas, Mexico. The Company will be performing sub-contractor services to Makobil in connection with the construction and operation of the prison facility. The company has a note receivable of Ps. 174,073 from makobil as of December 31, 2011. This note receivable

is due in August 2012 and bears interest at TIIE plus 1.6%. The Company is not a signatory to the Makobil prison contract with the Mexican Government, nor is it a guarantor on any of Makobil's financing agreements.

As discussed in Note 26, during March 2012 the Company executed an amendment to its shareholders agreement whereby it will ultimately purchase the 76% equity interest in Makobil currently owned by Arendal.

### Employee Compensation

During the years ended December 31, 2011, 2010 and 2010 compensation paid to the Company's key managerial personnel or relevant directors is as follows:

	2011	2010	2009
Short and long-term direct benefits	Ps. 172,033	Ps. 196,788	Ps. 201,058
Termination benefits	4,206	2,422	6,508
Stock option compensation expense	3,685	-	10,638
	Ps. 179,924	Ps. 199,210	Ps. 218,204

Certain stock option benefits were granted to key employees as disclosed in Note 18d.

There were no post retirement benefits payments during the years presented herein.

## 8. Inventories

	2011	2010
Titled land	Ps. 9,195,467	Ps. 9,701,296
Contracted land	2,181,989	2,467,273
Construction-in-process	19,453,786	14,968,289
Construction materials	440,672	576,498
	31,271,914	27,713,356
Land held for future development and construction-in-process	(12,859,328)	(10,591,499)
Total inventories	Ps. 18,412,586	Ps. 17,121,857

The Company's policy is to locate and acquire land each year, classifying land currently being developed and land planned to be developed within the next year as part of current assets, and classifying all remaining land as non-current assets.

Due to the application of MFRS D-6 during 2011, 2010 and 2009, the net comprehensive financing cost (CFC) related to qualified assets for the same periods was Ps. 2,289,540, Ps. 965,008 and Ps. 563,154, respectively. Total CFC re-

lated to inventories sold and applied to cost of sales was Ps. 1,363,295 during 2011 (of which Ps. 968,759 is related to the current year CFC and Ps. 394,536 is related to prior years), Ps. 758,332 during 2010 (of which Ps. 432,819 is related to 2010 CFC and Ps. 325,513 is related to prior years) and Ps. 537,431 during 2009 (of which Ps. 239,597 is related to 2009 CFC and Ps. 297,834 is related to prior year), respectively. The average period for the amortization of the capitalized comprehensive financing cost is 15 months. The annual capitalization rates are 15.75%, 8.50% and 6.50%, during each of 2011, 2010 and 2009, respectively.

During the years ended December 31, 2011, 2010 and 2009, the net comprehensive financing cost capitalized in inventories was as follows:

	2011	2010	2009
Total accrued net comprehensive financing cost before capitalization	Ps. 2,684,344	Ps. 1,279,750	Ps. 711,665
Comprehensive financing cost capitalized in inventories	(2,289,540)	(965,008)	(563,154)
Comprehensive financing cost after capitalization	Ps. 394,804	Ps. 314,742	Ps. 148,511

## 9. Prepaid expenses and other current assets

	2011	2010
Sundry debtors, net	Ps. 345,405	Ps. 73,555
Sales commissions paid in advance	265,206	321,415
Advances to suppliers and land suppliers	198,899	141,542
Refundable taxes	185,096	199,275
Insurance and bonds, net	5,741	6,404
	Ps. 1,000,347	Ps. 742,191

## 10. Property and equipment

	Land and buildings	Machinery and equipment	Air transportation equipment	Other fixed assets	Total
<b>Cost:</b>					
As of January 1, 2009	Ps. 285,305	Ps. 1,400,047	Ps. 75,202	Ps. 376,103	Ps. 2,136,657
Additions	1,528	113,809	-	64,323	179,660
Disposals	-	(59,964)	-	(95,346)	(155,310)
As of December 31, 2009	Ps. 286,833	Ps. 1,453,892	Ps. 75,202	Ps. 345,080	Ps. 2,161,007
Additions	-	248,056	-	83,507	331,563
Disposals	-	(75,063)	-	(7,268)	(82,331)
As of December 31, 2010	286,833	1,626,885	75,202	421,319	2,410,239
Additions	-	77,048	57,969	12,157	147,174
Disposals	-	(13,577)	-	(14,629)	(28,206)
As of December 31, 2011	Ps. 286,833	Ps. 1,690,356	Ps. 133,171	Ps. 418,847	Ps. 2,529,207

	Land and buildings	Machinery and equipment	Air transportation equipment	Other fixed assets	Total
<b>Depreciation:</b>					
As of January 1, 2009	Ps. 41,028	Ps. 528,497	Ps. 18,065	Ps. 146,139	Ps. 733,729
Depreciation	10,610	283,095	6,813	70,884	371,402
Disposals	-	(16,412)	-	(38,293)	(54,705)
As of December 31, 2009	Ps. 51,638	Ps. 795,180	Ps. 24,878	Ps. 178,730	Ps. 1,050,426
Depreciation	12,661	286,927	7,677	55,086	362,351
Disposals	-	(1,571)	-	(3,539)	(5,110)
As of December 31, 2010	Ps. 64,299	Ps. 1,080,536	Ps. 32,555	Ps. 230,277	Ps. 1,407,667
Depreciation	12,661	279,713	9,453	50,839	352,666
Disposals	-	(8,731)	-	(8,532)	(17,263)
As of December 31, 2011	Ps. 76,960	Ps. 1,351,518	Ps. 42,008	Ps. 272,584	Ps. 1,743,070
<b>Net:</b>					
As of December 31, 2011	Ps. 209,873	Ps. 338,838	Ps. 91,163	Ps. 146,263	Ps. 786,137
As of December 31, 2010	Ps. 222,534	Ps. 546,349	Ps. 42,647	Ps. 191,042	Ps. 1,002,572
As of December 31, 2009	Ps. 235,195	Ps. 658,712	Ps. 50,324	Ps. 166,350	Ps. 1,110,581

The amount of assets acquired through capitalized leases during the years ended December 31, 2011, 2010 and 2009, was Ps. 109,290, Ps. 49,667 and Ps. 47,035, respectively.

Depreciation expense for the years ended December 31, 2011, 2010 and 2009 was Ps. 352,666, Ps. 362,351 and Ps. 371,402, respectively.

## 11. Other assets

	2011	2010
Debt issuance costs, net	Ps. 162,062	Ps. 148,166
Trade accounts receivable, long-term (see Note 6)	155,713	62,166
Financial derivative instruments (see Note 13)	97,473	19,804
Guaranteed deposits (*)	88,079	18,643
Equity method investment in associate	36,979	-
Other	14,516	13,032
	Ps. 554,822	Ps. 261,811

(\*) As of December 31, 2011 Ps. 60,418 of these guaranteed deposits are related to restricted cash of a line of credit with Deutsche Bank AG Brazil (See Note 12b).

Amortization expense, including amortization from the BETA trademark, for the years ended December 31, 2011, 2010 and 2009 was Ps. 79,571, Ps. 103,263 and Ps. 112,007, respectively. A roll-forward of the BETA trademark intangible asset is shown as follows:

	Total
As of January 1, 2009	Ps. 136,581
Amortization	(91,054)
As of December 31, 2009	\$ 45,527
Amortization	(45,527)
As of December 31, 2010	Ps. -

The amortization of debt issuance of Ps. 79,571, Ps. 57,736 and Ps. 20,953 was allocated as interest expense as part of commissions and financing cost for the years ended December 31, 2011, 2010 and 2009 respectively (see Note 23(3)).

## 12. Debt

a) As of December 31, 2011 and 2010, the outstanding balances of short-term indebtedness with financial institutions consist of the following:

	2011	2010
<b>Credit Suisse AG</b>		
A credit line granted by Credit Suisse AG on April 27, 2011 for U.S. 150 million. The borrowing had an original maturity date on April 27, 2012 and bears interest at LIBOR plus 3.50%. This credit line was prepaid in full in February 2012. (See Note 26).	Ps. 2,096,805	Ps. -
<b>Deutsche Bank AG</b>		
A credit line granted by Deutsche Bank AG on December 15, 2011 for U.S. 50 million. The borrowing had an original maturity date on December 14, 2012 and bears interest at LIBOR plus 6.375%. This credit line was prepaid in full in February 2012. (See Note 26).	698,935	-
<b>IXE Banco, S.A.</b>		
A credit line granted by Ixe Banco, S.A. on December 7, 2011 for Ps. 100,000. The borrowing matures on March 6, 2012 and bears interest at TIIE plus 5.00%.	100,000	-
<b>HSBC México, S.A.</b>		
A credit line granted by HSBC México, S.A. on October 12, 2010 for Ps. 50,000. The borrowing matured on January 10, 2011 and bore interest at the Mexican interbank equilibrium interest rate (TIIE) plus 5.50%. This credit line was renewed in November 2011 and matures in February 2012.	50,000	50,000

The expected amortization of debt issuance costs for the years 2012 to 2016 is as follows:

Year	Amortization
2012	Ps. 54,314
2013	24,945
2014	23,252
2015	21,293
2016 and thereafter	38,258
	Ps. 162,062

	2011	2010
<b>Banco Nacional de México, S.A.</b> A credit line granted by Banco Nacional de México, S.A. on December 27, 2011 for Ps. 394,700. The borrowing matured on January 2012 and bore interest at TIIE plus 5.00%.	394,700	-
<b>BBVA Bancomer, S.A.</b> Four credit lines granted by BBVA Bancomer, S.A. in December 2010 for Ps. 300,000. The borrowings matured in April 2011 and bore interest at TIIE plus 3.20%.	-	300,000
<b>Banco Nacional de México, S.A.</b> Three credit lines granted by Banco Nacional de México, S.A. in November and December 2010 for Ps. 78,000. The borrowings matured in January and February 2011 and bore interest at TIIE plus 4.25% and 5.00%, respectively.	-	73,570
<b>Banco Nacional de México, S.A.</b> A credit line granted by Banco Nacional de México, S.A. on July 16, 2010 for Ps. 141,941. The borrowing matured on July 15, 2011 and bore interest at TIIE plus 5.00%. (See Note 4)	-	99,358
<b>Banco Nacional de México, S.A.</b> Three credit lines granted by Banco Nacional de México, S.A. for Ps. 95,000 in December 23, 2010. The borrowings matured in February 21, 2011 and bore interest at TIIE plus 5.00%.	-	62,640
<b>Banco Nacional de México, S.A.</b> Two credit lines granted by Banco Nacional de México, S.A. on October 25 and December 8, 2010 for Ps. 71,966. The borrowings matured on January 7 and September 23, 2011 and bore interest at TIIE plus 1.00% and TIIE plus 5.00%, respectively.	-	6,394
<b>Banco Itau BBA, S.A.</b> Seven credit lines granted by Banco Itau BBA, S.A. (Brazilian financial institution) from March through December 2010 for 11.7 million Brazilian Reals. The borrowings matured from February through June 2011 and bore interest at 6.68%.	-	86,723
<b>Banco Fibra, S.A.</b> Three credit lines granted by Banco Fibra, S.A. (Brazilian financial institution) from January through September 2010 for 5.8 million Brazilian Reals. The borrowings matured in January, July and August 2011 and bore interest at 7.44%.	-	24,737
<b>Banco ABC Brasil, S.A.</b> A revolving credit line of credit granted by Banco ABC Brasil, S.A. (Brazilian financial institution) on March 25, 2010 for 1 million Brazilian Reals. The borrowing matured on October 21, 2011 and bore interest at 7.19%. This credit line was prepaid in September 2011.	-	22,310

	2011	2010
<b>Banco HSBC, S.A.</b> Two credit lines granted by Banco HSBC, S.A. (Brazilian financial institution) for 11.5 million Brazilian Reals on February 4, 2010. One of the borrowings matured in January 2011 and bore interest at 9.09%. The November 2011 credit line was prepaid in September 2011.	-	85,521
<b>Banco Industrial e Comercial, S.A.</b> A revolving credit line granted by Banco Industrial e Comercial, S.A. (Brazilian financial institution) for 5.0 million Brazilian Reals on May 7, 2010. The borrowing matured on October 28, 2011 and bore interest at 10.03%. This credit line was prepaid in September 2011.	-	22,686
<b>Banco Pine, S.A.</b> Two credit lines granted by Banco Pine, S.A. (Brazilian financial institution) for 10.0 million Brazilian Reals in March and April 2010. The borrowings matured in March 2011 and bore interest at 8.41%.	-	49,577
<b>Banco Votorantim, S.A.</b> A revolving credit line granted by Banco Votorantim, S.A. (Brazilian financial institution) for 7.0 million Brazilian Reals on December 20, 2010. The borrowing matured on December 20, 2011 and bore interest at 7.82%. This credit line was prepaid in September 2011.	-	52,056
<b>Banco Bradesco, S.A.</b> Three credit lines granted by Banco Bradesco, S.A. (Brazilian financial institution) for 2.5 million Brazilian Reals in July, September and November 2010. Two of borrowings matured in July, September and the November 2010 credit line matured in December 2011 and bore interest at 10.13%, however it was prepaid in September 2011.	-	17,623
Interest payable	2,335	28,921
Total	Ps. 3,342,775	Ps. 982,116

- b) As of December 31, 2011 and 2010, the outstanding balances of long-term debt with financial institutions and bond issuances consist of the following:

	2011	2010
Bond issuance ("Senior Guaranteed Notes due 2015") by Credit Suisse First Boston and Merrill Lynch for US \$250 million, with a fixed annual interest rate of 7.5%, payable on September 28, 2015. Interest is payable semiannually. These obligations are guaranteed by PICSA, DECANO and other subsidiary companies.	Ps. 3,494,675	Ps. 3,095,425
Bond issuance ("Senior Guaranteed Notes due 2019") by Credit Suisse Securities LLC and HSBC Securities Inc. for US \$250 million, with a fixed annual interest rate of 9.5%, payable on December 11, 2019. Interest is payable semiannually. These obligations are guaranteed by PICSA, DECANO and CBC.	3,494,675	3,095,425
<b>Banco Nacional de México, S.A.</b> A line of credit granted by Banco Nacional de México, S.A. on July 16, 2009 for Ps.1,000 million and renewed to Ps. 1,500 million on March 25, 2010. The borrowing matures on July 16, 2013 and bears interest at the Mexican interbank equilibrium interest rate (TIIE) plus 5.00%.	1,110,295	1,462,613
<b>Grupo Financiero Inbursa, S.A.</b> A line of credit granted by Grupo Financiero Inbursa, S.A. on June 26, 2008 for Ps. 2,078 million. The borrowing matures on June 26, 2013 and bears interest at TIIE plus 1.50%.	2,078,000	2,078,000
<b>Ficade, S.A. de C.V., SOFOM, E.N.R.</b> A credit line granted by Ficade, S.A. de C.V., SOFOM, E.N.R. for Ps. 400,000 on December 30, 2011. The borrowing matures on December 30, 2015 and bears interest with a fixed annual interest rate of 15.00%.	400,000	-
<b>Banco Mercantil del Norte, S.A.</b> A credit line granted by Banco Mercantil del Norte, S.A. in July 2011 for Ps. 34,877. The borrowing matures in February 2013 and bears interest at the TIIE plus 3.50%.	33,836	-
<b>Bancomer, S.A.</b> A credit line granted by Bancomer, S.A. for Ps. 833,333 on July 26, 2010. The borrowing matured on January 28, 2013 and bore interest at TIIE plus 3.60%. The borrowing was prepaid in December 2011.	-	833,333
<b>Deutsche Bank, S.A.</b> Line of credit granted by Deutsche Bank S.A. (Brazilian financial institution) on May 31, 2011 for 127.3 million Brazilian Reals. The borrowing matures on April 11, 2016 and bears interest at 5.25% (See Note 5).	956,723	-
<b>Banco BTG Pactual, S.A.</b> Five lines of credit granted by Banco BTG Pactual, S.A. (Brazilian financial institution) from May through November 2010 for 50.0 million Brazilian Reals. The borrowings ultimately matured from June through November 2013, and bore interest at 8.73%. The borrowing was prepaid in September 2011.	-	369,576

	2011	2010
<b>Banco ABC Brasil, S.A.</b> Three lines of credit granted by Banco ABC Brasil, S.A. (Brazilian financial institution) in October and November 2010 for 16.5 million Brazilian Reals. The borrowings ultimately matured in October 2012, and bore interest at 7.35%. The borrowing was prepaid in September 2011.	-	122,704
<b>Banco Bradesco, S.A.</b> Six lines of credit granted by Banco Bradesco, S.A. (Brazilian financial institution) from June through December 2010 for 53.2 million Brazilian Reals. The borrowings matured during 2012 and 2013, and bore interest at 6.02%. The borrowing was prepaid in September 2011.	-	389,547
<b>Banco BNDES Brasil, S.A.</b> Line of credit line granted by BNDES Brasil, S.A. (Brazilian financial institution) on June 29, 2010 for 0.2 million Brazilian Reals. The borrowing ultimately matured on June 29, 2014 and bore interest at 12.12%. The borrowing was prepaid in September 2011.	-	5,993
Interest payable, primarily Senior Guaranteed Notes	109,287	81,382
Total long-term debt	11,677,491	11,533,998
Current portion of long-term debt	(319,582)	(746,397)
Long-term debt balances	Ps. 11,357,909	Ps. 10,787,601

#### Covenants

Loan covenants require the Company and its guarantor subsidiaries to meet certain obligations. These covenants cover changes in ownership control, restrictions on incurring additional debt that does not meet certain requirements established in the loan contracts, restrictions on the sale of assets and the sale of capital stock in subsidiaries, unless they meet certain requirements, and restricted payments where dividends cannot be paid or capital reimbursed to equity unless they are made between the guarantor subsidiaries.

Most significant financial covenants, contained within loan agreements, require the Company to maintain (based on MFRS financial information):

- A total of equity of at least Ps. 10,000,000;
- A ratio of interest coverage (EBITDA/net financing expense) over 3.0 times; and

- A ratio of leverage (liabilities with cost/EBITDA) of less than 3.75 to 1.0;
- A ratio of leverage (liabilities/equity) of less than 2.50 to 1.0;
- A ratio of leverage (liabilities with cost/equity) of less than 1.50 to 1.0;
- Additional debt based on assets;
- Consolidated fixed charge coverage;

There are also restrictions applicable to additional debt based on EBITDA levels. In the event the Company does not comply with any of the above provisions, it will be limited in its ability to pay dividends to its stockholders. Furthermore, in the event that the Company does not comply with any of the above provisions such debt would become due and payable to the extent that the violation was not cured timely.

As of December 31, 2011 and 2010, the Company was in compliance with the financial covenants contained within its debt agreements.

As discussed in Note 27, during 2012 the Company will be adopting IFRS. The Company's financial debt covenants are currently based on MFRS. The Company is in the process of evaluating what (if any) changes might be required to its debt agreements so as to compute financial covenants prospectively based on IFRS.

#### Debt maturities

As of December 31, 2011, long-term debt matures as follows:

Year	Amount
2013	Ps. 3,011,836
2015	3,894,675
2016	956,723
2019	3,494,675
	Ps. 11,357,909

The TIIE rates published in the Federal Official Gazette as of December 31, 2011 and 2010 were 4.7900% and 4.8750%, respectively. The exchange rate used to convert debt denominated in US Dollars and Brazilian Reals for the year ended December 31, 2011 were 13.9787 Mexican pesos and 7.5155 Mexican pesos, respectively. The exchange rate used to convert debt denominated in US Dollars and Brazilian Reals for the year ended December 31, 2010 were 12.3817 Mexican pesos and 7.4366 Mexican pesos, respectively.

#### CRS Morelos Project Financing

The Company's subsidiary CRS Morelos, on September 30, 2011, signed a project financing credit agreement with Banobras in an aggregate principal amount of Ps.3.9 billion to initiate the construction process of a federal correctional facility in the state of Morelos as disclosed in Note 25 below. This financing is non-recourse to the Company and its other subsidiaries, so the Company's cash flow from the other divisions and projects

will be not affected by the funding of the federal correctional facility.

This borrowing will be treated as a separate project financing line item in the Company's consolidated financial statements that are prepared for periods after draw-downs are made. Certain of the Company's debt agreements contain restrictions on the level of debt and contain requirements as to meeting certain financial ratios, based on defined terms. The Company has confirmed its view with the financial institutions that the prison project financings will be excluded from prospective debt covenant computations.

At December 31, 2011, no amounts have been borrowed under this financing, although Ps. 422.7 million was ultimately drawn on January 31, 2012.

### 13. Financial derivative instruments

Financial Derivative Instruments Related to the Senior Guaranteed Notes due 2015

On July 6, 2008 the Company entered into financial derivative instruments in order to cover the possible changes in the exchange rate of future interest payments of the Senior Guaranteed Notes due in 2015 for US\$250 million ("Interest-Only Swap"). On June 28, 2011 the Company cancelled its Interest-Only Swap and entered into a new Interest-Only Swap on the same date; for the Interest-Only Swap cancelled the Company paid Ps. 24,863 and was recognized in the consolidated net income as part of the "valuation effects of financial derivative instruments" caption. The Interest-Only Swap does not meet hedge accounting requirements, and thus changes in the fair value of the underlying derivative instrument have been and will be recorded in the Company's consolidated net income as a component of comprehensive financing cost within the "valuation effects of financial derivative instruments" caption.

As of December 31, 2011 and 2010 the fair value of this derivative was a liability position of Ps. 12,226 (US\$ 0.9

million) and Ps. 60,917 (US\$ 4.9 million), respectively. The net (income) expense in the consolidated statements of income of the Interest-Only Swap for the years ended December 31, 2011, 2010 and 2009 was Ps. (23,828), Ps. 68,572 and Ps. 61,600, respectively.

#### Financial Derivative Instruments Related to the Senior Guaranteed Notes due 2019

As disclosed in Note 12, the Company's Senior Guaranteed Notes due 2019 are U.S. dollar denominated. In order to decrease the risk of future changes in the exchange rate between U.S. dollar and Mexican pesos, in December 11, 2009 the Company entered into a "Principal-Only Swap" with a notional value of US\$250 million, which entitled the Company to receive this amount in 2019 in return for a payment in Mexican pesos at a fixed exchange rate of 12.93 Mexican pesos per U.S. Dollar. As part of this agreement, the Company will pay interest of 3.87% a year on the total notional amount of Ps. 3,232.5 million Mexican Pesos, in semiannual payments. In order to increase the amount of thresholds of these financial derivatives instruments and to avoid collateral margin calls, in May 2010 the Company changed its Principal Only Swap rate from 3.87% to 4.39%.

In addition, on December 11, 2009 the Company entered into an "Interest-Only Swap" in order to cover the possible changes in the exchange rate of the first six

interest payments of the Senior Guaranteed Notes due 2019 for US\$250 million ("Interest-Only Swap").

The Principal-Only Swap transaction met hedge accounting requirements. As of December 31, 2011 the fair value of this financial derivative instrument was Ps. 33,881 (US\$2.42 million) and represented a favorable asset position (see Note 11). As of December 31, 2010 the fair value of this derivative was Ps. 447,243 (US\$ 36.1 million) and represented a liability position.

The Interest-Only Swap transaction did not meet hedge accounting requirements. As of December 31, 2011 and 2010, the fair value of this derivative was Ps. 59,949 (US\$4.29 million) and Ps. 19,804 (US\$1.6 million), respectively, and represented a favorable asset position (see Note 11). The net gain in the consolidated statements of income of the Interest-Only Swap for the years ended December 31, 2011 and 2010 were Ps. 40,145 and Ps. 28,918, respectively.

As of December 31, 2011, the Company has an Interest-Only Swap in order to hedge the monthly interest payment of the short-term credit line with Credit Suisse granted on April 27, 2011. The fair value of this instrument represented a favorable asset position of Ps. 3,643.

As of December 31, 2011 and 2010 the Company had the following financial derivatives instruments:

As of December 31, 2011					
Financial derivative instruments	Type	Notional (in US \$)	Fair value asset (liability) (in Ps.)	Changes in comprehensive income, net of taxes (in Ps.)	Changes in statement of income (in Ps.)
Interest-only swap ("2019")	No hedge accounting	23.75 million	Ps. 59,949	Ps. -	Ps. (40,145)
Principal-only swap ("2019")	Hedge accounting	250.00 million	33,881	346,410	-
Interest-only swap ("2012")	No hedge accounting	0.52 million	3,643	-	(3,643)
			Ps. 97,473	Ps. 346,410	Ps. (43,788)
Interest-only swap ("2015")	No hedge accounting	18.75 million	Ps. (12,226)	Ps. -	Ps. (23,828)
			Ps. (12,226)	Ps. -	Ps. (23,828)

As of December 31, 2010					
Financial derivative instruments	Type	Notional (in US \$)	Fair value asset (liability) (in Ps.)	Changes in comprehensive income, net of taxes (in Ps.)	Changes in statement of income (in Ps.)
Interest-only swap ("2019")	No hedge accounting	47.50 million	Ps. 19,804	Ps. -	Ps. (28,918)
Principal-only swap ("2019")	Hedge accounting	250.00 million	(447,243)	(242,837)	-
Interest-only swap ("2015")	No hedge accounting	37.50 million	(60,917)	-	68,572
			Ps. (508,160)	Ps. (242,837)	Ps. 39,654

The net valuation effects of the financial derivative instruments for the years ended December 31, 2011, 2010 and 2009, were Ps.(67,616), Ps. 39,654 and Ps. 66,451, respectively.

#### 14. Leases

##### a) Capital leases

As of December 31, 2011 there are contracts of capital leases of machinery and equipment for a 5 year period. The capital leases as of December 31, 2011 and 2010 are shown as follows:

	2011	2010
Financial leases provided by Bancomer, S.A. in June 2007, with maturity in January 2013 and an interest rate at TIE plus 0.80%.	Ps. 69,021	Ps. 149,540
Financial leases provided by Bancomer, S.A. in September 2008, with maturity in October 2013 and interest rate at TIE plus 0.80%.	23,505	34,713
Financial leases provided by Bancomer, S.A. in December 2008, with maturity in January 2014 and interest rate at TIE plus 3.50%.	28,019	39,141
Financial leases provided by Bancomer, S.A. in March 2009, with maturity in April 2014 and interest rate at TIE plus 3.50%.	11,761	15,928
Leases provided by Leasing Operations de México, S. de R.L. de C.V. in April, May and August 2010, with maturities in April, May and October 2013 at an discounted interest rate of 13.39%.	85,199	100,578
Financial leases provided by GE Financial Mexico, S.A. de C.V. in September 2010, with maturity in October 2013 and interest rate of 12.98%.	773	554
Financial lease provided by GE Financial México, S.A. de C.V. in August 2011, with maturity in September 2016 and interest rate of 7.18%	65,805	-
Financial leases provided by Banco Itau, S.A. (Brazilian financial institution) from May through October 2009 and from May through September 2010 with maturities from May through November 2013 at an average interest rate of 20.69%.	6,217	11,934
Financial leases provided by Banco Bradesco, S.A. (Brazilian financial institution) in November and December 2009 as well as in November 2010 and January through March 2011 with maturities from November and December 2012 through March 2014 at an average interest rate of 16.25%.	49,371	48,088
Financial leases provided by Banco Consorcio, S.A. (Brazilian financial institution) from July through December 2010 with maturities from January 2014 through November 2016 at an average interest rate of 23.91%.	1,111	1,373
Interest payable	3,088	3,185
Total capital leases	343,870	405,034
Current portion of long-term capitalized leases	(188,937)	(169,604)
Total long-term capital leases	Ps. 154,933	Ps. 235,430

Minimum compulsory payments relating to these contracts as of December 31, 2011 are as follows:

Year	Total
2012	Ps. 188,937
2013	97,110
2014	15,817
2015	8,023
2016 and thereafter	33,983
Total	Ps. 343,870

#### Covenants

The most significant financial covenants of the leases require the Company and its subsidiaries to maintain (based on MFRS financial information):

- A liquidity ratio of current assets to short-term liabilities no less than 1.50 to 1.0;
- A financing ratio of total liabilities (excluding deferred income taxes) to equity (Excluding deferred income taxes) no greater than 1.70 to 1.0;
- A relation of operational income to net comprehensive financing cost at a minimum level of 2.0;

As of December 31, 2011 and 2010, the Company was in compliance with these financial covenants.

As discussed in Note 27, during 2012 the Company will be adopting IFRS. The Company's lease agreement covenants are currently based on MFRS. The Company is in the process of evaluating what (if any) changes might be required to its lease agreements so as to compute covenants prospectively based on IFRS.

#### b) Operating leases

As of December 31, 2011 the Company had entered into agreements for the operating lease of machinery and equip-

ment for a period of 5 to 6 years. The minimum compulsory payments relating to these agreements are as follows:

Year	Amount
2012	Ps. 52,389
2013	29,398
2014	11,245
2015	9,120
2016	224
Total	Ps. 102,376

Operating leases expensed for the years ended December 31, 2011, 2010 and 2009 amounted to Ps. 67,977, Ps. 64,982 and Ps. 50,426, respectively.

#### 15. Employee benefits obligations

The Company has a plan for covering seniority premiums which consists of a lump sum payment of 12 days' wages for each year worked, calculated using the most recent salary, not to exceed twice the legal minimum wage established by law. Since 2005, the Company has recognized a liability for personal severance pay. The related liability and net periodic cost of such benefits are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method.

During 2010, the Company reduced its employee benefits obligations by canceling the non-statutory indemnity benefit contained in its retirement plan. This curtailment resulting in a reduction of the net period pension cost during the year ended December 31, 2010. The benefit obligation that remains recorded as of December 31, 2011 and 2010 corresponds to the legal indemnity benefit due to termination or severance as well as seniority premiums.

During 2011, the Company reduced the number of its employees which caused a curtailment of the benefit

obligation during the year. This curtailment resulted in a reduction of the net period pension cost during the year ended December 31, 2011.

The net periodic costs for the years ended December 31, 2011, 2010 and 2009, is comprised as follows:

For the year ended December 31, 2011			
	Severance pay	Seniority premium	Total
Integration of Net Period Cost:			
Labor cost	Ps. 25,248	Ps. 4,097	Ps. 29,345
Financial cost	7,931	926	8,857
Amortization of transition liability	1,421	135	1,556
Amortization of prior services and changes to the plan	1,935	160	2,095
Actuarial gains	(19,699)	(2,904)	(22,603)
Curtailment	(13,352)	(2,134)	(15,486)
Net period cost	Ps. 3,484	Ps. 280	Ps. 3,764

For the year ended December 31, 2010			
	Severance pay	Seniority premium	Total
Integration of Net Period Cost:			
Labor cost	Ps. 22,949	Ps. 1,875	Ps. 24,824
Financial cost	10,964	562	11,526
Amortization of transition liability	4,512	139	4,651
Amortization of prior services and changes to the plan	6,341	156	6,497
Actuarial losses	48,328	2,674	51,002
Curtailment	(86,507)	(1,802)	(88,309)
Net period cost	Ps. 6,587	Ps. 3,604	Ps. 10,191

For the year ended December 31, 2009			
	Severance pay	Seniority premium	Total
Integration of Net Period Cost:			
Labor cost	Ps. 23,428	Ps. 1,932	Ps. 25,360
Financial cost	10,605	478	11,083
Amortization of transition liability	3,643	140	3,783
Amortization of prior services and changes to the plan	6,341	156	6,497
Actuarial gains	(3,437)	(825)	(4,262)
Net period cost	Ps. 40,580	Ps. 1,881	Ps. 42,461

As of December 31, 2011 and 2010, the net projected liability of these obligations is as follows:

Balances as of December 31, 2011			
	Severance pay	Seniority premium	Total
Vested benefit obligations	Ps. 67,216	Ps. 7,893	Ps. 75,109
Unamortized transition liability	(687)	(76)	(763)
Unamortized prior services and changes to the plan	(41)	(190)	(231)
Net projected liability	Ps. 66,488	Ps. 7,627	Ps. 74,115

Balances as of December 31, 2010			
	Severance pay	Seniority premium	Total
Vested benefit obligations	Ps. 87,002	Ps. 8,122	Ps. 95,124
Unamortized transition liability	(2,108)	(211)	(2,319)
Unamortized prior services and changes to the plan	(1,976)	(350)	(2,326)
Unamortized actuarial gain	-	(1)	(1)
Net projected liability	Ps. 82,918	Ps. 7,560	Ps. 90,478

The changes in the net projected liability for labor obligations for the years ended December 31, 2011 and 2010 are as follows:

For the year ended December 31, 2011			
	Severance pay	Seniority premium	Total
Initial balance	Ps. 82,918	Ps. 7,560	Ps. 90,478
Labor cost	25,248	4,097	29,345
Financial cost	7,931	926	8,857
Transition liability	1,421	135	1,556
Amortization of prior services and changes to the plan	1,935	160	2,095
Actuarial gains	(19,699)	(2,904)	(22,603)
Curtailment	(13,352)	(2,134)	(15,486)
Benefits paid	(19,914)	(213)	(20,127)
Ending balance	Ps. 66,488	Ps. 7,627	Ps. 74,115

For the year ended December 31, 2010			
	Severance pay	Seniority premium	Total
Initial balance	Ps. 93,812	Ps. 4,375	Ps. 98,187
Labor cost	22,949	1,875	24,824
Financial cost	10,964	562	11,526
Transition liability	4,512	139	4,651
Amortization of prior services and changes to the plan	6,341	156	6,497
Actuarial losses	48,328	2,674	51,002
Curtailment	(86,507)	(1,802)	(88,309)
Benefits paid	(17,481)	(419)	(17,900)
Ending balance	Ps. 82,918	Ps. 7,560	Ps. 90,478

For the year ended December 31, 2011			
	Severance pay	Seniority premium	Total
Balance as of January 1, 2011	Ps. 87,002	Ps. 8,122	Ps. 95,124
Labor cost	25,248	4,097	29,345
Financial cost	7,931	926	8,857
Actuarial gains	(19,699)	(2,904)	(22,603)
Curtailment	(13,352)	(2,135)	(15,487)
Benefits paid	(19,914)	(213)	(20,127)
Balance as of December 31, 2011	Ps. 67,216	Ps. 7,893	Ps. 75,109

For the year ended December 31, 2010			
	Severance pay	Seniority premium	Total
Balance as of January 1, 2010	Ps. 116,356	Ps. 5,273	Ps. 121,629
Labor cost	22,949	1,875	24,824
Financial cost	10,964	562	11,526
Actuarial losses	48,328	2,674	51,002
Curtailment	(94,114)	(1,843)	(95,957)
Benefits paid	(17,481)	(419)	(17,900)
Balance as of December 31, 2010	Ps. 87,002	Ps. 8,122	Ps. 95,124

Balances as of December 31, 2011			
Accruals to:	Severance pay	Seniority premium	Total
Defined benefit obligations	Ps. -	Ps. 67	Ps. 67
Non-vested benefit Obligation	67,216	7,826	75,042
Vested benefit obligations	67,216	7,893	75,109
Fair value of the plan assets	-	-	-
Fund situation	67,216	7,893	75,109
Non-recognized prior services for vested benefits	(728)	(266)	(994)
Non-recognized actuarial losses	-	-	-
Net projected liability	Ps. 66,488	Ps. 7,627	Ps. 74,115

Accruals to:	Balances as of December 31, 2010		
	Severance pay	Seniority premium	Total
Defined benefit obligations	Ps. -	Ps. 57	Ps. 57
Non-vested benefit Obligation	87,002	8,085	95,067
Vested benefit obligations	87,002	8,112	95,124
Fair value of the plan assets	-	-	-
Fund situation	87,002	8,122	95,124
Non-recognized prior services for vested benefits	(4,084)	(562)	(4,646)
Non-recognized actuarial losses	-	-	-
Net projected liability	Ps. 82,918	Ps. 7,560	Ps. 90,478

The following is an analysis at December 31 of the Company's liabilities that make up its labor obligations related to seniority premiums and employee termination payments for reasons other than corporate restructuring:

Year	Seniority premium			Severance pay		
	Defined benefit obligations	Plan situation déficit	Pending amortized Items	Defined benefit obligations	Plan situation déficit	Pending amortized Items
<b>2011</b>	Ps. 7,893	Ps. 7,893	Ps. 266	Ps. 67,216	Ps. 67,216	Ps. 728
2010	8,122	8,122	562	87,002	87,002	4,084
2009	5,273	5,273	1,176	116,356	116,356	35,367
2008	4,122	4,122	1,156	112,617	112,617	30,443
2007	5,125	5,125	1,452	111,052	111,052	35,376

The average long-term rates used in the actuarial analysis are as follow:

	2011	2010	2009
Discounts of labor obligations	8.10%	7.98%	8.50%
Salary increases	5.11%	4.79%	4.50%
Inflation rates	3.75%	3.75%	3.50%

At December 31, 2011 and 2010, the Company has recognized provisions for the short-term direct benefits related to compensated absences for vacation for Ps. 44,350 and Ps. 33,149, respectively; and vacation premium for Ps. 3,958 and Ps. 4,566, respectively. The provisions are included in the consolidated balance sheet as part of the trade accounts payable caption.

## 16. Trade accounts payable

	2011	2010
Suppliers	Ps. 1,966,150	Ps. 2,164,013
Revolving credit lines*	711,097	867,924
Other creditors and accrued expense	398,162	378,642
Total accounts payable	Ps. 3,075,409	Ps. 3,410,579

\* The Company established a trust that allows its suppliers and land suppliers to obtain financing from various financial institutions, in part through a factoring program sponsored by Nacional Financiera S.N.C. ("Nafinsa"). In relation to this program, the Company established a trust fund called Fideicomiso AAA-Homex with "Nafinsa", which granted a line of credit for Ps.1, 000,000 with a guarantee fund of Ps. 132,303 and Ps. 127,530, respectively (investment account). Under this program, the AAA-Homex trust can make use of the Nafinsa line of credit to finance a portion of the accounts receivable of the Company's suppliers. As mentioned in Note 2, the AAA Homex trust is a consolidated subsidiary of the Company. As of December 31, 2011 and 2010, this factoring program encompassed approximately 4,718 and 4,542 suppliers and land suppliers, respectively, where the financing resources are covered by the suppliers themselves.

## 17. Land suppliers

	2011	2010
Short-term	Ps. 885,059	Ps. 646,070
Short-term revolving credit line*	287,234	132,071
Total short-term	Ps. 1,172,293	Ps. 778,141
Long-term land suppliers	Ps. -	Ps. 41,441

\* See Note 16 above.

Land suppliers represent the outstanding balance payable to the Company's suppliers of land currently in use or estimated to be developed. Long-term land suppliers represented payables with maturities of over twelve months.

## 18. Equity

a) Common stock issued at par value (historical Pesos) as of December 31, 2011 and 2010 is as follows:

	Number of Shares		Amount	
	2011	2010	2011	2010
Fixed capital:				
Sole series	335,869,550	335,869,550	Ps. 425,443	Ps. 425,443

b) Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must

be replenished if it is reduced for any reason. The legal reserve as of December 31, 2011 and 2010 amounted Ps. 105,602 and is included as part of the retained earnings.

c) The balances of the equity tax account as of December 31, 2011 and 2010 are:

	2011	2010
Contributed capital account	Ps. 4,459,521	Ps. 4,287,837

Earnings distributed in excess of the balances of the Net Tax Profit Account (CUFIN) will be subject to income tax payable by the companies at the rate in force. At December 31, 2011 the Company's CUFIN balance is Ps. 936,771.

d) As of December 31, 2011 and 2010, the Company has stock option plans that consist of 897,868 and 945,741 approved stock options of the Company, respectively.

#### Stock option plans 2009 and 2007

A total of 978,298 stock options were initially granted to the key executives. During 2007 these grants were made at an exercise price of 98.08 Mexican pesos, which was in excess of the shares' underlying fair value at the grant date. During 2008, a total of 29,929 options were exercised, and 335,853 options were cancelled upon separation of the related employees. In addition, during 2009 the Company increased the number of shares available in the stock option plan by 73,232 and granted 321,549 options at an exercise price of 43.54 Mexican pesos.

During 2011 and 2010, the Company did not increase any of the shares underlying its stock options

plan, nor did it grant any new options. However a total of 47,873 and 126,691 stock options from the 2009 stock option plan were exercised in 2011 and 2010, respectively. Also during 2010 612,516 options from the 2007 stock option plan were forfeited as the right for them to be exercised concluded. In addition, during 2011, 32,637 options from the 2009 stock option plan were forfeited as the right for them to be exercised concluded.

The executives have the right to exercise one-third of their total options granted per year. The right to exercise the option expires after one year from the grant date or, in some cases, after 180 days from the departure of the executive from the Company.

During 2009, the Company also made changes to the underlying option grants made in 2007 and 2009 so as for them to now be ultimately settled with issuance of Company shares rather than with the payment of Company cash. Both of these events were considered substantive changes to the underlying terms of the previous stock option grants, and compensation expense related to these changes has been re-measured accordingly.

The following information is an analysis of stock option activity during the years:

	Options available for grant	Stock options outstanding	Average exercise price
Balance at December 31, 2008	386,684	612,516	Ps. 98.08
Shares repurchased for future option grants	73,232	-	46.69
Stock options granted	(321,549)	321,549	43.54
Balance at December 31, 2009	138,367	934,065	79.30
Stock options exercised	-	(126,691)	43.54
Stock options forfeited	612,516	(612,516)	98.08
Balance at December 31, 2010	750,883	194,858	43.54
Stock options exercised	-	(47,873)	43.54
Stock options forfeited	32,637	(32,637)	43.54
Balance at December 31, 2011	783,520	114,348	Ps. 43.54

Average fair value of 321,549 the stock options granted during 2009 was Ps. 15.63 per stock option.

During the year ended December 31, 2011 and 2010, 47,873 and 126,691 of the stock options were exercised at an exercise price of Ps. 43.54, resulting in an increase of Ps. 2,716 and Ps. 5,516 in the equity, respectively.

Total compensation cost related to vested stock option awards totaled Ps. 689, Ps.10, 638 and Ps. 4,212 at December 31, 2011, 2010 and 2009, respectively.

#### Phantom Plan 2011

During 2011, the Company approved a new stock option plan, a "Phantom Plan" which consists of

965,596 options granted to the key executives, the awards are treated as liability awards. This plan became effective on January 1, 2011 and the executives have the right to exercise one-third of their total options granted per year. The right to exercise the option expires after one year from the grant date or, in some cases, after 180 days from the departure of the executive from the Company.

The grants were made at an exercise price of 56.88 Mexican pesos and during 2011, a total of 53,675 options were exercised. Also during 2011 a total of 323,898 options were forfeited.

The following information is an analysis of Phantom Plan activity during the year:

	Options available for grant	Average exercise price
Balance at January 1, 2011	-	Ps. -
Stock options granted	965,596	56.88
Stock options exercised	(53,675)	56.88
Stock options forfeited	(323,898)	56.88
Balance at December 31, 2011	588,023	Ps. 56.88

The average fair value of the Phantom Plan stock options granted during 2011 was 5.15 Mexican pesos per stock option.

During the year ended December 31, 2011, 53,675 of the stock options granted in 2011 were exercised at an exercise price of Ps. 56.88. Total compensation cost related to the vested stock option phantom plan recognized amounted to Ps. 3,685 at December 31, 2011.

- e) During the year ended December 31, 2011, the Company repurchased 180,000 treasury shares for Ps. 6,437. During the year ended December 31, 2009 the Company repurchased 49,500 treasury shares for Ps. 4,586. The Company did not repurchased treasury shares during 2010.
- f) As of December 31, 2011, 2010, and 2009 1,013,020, 800,383 and 187,867 shares remain in treasury, respectively.

Key assumptions used to calculate the fair value of stock options for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Expected dividend yield	0%	0%	0%
Expected stock price volatility	41.45%	29.56%	59.56%
Risk-free interest rate	4.52%	4.21%	5.54%
Expected life of options in years	3 years	2 years	3 years
Model used	Black Scholes Merton	Black Scholes Merton	Black Scholes Merton

## 19. Foreign currency balances and transactions

- a) As of December 31, 2011 and 2010, the foreign currency monetary position is as follows:

	2011		2010	
	Thousands of U.S. dollars:	Thousands of Brazilian reals:	Thousands of U.S. dollars:	Thousands of Brazilian reals:
Monetary assets	US\$ 91	BR\$ 27,913	US\$ 246	BR\$ 11,477
Monetary liabilities	(707,257)	(258,577)	(508,901)	(222,177)
Monetary liability position, net	US\$ (707,166)	BR\$ (230,664)	US\$ (508,655)	BR\$ (210,700)
Equivalent in Mexican pesos	Ps. (9,885,259)	Ps. (1,733,553)	Ps. (6,298,014)	Ps. (1,566,892)

- b) The exchange rates in effect at the dates of the consolidated balance sheets and issuance of the consolidated financial statements were as follows:

	(In Mexican pesos)		
	December 31,	December 31,	April 26, 2012
U.S. dollar	13.9787	12.3817	13.1667
Brazilian real	7.5155	7.4366	6.9956

## 20. Segment reporting

The following segment reporting information is presented according to the information used by the Company's Chief Operating Decision Maker for decision-making purposes. The Company segregates the financial information by segments, (affordable entry-level housing construction, middle-income housing construction and other activities) considering the operational and organizational structure of the business despite its geographical localization (which was established by house models as explained in the next paragraph), according to the provisions of MFRS B-5 Segment reporting. Other activities consist primarily of the Company's operations through its construction services and infrastructure division discussed above.

### General description of the products or services

Mexico's developer-built housing industry is divided into three segments according to cost: affordable entry-level, middle-income, and residential. The prices of affordable entry-level segment range between Ps. 195 and Ps. 540; those of the middle-income segment are between Ps. 541 and Ps. 1,885 and those of the residential segment are above Ps. 1,885. The Company's focus is to provide affordable entry-level and middle-income housing for its customers. Therefore, the operating segments that are presented in detail are the affordable entry-level and the middle-income segments, in conformity with guidelines of MFRS B-5.

Affordable entry-level developments range in size from 500 to 20,000 homes and are developed in stages typically comprising 300 homes each. During 2011, 2010 and 2009, affordable entry-level homes had an average price of approximately Ps. 346, Ps. 338 and Ps. 326, respectively. A typical affordable entry-level home consists of a kitchen, living-dining area, one to three bedrooms, and one bathroom. The affordable entry-level segment includes the results of the Company's Brazilian operations.

Middle-income developments range in size from 400 to 2,000 homes and are developed in stages typically comprising 200 homes each. During 2011, 2010 and 2009, middle income homes had an average price of approximately Ps. 918, Ps. 1,086 and Ps. 978, respectively. A typical middle-income home consists of a kitchen, dining room, living room, two or three bedrooms, and two bathrooms.

Other includes revenues from construction services to government, sales and services to third parties and the tourism housing division.

The following table shows the operating results by each segment identified as of December 31, 2011, 2010 and 2009:

Year ending December 31, 2011	Entry-level	Middle-income	Other	Consolidated
Revenues	Ps. 16,949,951	Ps. 3,260,016	Ps. 1,643,312	Ps. 21,853,279
Income from operations	2,264,479	435,531	219,543	2,919,553
Depreciation and amortization	335,254	64,480	32,503	432,237

Year ending December 31, 2010	Entry-level as restated	Middle-income as restated	Other	Consolidated
Revenues	Ps. 13,288,656	Ps. 5,176,573	Ps. 1,187,080	Ps. 19,652,309
Income from operations	1,990,999	775,590	177,857	2,944,446
Depreciation and amortization	314,843	122,646	28,125	465,614

Year ending December 31, 2009	Entry-level as restated	Middle-income as restated	Other	Consolidated
Revenues	Ps. 13,791,983	Ps. 3,406,806	Ps. 277,700	Ps. 17,476,489
Income from operations	2,145,742	530,027	43,204	2,718,973
Depreciation and amortization	381,494	94,234	7,681	483,409

The income from operations caption in the tables above were calculated as the total revenue from each segment, less allocated total consolidated operating cost and expenses. The allocation of total consolidated operating costs and expenses into the segments was based on the percentage that the sales in each segment represent of the total consolidated sales. Depreciation and amortization expense is allocated to each segment using the same basis as operating costs and expenses.

The Company has domestic operations in Mexico and international operations in Brazil and India. India as-

sets and operations are immaterial as of December 31, 2011, 2010 and 2009. The Company's operations in Brazil started in 2010. Brazil loss from operations are Ps. 507,433 and Ps. 147,682 in 2011 and 2010 respectively and, it had approximately Ps. 966,177 and Ps. 427,466 in current assets and Ps. 758,326 and Ps. 514,046 in long lived assets as of December 31, 2011 and 2010, respectively.

The Company does not segregate its balance sheet or statement of cash flows by operating segment.

## 21. Operating expenses

	2011	2010	2009
Administrative	Ps. 1,440,285	Ps. 1,567,707	Ps. 1,332,178
Selling	1,327,689	1,367,145	1,048,448
Amortization expense of BETA trademark	-	45,527	91,054
	Ps. 2,767,974	Ps. 2,980,379	Ps. 2,471,680

The table below shows the most significant operating expenses:

	2011	2010	2009
Salaries and other benefits	Ps. 881,705	Ps. 874,212	Ps. 711,366
Office expenses	126,243	103,281	88,271
Advertising	46,864	90,944	72,044

## 22. Other (expenses) income

	2011	2010	2009
Tax surcharges	Ps. (285,525)	Ps. (136,193)	Ps. (44,155)
Current statutory profit-sharing to employees	(65,880)	-	-
Equity in net earnings of associate	18,979	-	-
Other (expense) income, net	(12,441)	(6,572)	49,475
	Ps. (344,867)	Ps. (142,765)	Ps. 5,320

## 23. Interest expense

	2011	2010	2009
Interest expense related to senior guaranteed notes <sup>(1)</sup>	Ps. -	Ps. -	Ps. -
Other interest expense	223,598	173,610	162,069
Commissions and financing costs <sup>(2)(3)</sup>	167,020	166,505	163,641
	Ps. 390,618	Ps. 340,115	Ps. 325,710

(1) As of December 31, 2011, 2010 and 2009 the interest expense related to senior guaranteed notes was Ps. 675,852, Ps. 681,871 and Ps. 288,156, respectively; however due to the MFRS D-6 application, these amounts were fully capitalized during the three years (see Note 8).

(2) Includes the commissions paid by the Company to INFONAVIT and Registro Único de Vivienda (RUV), when obtaining approval of individual financing for its customers. The commissions facilitate the home sales and cash inflows recovery, so the Company considers these commissions as part of the financing costs. The amounts expensed in 2011, 2010 and 2009 were Ps. 84,646, Ps. 77,651 and Ps. 66,131, respectively.

(3) Due to anticipated payments made by the Company of short-term lines of credit during December 2010 (see Note 12), the Company wrote off Ps. 12,888, related to debt issuance costs previously capitalized in other assets.

## 24. Income tax, asset tax and Flat Rate Business Tax (IETU)

In accordance with Mexican tax law, the Company is subject to income tax (ISR) and Flat Rate Business Tax ("IETU") and files its tax returns on an individual entity basis and the related tax results are combined in the accompanying consoli-

dated financial statements. The ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the annual inflationary adjustment.

The Company files ISR and IETU tax returns on an individual entity basis and the related tax results are combined in the accompanying consolidated financial statements.

On December 7, 2009 a tax reform bill was approved and published, which reformed, amended and annulled certain tax dispositions that were effective on January 1, 2010.

This tax reform bill enacted an ISR rate increase that is to be effective as follows:

- a) For years 2010 to 2012, 30%;
- b) for year 2013, 29%; and
- ) for year 2014 and future years, 28%

In addition, certain changes to the consolidation regime are effective. However, the Company is not subject to such regime.

The IETU of the period is calculated applying the rate of 17.5% (16.5% for 2008, 17% for 2009 and 17.5% for

2010) based on income determined by cash flows less authorized credits.

The credits for the IETU are mainly composed of un-amortized negative IETU base, salaries and social security contributions, and deductions from assets such as inventories and fixed assets, during the initial transition period.

The payment of IETU is required only to the extent that it exceeds the ISR for the same period. The ISR paid during the period will reduce the total IETU payable for the same period.

When the deductions exceed the accumulated income (negative IETU), no IETU is levied. The amount of the negative IETU multiplied by the applicable rate, results in an IETU credit, which can be offset against the ISR generated in the same period or against the IETU payable, if any, within the next ten years.

Based on projected tax calculations in the future it is estimated that the Company will continue to pay ISR only.

- a) As of December 31, 2011, 2010 and 2009 the ISR consist of the following:

	2011	2010	2009 as restated
ISR:			
Current	Ps. 847,711	Ps. 557,395	Ps. 279,974
Deferred	18,229	349,602	714,415
	Ps. 865,940	Ps. 906,997	Ps. 994,389

To determine deferred ISR as of December 31, 2011 and 2010, the Company applied the enacted tax rates that were in effect beginning in 2011, to temporary differences according to their estimated dates of reversal.

For the years ended December 31, 2011 and 2010 the operations in Brazil generated loss before taxes of Ps. 925,598 and Ps. 711,389, respectively, and taxes of Ps. 113,826 and Ps. 28,016, respectively; as they were computed and paid under Brazilian Tax regulations.

- b) The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before the ISR is:

	2011 %	2010 %	2009 %
Statutory rate:	30	30	28
Add effect of permanent differences mainly:			
Nondeductible expenses	6	6	3
Difference between book and tax inflation Effects	(4)	(6)	5
Tax losses valuation allowance from Brazil Operations	8	6	
Effect of change in statutory rate on deferred ISR*	-	-	3
Effective tax rate	40	36	39

\* The effect of change in the statutory rate on deferred ISR represented an additional charge in the consolidated statement of income for 2009 of Ps. 78,624.

- c) At December 31, 2011 and 2010 the main items comprising the asset (liability) balance of deferred ISR are:

	2011	2010
<b>Deferred ISR:</b>		
Effect of tax loss carryforwards	Ps. 1,550,303	Ps. 930,107
Other creditors	200,178	462,420
Allowance for doubtful accounts	33,407	22,830
Labor obligations	19,817	26,143
Asset tax recoverable	10,153	11,311
Employee profit sharing liability	20,226	462
Financial derivative instruments	(23,869)	107,346
Unbilled revenues on developments in progress	(150,801)	(133,680)
Construction-in-process, inventories and taxable inventory <sup>(1)</sup>	(4,470,088)	(4,386,163)
Property and equipment	100,611	(10,143)
Other assets	19,757	(20,880)
Prepaid expenses	(1,528)	(3,447)
Deferred ISR liability	(2,691,834)	(2,993,694)
Valuation allowance (see paragraph f below)	(942,234)	(604,139)
Total deferred liability, net	Ps. (3,634,068)	Ps. (3,597,833)
Asset	Ps. 867,471	Ps. 779,268
Liability	(4,501,539)	(4,377,101)
	Ps. (3,634,068)	Ps. (3,597,833)

(1) In conformity with the Mexican Income Tax Law (MITLA) in force through December 31, 2004, the cost of sales was considered as a non-deductible expense and inventory purchases and production costs were considered as deductible items. This tax treatment in the MITLA gave rise to a temporary difference because of the difference in the book value of inventories and its corresponding tax value. Effective January 1, 2005, the MITLA considers cost of sales as a deductible item instead of inventory purchases and production costs. The MITLA established transition rules to be followed to include the December 31, 2004 inventory balance into taxable revenue. However, as result of the interpretation of the transition rules established by the MITLA, the Company did not include its inventory balance at December 31, 2004. Consequently, the Company recorded a taxable inventory as a deferred tax liability of Ps. 218,662 and Ps. 187,425 as of December 31, 2011 and 2010, respectively. This taxable inventory relates to the inventory item and tax law change described above as it is the source of income on which the Company did not pay taxes.

- d) As of December 31, 2011 the tax loss carryforward expiring in the following ten years amounted to Ps. 5,536,795.
- i. The asset tax, used to be a minimum income tax, was payable based on 1.25% of the average value of most assets net of certain liabilities. The balances as of December 31, 2011 and 2010 of the asset tax were Ps. 10,153 and Ps. 11,311, respectively.
  - ii. The loss carryforwards and recoverable IMPAC for which the deferred ISR asset and prepaid ISR, respectively, have been recognized can be recovered subject to certain conditions. Tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and prepaid ISR, respectively, have been recognized can be recovered, subject to certain conditions. The amounts as of December 31, 2011 and expiration dates are:

Year of Expiration	Tax Loss Carry-forwards	Recoverable IMPAC
2012	Ps. -	Ps. 338
2013	-	1,192
2014	-	1,989
2015	-	1,512
2016	49,392	1,391
2017	-	3,731
2018	706,129	-
2019	602,095	-
2020	1,157,628	-
2021	3,021,551	-
	Ps. 5,536,795	Ps. 10,153

Additionally, for its Brazilian operations the Company has accumulated tax loss carry forward that at December 31, 2011 and 2010 amounted to Ps. 328,213 and Ps. 141,374, respectively. In Brazil, tax losses never expire but they cannot be restated for inflation and are limited to 30% of the taxable income of each year. Due to the uncertainty to recover these tax losses, an allowance for the total amount was recognized as of December 31, 2011 and 2010.

- e) The Federal tax authority has the right to perform reviews of the taxes paid by Mexican companies for a period of five years; therefore tax years beginning with 2006 are subject to possible review.
- f) The Company has taken certain positions in its annual tax returns which are classified as uncertain tax positions for financial reporting purposes. Specifically, uncertain tax positions currently outstanding relate to the Company's interpretation of the MITLA

related to the inclusion of certain debts in the calculation of the annual inflationary adjustment, and the deduction of land by real estate developers. As of December 31, 2010, uncertain tax positions result in Ps. 604,139 in deferred tax assets which have been provided for through a full valuation allowance, and an additional current liability in the amount of Ps. 775,946. As of December 31, 2011, uncertain tax positions result in Ps. 942,234 in deferred tax assets which have been provided for through a full valuation allowance, and an additional current liability in the amount of Ps. 1,599,642. The Company considers this uncertain tax position as a current liability because it would be due upon demand to the extent requested.

The Mexican and Brazilian federal and state's taxes and other contributions are subject to audit by tax authorities over a period of five years in both countries. Depending upon the outcome of such audits, the Company is contingently required to pay those taxes, contributions and corresponding surcharges of the any omitted payments and other differences that could be detected.

## 25. Contingencies and commitments

### Construction guarantees

The Company provides a two-year warranty against construction defects to all of its customers which could be due to the Company's own activities, to defects in the construction materials provided by third parties (electrical installations, plumbing, gas, waterproofing, etc.) or to other circumstances not within the control of the Company.

The Company is insured against any defect, hidden or visible, that could occur during the construction, and after the construction for a certain period of time. In addition, the contractors provide a surety against any hidden or visible defects which is refunded on the approval of customers. The contractors also provide a security fund

to cover any probable claims from customers during the warranty period, which is returned to them once such period ends.

Insurance coverage expensed for the years ended December 31, 2011, 2010 and 2009 amounted to Ps. 3,982, Ps. 3,584 and 3,226, respectively.

### Commitments

a) At December 15, 2010 the Company through its subsidiary Homex India Private Limited, celebrated an investment agreement with Kotak Real Estate Fund - I, for which, in case of achieving certain conditions, that are obtaining all the permits, licenses and necessary authorizations for the construction of a development in the city of Chennai, India, the Company will acquire all equity shares of KS Realty Constructions Private Limited (KS Realty), company that owns the land on which the project will be developed.

KS Realty has liabilities and other credits or debt for approximately 1,600 million rupees (US 36 million) approximately that the Company shall pay in five installments, the first one in the closing date (for 50 million rupees) and the following four in six, fourteen, twenty and thirty six months after the closing date for 388 million rupees each.

At the date of the financial statements, the Company is still waiting on the conditions to be achieved in order to acquire all equity shares of KS Realty.

b) In 2010, a Mexican Government contract was directly awarded to the Company's subsidiary CRS Morelos for the construction and service of a federal correctional facility in Morelos, México, following a direct assignment process (procedimiento de asignación directa) pursuant Article 41 paragraph IV of the "Ley de Adquisiciones Arrendamientos y Servicios del Sector Público" (the "Morelos Correctional Facility Contract"). The contract was entered with the Mexican Secretary

of Public Security through its division of Prevention and Social Readjustment of the Mexican Secretary of Public Security (Prevención y Readaptación Social de la Secretaría de Seguridad Pública) to construct and then to assist with operation, over a 20 year period, of a federal correctional facility.

In accordance with the provisions of MFRS Interpretation 17 (Service Contract Awards), this agreement is being accounted for under the “financial asset model” based on the revenue recognition policies described in Note 3b.

The estimated cost of the construction phase of the Morelos Correctional Facility project has been agreed in the contract to be approximately Ps. 3.9 billion. Construction is to occur on land owned by the Company, and residual ownership of the prison is that of the Mexican Government. In accordance with Interpretation 17, the Company’s financial asset (account receivable) from construction does not constitute a qualifying asset under MFRS D-6, and accordingly no comprehensive financing costs are capitalized during the construction phase.

Pursuant to the Correctional Facility Contract, CRS Morelos will also develop and provide ongoing services to the correctional facility following the completion of construction, including services such as laundry, food services, landscaping, infrastructure up-keep, and other similar services. Prison security services are not a component of the Correctional Facility Contract to be provided by the Company. Operating services will be provided by CRS Morelos and will commence in 2013 after the delivery of the correctional facilities, which is expected to be in late-2012. Certain of these services will be provided through subcontracts with third parties, previously approved by the Mexican Secretary of Public Security.

Penalties can be assessed by the Mexican Government if construction is not completed timely.

Construction is required to be completed by August, 2012, although the Company currently has no reason to believe that the project will not be completed timely.

For the services provided CRS Morelos will receive monthly payments from the Mexican Secretary of Public Security of Ps. 1,080 per year over a 20 year period starting in 2013. These monthly payments will cover both the eventual amortization of the construction fee, plus fees for on-going services rendered. Annual payments will be indexed for inflation as stipulated in the contract.

The contract may be terminated in the event of continued non-performance of contract terms by either the Company or the Mexican Government prison agency, acts of legislation, and certain extraordinary situations (such as natural disasters, prison riots, agency personnel strikes, and certain other extraordinary situations). In the event of such extraordinary termination, the contract dictates the terms of settlement based on a prescribed formula.

Through December 31, 2011, the Company has recorded revenues of Ps. 129,672 and costs of Ps. 98,141 related to the construction this project.

#### *Other Contingencies*

The Company is party to various legal disputes as a result of the normal course of construction business. The Company is of the opinion that the ultimate outcome of such matters will not have a material adverse impact on the Company’s consolidated financial statements.

## **26. Subsequent events**

### **Financings**

On February 2, 2012, the Company issued US\$400 million of Senior Guaranteed Notes due 2020 with a coupon rate of 9.750%, payable semiannually. The proceeds from the issuance of the notes were used to

prepay in full the Deutsche Bank Credit Agreement on February 17, 2012 and the Credit Suisse Credit Agreement on February 16, 2012, respectively.

As of February 16, 2012, the Company entered into a principal-only swap in order to hedge the principal amount of the US\$400 million of Senior Guaranteed Notes due 2020 at an implied exchange rate of Ps.12.88 per U.S dollar through 2020. The cost of this instrument is 3.79%.

As of March 23, 2012, the Company entered into three capped forwards in order to hedge the first three interest payments of the US\$400 million of Senior Guaranteed Notes due 2020. These instruments have a strike price of Ps. 13.22, with a cap of Ps. 17.00. These are zero cost instruments. The settlement dates of these instruments are September 25, 2012, March 25, 2013, and September 25, 2013.

### **Makobil acquisition**

On March 21, 2012, the Company and Arendal amended the Makobil shareholders agreement. That amendment includes an agreement whereby the Company will ultimately purchase Ardenal’s 76% ownership interest in Makobil for a total of Ps. 1,106,508. Execution of this purchase, payment of the purchase price, and transfer of share ownership will occur after completion of construction of the prison complex. At that time, the purchase price may also be deferred up to another 30 months, along with interest at 12% per annum with ultimate share ownership occurring when payments have been made.

The agreement also calls for the transfer of day-to-day operational control of Makobil to Homex from March 21, 2012. At the date that the Company begins consolidating Makobil, it will derecognize its equity method investment, recording a gain between the then fair value of the equity method investment and its carrying value. The Company will also apply purchase accounting to the net assets consolidated, including the fair value of non-controlling interests held by Arendal. The Company has yet to estimate the impact of such accounting.

## **27. New accounting principles**

### **International Financial Reporting Standards (IFRS)**

The Comisión Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission, or CNBV) announced that commencing in 2012 all Mexican public companies must report their financial information in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). The Company will adopt IFRS as of December 31, 2012, with a Transition Date to IFRS of January 1, 2011. The Company will begin reporting under IFRS in Mexico from the first quarter of 2012.

IFRS 1 “*First-time Adoption of International Financial Reporting Standards*” (“IFRS 1”) sets mandatory exemptions and allows certain optional exemptions when completing a retrospective application of IFRS. However, certain other balances will require adjustment to convert from MFRS to IFRS as of the Transition Date. All the adjustments arising from the Company’s conversion to IFRS will be recorded against retained earnings at the Transition Date.

The Company is still in the process of finalizing its Transition Date balance sheet. To date, the Company has identified the following key concepts:

- Revenue Recognition

Under MFRS revenues from home construction are accounted for under IMFRS 14 “*Construction Sales and Service Agreements related to Real Estate*” as explained in Note 3 (b). Under IFRS, the Company believes that it will account for these same contracts under IAS 18 “Revenues”. While the Company is finalizing its analysis of the operational application of IAS 18, it anticipates that results will approximate IMFRS 14 in that revenue will be recognized upon completion of the housing unit, and the transfer of all legal risks and rewards to the customer. This transfer typically occurs at the date the escritura is signed and the housing unit is available to be occupied.

Revenues from the construction and operation of prisons will be accounted for under IFRIC Interpretation No. 12 "Service Concession Arrangements". IFRIC 12's provisions are consistent with IFRS 17 "Service Concession Contracts" which is explained in Note 3 and was used in preparing the accompanying consolidated financial statements.

Accordingly, significant revenue recognition differences are not anticipated.

#### • Business Combinations

According to IFRS 1, an entity may elect not to apply IFRS 3 "Business Combinations" retrospectively to business combinations made prior of the Transition Date. The Company will likely apply this exemption and not amend its prior business combination accounting.

#### • Inventories and Borrowing Costs

The Company currently capitalizes comprehensive financing costs ("CFC") under MFRS as disclosed in Note 3 (g). These costs are capitalized to construction inventory during the construction process, and ultimately included as a component of cost of sales. The amounts capitalized include interest expense, the results of foreign exchange gains and losses, and the fair value of financial derivative instruments when such instruments qualify for hedge accounting.

IAS 23 "Borrowing Costs" also provides for the capitalization of borrowing costs, although both the method and the types of items capitalized differ from MFRS.

The transitional provisions of IAS 23 indicate that when application of IAS 23 constitutes a change in accounting policy, an entity shall apply the IAS 23 to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the effective date. However, an entity may also designate any date before the effective date and apply the IAS 23 to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date.

The Company anticipates that it will be recomputed the amount of capitalized borrowing costs beginning on the Transition Date and the carrying value of its inventory balances will be adjusted at the time. The Company has yet to quantify this adjustment.

#### • Long-Term Assets

A first-time adopter may elect to use the fair value or the previous GAAP's revaluation of an item of property, plant and equipment at (or before) the Transition Date as "deemed cost" if it was broadly comparable to cost or depreciated cost in accordance with IFRS, adjusted to reflect changes in a general or specific price index. The Company will likely present its property, plant and equipment at its fair value at the transition date. Accordingly, significant adjustments to property, plant and equipment are anticipated.

While a deemed cost approach may be taken towards property, plant and equipment, it is typically not appropriate for other long-term assets such as goodwill and intangible assets. For those assets the values established in purchase accounting will be adjusted for the removal of inflation recorded under MFRS for periods from the acquisition date through January 1, 2008.

#### • Employee Benefits

The Company will likely apply an exemption overall whereby unrecognized actuarial losses will be charged to retained earnings at the Transition Date. The Company's unrecognized actuarial losses are disclosed in Note 15.

According to MFRS D-3, a severance provision and the corresponding expenditure must be recognized if the entity intends to terminate the employment relationship before the retirement date, or intends to pay benefits as a result of an offer made to employees to encourage a voluntary termination. For IFRS purposes, this provision is recorded pursuant to IAS 19R, "Employee Benefits", when the actions of the Company have demonstrated commitment to end the relationship with the employee or a bid to encourage voluntary retirement. This action is shown with a formal plan that describes the characteristics of the termination of employment. Accordingly, at

the Transition Date, the Company anticipates that it will eliminate its severance indemnity as per Note 15, as an increase in retained earnings.

The Company will not recognize deferred profit-sharing liability under IFRS, while under MFRS it has recognized it using the assets and liabilities method. There is no effect at the transition date since the deferred profit-sharing was fully reserved under MFRS.

Profit-sharing expense will be included under operating expenses in the statement of income. Under MFRS this is included in the other expense item.

#### • Foreign Currency Translation

The Company will likely apply a first time exemption and reclassify the accumulated translation effect recorded under MFRS to retained earnings and beginning January 1, 2011, it will calculate the translation effect prospectively according to International Accounting Standard ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*.

#### • Indexation of Equity Balances

As disclosed in Note 3(c), for the purposes of MFRS B-10, the effects of inflation on financial information must be recognized when the economic environment of the entity is inflationary, that is, when cumulative inflation of the three preceding years is equal to or larger than the 26%. IAS 29 considers an economy as hyper-inflationary when the cumulative inflation over three years approaches or exceeds 100%. The last hyperinflationary period for Mexico was 1997, and for Brazil was in 1997 prior to the Company's initiation of its Brazilian operations. Accordingly, the Company has eliminated previously recorded inflationary effects in Mexico for the period 1998 through 2007, this will result in a decrease in capital stock and additional paid in capital, and an increase in retained earnings. The entry will have no impact on total equity at the Transition Date.

#### • Financial derivative Instruments

IAS 39, "Financial Instruments: Recognition and Measurement", requires the consideration of credit risk in

determining the fair value of financial instruments. Credit risk is the risk that the counterparty will not meet its contractual obligations. Upon transition to IFRS, the Company will adjust the fair value of the asset and liability position of the derivative financial instruments considering the credit risk of the counterparty. The amount of this adjustment is currently estimated as at retained earnings.

IAS 39 also requires measuring the effectiveness of financial derivative instruments that meet the criteria for hedge accounting at the end of each reporting date, while under MFRS this is not required. The ineffective portion of financial derivative instruments that qualified as hedge will be adjusted to retained earnings at the transition date.

#### • Deferred Taxes

The IFRS adjustments that will be recorded by the Company will have an impact on the calculation of deferred income taxes according to the requirements established by IAS 12, Income Taxes.

#### • Classification Differences

Under MFRS the cash and restricted cash are shown on the same row as cash and cash equivalents. Under IFRS restricted cash is shown separately and is not considered a cash equivalent for statement of cash flows purposes.

Debt issue costs are disclosed in Note 11 as a component of other assets. Under IFRS, such amounts will be reflected as a reduction of outstanding borrowings in the consolidated balance sheet.

Under MFRS, profit-sharing costs are considered as another expense. The Company anticipates that under IFRS such amounts will be recorded as part of operating expense.

Other balance sheet, income statement and statement of cash flows classification differences might also exist between MFRS and IFRS.

#### • Disclosures

Generally, IFRS disclosure requirements are more extensive than those of MFRS, which will result in increased disclosures about accounting policies, significant judgments and estimates, financial derivative instruments and management risks, among others. In addition, there may be differences in presentation.

The information presented above, does not intend to be an all inclusive list of Transition Date adjustments that might be recorded. Rather, it represents potential adjustments identified to date. The above discussion should also be construed as a "preliminary IFRS" discussion as the Company will be adopting IFRS as of December 31, 2012, based on the standards that are in-force as of that date. The standards that will actually be applicable to December 31, 2012, includ-

ing those that will be applicable on an optional basis, are not known with certainty at this time. Additionally, the accounting policies selected by the Company may change as a result of changes in the economic or industry trends that are observable after the issuance of these consolidated financial statements. Accordingly, the above disclosed information is subject to change.

Under IFRS, only one set of financial statements comprising the balance sheet, comprehensive income statement, statement of changes in equity and cash flow, together with comparative information and explanatory notes, can provide a fair presentation of the financial position of the Company, the results of its operations and cash flows. Not all such information is presented in the preliminary IFRS discussion presented above.

## Governance Highlights

The structure and responsibilities of our Board of Directors comply with the highest standards of Corporate Governance at the same time that the operations of the Company follow an internal Code of Ethics through which professional business standards are established.

#### Governance Highlights

- Strong Board of Directors – institutional and independent – the majority of our Board members are independent
- The Audit, Compensation and Corporate Governance Committees are chaired by independent directors
- International standards of accountability and transparency
- Compliance with Sarbanes Oxley
- Full SEC registration and NYSE listing
- Compliance with the Best Practices Code recommended by the CNBV (the Mexican Securities and Banking Commission) and the BMV (the Mexican Stock Exchange);
- Founders remained committed with 35.1% of ownership

#### Board of Directors

The Company's administration is trusted to a Board of Directors:

The Board has four committees:

- The Executive Committee, comprised of five directors, three of whom are independent and
- The Audit Committee, comprised of three independent directors,
- The Corporate Governance and Compensation Committee, comprised of two independent directors,
- The Risk Committee comprised of six directors, four of whom are independent.

These committees make vital recommendations in their areas of expertise to the Board's decision making.

Additional to the Board's committees, the Company has a Disclosure and Ethics Committees, as well as a Code of

Ethics, which ensure the integrity and transparency of our Company.

#### Executive Committee

Our Executive Committee consists of Eustaquio Tomás de Nicolás Gutiérrez, Gerardo de Nicolás Gutiérrez, Edward Lowenthal, Luis Alberto Harvey MacKissack and Rafael Matute Labrador. Among other duties and responsibilities, the committee acts on general planning and financial matters not reserved exclusively for action by the Board of Directors, including appointing and removing our CEO, members of management, and any of our employees; entering into credit agreements on our behalf; and convening shareholders' meetings.

#### Audit Committee

Our Audit Committee consists of Wilfrido Castillo Sánchez-Mejorada (Chairman), Edward Lowenthal, and Z. Jamie Behar. Our Board of Directors has determined that Mr. Castillo has the attributes of an "audit committee financial expert" as defined by the SEC and that each member of the Audit Committee satisfies the financial literacy requirements of the New York Stock Exchange. Our statutory auditor may attend Audit Committee meetings, although he does not have the right to vote. Among other duties and responsibilities, the committee issues opinions to the Board of Directors regarding related party transactions; where it deems appropriate, recommends that independent experts be retained to render fairness opinions in connection with related party transactions and tender offers; reviews the critical accounting policies adopted by the company and advises the Board of Directors on changes to such policies; assists the Board of Directors with planning and conducting internal audits; and prepares a yearly activity report for submission to the Board of Directors. The committee is also responsible for the appointment, retention, and oversight of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit review or attest services and for the establishment of proce-

dures for the receipt, retention, and treatment of complaints received with respect to accounting, internal controls, or auditing matters and the confidential, anonymous submission by employees with regard to the same.

#### Corporate Governance and Compensation Committee

Our Corporate Governance and Compensation Committee consists of Luis Harvey Mackissack, and Edward Lowenthal. Among other duties and responsibilities, the committee identifies individuals qualified to become Board Members and makes recommendations to the Board of Directors and shareholders regarding director nominees; develops and recommends to the Board of Directors a set of corporate governance principles applicable to the company; and oversees the evaluation of the Board and Management. The committee also reviews and approves corporate goals and objectives relevant to CEO compensation; evaluates the CEO's performance in light of those goals and objectives; determines and approves the CEO's compensation level based on this evaluation; and makes recommendations to the Board with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

#### Risk Committee

Our Risk Committee consists of Eustaquio Tomás de Nicolás Gutiérrez, Gerardo de Nicolás Gutiérrez, Edward Lowenthal, Luis Alberto Harvey MacKissack, Rafael Matute Labrador, and Wilfrido Castillo Sánchez-Mejorada. The committee reviews and approves the activities related to the contracting of hedging instruments of the Company.

#### Disclosure Committee

Our disclosure committee as approved by the Board of Directors is comprised of executives within management. This

committee is chaired by the Investor Relations Officer and is comprised of the Chief Executive Officer, Chief Financial Officer, Controller Officer, Administrative and Accounting Officer and the General Counsel. Among other duties and responsibilities, the committee establishes the criteria to identify relevant information and reviews before publishing all documents that are to be presented to the general public as well as to buy side and sell side analysts. By doing this, the committee acts to ensure that the relevant information issued by the Company is accurate in all financial, economic and operative aspects.

#### Ethics Committee

Our ethics committee, as approved by the Board of Directors is comprised of executives within management. This committee is comprised of the Chief Executive Officer, the Executive Director of Human Resources and Corporate Responsibility, the General Counsel, the Executive Director of Internal Control and an external counsel. Among other functions, the committee acts to ensure that the Company complies with its code of ethics and determines the sanctions if certain actions are considered to be not in compliance therewith. The Committee also receives and processes complaints from the Company's personnel.

#### Code of Ethics

Homex' Code of Ethics is a written set of guidelines issued by the Company to its workers and management team to help them conduct their actions in accordance with its primary values and ethical standards, in benefit of different groups of interest usually related to Homex, such as clients, suppliers, shareholders, community and governmental authorities.

## Board of Directors

#### Eustaquio de Nicolás Gutiérrez

CHAIRMAN OF THE BOARD

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#### Gerardo de Nicolás Gutiérrez

CHIEF EXECUTIVE OFFICER

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#### Dennis López

DIRECTOR

---

#### Edward Lowenthal

DIRECTOR

---

#### José Ignacio de Nicolás Gutiérrez

DIRECTOR

---

#### Luis Alberto Harvey MacKissack

DIRECTOR

---

#### Rafael Matute Labrador

DIRECTOR

---

#### Wilfrido Castillo Sánchez-Mejorada

DIRECTOR

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#### Z. Jamie Behar

DIRECTOR

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**Eustaquio Tomas de Nicolás Gutiérrez** is Chairman of Homex' Board of Directors. Before co-founding our predecessor in 1989, Mr. de Nicolás founded and managed DENIVE, a clothing manufacturing company. Mr. de Nicolás is a Board Member of the Mexican Stock Exchange since 2005, and

has served as regional Chairman and regional Vice Chairman of the Mexican Chamber of Industrial Housing Promoters and Development, or CANADEVI (Cámara Nacional de la Industria de Desarrollo y Promoción de Vivienda) and is member of the regional advisory board of financial institutions such as BBVA Bancomer, Banamex and HSBC (formerly BITAL) and IPADE, Business School. Currently, Mr. de Nicolás oversees our main operations, focusing on new businesses as Homex infrastructure division, land acquisition and developing new geographical markets.

**Gerardo de Nicolás Gutiérrez** is the Company's Chief Executive Officer. Mr. de Nicolás served as Chief Strategic Officer and head of the Executive Committee from October 2006 to June 5, 2007. Mr. de Nicolás also served as the CEO of the Company from 1997 to September 2006. Prior to his appointment as CEO, Mr. de Nicolás served as regional manager, systems manager, and construction manager supervisor. He holds an undergraduate degree in industrial engineering from Universidad Panamericana, in Mexico City and an MBA from Instituto Tecnológico y de Estudios Superiores de Monterrey in Guadalajara.

**Dennis G. López** is the Chief Investment Officer of Paris based AXA Real Estate, the fifth largest global real estate investment manager with over US\$60 billion of property assets under management. Mr. Lopez is responsible for AXA Real Estate's Fund Management and Research activities overseeing a team of 125 professionals. The funds comprise a broad range of real estate investment strategies including: opportunistic, value added, core plus, core, development properties, listed funds, regulated funds, separate

accounts and various debt funds. Previously, Mr. Lopez was CEO of SUN Group, a private equity firm focused on real estate activities in India and Russia. Mr. Lopez has had a career of over 25 years in Investment Banking and Real Estate Investment Management, where he has occupied senior positions as Global Head of Real Estate at Cambridge Place Investment Management, a London based hedge fund, and as a Managing Director at JP Morgan in New York and London. Mr. Lopez received his MBA from the University of California Los Angeles ("UCLA")

**Edward Lowenthal** is President of Ackerman Management LLC, an investment management and advisory company with particular focus on real estate and other asset based investments. Previously, Mr. Lowenthal founded and was President of Wellsford Real Properties, Inc., or WRP, a publicly owned real estate merchant banking company that merged with Reis, Inc., a real estate market information and analytics provider. He also founded and was trustee and President of Wellsford Residential Property Trust, a publicly owned multifamily real estate investment trust that was merged into Equity Residential Properties Trust. Mr. Lowenthal is a member of the Board of Directors of several companies, including Reis, Inc., where he is non executive Chairman of the Board, Omega Healthcare Investors, Inc., a healthcare real estate investment trust and American Campus Communities, a publicly traded Real Estate Investment Trust which focuses solely on student housing in the United States. He also serves as non executive Chairman of Tiburon Lockers, Inc., a privately held owner operator of rental storage lockers for transportation, entertainment, sports and other venues.

**José Ignacio de Nicolás Gutiérrez** is Chairman of the Board of Directors of Nico Commodities S.A. de C.V. a global food trading company. Mr. de Nicolás served as Minister of Economic Development for the state government of Sinaloa from June 2007 to December 2010. Mr. de Nicolás was founder and Chairman of the Board of Directors of Hipotecaria Crédito y Casa, S.A. de C.V., a Sofol that became the third largest mortgage bank in Mexico from 1997 to 2007. Mr. de Nicolás also cofounded Homex and served as CEO from 1989 to

1997. Mr. de Nicolás is a board member of CEMEFI (Mexican Center for Philanthropy); in addition he founded and was chairman of a non profit organization for social assistance in the state of Sinaloa from 2002 to 2005. Mr. de Nicolás received a B.S. in finance and administration from Universidad Panamericana, in Mexico City.

**Luis Alberto Harvey Mackissack**, Co-founder and Senior Managing Director of Nexus Capital. He has over 20 years of experience in investment banking and private equity. Before founding Nexus Capital, Mr. Harvey held positions at Grupo Bursatil Mexicano, Fonlyser, Operadora de Bolsa, and Servicios Industriales Peñoles. His experience includes several private and public equity transactions and also the initial public offering of several major Mexican corporations on the Mexican Stock Exchange and the international capital markets. Mr. Harvey sits on the Board of Directors of Nexus Capital, S.A. de C.V., Grupo Sports World, S.A.B. de C.V., Gennomma Lab Internacional, S.A.B. de C.V., Credito Real S.A. de C.V. SOFOM, E.N.R., Harmon Hall Holding, S.D.R.L. de C.V., , Estudios Clínicos TJ Oriard, Grupo Hotelero Santa Fe S.A. de C.V., Taco Holding and Moda Holding among others. Mr. Harvey received a B.S. in Economics from Instituto Tecnológico Autónomo de México (ITAM) and an MBA with concentration in Finance from the University of Texas at Austin.

**Rafael Matute** is Executive Vice President and Chief Financial Officer of Wal Mart de Mexico. He has been a member of the Board of Directors and the Executive Committee of the Board of Directors for Walmex since 1998; Mr. Matute is also a member of the Board of Directors for Banco Wal Mart de México and Wal Mart Foundation. He has also been member of Consultative Boards for Banorte, Banamex/Citibank, and NAFINSA. He has an MBA from the Instituto de Estudios Superiores de la Empresa (IESE), in Barcelona, Spain. He studied Management at IMD in Lausanne, Switzerland and at Chicago University (GSB).

**Wilfrido Castillo Sánchez-Mejorada** is the Chief Financial Officer of Qualitas Compañía de Seguros, S.A.B de C.V., a Mexican insurance Company. Mr. Castillo is a member of the

Board of Directors of Qualitas Compañía de Seguros, S.A.B. de C.V., Grupo Sports World S.A.B. de C. V., Afianzadora Insurgentes, S.A. de C.V., Afianzadora Aserta, S.A. de C.V., and Crédito Real, S.A. de C.V.

**Z. Jamie Behar** is Managing Director, Real Estate & Alternative Investments, for General Motors Investment Management Corporation, or GMIMCO, which has approximately \$107 billion of total assets under management on behalf of both GM-affiliated and non-affiliated clients. She manages GMIMCO's clients' real estate investment portfolios, including both private market and publicly traded security investments, as well as their alternative invest-

ment portfolios, totaling approximately \$8.7 billion. She is a member of GMIMCO's Management Committee, Investment Committee and Investment Review and Approval Committee. Ms. Behar is a member of the Board of Directors of Sunstone Hotel Investors, Inc., a publicly listed hotel company operating in the United States. She also serves on the Board of Directors of the Pension Real Estate Association ("PREA"), and serves on the advisory boards of several domestic and international private real estate investment entities. Ms. Behar holds a B.S.E. degree from The Wharton School of the University of Pennsylvania, an M.B.A. degree from the Columbia University Graduate School of Business and the CFA charter.

## Management Team

We have a young seasoned management team with an average experience of 18 years in the Homebuilding Industry.

### **Eustaquio de Nicolás Gutiérrez**

CHAIRMAN OF THE BOARD

### **Gerardo de Nicolás Gutiérrez**

CHIEF EXECUTIVE OFFICER

### **Carlos J. Moctezuma Velasco**

CHIEF FINANCIAL OFFICER

### **Alberto Menchaca Valenzuela**

VICE PRESIDENT – MÉXICO DIVISION

### **Alberto Urquiza Quiroz**

VICE PRESIDENT – INTERNATIONAL DIVISION

### **Carolina Silva Sánchez**

VICE PRESIDENT – TOURISM DIVISION

### **Rubén Izábal González Jorge Miguel Hach Delgado**

VICE PRESIDENT – CONSTRUCTION

### **Ana Cristina Herrera Lasso**

VICE PRESIDENT – HUMAN RESOURCES  
AND CORPORATE SOCIAL RESPONSIBILITY

### **Jaime Enrique Buelna Rodríguez**

VICE PRESIDENT – SALES AND MARKETING

### **Ramón Lafarga Bátiz**

VICE PRESIDENT – ACCOUNTING AND ADMINISTRATION

## Investor Services and Contact Information

### **INVESTOR RELATIONS**

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### **CORPORATE ADDRESS**

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Culiacán, Sinaloa; México 80020

### **INFORMATION FOR SHAREHOLDERS**

Securities  
Bolsa Mexicana de Valores  
Ticker Symbol: HOMEX  
Ordinary Share  
Unique series, full rights

New York Stock Exchange  
Ticker Symbol: HXM  
[ADS]=6 ordinary shares  
CUSIP: 230 30W 100

Senior Guaranteed Notes 2015  
CUSIP: P35054BD9  
Senior Guaranteed Notes 2019  
CUSIP: P35053AA8  
Senior Guaranteed Notes 2020  
CUSIP: P35053AB6.

### **Independent Accountants:**

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### **Depository Bank**

Citibank Depository Receipt Services  
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### **Shareholder Services**

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Desarrolladora Homex, S.A.B. de C.V.'s annual reports and all other written materials may from time to time contain statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors can cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include economic and political conditions and government policies in Mexico or elsewhere, including changes in housing and mortgage policies, inflation rates, exchange rates, regulatory developments, customer demand and competition. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Discussion of factors that may affect future results is contained in our filings with the Securities and Exchange Commission.

