We are subject to the Mexican Federal Duties Law, which requires each of our airports to pay a concession fee to the Mexican government, which is currently equal to 5% of the gross annual revenues (regulated and non-regulated) of each concession holder obtained from the use of public domain assets pursuant to the terms of its concession. The concession fee may vary on an annual basis as determined solely by the Mexican federal congress, and there can be no assurance that this fee may not increase in the future. If the Mexican federal congress increases the concession fee, we are entitled to request an increase in our maximum rates from the Ministry of Communications and Transportation; however, there can be no assurance that the Ministry of Communications and Transportation would honor our request.

Depreciation and Amortization

Our depreciation and amortization expenses primarily reflect the amortization of the investments realized in our nine concessions under our master development plans. Our current master development plans went into effect on January 1, 2004 and expire December 31, 2008. New master development plans are currently under review by the Ministry of Communications and Transportation.

Taxation

Mexican companies were generally required to pay the greater of their income tax liability or their asset tax liability (determined at a rate of 1.25% of the average tax value of virtually all of their assets (including, in our case, our concessions), less the average tax value of certain liabilities (basically liabilities owed to Mexican residents excluding those with financial institutions or their intermediaries)). In December 2006, the Mexican authorities approved a change in the methodology used to calculated asset tax liabilities and reduced the tax rates to 1.25% from 1.8% applicable to the average tax value of virtually all of the company’s assets without reducing the average tax value of certain liabilities. In 2005, 2006 and 2007, we and our subsidiaries paid an aggregate of Ps. 146.6 million, Ps. 125.9 million and Ps. 81.9 million, respectively, in asset taxes. As a result of changes in the Mexican tax law, the asset tax balance may be recovered through rebates over the following ten years of up to 10% of the total asset tax paid out and pending recovery, provided that this sum does not exceed the difference between the income tax paid during the period and the asset tax paid during the three previous years, whichever is lower, when the income tax exceeds asset tax in any of those years.

On October 1, 2007, a new flat rate business tax (*Impuesto Empresarial a Tasa Única*, or “IETU”) was approved by the Mexican government and became effective as of January 1, 2008. This law, which eliminated the asset tax and replaced it with the IETU as described below, applies to individuals and companies with permanent establishment in Mexico. Such individuals and companies are required to pay the greater of the IETU or the income tax. IETU is calculated by applying a tax rate of 16.5% in 2008, 17.0% in 2009 and 17.5% thereafter to an income determined based on cash flows. This income is determined by deducting authorized deductions (including wages, social security contributions and certain investment expenditures) from total income earned from taxable activities. IETU tax credits are deducted according to procedures established in the IETU tax law.

Beginning on October 1, 2007, based on financial and tax projections of each subsidiary which show that, with the exception of Aeropuerto de Cancún, S.A. de C.V. (Cancún Airport), the rest of our subsidiaries are expected to principally pay IETU in the future, the Company has a net write-off of Ps. 150 million, representing the cumulative deferred income taxes of these subsidiaries. In addition, as of December 31, 2007, we recognized a deferred IETU tax liability of Ps. 706.6 million and deferred IETU tax asset of Ps. 217.4 million, corresponding to timing differences generated in the calculation of the IETU taxable base which are expected to occur in future periods in the following subsidiaries: Aeropuerto de Cozumel, S.A. de C. V., Aeropuerto de Mérida, S. A. de C. V., Aeropuerto de Oaxaca, S. A. de C. V., Aeropuerto de Tapachula, S.A. de C.V., Aeropuerto de Veracruz, S.A. de C.V., Aeropuerto de Villahermosa, S.A. de C.V. and Servicios Aeroportuarios del Sureste, S.A. de C.V.

Because our financial and tax projections indicate that our Cancún Airport subsidiary is expected to pay income tax in the future, and since we are required to amortize the Cancun Airport investments and concession over a longer period than the related amortization for tax purposes under Mexican FRS, we expect to continue recognizing a deferred income tax liability in our financial statements as a result of the difference between the amount of the Cancun Airport investments amortization for tax and financial reporting purposes.

Employee Statutory Profit Sharing

We are subject to the mandatory employee statutory profit sharing regime established by Mexican federal labor laws. Under this regime, 10% of a company’s unconsolidated annual profits, as calculated for tax purposes, must be distributed among employees other than the chief executive officer. We were not required to pay employee statutory profit sharing in 2005, 2006 and 2007 because we generated tax losses in those years. On May 3, 2005, the Mexican Supreme Court ruled in a plenary session relating to four cases that net operating loss carry-forwards could not be deducted when calculating net taxable income for profit sharing liability purposes. In light of these decisions, we have decided not to include net operating loss carry-forwards in the calculation of our profit sharing liability.

Effects of Devaluation and Inflation

The following table sets forth, for the periods indicated:

- the percentage that the Mexican peso depreciated or appreciated against the U.S. dollar;
- the Mexican inflation rate;
- the U.S. inflation rate; and
- the percentage that the Mexican gross domestic product, or GDP, changed as compared to the previous period.

	Year ended December 31,		
	2005	**2006**	**2007**
Depreciation (appreciation) of the Mexican Peso as compared to the U.S. dollar(1)	(4.6%)	1.7%	0.96%
Mexican inflation rate(2)	3.3%	4.1%	3.76%
U.S. inflation rate(3)	3.4%	2.5%	4.1%
Increase in Mexican gross domestic product(4)	3.0%	4.8%	3.3%

(1) Based on changes in the rates for calculating foreign exchange liabilities, as reported by Banco de Mexico, the Mexican Central Bank, at the end of each period, which were as follows: Ps. 10.6344 per U.S. dollar as of December 31, 2005, Ps. 10.8116 per U.S. dollar as of December 31, 2006 and Ps. 10.9157 per U.S. dollar as of December 31, 2007.

(2) Based on changes in the Mexican consumer price index from the previous period, as reported by the Banco de Mexico. The Mexican consumer price index at year end was: 116.3010 in 2005, 121.0150 in 2006 and 125.5640 in 2007.

(3) As reported by the U.S. Department of Labor, Bureau of Statistics.

(4) In real terms, as reported by the Mexican National Statistical, Geographic and Information Institute (INEGI) as of February, 19, 2008.

The general condition of the Mexican economy, changes in the value of the peso as compared to the dollar, inflation and high interest rates have in the past adversely affected, and may in the future adversely affect, our:

- *Depreciation and amortization expense.* We restate our non-monetary assets to give effect to inflation. The restatement of these assets in periods of high inflation increases the carrying value of these assets in pesos, which in turn increases the related depreciation expense and risk of impairments. Our airport concessions are being amortized on a straight-line basis over the life of the concession and rights acquired.

- *Passenger charges.* Passenger charges for international passengers are currently denominated in dollars, while passenger charges for domestic passengers are denominated in pesos. Because Mexican FRS requires Mexican companies to restate their results of operations in prior periods in constant pesos as of the most recent balance sheet date, when the rate of inflation in a period exceeds the depreciation of the peso as compared to the dollar for that period, the peso value of dollar-denominated or dollar-linked revenues in the prior period will be higher than those of the current period. This effect may occur despite the fact that the amount of such revenues in dollar terms may have been greater in the current period.

- *Comprehensive financing result (cost).* As required by Mexican FRS, our comprehensive financing cost reflects gains or losses from foreign exchange, gains or losses from monetary position and gains and losses from interest. As a result, it is impacted by both inflation and currency depreciation.

- *Maximum rates in pesos.* Our tariffs for the services we provide to international flights or international passengers are denominated in U.S. dollars, but are generally paid in Mexican pesos based on the average exchange rate for the month prior to each flight. We generally collect passenger charges from airlines 60-115 days following the date of each flight. We intend to charge prices that are as close as possible to the maximum rates that we can charge. Since we are usually only entitled to adjust our specific prices once every six months (or earlier upon a cumulative increase of 5% in the Mexican producer price index, excluding petroleum), a depreciation of the peso as compared to the dollar, particularly late in the year, could cause us to exceed the maximum rates at one or more of our airports, possibly leading to the termination of one of our concessions. In the event that any one of our concessions is terminated, our other concessions may also be terminated. In addition, if the peso appreciates as compared to the dollar we may underestimate the specific prices we can charge for regulated services and be unable to adjust our prices upwards to maximize our regulated revenues.

Following the new Mexican FRS B-10, since the cumulative inflation in Mexico measured by the NCPI in the three-year period ended December 31, 2007 was below 26%, we ceased recognizing the effects of inflation in our financial statements for the fiscal year beginning January 1, 2008.

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Operating Results by Airport

The following table sets forth our results of operations for the periods indicated.

	Year Ended December 31,		
	2005	2006	2007
	Airport Operating Results (millions of constant pesos as of December 31, 2007)		
Cancun:			
Revenues:			
Aeronautical services	Ps. 1,144.8	Ps. 1,210.0	Ps. 1,370.4
Non-aeronautical services	524.6	547.1	737.7
Total revenues	1,669.4	1,757.1	2,108.1
Net operating income	809.5	840.9	667.3(1)
Merida:			
Revenues:			
Aeronautical services	104.6	101.8	124.5
Non-aeronautical services	37.9	39.9	47.6
Total revenues	142.5	141.7	172.1
Net operating income	20.2	14.7	22.8(1)
Villahermosa:			
Revenues:			
Aeronautical Services	73.5	77.6	91.0
Non Aeronautical Services	22.2	23.0	27.5
Other			12.5
Total revenues	95.7	100.6	131.0
Net operating income	27.9	17.0	42.7(1)
Other: (3)			
Revenues:			
Aeronautical services	254.4	258.2	305.1
Non-aeronautical services	66.2	65.5	69.6
Total revenues	320.6	323.7	374.7
Net operating (loss) income	5.5	(11.7)(2)	433.4(1)
Total:			
Revenues:			
Aeronautical services	1,577.3	1,647.6	1,891.0
Non-aeronautical services	650.9	675.5	894.9
Total revenues	2,228.2	2,323.1	2,785.9
Net operating income	863.1	860.9	1,166.2(1)

(1) Reflects the results of intercompany transactions between us and our subsidiaries and among our subsidiaries. During the third quarter of 2007, we and our subsidiaries entered into an intercompany agreement that enables us to recognize results by considering our subsidiaries as one economic unit, and allows us to make corporate charges and credits to and from our subsidiaries for the purpose of establishing sufficient cash flow at each subsidiary to support such subsidiary's respective obligations. The implementation of this strategy affects operating income results reported by individual airports but does not affect our consolidated results.

(2) The loss in 2006 reflects the decrease in passenger volume due to Hurricane Wilma, which recovered strongly in 2007.

(3) Reflects the results of operations of our parent holding company, or administrative services company, our airports located in Veracruz, Minatitlan, Oaxaca, Huatulco, Tapachula and Cozumel and consolidation adjustments.

Summary Historical Results of Operations

The following table sets forth our consolidated results of operations for the periods indicated.

Consolidated Operating Results

	Year Ended December 31, 2005	2006	2007
	(thousands of constant pesos as of December 31, 2007)		
Revenues:			
Aeronautical services	Ps. 1,577,295	Ps. 1,647,594	Ps. 1,890,950
Non-aeronautical services	650,889	675,530	894,941
Total revenues	2,228,184	2,323,124	2,785,891
Operating Expenses:			
Cost of services	(602,436)	(665,275)	(743,642)
General and administrative expenses	(110,907)	(101,156)	(104,019)
Technical assistance fee(1)	(71,721)	(73,707)	(91,945)
Government Concession fee(2)	(111,409)	(116,007)	(139,294)
Depreciation and amortization	(468,653)	(506,124)	(540,821)
Total operating expenses	(1,365,126)	(1,462,269)	(1,619,721)
Net operating income	863,058	860,855	1,166,170
Comprehensive Financing Result :			
Interest income, net	110,699	103,322	106,482
Exchange (losses) gains, net	(17,417)	4,106	1,612
Loss from monetary position	(68,724)	(91,642)	(92,950)
Net comprehensive financing income	24,558	15,786	15,144
Non ordinary items(3)	(9,678)	(16,242)	(2,385)
Income before taxes	877,938	860,399	1,178,929
Provision for taxes	(269,893)	(312,432)	(656,568)
Net income	608,045	547,967	522,361
Other Operating Data (Unaudited):			
Operating margin(4)	38.7%	37.1%	41.9%
Net margin(5)	27.3%	23.6%	18.8%

(1) We are required to pay ITA a technical assistance fee based on the technical assistance agreement. This fee is described in “Item 4. Information on the Company—History and Development of the Company—Investment by ITA.”

(2) Each of our subsidiary concession holders is required to pay a concession fee to the Mexican government under the Mexican Federal Duties Law. The concession fee is currently 5% of each concession holder’s gross annual revenues from the use of public domain assets pursuant to the terms of its concession.

(3) Non-ordinary items refers to restructuring and contract termination fees and loss on natural disasters. On January 1, 2007, we adopted Mexican FRS B-3,“Statement of Income” which incorporates, among other things, a new approach to classifying income and expenses as ordinary and non-ordinary, eliminates special and extraordinary items and establishes employees’ profit sharing as an ordinary expense and not as tax. Accordingly, our financial statements for 2006 and 2005 have also been reclassified to conform the current year presentation. Such reclassifications consisted of 1) Ps. 16,242 and Ps. 9,678, respectively, reclassified from extraordinary items to non-ordinary items, and 2) Ps. 3,904 and Ps. 2,557, respectively, reclassified from provision for income taxes and employees’ statutory profit sharing to general and administrative expenses.

(4) Operating income divided by total revenues, expressed as a percentage.

(5) Net income divided by total revenues, expressed as a percentage.

Results of operations for the year ended December 31, 2007 compared to the year ended December 31, 2006

Revenues

Total revenues for 2007 were Ps. 2,785.9 million, 19.9% higher than the Ps. 2,323.1 million recorded in 2006. The increase in total revenues resulted from an increase of 14.8% in revenues from aeronautical services and an increase of 32.5% in revenues from non-aeronautical services.

Our revenues from aeronautical services, net of rebates, increased 14.8% to Ps. 1,891.0 million in 2007 from Ps. 1,647.6 million in 2006, due primarily to the 17.8% increase in passenger volume. Revenues from passenger charges increased 14.4% to Ps. 1,449.8 million in 2007 (76.7% of our aeronautical revenues during the period) from Ps. 1,267.6 million in 2006 (76.9% of our aeronautical revenues during the period). Aeronautical revenues per workload unit decreased 1.7% from 115.2 in 2006 to 113.2 in 2007, principally because of the relative rise of domestic passenger traffic versus international passenger traffic and the relatively lower rates charged for domestic traffic.

Revenues from non-aeronautical services increased 32.5% to Ps. 894.9 million in 2007 from Ps. 675.5 million in 2006, principally due to increased passenger traffic and the opening of Terminal 3 in May 2007, which led to a 20.71% increase in revenues from duty-free shops, a 39.33% increase in food and beverage revenues, a 34.89% increase in revenues from retail stores and a 76.60% increase in other income, which consisted principally of the receipt of final payment for the lease of the Airshop restaurant at Terminal 2 of Cancun Airport and revenue from tourism services and hotel reservations providers. Increases of 66.39% in advertising revenues, 21.54% in revenues from parking lots, 25.25% in revenues from car rental companies, 9.15% in revenues from banking and currency exchange services, 2.81% in revenues from teleservices, and 33.01% in revenues from ground transportation also contributed to the increase in revenues from non-aeronautical services. Non-aeronautical revenue per terminal passenger increased 12.8%, from Ps. 48.95 per passenger to Ps. 55.2 per passenger.

Our revenues from regulated sources in 2007 were Ps. 1,991.7 million, a 14.8% increase compared to Ps. 1,734.5 million in 2006, mainly due to the increase in total passenger traffic of 17.8%. During 2007, Ps. 794.1 million of our revenues derived from non-regulated sources, a 34.9% increase from the Ps. 588.7 million of revenues derived from non-regulated sources in 2006. This increase was primarily due to the 32.5% increase in commercial revenues described above.

Operating Expenses and Operating Income

Total operating expenses were Ps. 1,619.7 million in 2007, a 10.8% increase from the Ps. 1,462.3 million recorded in 2006, primarily as a result of an 11.8% increase in cost of services, a 6.9% increase in depreciation and amortization, a 24.7% increase in technical assistance fees and a 20.1% increase in concession fee and a 2.8% increase in general and administrative expenses. As a percentage of total revenues, operating expenses decreased to 58.1% of total revenues in 2007 from 62.9% of total revenues in 2006.

Cost of services increased 11.8% to Ps. 743.6 million in 2007 from Ps. 665.3 million in 2006. The increase was principally due to higher personnel costs (particularly in information technology) associated with the implementation of internal accounting controls pursuant to the Sarbanes-Oxley Act of 2002, and the opening of Terminal 3, which resulted in increases in energy costs, security costs, insurance premiums, and maintenance expenses. In recent years, our cost of services per workload unit has decreased, from Ps. 53.8 in 2006 to Ps. 50.9 in 2007.

General and administrative expenses increased 2.8% to Ps. 104.0 million in 2007 from Ps. 101.2 million in 2006. This increase was primarily attributable to increased marketing costs related to our participation in tourism fairs during 2007 aimed at attracting new airline service to our airports.

Technical assistance fees increased by 24.7% to Ps. 91.9 million in 2007 from Ps. 73.7 million in 2006, and concession fees increased by 20.1% to Ps. 139.3 million in 2007 from Ps. 116.0 million in 2006. The technical assistance fees increased in 2007 due to the corresponding increase in our consolidated earnings before comprehensive financing costs, income taxes, and depreciation and amortization, which is the basis used to determine the technical assistance fees. The increase in government concession fees was primarily the result of increased revenues.

Depreciation and amortization costs increased by 6.9% to Ps. 540.8 million in 2007 from Ps. 506.1 million in 2006. This increase was principally due to the depreciation of investments in fixed assets and improvements made to concession assets.

Operating income increased 35.5% to Ps. 1,166.2 million in 2007 from Ps. 860.9 million in 2006. This increase in operating income was primarily a result of the 19.9% increase in revenues, which more than offset the increase in total operating expenses of 10.8%.

Operating income for Cancun Airport decreased by 20.6% to Ps. 667.3 million in 2007 from Ps. 840.9 million in 2006 primarily as a result of an intercompany agreement that we entered into in the third quarter of 2007 that enables us to recognize results by considering our subsidiaries as one economic unit, and allows us to make corporate charges and credits to and from our subsidiaries for the purpose of establishing sufficient cash flow at each subsidiary to support such subsidiary’s respective obligations. Our eight other airports, our parent holding company and our administrative services company, on an aggregate basis, reported operating income of Ps. 498.9 million in 2007 compared to operating income of Ps. 20 million in 2006. During 2007, revenues in those eight airports, our parent holding company, and the administrative services company increased 19.7% and passenger traffic volume in the other eight airports increased 20.9%, respectively, from 2006. The increase in revenues largely resulted from the increase in non-aeronautical revenues.

Comprehensive Financing Result

Our net comprehensive financing result decreased to income of Ps. 15.1 million in 2007 as compared to income of Ps. 15.8 million in 2006, primarily due to an increase in interest income in 2007, which was offset in part by a decrease in foreign exchange gains.

Income Taxes, Asset Tax and deferred flat rate business tax

As a result of changes in Mexican tax law that took effect January 1, 2008, which established the IETU and eliminated the asset tax, pursuant to Mexican Financial Reporting Standards we reviewed our deferred assets and liabilities position. As a result of this review, we had a net write-off of Ps. 150 million, representing the cumulative deferred income taxes of the subsidiaries that are expected to pay IETU in the future, and we recognized a deferred IETU tax liability of Ps. 706.6 million and deferred IETU tax asset of Ps. 217.4 million corresponding to timing differences generated in the calculation of the IETU taxable base which are expected to occur in future periods in such subsidiaries.

Net Income

Net income declined to Ps. 522.4 million in 2007 from Ps. 548.0 million in 2006. This was mainly the result of the increase in deferred fixed rate company taxes due to the tax reforms discussed in "Operating and Financial Review and Prospects—Taxes".

Results of operations for the year ended December 31, 2006 compared to the year ended December 31, 2005

Revenues

Total revenues for 2006 were Ps. 2,323.1 million, 4.3% higher than the Ps. 2,228.2 million recorded in 2005. The increase in total revenues resulted from an increase of 4.5% in revenues from aeronautical services and an increase of 3.8% in revenues from non-aeronautical services.

Our revenues from aeronautical services, net of rebates, increased 4.5% to Ps. 1,647.6 million in 2006 from Ps. 1,577.3 million in 2005, due primarily to the 3.4% increase in passenger volume. Revenues from passenger charges increased 0.4% to Ps. 1,267.6 million in 2006 (76.9% of our aeronautical revenues during the period) from Ps. 1,262.3 million in 2005 (80.0% of our aeronautical revenues during the period). Aeronautical revenues per workload unit increased 0.8% from 114.3 in 2005 to 115.2 in 2006.

Revenues from non-aeronautical services increased 3.8% to Ps. 675.5 million in 2006 from Ps. 650.9 million in 2005, principally due to an increase in commercial revenues resulting from the new concession contract for duty-free shops with Aldeasa, which included a one-time payment of Ps. 19.8 million. The increase in revenues from non-aeronautical services also resulted in part from an 8.51% increase in food and beverage revenues due to a one-time payment received from Hoteleria e Inmobiliaria, S.A. de C.V. for the lease of a restaurant that until June 2006 was operated directly by us, as well as a 6.27% increase in retail revenues derived from three convenience stores we have operated directly since 2005 and 11 new convenience stores at the Cancun, Merida, Villahermosa, Oaxaca and Huatulco airports operated by new commercial tenants. A 10.78% increase in revenues from parking lots, a 22.15% increase in advertising revenue, and a 10.49% increase in revenues from ground transportation also contributed to the increase in revenues from non-aeronautical services. This increase was partially offset by a 5.93% decrease in duty-free revenues as well as a 14.23% decrease in revenues from banking and currency exchange services.

Our revenues from regulated sources in 2006 were Ps. 1,734.5 million, a 4.4% increase compared to Ps. 1,662.0 million in 2005, mainly due to the increase in total passenger traffic of 3.4%. During 2006, Ps. 588.7 million of our revenues derived from non-regulated sources, a 4.0% increase from the Ps. 566.2 million of revenues derived from non-regulated sources in 2005. This increase was primarily due to the 4.1% increase in commercial revenues described above.

Operating Expenses and Operating Income

Total operating expenses were Ps. 1,462.3 million in 2006, a 7.1% increase from the Ps. 1,365.1 million recorded in 2005, primarily as a result of an 10.4% increase in cost of services, a 2.8% increase in technical assistance fees and a 4.1% increase in concession fee. These sources of increased costs were partially offset by a 8.8% decrease in general and administrative expenses and 8% increase in depreciation and amortization. As a percentage of total revenues, operating expenses increased to 62.9% of total revenues in 2006 from 61.3% of total revenues in 2005.

Cost of services increased 10.4% to Ps. 665.3 million in 2006 from Ps. 602.4 million in 2005. The increase was principally due to higher personnel costs associated with the implementation of new baggage screening procedures and an increase in insurance premiums.

General and administrative expenses decreased 8.8% to Ps. 101.2 million in 2006 from Ps. 110.9 million in 2005. This decrease was primarily attributable to a decrease in professional fees paid during the period.

Technical assistance fees increased by 2.8% to Ps. 73.7 million in 2006 from Ps. 71.7 million in 2005, and concession fees increased by 4.1% to Ps. 116.0 million in 2006 from Ps. 111.4 million in 2005. The technical assistance fees increased in 2006 due to the corresponding increase in our consolidated earnings before comprehensive financing costs, income taxes, and depreciation and amortization. The increase in the concession fee was primarily the result of increased revenues.

Depreciation and amortization costs increased by 8.0% to Ps. 506.1 million in 2006 from Ps. 468.7 million in 2005. This increase was principally due to the capitalization of investments in fixed assets and improvements made to concession assets.

Operating income decreased 0.3% to Ps. 860.9 million in 2006 from Ps. 863.1 million in 2005. This decline in operating income was primarily a result of the fact that our 4.3% increase in revenues did not fully offset the increase in total operating expenses of 7.1%.

Operating income for Cancun Airport increased by 3.9% to Ps. 840.9 million in 2006 from Ps. 809.5 million in 2005. Our eight other airports, our parent holding company and our administrative services company, on an aggregate basis, reported operating income of Ps. 20 million in 2006 compared to operating income of Ps. 53.6 million in 2005. During 2006, revenues in those eight airports, our parent holding company, and the administrative services company increased 1.2% and passenger traffic in the other eight airports increased 0.8%, respectively, from 2005. The increase in revenues largely resulted from the increase in non-aeronautical revenues.

Comprehensive Financing Result

Our net comprehensive financing result decreased to income of Ps. 15.8 million in 2006 as compared to income of Ps. 24.6 million in 2005, primarily due to a greater loss on monetary position in 2006, which was offset in part by a change from a foreign exchange loss in 2005 to a foreign exchange gain in 2006.

Income Taxes and Asset Tax

Our provision for income taxes and asset tax (all of which represented deferred income and asset taxes) increased by 15.8% to Ps. 312.4 million in 2006 from Ps. 269.9 million in 2005, primarily due to the increase in our revenues in 2006.

Net Income

Net income declined to Ps. 548.0 million in 2006 from Ps. 608.0 million in 2005. This was mainly the result of the increase in expenses, which were not fully offset by the increase in revenues for the year.

Liquidity and Capital Resources

Our operations, financing and investing activities are funded through cash flow from operations. The cash flow generated from our operations has generally been used to cover operating expenses and capital expenditures, to make dividend payments and to increase our cash balances. In addition, in 2007, 2006 and 2005 we used Ps. 231 million, Ps. 219 million and Ps. 208 million, respectively, to pay dividends. At December 31, 2007, we had Ps. 1,925.7 million in cash and marketable securities.

In 2007, we generated Ps. 1,622.6 million in resources from operating activities. Our resources used in financing activities were Ps. 320.1 million, as a result of payment of dividends of Ps. 231.2 million and Ps. 88.9 million of tax on dividends paid. Our resources used in investing activities in 2007 were Ps. 665.2 million for purchases of machinery, furniture, equipment and construction in progress related to the second runway at Cancun Airport.

In 2006, we generated Ps. 1,070.4 million in resources from operating activities. Our resources used in financing activities were Ps. 307.9 million, as a result of payment of dividends of Ps. 218.6 million and Ps. 89.3 million of tax on dividends paid, partially offset by recovered income tax on dividends paid in previous years. Our resources used in investing activities in 2006 were Ps. 1,129.9 million for the construction of the Terminal 3 building at Cancun Airport, which began operations on May 18, 2007.

In 2005, we generated Ps. 1,336.9 million in resources from operating activities. Our resources used in financing activities were Ps. 296.4 million, as a result of payment of dividends of Ps. 207.5 million and Ps. 88.9 million of tax on dividends paid. Our resources used in investing activities in 2005 were Ps. 682.5 million for purchases of machinery, furniture and equipment principally for the Cancun, Villahermosa and Merida airports.

Under the terms of our concessions, every five years our subsidiary concession holders must present a master development plan to the Ministry of Communications and Transportation for approval. Each master development plan includes concession holders' investment commitments for the succeeding five-year period, including capital expenditures and improvements. Once approved by the Ministry of Communications and Transportation, these commitments become binding obligations under the terms of our concessions.

On December 30, 2003, the Ministry of Communications and Transportation approved each of our master development plans. The current terms of the master development plans went into effect on January 1, 2004 and will be in effect until December 31, 2008. New master development plans are currently under review by the Ministry of Communications and Transportation.

The following table sets forth our committed investments for our airports pursuant to the terms of our current master development plans for the periods indicated. There can be no assurance as to the level of committed investments we will be required to undertake under future master development plans. Even though we have committed to invest the amounts in the table below, these amounts could ultimately be higher or lower depending on future project costs.

Committed Investments

	Year ended December 31,					
	2004	**2005**	**2006**	**2007**	**2008**	**Total**
			(thousands of pesos)(1)			
Cancun(2)	Ps.345,651	Ps.544,052	Ps.818,764	Ps.509,244	Ps.490,081	Ps.2,707,792
Mérida	25,915	28,513	47,596	32,091	2,388	136,503
Cozumel	10,905	70,984	12,802	16,751	11,142	122,584
Villahermosa	48,781	65,446	6,544	12,236	1,340	134,347
Oaxaca	22,125	21,763	10,554	6,816	4,969	66,227
Veracruz	25,890	21,904	11,953	11,529	1,540	72,816
Huatulco	10,105	5,608	4,106	7,013	54,084	80,916
Tapachula	20,787	4,576	9,484	8,395	825	44,067
Minatitlan	10,864	6,334	4,978	2,081	3,151	27,408
Total	Ps.521,023	Ps.769,180	Ps.926,781	Ps.606,156	Ps.569,520	Ps.3,392,660

(1) Expressed in constant pesos with purchasing power as of December 31, 2007 based on the Mexican construction price index in accordance with the terms of our master development plan.

(2) The master development plan for Cancun airport was modified on December of 2007 to reflect our decision to build a new terminal rather than implement extensive expansion and remodeling of existing terminals and to reflect an accelerated timetable for the construction of a second runway. The Ministry of Communications and Transportation approved the modified plan and recognized a decrease of Ps. 123 million in investments as of December 31, 2007.

The following table sets forth our historical investments in the periods indicated.

Capital Expenditures

Year ended December 31,	**(thousands of pesos)(1)**
2005(2)	Ps. 741,887
2006	1,129,915
2007	665,160

(1) Expressed in constant pesos with purchasing power as of December 31, 2007.

(2) Does not include the Ps. 50.1 million in connection with the repair of Terminal 1 at the Cancun airport.

Although we currently intend to fund the investments and working capital required by our business strategy through cash flow from operations, we may incur debt to finance all or a portion of these investments in the future.

Critical Accounting Policies

The preparation of our financial statements requires that we make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses generated during the reporting period. There can be no assurance that actual results will not differ from those estimates and assumptions. The impact and any associated risks related to such policies on our business operations are addressed where such policies affect our reported and expected financial results throughout our discussion of our results of operations. Critical accounting policies are defined as those that are both important to the portrayal of our financial condition and results of operations and which require us to exercise significant judgment. Our most critical accounting policies are described briefly below. For a detailed discussion of the application of these and other accounting policies, see Notes 2 and 16 of our financial statements.

Revenue Recognition

Revenues are obtained from aeronautical services, which generally relate to the use of airport infrastructure by air carriers and passengers, and from non-aeronautical services.

Aeronautical services revenues consist of passenger charges for departing passengers (excluding diplomats, infants, and transfer and transit passengers), landing charges based on the average between aircraft’s maximum takeoff weight and the zero-fuel weight and hour of arrival, aircraft parking charges based on the time an aircraft is on the ground and hour of arrival, passenger walkway charges for the connection of aircraft to terminals, based on hour of arrival, and airport security charges for departing passengers. Aeronautical services revenue is recognized as passengers depart, at the time of landings and as services are provided, as the case may be.

Non-aeronautical service revenues consist primarily of the leasing of space in airport terminals, access fees from third parties providing handling, catering and other services at the airports and miscellaneous other revenues.

Rental income is recognized on terminal space that is leased through operating leases. Such leases stipulate either: fixed monthly rental fees or fees based on the greater of a minimum monthly rental fee, a specified percentage of the lessee’s monthly revenues or the number of departing passengers. Access fees and other service revenues are recognized as services are provided. All amounts are calculated and recognized on a monthly basis.

Under the Airport Law and its regulations, our revenues are classified as Airport Services, Complementary Services or Commercial Services. Airport Services consist primarily of the use of runways, taxiways and aprons for landings and departures, aircraft parking, the use of passenger walkways, security services, hangars, automobile parking facilities as well as the general use of terminal space and other infrastructure by aircraft, passengers and cargo, including the lease of space essential for the operation of airlines and complementary service providers. Complementary Services consist primarily of ramp and handling services, catering, maintenance and repair, as well as related activities to support air carriers. Revenues from access fees charged to third parties providing complementary services are classified as Airport Services. Commercial Services consist of services that are not considered essential to the operation of an airport, such as the lease of space to retailers, restaurants and banks.

Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our customers and adjust credit limits based upon the customer's payment history and current creditworthiness. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. Even though these credit losses have historically been within our expectations and we have an established allowance to provide for losses, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our accounts receivable are concentrated in the hands of a few large customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collection of our accounts receivables and our future operating results.

Valuation of Rights to Use Airport Facilities and Airport Concessions

We periodically review the carrying value of our rights to use airport facilities and airport concessions. This review is based on our projections of anticipated discounted future cash flows over the life of our assets or concessions, as appropriate. Since our airport concessions expire in 2048, significant management judgment is required to estimate these future cash flows. While we believe that our estimates of future cash flows are reasonable, different assumptions about such cash flows could materially affect our evaluations including assumptions concerning passenger traffic, changes in rates, inflation and operating costs. Additionally, in analyzing the carrying value of our airport concessions, we compare the aggregate carrying value of all nine of our airport concessions to the net cash flows derived from all of the airports, as we are not permitted to dispose of or cease operating any individual airport. The aggregate net cash flows from all of our airports exceeds the carrying value of the airport concessions. Accordingly, because we analyze our valuation estimates on an aggregate level, we have not recognized any impairment loss in the carrying value of an individual airport concession where the carrying value of the individual airport concession exceeds the net cash flows of that airport.

Deferred Income Tax, Employees' Statutory Profit Sharing, Flat Rate Business Tax and Asset Tax

Our income tax expense, employees' statutory profit sharing and asset tax is comprised of current expenses and deferred expenses. Deferred income tax and deferred flat rate business tax represent the tax effects of temporary differences generated from the differences in the accounting and tax treatment of balance sheet items, such as our airport concessions, rights to use airport facilities and from non-balance sheet items such as tax loss carry-forwards and credits. Deferred employees' statutory profit sharing is calculated in a similar manner. These temporary differences and tax loss carry-forwards and credits are accounted for as deferred tax assets or liabilities on our balance sheet. The corresponding difference between the beginning and year-end balances of the recognized deferred tax assets and liabilities is recorded in earnings. Asset tax is a minimum tax that is calculated as 1.25% of the average tax value of virtually all of our assets. In 2007, we were subject to the asset tax, which may be recovered through rebates over the following ten years of up to 10% of the total asset tax paid and pending recovery, provided that this sum does not exceed the difference between the income tax paid during the period and the asset tax paid during the three previous years, whichever is lower, when the income tax exceeds asset tax in any of those years. Deferred income and flat rate tax assets, deferred employees' statutory profit sharing assets and recoverable asset tax are not subject to valuation allowances if we estimate that there is a high probability that the assets will be realized. We have analyzed each airport on an individual basis and have recognized valuation allowances against deferred tax assets, deferred employees' statutory profit sharing and recoverable asset tax for some of our airport subsidiaries where taxable income is not expected in the near future. We have not recognized valuation allowances against tax loss carry-forwards generated by our other airport subsidiaries, whereby taxable profits are expected, because each is taxed on an individual basis and under current tax law these tax carry-forwards can be carried forward through the term of the airport concessions or a period of ten years. As our airport concessions expire in 2048, significant management judgment concerning a number of factors, including the number of passengers we anticipate in our airports, increases in rates and inflation; changes in the discount rate and taxes is required in determining any valuation allowance.

Contingent Liabilities

We are a party to a number of legal proceedings. Under generally accepted accounting principles, liabilities are recognized in the financial statements when a loss is both estimable and probable. If the loss is neither probable nor estimable or if the likelihood of a loss is remote, no amounts are recognized in the financial statements. Based on legal advice we have received from our Mexican counsel and other information available to us, we have not recognized any losses in the financial statements as a result of these proceedings.

Recently Issued Accounting Standards

During the last quarter of 2007, the *Consejo Mexicano para la Investigación y Desarollo de Normas de Información Financiera*, or Mexican Commission for Research and Development of Financial Reporting Standards issued certain Financial Reporting Standards and certain Interpretations to Financial Reporting Standards ("IFRS"), which became effective on January 1, 2008, as follows:

B-2, *Statement of Cash Flows*, supersedes Bulletin B-12 *"Statement for Changes in the Financial Position"* and requires a statement of cash flows as part of a full set of financial statements in place of a statement of changes in financial position. This statement of cash flows classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities and provides a definition of each category. Cash flows from operating activities will be reported by directly showing major classes of operating cash receipts and payments (the direct method), or by reporting the same amount of net cash flow from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect method) by removing the effects of (a) all deferrals of past operating cash receipts and accruals of expected future operating cash receipts and payments and (b) all items that are included in net income that do not affect operating cash receipts and payments. FRS B-2 also requires that a statement of cash flows report the reporting currency equivalent of foreign currency cash flows using the current exchange rate at the time of the cash flows; the effect of exchange rate changes on cash held in foreign currencies will be reported as a separate item in the reconciliation of beginning and ending balances of cash and cash equivalents. Restatement of financial statements for years provided before 2008 is not required by FRS B-2.

FRS B-10, *Effects of Inflation*, replaces the previous Bulletin B-10 "*Recognition of the Effect of Inflation in Financial Information*" and establishes standards for recognizing the effects of inflation in an entity's financial statements as measured by changes in a general price index only, eliminating the use of any other valuation method established in the previous Bulletin B-10. FRS B-10 provides criteria for identifying both inflationary and non-inflationary environments, and provides that the effects of inflation shall be recognized in financial statements when the general price index applicable to a specific entity rises more than 26% in a cumulative three-year period. Upon adoption, FRS B-10 provides an option for the accounting treatment of the result from holding non-monetary assets recognized by an entity as accumulated other comprehensive income or loss under previous guidelines; this result may either be recycled from stockholders' equity to income as it is realized or the outstanding balance of such result may be reclassified to retained earnings in the period in which this standard becomes effective. Pursuant to FRS Mexican B-10, since the cumulative inflation in Mexico measured by the NCPI in the three-year period ended December 31, 2007 was below 26%, the companies in the Group ceased recognizing the effects of inflation in financial statements beginning January 1, 2008. The most significant impact of this change is that the result from monetary position is not determined for 2008.

FRS B-15, *Translation of Foreign Currencies*, replaces the previous Bulletin B-15, "*Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations"* and introduces the concepts of accounting currency, functional currency and reporting currency. FRS B-15 sets forth procedures for translating financial statements from the accounting currency of a foreign operation into the applicable functional currency, and from the functional currency of a foreign operation into the required reporting currency. FRS B-15 also permits that an entity may present its financial statements in a reporting currency other than its functional currency. Restatement of financial statements for years provided before 2008 is not required by FRS B-15. The provisions of FRS B-15 did not have a significant effect on the Group's consolidated financial statements.

FRS D-3, *Benefits to Employees*, replaces the previous Mexican GAAP Bulletin D-3 "*Labor Obligations"* and provides standards for recognizing those benefits granted by an entity to its employees, including direct, termination and retirement benefits, as well as other related provisions. FRS D-3 requires shorter amortization periods for items subject to be amortized, including an option to recognize in income any actuarial gain or loss, and does not require the recognition of a transition asset or liability other than benefits granted in a plan amendment (prior service cost). FRS D-3 eliminates in certain instances the recognition of an additional liability determined on the actuarial computation of retirement benefits without consideration of salary increases; consequently, a related intangible asset and an eventual stockholders' equity adjustment derived from the recognition of this additional liability are no longer required. FRS D-3 also requires the recognition of any termination benefit costs directly in income as a provision, with no deferral of any unrecognized prior service cost or related actuarial gain or loss. Additionally, FRS D-3 recognizes the employees' profit sharing required to be paid under certain circumstances in Mexico, as a direct benefit to employees. The provisions of FRS D-3 are not expected to have a significant effect on the Group's consolidated financial statements.

FRS D-4, *Income Taxes*, replaces the previous Mexican GAAP Bulletin D-4, *"Accounting for income tax, asset tax and employees' profit sharing"*, and provides additional guidance for valuation, presentation and disclosure of both current and deferred income taxes accrued for a period. FRS D-4 eliminates from its scope the accounting for employees' profit sharing, since this line item is deemed an ordinary expense associated with benefits to employees, and therefore, under the scope of FRS D-3. FRS D-4 also recognizes the Mexican asset tax paid as a tax credit to the extent of its expected recovery. In addition, FRS D-4 requires the reclassification to retained earnings of any outstanding cumulative effect of deferred income taxes recognized in stockholders' equity, in the period in which this standard becomes effective. The provisions of FRS D-4 did not have a significant effect on the Group's consolidated financial statements.

IFRS 8, *Effects of the Flat Rate Business Tax*, became effective in October 2007, and requires a company to evaluate the effects of the IETU, the flat rate business tax that became effective in Mexico in January 2008, on its deferred income tax asset or liability position for the fourth quarter of 2007, based on projected results of operations for periods beginning in 2008. Beginning on October 1, 2007, based on financial and tax projections of each subsidiary which show that, with the exception of Aeropuerto de Cancún, S.A. de C.V. (Cancún Airport), the rest of our subsidiaries are expected to principally pay IETU in the future, the Company has a net write-off of Ps. 150 million, representing the cumulative deferred income taxes of these subsidiaries. In addition, as of December 31, 2007, we recognized a deferred IETU tax liability of Ps. 706.6 million and deferred IETU tax asset of Ps. 217.4 million, corresponding to timing differences generated in the calculation of the IETU taxable base which are expected to occur in future periods in the following subsidiaries: Aeropuerto de Cozumel, S.A. de C. V., Aeropuerto de Mérida, S. A. de C. V., Aeropuerto de Oaxaca, S. A. de C. V., Aeropuerto de Tapachula, S.A. de C.V., Aeropuerto de Veracruz, S.A. de C.V., Aeropuerto de Villahermosa, S.A. de C.V. and Servicios Aeroportuarios del Sureste, S.A. de C.V.

Differences between Mexican FRS and U.S. GAAP

Our financial statements are prepared in accordance with Mexican FRS, which differs in certain respects from U.S. GAAP. See Note 16 to our financial statements. Net income under U.S. GAAP was Ps. 487.9 million, Ps. 431.6 million and Ps. 257.3 million for the years ended December 31, 2005, 2006 and 2007, respectively.

The principal differences between Mexican FRS and U.S. GAAP as they relate to us are the treatment of the investments in our concessions and rights to use airport facilities and the related effect on deferred income taxes, the treatment of fees from leasehold agreements, impairment reversals and write-offs of asset tax recoverables. Each of these differences affects both net income and stockholders' equity. See Note 16 to our financial statements for a discussion of these differences and the effect on our results of operation.

New U.S. Accounting Standards

We are currently evaluating the impact, if any, that the adoption of the following recently issued accounting standards will have on our financial position, result of operations and disclosures.

In December 2007, the FASB published SFAS No. 160 *"Non Controlling Interests in Consolidated Financial Statements"* – an amendment of ARB No. 51. This statement addresses the reporting of minority interests in the results of the parent and provides direction for the recording of such interests in the financial statements. It also provides guidance for the recording of various transactions related to the minority interests, as well as certain disclosure requirements.

SFAS No. 160 will be effective for fiscal years, and interim periods after December 15, 2008 and shall be applied prospectively.

In December 2007, the FASB published SFAS No. 141-R *"Business Combinations"*, which replaces SFAS No. 141. This statement improves the reporting of information about a business combination and its effects. This statement establishes principles and requirements for how the acquirer will recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquisition. Also, the statement determines the recognition and measurement of goodwill acquired in the business combination or a gain from a bargain purchase, and finally, determines the disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SFAS No 141-R will be effective for all business combinations with an acquisition date on or after the beginning of the first annual reporting period after December 15, 2008; earlier adoption is prohibited.

In February 2007 the FASB published SFAS No. 159, "The Fair Value Option for Financial Assets and Financial liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

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This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. This Statement does not establish requirements for recognizing and measuring dividend income, interest income, or interest expense, and does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157 *"Fair Value Measurements"*, and SFAS No. 107, *"Disclosures about Fair Value of Financial Instruments"*. SFAS No. 159 will be effective for all fiscal years beginning after November 15, 2007.

In September 2006 the FASB published SFAS No. 157 *"Fair Value Measurements"*, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. SFAS No. 157 was to be effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 6, 2008, the FASB issued a position paper that partially defers SFAS No. 157 for one year relating to non-financial assets and liabilities, except those items disclosed at fair value on a recurring basis.

On March 19, 2008 the FASB issued Statement No. 161, "*Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133"* This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged.

Off-balance sheet arrangements

We are not party to any off-balance sheet arrangements, nor have we been involved in any such transactions in the past.

Tabular disclosure of contractual obligations

	Payments due by period (in millions of pesos)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Master Development Plan Purchase Obligations	Ps. 570	Ps. 570	Ps.	Ps.	Ps.
Operating Lease Obligations	9	8	1		
Technical Assistance Agreement(1)	92	92			
Total	**Ps. 671**	**Ps. 670**	**Ps. 1**	**Ps.**	**Ps.**

(1) Reflects fixed minimum amount due under the Technical Assistance Agreement. Actual amount to be paid in any year may be higher because technical assistance fees are calculated as the greater of a fixed dollar amount (subject to certain adjustments) and 5% of our annual consolidated earnings before comprehensive financing cost, income taxes and depreciation and amortization (determined in accordance with Mexican FRS and calculated prior to deducting the technical assistance fee).

Our current master development plans went into effect on January 1, 2004 and expire December 31, 2008. New master development plans are currently under review by the Ministry of Communications and Transportation. We are unable to provide any further information as to future contractual obligations under the new master development plans until they are approved.