



LETTER TO SHAREHOLDERS

September 2016

Dear Investors and Shareholders:

We hereby greet you and extend our appreciation for your support and understanding during such a complex stage for this company. We would also like to express our commitment and trust in the approved Restructuring Plan. We are sure it will trigger a new stage that will create value both for you and all of our stakeholders. We are utmost certain that we will achieve so by listening to your thoughts and advice on the matter.

AFTER READING THIS LETTER, PLEASE SEND YOUR COMMENTS AND RECOMMENDATIONS TO CUAUHTEMOC.PEREZ@URBI.COM, PRESIDENT OF THE BOARD OF DIRECTORS.

1. WE AGREED ON A RESTRUCTURING PLAN THAT WILL PROVIDE STRENGTH AND FEASIBILITY TO THE FUTURE OF THE COMPANY.

SUMMARY:

- On February 2016 we concluded the *Concurso Mercantil* Process.
- There was a new investment of over \$1.2 billion pesos for 60.9% of equity.
- 34 investors from the United States, Mexico and Canada.
- Including 14 Urbi officers with 2.3% of equity.
- The implicit value per share was \$14 pesos.

- The *Concurso* Agreements were approved last February. With this we concluded the *Concurso Mercantil* Process for Urbi and its subsidiaries.
- We received a new capital investment of \$1.266 billion pesos in exchange for 60.9% of equity.
- The capitalization was made by a group of 34 investors, integrated by funds from the United States, Mexico, and Canada, including 14 Urbi officials who provided about 4% of the new capitalization (2.3% of equity).
- The implicit value of the subscription and payment of the new capital was of \$14 pesos per share.
- We should be very happy that together we were able to come up with a solution that strives to align the incentives of the administration with those of the new investors in order to provide feasibility to the company.
- But most importantly, we are able to maintain a source of employment and welfare for many families in this country.

2. THE VALUE COMES FROM A BUSINESS PLAN FOR THE NEXT 5 YEARS THAT IS PROFITABLE AND WILL PROMOTE THE CREATION OF CASH FLOW IN A MARKET THAT KEEPS VERY STRONG FUNDAMENTALS.

SUMMARY:

- **Gradual growth in 19 cities.**

An estimated 5% market participation.

- **2 lines of business:**

1. Line A: Own homes and management, construction, and third party commercialization services.

- 2017: 3,200 units.
- 2021: 16,000 units.
- Total 5 years: 57,100 units.

- Income: \$29.3 billion pesos

2. Line B: Sales of land for urban development.

- 2017: \$220 million pesos
- 2021: \$400 million pesos
- Total in 5 years: \$2.1 billion pesos

Total income: \$31.4 billion pesos

- **EBITDA Margin:**

- 2017 = Neutral
- 2021 = 16%

- **Areas of opportunity for additional cash flow:**

More than 1,000 ha of reserves outside the 5 year BP.

Concentration in productive projects.

Landowner partner model.

Capitalize the experience and development of pilot tests in new programs.

- We estimate that the homes offered by our company in the next 5 years will represent only 5% of the expected supply in the 19 cities where we will be operating.
- To this, we add the decision of the Federal Government to promote the housing industry as a priority and strategic activity through actions and incentives such as:
 - An increase in the amount of Infonavit credits for **\$124 billion pesos** for 2016.
 - A program for the Fovissste Credit Program for **\$40 billion pesos** to create 120,000 credits in 2016.
 - New joint Infonavit-Fovissste programs so that the users of both institutions can request their credits jointly in order to purchase a home.
 - Direct funding from SHF for credits.
- The Company presents a Business Plan (BP) that is realistic and achievable for the next 5 years according to the new industry scenario.
- 2 lines of business that will contribute to our income:
 1. Line A: Production of own housing and management, construction, and third party commercialization services, and,
 2. Line B: Sales of land for urban development.
- For the 2017-2021 period, the sales volume is projected to be of 57,100 units starting with 3,200 units during 2017, and finishing with 16,000 units in 2021. It is important to remember that in 2011 the Company sold 34,500 units.
- The projected revenue, once we have covered the participation of our allies and landowner partners, will be of approximately \$1.1 billion pesos in 2017 to end with \$9.5 billion pesos in 2021, thus resulting in total revenue of \$31.4 billion pesos in 5 years.
- In addition to this, we estimate revenues from the sales of land for urban development of \$2.1 billion pesos in 5 years.
- The EBITDA Margin will go from neutral to 16% at the end of the 5 year period.
- We think that there are areas of opportunity for additional cash flow:
 - New projects in more than 1,000 ha. of land reserves not included in our 5 year BP.
 - Concentrate in higher productivity projects.
 - To gradually strengthen the financing model for our Landowner Partners.
 - Capitalize our experience in the development of pilot tests such as: "One more room", housing for non-salary workers, etc.

3. WE ARE CONFIDENT WE WILL BE ABLE TO CARRY OUT OUR PLAN BECAUSE WE HAVE THE EXPERIENCE, RESOURCES, AND COMMITMENT.

SUMMARY:

- **More than 34 years of being leaders in quality housing and innovation.**
- **More than 430,000 sold units.**
- **593 employees until June 30th, 2016.**
- **70 executives, ranging 44 years of age:**
 - 100% professionals.
 - 70% with a Master's Degree.
 - 10 to 40 years experience in the industry.
 - Averaging more than 14 years working for URBI.
- **Largest and best located land reserve, which reduces future investment needs.**
- **Infonavit Credit Line: up to \$350 million pesos for infrastructure.**

- Over 34 years of being leaders in quality housing and innovation in 28 Mexican cities where we have built and sold more than 430,000 units.
- Undoubtedly, our main asset are our 593 employees and our experienced and committed team of over 70 officers, with ages ranging 44 years, 100% of them have college degrees, more than 70% hold a Master's degree or postgraduate studies, as well as them having 10 to 40 years of experience in the housing sector, and been working for Urbi for more than 14 years.
- We have one of the largest and best located land reserves of the industry. This allows us to reduce future needs of investment as well as to create better cash flow opportunities:
- A total land reserve of 6,072 ha. until June 30th, 2016.
 - Our own land reserves of 3,772 ha.
 - Land reserves with third parties of 2,300 ha.
- In addition to this reserves, we will incorporate 774 ha. of PREI to the balance of the Company to be used in the 5 year BP:
 - Line A: 226 ha.
 - Line B and collateral: 548 ha.
- 3,772 ha. will be used in the 5 year Business Plan for credit collateral, payments in kind, and a remaining reserve of 1,030 ha. that will not be used in the 5 year BP, which is an area of opportunity to generate additional cash flow.
- The 5 year Business Plan will require 951 ha.
 - 326 ha. of own land reserves.
 - 226 ha. of PREI land reserves that will incorporate to the Company balance as part of the restructuring agreements.
 - 203 ha. of land from current allies and landowner partners.
 - 196 ha. of land to be purchased in strategic plazas.
- It is important to highlight the fact that this land is part of housing developments that in many cases have projects, authorizations, public utilities feasibilities, and in some cases investments in infrastructure works.
- Also, Infonavit is supporting us with a line of credit of up to \$350 million pesos to conclude infrastructure work.

4. WE ALREADY KNOW WHAT HAPPENED TO US.

SUMMARY:

- A strong inertial growth for more than 10 years.
 - It caused an operative and financial misalignment.
 - It extended our business cycle thus creating pressure in our liquidity.
 - It was a difficult environment with new rules for the industry.
 - This impacted our capital structure.
 - We required to make a financial restructuring that has concluded.
 - Lessons:
 - During growth there are weaknesses that are easy to correct but difficult to see.
 - During the crisis there are weaknesses easy to see but difficult to correct.
 - We need to make a pause in the strategy to adapt to the changing market conditions.
 - We are capitalizing on the lessons, knowledge, and opportunities that this crisis gave us.
- Our inability to absorb the impacts derived from the 2008-2009 global financial crisis as well as the regulation changes in the industry, together with a double digit inertial growth in the 2000-2010 period caused:
 1. An operative and financial misalignment.
 2. This created pressure in our short term liquidity thus impacting our capital structure.
 3. It resulted in a slowdown of our operations leading to a financial restructuring through a *Concurso Mercantil* process.
 4. This began on January 21, 2015 and finished on February 4, 2016.
 - Without minimizing the external factors, we believe that our inability to contain such a strong inertial growth for more than 10 years, hindered us from correcting internal weaknesses that could have been easily remediated but that were difficult to detect.
 - These weaknesses were easy to see during the crisis but were difficult to alleviate.
 - Now we know that: we need to make a pause in the strategy to carry out the necessary adjustments that will allow us to adapt to the changing market conditions.
 - The restructuring process brought along a sense of resiliency, an attitude that is key in the team to transform the crisis in valuable lessons and opportunities that we are definitely capitalizing when defining our next steps.

5. WE HAVE REMAINED AN ONGOING COMPANY, CLOSE TO THE CUSTOMER AND HAVE PRESERVED THE VALUE OF THE BRAND AND OUR KEY PEOPLE, AS WELL AS ADDING NEW LESSONS.

SUMMARY:

- **We kept the strength of the brand with a new business model:**

- A 6 quarter operative consolidation program that concluded on December 2013 and maintains continuous improvement.
- Strengthening:
 1. The more talent the less capital needed for each project.
 2. A logistics company that is more than a traditional construction company.
 3. Stay close to the customers, making them a part of the solution.

- **We keep working to bring a solution to the market:**

1. Urbinova 2.0 (Hardware): a constructive system for vertical housing.
2. Dinero Extra (Software): a digital platform for the exchange of products and services in a community.
3. Enlace Comunitario (Apps): the articulator of the community with the institutions that can provide support for the training and development of its inhabitants.

- Throughout the last 3 years we have been able to reach our 3 goals:
 1. Keep the Company operating, maintaining the value of the Brand as well as our key people to operate.
 2. Emerge successfully from a *concurso mercantil* process, and
 3. Learn the lessons that will strengthen a successful BP for the next 5 years, composed of 40 ongoing, high quality housing developments that are well positioned in the market.
- In order to correct our operative misalignment, we reformulated a more efficient and flexible business plan, based on an operative consolidation program recommended by the Boston Consulting Group (BCG), implemented in 6 quarters: starting on July 2012 and finishing on December 2013.
- We keep the program in a continuous improvement process.
- To keep our determination to go back to basics we:
 1. Maximized the talent to reduce the amount of capital needed.
 2. We went back to being a process administrator, a logistics company supported with IT, more than just being a traditional construction company.
 3. But most importantly, we stay close to our customers, their needs, and resources to make them part of the solution they are looking for.
- Due to all of this, during the restructuring process we have not ceased to work in what we think is the SOLUTION that the market, namely the lower income segment needs for quality living, making extra money, learning, and having fun.
- The solution is composed of 3 parts:
The Hardware: URBINOVA 2.0 (the intelligent constructive system for vertical housing) + the Software: DINERO EXTRA (the digital platform to join families in a community) + the APPS: ENLACE COMUNITARIO (the articulator to attract resources to the community, as well as initiatives from foundations and public and private institutions to train and develop its members).
- We believe that this is the key for the success of the new Companies in a changing housing industry, and this can only be achieved with a committed administration that knows about the details and is involved at a ground level with each Project.

6. WE EMERGED FROM THE RESTRUCTURING AS A MORE COMPACT, SOLID, AND FLEXIBLE COMPANY THAT HAS THE SAME MISSION BUT DIFFERENT STRATEGIES.

SUMMARY:

- **Pro Forma Balance Sheet: Releasing accounting contingencies:**

- Assets: from \$6.5 billion pesos to \$7.5 billion pesos
- Liabilities: from \$3.0 billion pesos to \$3.5 billion pesos
- Capital: from \$3.5 billion pesos to \$4.0 billion pesos

- **A \$373 million pesos debt, the lowest among all public companies.**

- **New Strategies:**

- Maximize cash flow.
- Gradual Growth.
- Strengthen the Urbi Experience.
- Competitive Human Capital.
- Sustainable Communities.

- Without a doubt, we will begin this new stage as a more compact, solid and flexible company. Most likely, the best way to prove this is, that once the accounting contingencies arising from the *concurso mercantil* process are released, we believe we will be able to see the following balance sheet:

Pro Forma Balance Sheet:

- Assets: from \$6.5 billion pesos to \$7.5 billion pesos
- Liabilities: from \$3.0 billion pesos to \$3.5 billion pesos
- Capital: from \$3.5 billion pesos to \$4.0 billion pesos

It is important to highlight that we expect the financial debt to be only of \$373 million pesos, composed mainly of bridge loans.

- We kept our MISSION: to be the LEADER in products and services for the development of SUSTAINABLE COMMUNITIES that are able to completely satisfy our CUSTOMERS and to generate value to our EMPLOYEES, INVESTORS, AND ALLIES.
- We reorganized our Strategic Objectives:
 1. **Financial Structure:** to achieve a solid capital structure that will allow us to have a gradually growing operation.
 2. **Marginal Cash Flow Contribution:** to maximize the generation of marginal cash flow contribution.
 3. **Operative Consolidation:** to gradually reestablish our optimal operative capacity.
 4. **Competitive Human Capital:** to consolidate a culture of results efficiency with the highest ratings.
 5. **Happy Customers:** to make the Urbi Experience be known again as an irresistible offer that has the highest ratings in the sector.
 6. **Sustainable Communities:** to articulate innovative schemes for the development of high-value sustainable communities.
- These objectives will be achieved through a General Strategy that will allow us to consolidate a lean, flexible, and efficient value chain.

7. WE HAVE TAKEN MEASURES TO STRENGTHEN THE MANAGEMENT AND CORPORATE GOVERNANCE.

SUMMARY:

- **To separate the Executive Chairman (EC) and the Chief Executive Officer (CEO).**

- **Role of the EC:**

- To maintain a long term vision, the Mission, company philosophy and Strategic Planning.
- To strengthen the business model, the product-market formula, image, and brand.
- To ensure an adequate functioning of the Board of Directors, accountability, and corporate responsibility.

- **Role of the CEO:**

- To execute the Business Plan.
- To manage and direct human, material, and financial resources, of the company.
- To control and supervise control systems, registration, and disclosure of information.
- To maintain communication with investors and people of interest.

- **Appointment of a new Administration and Finance Director.**

- **New Board of Directors**

- 9 members, 5 independent (55%), with experience in international corporate best practices.

- We have decided to separate the functions of the Executive Chairman and the CEO, in order to align to the best Corporate Governance practices and to strengthen the vision and strategic planning as well as the operation of the company. Thus strengthening profitability and to take advantage of resources at a short and medium term.

- The functions of the Executive Chairman are, among others:

1. To develop strategic planning, establishing the Vision, Mission, Corporate Philosophy, and Strategic Objectives.
2. To strengthen and adjust the business model to the conditions of the company, as well as to develop new lines of business.
3. To establish and keep the Business Plan guidelines for the next 5 years.
4. To ensure that the Product-Market formula aligns with the business objectives.
5. To ensure the adequate functioning of the Board of Directors, the integration of its committees, and the surveillance of a proper management of the business by the CEO.
6. To ensure that the principles of transparency, accountability, corporate responsibility, and equity are fulfilled.
7. To develop and maintain the guidelines of institutional communication, image, and brand.

- The functions of the Chief Executive Officer (CEO) are, among others:

1. To manage, carry out, and execute the 5 year Business Plan.
2. To manage, control, and direct the human, material, and financial resources of the company.
3. To keep and supervise the control and registration systems.
4. To comply with the agreements and disclosure of information.
5. To maintain communication with investors and people of interest.
6. To promote cultural change focusing on results.
7. To participate with the EC in the development and implementation of all strategic planning and its execution.

- A new Administration and Finance Director was also appointed. He is a new talent in the company who with his expertise will come to strengthen the direction of the financial strategies of the company.

- We formed a new Board of Directors, integrated by 9 members out of which 5 are independent. All of them have a wide expertise in the best international corporate practices.

8. FINALLY, THE COMPANY FOUNDERS AND OPERATORS HAVE STRONG INCENTIVES TO CARRY OUT A SUCCESSFUL OPERATION.

SUMMARY:

- The incentives and commitments of the Management and the Shareholders are aligned.
- We reserved options:
 - For up to 25% for an incentive plan for a group of 40 to 60 executives for the next 10 years.
- There is a lot to provide for our employees, investors, and to our country.
- Failure is only part of a strengthening process in order to create value.

- We reserved an option plan based on results of up to 25% of the capital in order to incentivize a group of 40 to 60 executives for the next 10 years,
- Aligning the incentives and commitments of the management with the interests of the investors.
- The most important thing is to gradually recover the operations of a Company that has a lot to give to its employees, communities, and to our country.
- Finally, we are sure that together the new investors and the current management can send a very powerful message to many Mexican entrepreneurs and companies. We understand that failure is part of a strengthening process in order to create value. If you have an ally in good and bad times, the important thing is to stand up and work together to move forward... and that is precisely what we have proven throughout this process!

“Failure is only a temporary change in direction to set you straight for your next success” Denis Waitley

Sincerely

Cauhtémoc Pérez Román
Executive Chairman

Román Álvarez Varea
Chief Executive Officer

Netzahualcóyotl Pérez Román
Line B Director

Amner Montaña Jiménez
Administration and Finance Director

Juan Carlos Cortez Pérez
Director of Corporate Planning

Raúl Grajeda Cerón
Operations Director

David Aguilar Juárez
Director of Institutional
Communication

Alfonso Zatarain Rubio
Director of Business Development

Adalberto Ramírez Hernández
Investor Relations Officer

Irma Sparrow Morales
Director of Human Capital

Guillermo Núñez Ceballos
Director of Land Development

Ernesto Garay Cuarenta
Legal Director

Moisés Bayliss Vega
Director of the Pacific Region

Fernando Torres Ortiz
Director of the Northern Region

Omar Valladares Márquez
Director of the Central-Southern
Region

José Uballe Ruvalcaba
Director of Urban Planning and
Design

Mariano Bernal Sánchez
Commercial Director

Aarón González Martínez
Director of Construction
Management

Viviana Méndez Corona
General Comptroller

Armando Medina Echavarría
Tax Director

Guadalupe Rosales Moreno
Treasurer

Arturo Álvarez Pérez
IT Director

As well as all of your friends from Urbi

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