Taxation

We and each of our subsidiaries pay taxes on an individual (rather than consolidated) basis. Mexican companies are generally required to pay the greater of their income tax liability (determined at a rate of 34% for 2003, 33% for 2004, 30% for 2005, 29% for 2006 and 28% thereafter) or their asset tax liability (determined at a rate of 1.8% 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. If, in any year, the asset tax liability exceeds the income tax liability, the asset tax payment for such excess may be reduced by the amount by which the income tax exceeded the asset tax in the three preceding years. In addition, any required payment of asset tax is creditable against the excess of income tax over asset tax of the following ten years.

In 2003, 2004 and 2005, we paid an aggregate of Ps. 209.3 million, Ps. 157.6 million and Ps. 147.2 million, respectively in asset taxes. We recorded a deferred tax asset of Ps. 62.9 million, Ps. 34.8 million and Ps. 61.2 million in 2003, 2004 and 2005, respectively, and we recognized a valuation allowance of Ps. 146.4 million, Ps. 122.8 million and Ps. 86.0 million in 2003, 2004 and 2005, respectively, in our income statement, representing those amounts which we do not expect to recover.

We regularly review our deferred tax assets for recoverability and, if necessary, establish a valuation allowance based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. Mexican tax law allows Mexican companies utilizing tax amortization rates that are lower than the maximum allowable rates to modify their tax amortization rates every five years, without exceeding the maximum allowable rate. Beginning in 2000, we utilized rates lower than the 15% maximum allowable rate to amortize our airport concessions and rights to use airport facilities for tax purposes. Beginning in October 2004, after the expiration of the five-year period and in order to optimize our effective tax rate and our long-term financial position, we elected to increase the tax amortization rates on our airport concessions and rights to use airport facilities at six of our 12 airports. As a result of the change in tax amortization rates and the increase in pre-tax income attributable to our recovery of commercial space at our Puerto Vallarta International Airport, in 2005 we reversed Ps. 37.7 million in valuation allowance charges and recorded a corresponding increase in our deferred tax asset.

Our effective tax rates in 2003, 2004 and 2005 were 56%, 56% and 41%, respectively. Our relatively high effective tax rate historically has been the result of the valuation allowance we recorded against asset tax amounts that we did not expect to recover. In 2005, our effective tax rate declined, reflecting an increase in our pre-tax income that was not matched by a proportionate increase in our tax provision, principally as a result of a proportionately smaller net increase in the valuation allowance for asset tax, resulting from the benefits derived from the change in amortization rates discussed above. This valuation allowance for recoverable tax on assets is estimated using factors such as historical taxable income, projected future taxable income and related income tax expense compared to future estimated asset tax and the expected timing of the reversals of existing temporary differences. If these estimates and related assumptions change in the future, we may be required to adjust our valuation allowance for recoverable tax on assets, resulting in additional income tax expense.

On January 1, 1999, we became subject to the statutory employee profit sharing regime established under the Mexican Federal Labor Law (*Ley Federal del Trabajo*). Under this regime, 10% of each unconsolidated company's annual profits (as calculated for tax purposes) must be distributed among its employees, other than its chief executive officer.

Effects of Devaluation and Inflation

The following table sets forth, for the years indicated:

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

	Year ended December 31,		
	2003	**2004**	**2005**
Appreciation (depreciation) of the Mexican peso against the U.S. dollar (1)	(8.1%)	(0.2%)	4.5%
Mexican inflation rate (2)	4.0%	5.2%	3.3%
U.S. inflation rate (3)	1.9%	3.3%	3.4%
Increase (decrease) in Mexican gross domestic product (4)	1.3%	4.4%	3.0%

(1) Based on changes in the rates for calculating foreign exchange liabilities, as reported by the Mexican Central Bank, at the end of each period, which were as follows: Ps. 11.1998 per U.S. dollar as of December 30, 2003, Ps. 11.2183 per U.S. dollar as of December 30, 2004, and Ps. 10.7109 per U.S. dollar as of December 29, 2005.

(2) Based on changes in the INPC from the previous period, as reported by the Mexican Central Bank. The INPC at period end was 106.996 in 2003, 112.554 in 2004, and 116.301 in 2005.

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

(4) In real terms, as reported by the Mexican Central Bank.

Due to the relatively low rate of inflation in Mexico in recent years, inflation has not had a material impact on our revenues or results of operations during the past three years. However, the general condition of the Mexican economy, the devaluation 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, the following:

- *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.

- *Passenger charges*. Passenger charges for international passengers are currently denominated in dollars (although invoiced and paid in pesos), while passenger charges for domestic passengers are denominated in pesos. Because Mexican GAAP requires Mexican companies to restate their results of operations for 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 the same or greater in the current period.

- *Comprehensive financing cost*. As required by Mexican GAAP, our comprehensive financing cost reflects gains or losses from foreign exchange transactions and gains or losses from monetary position and, as a result, is impacted by both inflation and devaluations.

- *Maximum rates in pesos*. Our passenger charges for international passengers are denominated in U.S. dollars, but are invoiced and paid in Mexican pesos based on the average exchange rate for the month prior to each flight. Our passenger charges from airlines are collected within a maximum period of 152 days following each invoice delivery date. In 2004 and in 2005, on a weighted average basis, we generally have received payment within 91 to 130 days and 81 to 88 days, respectively. The actual term for payment is dependent upon interest rates on short-term Mexican treasury bills, or *Cetes*, with longer payment periods during periods of lower interest rates (within a defined range). We generally invoice passenger charges on a weekly basis and we record an account receivable for the invoice corresponding to a flight during the month of the actual flight.

Operating Results by Airport

The following table sets forth our results of operations for the years indicated for each of our principal airports.

Airport Operating Results

	Airport Operating Results		
	Year ended December 31,		
	2003	2004	2005
	(millions of pesos, except percentages)		
Guadalajara:			
Revenues:			
Aeronautical services	Ps. 565.0	Ps. 623.4	Ps. 665.3
Non-aeronautical services	104.6	138.9	159.0
Total revenues	669.6	762.3	824.3
Operating costs	393.7	416.3	434.5
Costs of services	216.0	230.7	241.8
Depreciation and amortization	177.7	185.6	192.7
Income from operations	275.9	346.0	389.8
Operating margin (1)	41.2%	45.4%	47.3%
Tijuana:			
Revenues:			
Aeronautical services	Ps. 264.2	Ps. 268.4	Ps. 289.2
Non-aeronautical services	31.0	45.2	37.5
Total revenues	295.2	313.6	326.7
Operating costs	229.1	267.6	252.8
Costs of services	115.3	145.4	128.9
Depreciation and amortization	113.8	122.2	123.9
Income from operations	66.1	46.0	74.0
Operating margin (1)	22.4%	14.6%	22.7%
Puerto Vallarta:			
Revenues:			
Aeronautical services	Ps. 223.5	Ps. 269.7	Ps. 337.9
Non-aeronautical services	18.6	51.0	72.9
Total revenues	242.1	320.7	410.8
Operating costs	158.6	176.7	193.5
Costs of services	88.2	100.8	113.7
Depreciation and amortization	70.4	75.9	79.8
Income from operations	83.5	143.9	217.4
Operating margin (1)	34.5%	44.9%	52.9%
Los Cabos:			
Revenues:			
Aeronautical services	Ps. 208.8	Ps. 242.0	Ps. 314.8
Non-aeronautical services	72.3	81.1	116.5
Total revenues	281.1	323.1	431.3
Operating costs	142.2	147.2	158.1
Costs of services	85.8	90.8	101.1
Depreciation and amortization	56.4	56.4	57.0
Income from operations	138.9	175.9	273.2
Operating margin (1)	49.4%	54.4%	63.4%
Hermosillo:			
Revenues:			
Aeronautical services	Ps. 92.3	Ps. 103.6	Ps. 109.8
Non-aeronautical services	14.6	18.0	21.5
Total revenues	106.9	121.6	131.3
Operating costs	64.8	71.2	87.0
Costs of services	44.5	47.4	54.5
Depreciation and amortization	20.3	23.8	32.5
Income from operations	42.1	50.4	44.3
Operating margin (1)	39.4%	41.5%	33.7%
Bajío:			
Revenues:			
Aeronautical services	Ps. 109.3	Ps. 116.7	Ps. 129.7
Non-aeronautical services	19.4	21.3	25.9
Total revenues	128.7	138.0	155.6

	Airport Operating Results		
	Year ended December 31,		
	2003	2004	2005
	(millions of pesos, except percentages)		
Operating costs	74.7	78.3	88.2
Costs of services	46.6	48.1	55.6
Depreciation and amortization	28.1	30.2	32.6
Income from operations	54.0	59.7	67.4
Operating margin (1)	41.9%	43.2%	43.3%
Other:			
Revenues:			
Aeronautical services	Ps. 222.4	Ps. 241.6	Ps. 266.2
Non-aeronautical services	38.0	42.6	45.1
Total revenues	260.4	284.2	311.3
Operating costs	224.5	241.5	279.9
Costs of services	159.4	166.8	185.9
Depreciation and amortization	65.1	74.7	94.0
Income from operations	35.9	42.7	31.4
Operating margin (1)	13.7%	15.0%	10.1%
Total:			
Revenues:			
Aeronautical services	Ps. 1,685.5	Ps. 1,865.4	Ps. 2,112.9
Non-aeronautical services	298.5	397.9	478.4
Total revenues	1,984.0	2,263.3	2,591.3
Operating costs	1,287.8	1,399.0	1,494.0
Costs of services	756.0	830.2	881.5
Depreciation and amortization	531.8	568.8	612.5
Income from operations	696.2	864.3	1,097.3
Operating margin (1)	35.1%	38.2%	42.3%

(1)We determine operating margin per airport by dividing income from operations at each airport or group of airports by total revenues for that airport or group of airports.

(2)Reflects the results of operations of our airports located in Morelia, La Paz, Aguascalientes, Mexicali, Los Mochis and Manzanillo.

Historically, our most profitable airports have been our Los Cabos, Guadalajara and Puerto Vallarta international airports, which handle the majority of our international passengers. We determine profitability per airport by dividing income from operations at each airport by total revenues for that airport. Operating margins at our Tijuana International Airport historically have been lower than at our other airports because the maximum rates applicable to aeronautical services provided at our Tijuana International Airport are lower than those applicable to our other principal airports. In addition, the amortization of our concession relative to the level of revenues is much higher at our Tijuana International Airport than at our other principal airports.

Summary Historical Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years indicated.

	Summary Consolidated Operating Results				
	Year ended December 31,				
	2003	2004		2005	
	Amount	Amount	% change	Amount	% change
	(thousands of pesos, except percentages)				
Revenues:					
Aeronautical services	Ps. 1685,527	Ps. 1,865,378	10.7%	Ps. 2,112,899	13.3%
Non-aeronautical services	298,515	397,934	33.3	478,416	20.2
Total revenues	1,984,042	2,263,312	14.1	2,591,315	14.5
Operating costs:					
Cost of services	580,262	630,203	8.6	650,749	3.3
Technical assistance fees	66,671	78,052	17.1	92,363	18.3
Government concession fees	98,417	112,411	14.2	128,697	14.5
Depreciation and amortization	536,287	573,135	6.9	617,138	7.7
Total operating costs	1,281,637	1,393,801	8.8	1,488,947	6.8
Income from operations	702,405	869,511	23.8	1,102,368	26.8
Net comprehensive financing income (expense)					
Interest income, net	64,447	60,325	(6.4)	89,826	48.9
Exchange gain (loss), net	19,107	9,305	(51.3)	(10,810)	(216.2)
Monetary position loss	(59,463)	(83,191)	39.9	(47,161)	(43.3)
Loss from embedded derivatives	0	(1,183)	(100.0)	(20,291)	1,615.2
Net comprehensive financing income (expense)	24,091	(14,744)	(161.2)	11,564	(178.4)
Other expense	(10)	(2,451)	24,410.0	(814)	(66.8)
Income before income taxes, statutory employee profit sharing and cumulative effect of change in accounting principle	726,486	852,316	17.3	1,113,118	30.6
Income tax and statutory employee profit sharing expense	(404,821)	(477,242)	17.9	(454,306)	(4.8)
Cumulative effect of change in accounting principle	0	25,153	100.0	0	(100.0)
Consolidated net income	321,665	400,227	24.4	658,812	64.6
Other operating data (unaudited):					
Operating margin (1)	35.4%	38.4%		42.5%	
Net margin (2)	16.2%	17.7%		25.4%	

(1)Income from operations divided by total revenues, expressed as a percentage.

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

Results of operations for the year ended December 31, 2005 compared to the year ended December 31, 2004

Revenues

Total revenues for 2005 were Ps. 2,591.3 million, 14.5% higher than the Ps. 2,263.3 million recognized in 2004, reflecting increases in both aeronautical services revenues (a 13.3% increase over 2004) and in non-aeronautical services revenues (a 20.2% increase over 2004).

Aeronautical services revenues increased 13.3% from Ps. 1,865.4 million in 2004 to Ps. 2,112.9 million in 2005, principally reflecting a 4.4% increase in our maximum rates (as described under “Item 4, Information on the Company—Regulatory Framework”) and the resulting increase in the specific prices we charge for various aeronautical services under an amended agreement with our principal airline customers, which took effect January 1, 2005. For a description of this agreement, see “Item 4, Information on the Company—Business Overview—Principal Customers.” This increase was also attributable in part to an 8.5% increase in workload units (as defined under, “Item 3, Key Information—Selected Financial Data”), reflecting an increase in passenger traffic. As a result of these factors, aeronautical revenues per workload unit increased 4.4% to Ps. 102.7 per workload unit in 2005 compared to Ps. 98.4 in 2004.

Non-aeronautical services revenue increased 20.2%, from Ps. 397.9 million in 2004 to Ps. 478.4 million in 2005, due in large part to our recovery in May 2004 of the long-term leases to operate commercial space at our Puerto Vallarta International Airport and our Guadalajara International Airport (which contributed to revenue for all 12 months of 2005 as compared to only seven months in 2004). This recovery produced significant increases in revenues from retail operations, duty-free operations, food and beverage operations and car rentals in 2005 as compared to 2004. The increase in non-aeronautical revenues was also attributable in part to an increase in the leasing of commercial space used for marketing and sales of time-share units.

Operating Costs

Cost of Services

Cost of services increased 3.3% in 2005 as compared to 2004, mainly as the result of a 16.3% increase in maintenance. This increase was offset in part by an 8.0% decrease in other costs. The decrease in other cost of services was principally attributable to the provision we recognized for non-recoverable accounts receivable of Ps. 17.3 million, as compared to Ps. 2.5 million in 2005. As a percentage of total revenues, costs of services decreased from 27.8% of revenues in 2004 to 25.1% of revenues in 2005, due primarily to the increase in revenues and the stability of our costs. Cost of services per workload unit decreased 4.8% in 2005 compared to 2004. This change was largely the result of the implementation of improved cost controls, which enabled us to benefit from the increase in workload units.

Technical Assistance Fee and Concession Fee

Our technical assistance fee increased 18.3% to Ps. 92.4 million in 2005, compared to Ps. 78.1 million in 2004, due to increased income from operations in 2005. Our government concession fee increased 14.5% from Ps. 112.4 million in 2004 to Ps. 128.7 million in 2005, reflecting the increase in our revenues in 2005.

Depreciation and Amortization

The 7.7% increase in depreciation and amortization, from Ps. 573.1 million in 2004 to Ps. 617.1 million in 2005, was principally due to a 7.6% increase in amortization expense (from Ps. 475.3 million in 2004 to Ps. 511.7 million in 2005). The higher amortization expense in 2005 reflected the increase in the amortization rate of our concessions effective October 2004 as well as additional amortization related to the rights to operate commercial space at our Puerto Vallarta International Airport and our Guadalajara International Airport recovered from prior leaseholders in May 2004.

Income from Operations

Operating income increased 26.8% to Ps. 1,102.4 million in 2005, as compared to Ps. 869.5 million in 2004. This increase primarily reflected the proportionately larger increase in revenues relative to the increase in our operating costs. Our operating margin increased from 38.4% in 2004 to 42.5% in 2005.

On an airport-by-airport basis, the principal contributors to the increase in operating income in December 31, 2005 were Los Cabos (where operating income increased 55.3% from Ps. 175.9 million to Ps. 273.2 million and operating margin increased 16.4% from 54.4% to 63.3%), Puerto Vallarta (where operating income increased 51.0% from Ps. 143.9 million to Ps. 217.4 million and operating margin increased 17.8% from 44.9% to 52.9%), Tijuana (where operating income increased 60.9% from Ps. 46.0 million to Ps. 74.0 million and operating margin increased 55.5% from 14.6% to 22.7%) and Guadalajara (where operating income increased 12.7% from Ps. 346.0 million to Ps. 389.8 million and operating margin increased 4.2% from 45.4% to 47.3%). In the case of Los Cabos, this increase resulted largely from a 35.0% increase in terminal passenger volumes at that airport; in the case of Puerto Vallarta, the increase was mainly attributable to our recovery in May 2004 of the long-term leases to operate commercial space at that airport, and attributable to a lesser extent to a 21.0% increase in terminal passenger traffic; and, in the case of Tijuana, the increase was attributable principally to the decrease in other costs of services, as described above.

Comprehensive Financing Result

Our net comprehensive financing result for 2005 generated income of Ps. 11.6 million, as compared to an expense of Ps. 14.7 million in 2004. This change resulted primarily from our investment during the first half of 2004 of significant amounts of cash in U.S. dollar-denominated, short-term investments in anticipation of the payment to recover the rights to operate the leases at our Puerto Vallarta International Airport and our Guadalajara International Airport in May 2004, whereas in 2005 we invested our cash in higher-yielding investments. The increase in our comprehensive financial result in 2005 also resulted from lower inflation in 2005, resulting in a lower loss from monetary position in 2005. The decline in our loss from monetary position was partially offset by an exchange loss of Ps.10.8 million in 2005, due to the appreciation of the Mexican peso against U.S. dollar by 8%.

Income Taxes, Statutory Employee Profit Sharing and Asset Tax

The provision for income taxes, statutory employee profit sharing and asset tax decreased 4.8% in 2005, to Ps. 454.4 million from Ps. 477.2 million in 2004, due partly to changes to the amortization rates applicable to our airport concessions for tax purposes. Our effective tax rate decreased from 56.0% in 2004 to 40.8% in 2005, reflecting an increase in our pre-tax income that was not matched by a proportionate increase in our tax provision, principally due to a proportionately smaller net increase in the valuation allowance for asset tax, resulting from the benefits derived from the change in amortization rates.

Net Income

Our consolidated net income increased 64.6% in 2005, to Ps. 658.8 million, from Ps. 400.2 million in 2004, and our net margin increased from 17.7% to 25.4% during this period, reflecting the factors discussed above.

Results of operations for the year ended December 31, 2004 compared to the year ended December 31, 2003

Revenues

Total revenues for 2004 were Ps. 2,263.3 million, 14.1% higher than the Ps. 1,984.0 million recognized in 2003, as a result of increases in both aeronautical and non-aeronautical revenues.

Aeronautical revenues increased 10.7% from 2003 to 2004, due primarily to a 6.6% increase in workload units, which reflected increases in passenger and cargo volume. This increase was also attributable to increases in our maximum rates for 2004 at our Bajío International Airport and our Puerto Vallarta International Airport, which was authorized by the SCT to account for our addition of three passenger walkways at our Bajío International Airport and our recovery of the lease at our Puerto Vallarta International Airport. Aeronautical revenues per workload unit in 2004 increased 3.8% as compared to 2003. In July 2003, we adjusted the specific prices we charge for various aeronautical services pursuant to the agreement we entered into that month with our principal airline customers. Under this agreement, those airlines agreed to increases in passenger charges in exchange for discounts in aircraft landing and parking charges. For a description of this agreement, see “Item 4, Information on the Company—Business Overview—Principal Customers.”

Non-aeronautical revenues increased 33.3% (an increase of 25.1% per terminal passenger) from 2003 to 2004, principally due to (a) the renegotiation in August 2003 of the contract governing the car parking facility at our Guadalajara International Airport (which contributed to a 30.1% increase in car parking revenues), (b) our recovery in May 2004 of the long-term leases to operate commercial space at our Puerto Vallarta International Airport and our Guadalajara International Airport, (c) our earning revenues for a full year from a new advertising agreement entered into in May 2003 covering all of our airports and (d) the change from fixed-fee-based to royalty-based agreements with operators of commercial areas in our terminals.

Operating Costs

Cost of Services

Cost of services increased 8.6% from 2003 to 2004, mainly as a result of increases in various categories of expenses, including other expenses (from Ps. 82.1 million to Ps. 98.9 million), employee costs (from Ps. 266.3 million to Ps. 275.8 million), utilities (from Ps. 55.2 million to Ps. 63.9 million), security, safety and insurance (from Ps. 78.9 million to Ps. 86.8 million) and maintenance (from Ps. 97.7 million to Ps. 104.8 million). The increase in other expenses was attributable primarily to the renegotiation of the contract to operate the parking facility at our Guadalajara International Airport in mid-2003, pursuant to which we now directly earn revenues from users of the facility and pay a fixed fee to the operator of the facility to manage the facility. The increase in other expenses also corresponds to the recognition of an increase of Ps. 17.3 million in the provision for our non-recoverable accounts due to the failure by a third party to pay us amounts due under an agreement to operate the cargo facility at our Tijuana International Airport. In the past, the operator earned revenues from the facility and paid us a royalty. Our safety, security and insurance costs increased primarily due to our addition in July 2003 of terrorism coverage to one of our insurance policies. As a percentage of total revenues, cost of services decreased from 29.2% of revenues in 2003 to 27.8% of revenues in 2004. Cost of services per workload unit increased 1.9% in 2004. The relative stability of cost of services per workload unit generally (other than employee-insurance and other costs) reflected our implementation of aggressive cost control procedures, including more stringent budget controls and audit controls and the implementation of new purchasing policies.

Technical Assistance Fee and Concession Fee

Our technical assistance fee increased 17.1% to Ps. 78.1 million in 2004, as compared to Ps. 66.7 million in 2003, as a result of our improved operating income during 2004. Our government concession fee increased from Ps. 98.4 million in 2003 to Ps. 112.4 million in 2004, reflecting the increase in revenues in 2004.

Depreciation and Amortization

Our 6.9% increase in depreciation and amortization, from Ps. 536.3 million for 2003 to Ps. 573.1 million for 2004, was principally due to additions to fixed assets in 2004 resulting from investments made pursuant to our master development programs. The increase in amortization also reflected a change that we made in October 2004 to the amortization rates applicable to certain of our airports. This change resulted in a Ps. 10.6 million increase in amortization expense in 2004 as compared to 2003.

Income from Operations

Operating income increased 23.8% to Ps. 869.4 million in 2004, as compared to Ps. 702.4 million in 2003. This increase primarily reflected the 14.1% increase in our total revenues in 2004, which was offset in part by the proportionately smaller increase in total operating costs of 8.8%. Our operating margin increased from 35.4% in 2003 to 38.4% in 2004, reflecting the proportionately greater increase in our revenues relative to the increase in our total operating costs.

On an airport-by-airport basis, the principal contributors to the increase in operating income in 2004 were our Guadalajara, Puerto Vallarta and Los Cabos international airports. Operating income at our Tijuana International Airport declined by 30.7% in 2004, as compared to 2003, primarily due to an increase in operating costs at our Tijuana International Airport during 2004 attributable to (a) the failure by a third party to pay us amounts due under an agreement to operate the cargo facility at that airport, (b) increased cost of services associated with increasing the size of the terminal at that airport and (c) the lower specific prices we charged at that airport pursuant to the agreement with our principal airline customers entered into in July 2003.

Comprehensive Financing Result

Our net comprehensive financing result changed in 2004 to an expense of Ps. 14.7 million, as compared to income of Ps. 24.1 million in 2003. This decline resulted primarily from a 39.9% increase in losses from monetary position. In addition, foreign exchange gains declined 51.3% and interest income declined 6.4% in 2004. The increased loss from monetary position was principally the result of a higher net monetary asset position in 2004 (7.8% higher on a weighted average monthly basis) and higher inflation in 2004 (5.2% as compared to 4.0% in 2003). The decline in foreign exchange gains in 2004 resulted primarily from the lower depreciation of the value of the Mexican peso in 2004 (0.2%) as compared to 2003 (8.1%). The decrease in interest income mainly resulted from our allocation of a larger portion of our cash to U.S. dollar investments during the first half of 2004, which bore lower interest rates than the Mexican investments that we made during 2003, in anticipation of purchasing several long-term leases in 2004 and reduced interest income attributable to our shortening of the maturity of our investment portfolio in 2004 due to increased volatility in global financial markets. In 2004, our net comprehensive financing result included an expense of Ps. 1.2 million associated with a net loss from embedded derivatives. See Note 3.k to our audited consolidated financial statements.

Income Taxes, Statutory Employee Profit Sharing and Asset Tax

The provision for income taxes and statutory employee profit sharing and asset tax increased 17.9% in 2004, to Ps. 477.3 million, from Ps. 404.8 million in 2003. This increase was attributable primarily to a decrease made by the Mexican government to our applicable income tax rate (to 28% through 2007), which resulted in a Ps. 63.9 million increase in our deferred income tax expense.

Net Income

Net income increased 24.4% in 2004, to Ps. 400.2 million, from Ps. 321.7 million for 2003, reflecting the factors described above. In 2004, our net income included a credit of Ps. 25.1 million reflecting the cumulative effect on prior years of the application of Bulletin C−10 (regarding embedded derivatives).

Liquidity and Capital Resources

Historically, our operations have been funded through cash flow from operations, and we have not incurred any significant indebtedness. The cash flow generated from our operations has generally been used to fund operating costs and capital expenditures, including expenditures under our master development programs, and the excess of our cash flow has been added to our accumulated cash balances. In addition, in 2003, 2004 and 2005, we used Ps. 278.9 million, Ps. 293.3 million and Ps. 1,052.2 million, respectively, of our cash balances for the payment of dividends. At December 31, 2004 and 2005, we had Ps. 1,228.5 million and Ps. 899.3 million, respectively, of cash and temporary investments. This decrease principally reflected the payment of dividends in May and June of 2005. We believe our working capital and resources expected to be generated from operations will be sufficient to meet our present requirements.

In 2005, we generated Ps. 1,310.4 million from operating activities, as compared to Ps. 1,205.6 million in 2004, principally reflecting our income from operations discussed above after taking into consideration non-cash charges such as depreciation and amortization. Income generated from operations was used to make a dividend payment of Ps. 603 million (constant pesos) on May 4, 2005 and another dividend payment, in the amount of Ps. 449 million (constant pesos), on June 3, 2005, as well as to invest approximately Ps. 581.9 million in machinery and equipment and improvements to our airport facilities.

In 2004, we generated Ps. 1,205.6 million in resources from operating activities, principally reflecting our net income after taking into consideration non-cash charges such as depreciation and amortization and deferred income tax. On June 1, 2004, we paid Ps. 431.2 million (constant pesos) (U.S.$34.4 million at the then-applicable exchange rate), composed of Ps. 423.5 million (constant pesos) in cash and the assumption of liabilities of Ps. 7.7 million (constant pesos), to recover the leases to operate the most lucrative commercial areas in our Guadalajara International Airport and our Puerto Vallarta International Airport in addition to passenger walkways and other sources of aeronautical revenues at our Puerto Vallarta International Airport.

In 2003, we generated Ps. 590.5 million in resources from operating activities, principally reflecting our net income after taking into consideration non-cash charges such as depreciation and amortization and deferred income tax. This result also reflected a Ps. 220.2 million increase in trade accounts receivable attributable to the renegotiation of payment terms related to passenger charges with our principal airline customers in July 2003. Our resources used in financing activities were Ps. 278.9 million, reflecting the payment of dividends. Our resources used in investing activities were Ps. 323.8 million.

On January 25, 2006, we entered into a line of credit with a financial institution, which provides for the issuance of letters of credit up to an aggregate amount of Ps. 300 million in order to guarantee tax amounts claimed by municipal authorities and referred to in Note 16.a to our audited consolidated financial statements. Until the line of credit expires in 2009, our airports will be subject to certain financial covenants thereunder, including, among others, the requirement to (i) maintain a consolidated tangible net worth (defined as shareholders’ equity less intangible assets (including airport concessions) and reserves for inflationary effects, in each case under Mexican GAAP) of at least Ps. 2,100 million, (ii) maintain a free and unencumbered cash reserve equal to the amount due on any outstanding letter of credit and (iii) earn consolidated annual EBITDA of at least Ps. 1,000 million. On February 9, 2006, an irrevocable standby letter of credit was issued in respect of the Tijuana tax claim in the amount of Ps. 141.8 million. The standby letter of credit was granted to the bond institution that issued the bond to municipal authorities in Tijuana in response to the encumbrance described in Note 16.a to our audited consolidated financial statements.

Under the terms of our concessions, each of our subsidiary concession holders is required to present a master development program for approval by the SCT every five years. Each master development program includes investment commitments (including capital expenditures and improvements) applicable to us as concession holder for the succeeding five-year period. Once approved by the SCT, these commitments become binding obligations under the terms of our concessions. In December 2004, the SCT approved our master development programs for each of our airports for the 2005-to-2009 period. These 5-year programs will be in effect from January 1, 2005 until December 31, 2009.

The following table sets forth our historical capital expenditures, which reflect our actual expenditures (as compared to our committed investments, which are presented further below), by airport, for the years indicated. The substantial majority of these investments were made under the terms of our master development programs.

Historical Capital Expenditures by Airport

	Year ended December 31,		
	2003	**2004**	**2005**
		(thousands of pesos)	
Guadalajara	Ps. 117,134	Ps. 251,397	Ps. 164,726
Tijuana	106,357	13,974	32,315
Puerto Vallarta	18,545	338,667	137,982
Los Cabos	3,820	2,414	29,428
Hermosillo	7,518	14,298	42,194
Bajío	23,014	40,646	22,237
Morelia	15,801	6,435	34,469
La Paz	19,993	6,676	30,440
Aguascalientes	3,062	18,771	18,366
Mexicali	1,316	27,926	30,536
Los Mochis	1,213	9,040	19,132
Manzanillo	2,015	2,858	16,547
Other	4,001	13,469	9,066
Total	Ps. 323,789	Ps. 746,571	Ps. 587,438

The following table sets forth our historical capital expenditures by type of investment across all of our airports for the years indicated:

Historical Capital Expenditures by Type

	Year ended December 31,		
	2003	**2004**	**2005**
		(thousands of pesos)	
Terminals	Ps. 161,013	Ps. 144,685	Ps. 229,412
Runways and aprons	59,895	80,196	187,239
Acquisition of long-term leases	0	431,189	0
Machinery and equipment	34,477	17,659	62,845
Other	68,404	72,842	107,942
Total	Ps. 323,789	Ps. 746,571	Ps. 587,438

Our capital expenditures from 2003 through 2005 were allocated to the following types of investments at the majority of our airports:

- *Terminals*. We remodeled many of the terminals at our airports by expanding departure areas (concourses and lounges), baggage claim areas and arrival areas, by improving lighting systems, adding office space, adding taxi and other ground transportation waiting areas, and by increasing handicap services and remodeling our restrooms.

· *Runways and aprons*. We improved the lighting systems on our runways and access roads, expanded our aircraft parking areas, and made improvements and renovations to the fences on the outlying areas of our properties subject to our concessions.

· *Acquisition of long-term leases*. We recovered the right to operate commercial space and to collect access fees from certain service providers at our Puerto Vallarta and Guadalajara international airports. These rights were previously scheduled to expire between 2010 and 2011, and include rights to the operation of virtually all of the commercial activities (including stores and office space), as well as passenger taxis and air bridges within at these airports.

· *Machinery and equipment*. We invested in machinery and equipment such as fire extinguishing vehicles, emergency back-up electricity generators, metal detectors and other security-related equipment, ambulances, moving walkways and public information systems.

· *Other*. We installed sewage treatment plants and systems at several of our airports, improved our drainage systems, and installed underground electric wiring systems at several of our airports.

The following table sets forth our estimated committed investments for each airport for 2005 through 2009 under our master development programs. These amounts are based on investment commitments approved by the SCT and have been adjusted by us to take into consideration increases in petroleum and steel prices since the Ministry’s approval. We are required to comply with the investment obligations under these programs on a year-by-year basis. For a discussion of the regulations applicable to our compliance with our master development programs, see “Regulatory Framework—Master Development Programs.”

Estimated Committed Investments by Airport

	Year ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(thousands of pesos)[1]				
Guadalajara	Ps. 221,029	Ps. 162,231	Ps. 182,321	Ps. 156,512	Ps. 26,719
Tijuana	73,242	29,178	24,668	51,270	58,659
Puerto Vallarta	142,267	78,483	62,249	22,812	19,774
Los Cabos	54,501	173,097	88,196	10,486	8,213
Hermosillo	51,656	44,820	14,578	22,912	47,906
Bajío	38,032	21,368	14,563	34,424	29,316
Morelia	43,038	24,714	8,166	10,212	35,389
La Paz	40,906	20,359	9,119	13,903	20,637
Aguascalientes	16,157	9,178	7,794	16,798	29,861
Mexicali	65,763	17,603	14,362	17,573	16,487
Los Mochis	16,308	11,630	8,682	14,687	11,216
Manzanillo	34,888	25,214	11,917	10,807	16,027
Total	Ps. 797,786	Ps. 617,876	Ps. 446,615	Ps. 382,397	Ps. 320,204

(1) Figures expressed in constant pesos as of December 31, 2004 based on the Mexican production, merchandise and construction price index (*Índice Nacional de Precios a la Producción, Mercancias y Servicios Finales, Sector Secundario Construcción*), which is the index that the SCT directed us to apply in restating those values. We have submitted a formal request to the SCT seeking confirmation that the correct index to be applied to update the amounts set forth in our master development programs is instead the Mexican Producer Price Index. Should the SCT approve our request, each of the figures set forth in the table above would be reduced by approximately 6%.

The following table sets forth our estimated committed investments for 2005 through 2009 by type of investment:

Estimated Committed Investments by Type

	Year ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(thousands of pesos)[1]				
Terminals	Ps. 172,537	Ps. 97,013	Ps. 138,837	Ps. 122,186	Ps. 42,277
Runways and aprons	154,424	346,021	169,043	149,032	180,045
Machinery and equipment	52,483	36,853	11,562	11,011	8,387
Baggage screening systems—initial investments	333,224	0	0	0	0
Baggage screening system—additional investments	20,358	64,042	64,042	64,042	64,042
Other	64,761	73,947	63,131	36,126	25,453
Total	Ps. 797,786	Ps. 617,876	Ps. 446,615	Ps. 382,397	Ps. 320,204

(1) Figures expressed in constant pesos as of Decemeber 31, 2004 based on the Mexican production, merchandise and construction price index (*Ídice Nacional de Precios a la Producción, Mercancias y Servicios Finales, Sector Secundario Construcción*), which is the index that the SCT directed us to apply in restating those values. We have submitted a formal request to the SCT seeking confirmation that the correct index to be applied to update the amounts set forth in our master development programs is instead the Mexican Producer Price Index. Should the SCT approve our request, each of the figures set forth in the table above would be reduced by approximately 6%.

Differences between estimated committed investments for 2005 under our master development programs and actual 2005 capital expenditures reflect differences between estimated and actual costs and some differences between planned and actual projects (while maintaining at all times compliance with the master development programs).

We expect to fund our operations and capital expenditures in the short-term and long-term through cash flow from operations, although we may incur indebtedness from time to time. We expect to allocate a majority of our investments for the period 2005 through 2009 to our five largest airports. In particular, a portion of our investments will be dedicated to expanding and remodeling the terminals where we recently acquired the rights to exploit certain commercial areas from former holders of long-term leases at our Guadalajara and Puerto Vallarta international airports.

In 2005, the Mexican government adopted a policy that required all checked baggage on international commercial flights beginning in January 2006, and on domestic commercial flights beginning in July 2006, to undergo a new comprehensive screening process. The new policy required the installation of new screening equipment. As of December 31, 2005, we anticipated that the Federal Government would permit us to offset the cost of acquiring any required new screening equipment through increases in our maximum rates. However, we could be required to undertake significant capital expenditures (as well as ongoing expenses) to comply with the new policy.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in Mexico. As such, we are required to make estimates, judgments and assumptions that affect (i) certain reported amounts of our assets and liabilities, (ii) the disclosure of our contingent assets and liabilities at the date of the financial statements and (iii) certain reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience and on various other reasonable factors that together form the basis for making judgments about the carrying values of our assets and liabilities. Our actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. Our significant accounting policies are described in Note 3 to our audited consolidated financial statements.

We believe our most critical accounting policies that result in the application of estimates and/or judgments are the following:

Recoverable Income Tax

As part of a tax planning strategy that we implemented in 2002 following the recommendation of our tax advisors, we recorded a recoverable income tax asset in the amount of Ps. 76.9 million (nominal pesos) as of December 31, 2002 in our financial statements as permitted by Mexican GAAP for the recovery of income taxes paid on the distribution of dividends. In July 2003, we requested that the Mexican tax authorities confirm the criteria under which we are claiming this refund and this request was rejected. We have since initiated proceedings before the Mexican Tax Court seeking to have our refund claims adjudicated in our favor. For a further discussion of this asset, see Note 14 to our audited consolidated financial statements. Although this receivable may be recognized under Mexican GAAP, under U.S. GAAP the recoverable income tax asset is considered a gain contingency, the recognition of which is not permitted until recovery is assured beyond a reasonable doubt.

In the case of our Tijuana International Airport, the Mexican tax authorities fined us Ps. 19.1 million (nominal pesos) in May 2005 based on a finding that our refund request relating to this airport is unfounded. We paid the fine in order to obtain a discount on the fine (which was reduced to Ps. 11.4 million) and avoid accruing interest and inflation adjustments while we contest the fine. If we are successful in having the fine annulled, we will recover the amount of the fine plus interest and inflation adjustments. We have recorded the expected refund of the fine as an asset in our financial statements for the year ended December 31, 2005, as we do not believe there is any legal basis for the fine. Although this receivable may be recognized under Mexican GAAP, under U.S. GAAP, this asset is considered a gain contingency, the recognition of which is not permitted until recovery is assured beyond a reasonable doubt.

In the case of the Aguascalientes airport, the Mexican tax authorities requested additional documentation to allow them to evaluate our position. Subsequently, we obtained a judicial annulment of the request for documentation and a court order to the tax authorities to reach a final determination regarding our claimed refund. In November 2005, without commenting on the merits of our position, the Mexican tax authorities sent us a refund in the amount of Ps. 5.3 million.

In the case of the La Paz airport, on March 29, 2006 the Mexican Tax Court ruled against us in our suit against the Mexican tax authorities. We are unable to appeal this ruling and accordingly reversed our recoverable income tax asset in respect of the La Paz airport in the amount of Ps. 5.1 million (nominal pesos) in June 2006.

There can be no assurance that we will be successful in our claims with respect to the tax refund. If these claims are not decided in our favor, we may be required to write off the remaining asset we have recorded in respect of the anticipated refund, as well as any related fines we have paid. At December 31, 2005, the aggregate amount of these assets was approximately Ps. 83.5 million (nominal pesos).

Income Taxes

In conformity with Bulletin D-4, *Accounting for Income Tax, Asset Tax and Statutory Employee Profit Sharing*, of Mexican GAAP, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2005, we recorded, within the long-term deferred income tax asset, an estimated amount of recoverable asset tax paid, based on financial projections that show that we will recover, within the permitted 10-year recovery period, the excess of asset tax over income tax relating to our Bajío, Guadalajara, Hermosillo and Los Cabos International Airports. We regularly review our deferred tax assets for recoverability and, if necessary, establish a valuation allowance based on historical taxable income, projected future taxable income and related income tax expense compared to future estimated asset tax and the expected timing of the reversals of existing temporary differences. In 2005, we elected to modify our fiscal amortization rates on our airport concessions and rights to use airport facilities, increasing the rate at eight of our 12 airports. As a result of the change in tax amortization rates as well as based on estimated projections of future taxable income, we reversed our valuation allowance related to recoverable asset tax paid at two additional airports, our Puerto Vallarta International Airport and our Morelia International Airport, for an aggregate of Ps. 50.1 million (nominal pesos) and recorded an additional reserve at the Hermosillo International Airport for Ps. 21.1 million (nominal pesos). If these estimates and related assumptions change in the future, we may be required to make additional adjustments to our deferred tax assets, which may result in additional income tax expense.

Impairment in the Value of Long-Lived Assets

We must test for impairment when indicators of potential impairment in the carrying amount of our tangible long-lived assets in use exist, unless there is conclusive evidence that the indicators of impairment are temporary. Additionally, with respect to our intangible assets related to the concession and rights to use airport facilities, given their prolonged life, we are required to test for impairment on an annual basis. An impairment is recorded when the carrying amount of the long-lived tangible or intangible asset exceeds the greater of the present value of future net cash flows provided by the assets on the net sales price upon disposal. Present value of future net cash flows is based on management’s projections of future operations, discounted using current interest rates. We have considered the consolidated entity as the independent cash generating unit on which we perform our impairment analysis. We believe this to be appropriate as we do not have the ability to close operations at any single of the airports under concession, and must operate all 12 airports regardless of their individual results based on the terms of the concession agreement. Our evaluations throughout the year and up to the date of this filing did not reveal any impairment of tangible and intangible long-lived assets. We can give no assurance that our evaluations will not change as a result of new information or developments which may change our future projections of net cash flows or the related discount rates and result in future impairment charges.

Principal Differences Between Mexican GAAP and U.S. GAAP

Our consolidated financial statements are prepared in accordance with Mexican GAAP, which differs in certain respects from U.S. GAAP. See Note 22 to our audited consolidated financial statements for a discussion of these differences. Consolidated net income (loss) under U.S. GAAP was Ps. 530.3 million, (Ps. 119.7) million and Ps. 888.6 million for the years ended December 31, 2003, 2004 and 2005, respectively.

The principal differences between Mexican GAAP and U.S. GAAP as they relate to us are the treatment of our investments in our concessions and the rights to use our airport facilities, the recognition of the fair value of embedded derivatives, the treatment of AMP's portion of shares held in trust, which are forfeitable, and the deferred income tax effects generated by these adjustments. Each of these differences affects both consolidated net income and shareholders' equity.

Off-balance Sheet Arrangements

We are not party to any off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2005.

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year(4)**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in millions of pesos)				
Master Development Programs [1]	Ps. 1,767.1	Ps. 617.9	Ps. 1,149.2	Ps. N/A[5]	Ps. N/A[5]
Purchase Obligations [2]	641.3	56.8	190.1	223.4	171.0
Operating Lease Obligations (3)	22.7	4.1	11.9	6.7	0.0
Total	Ps. 2,431.1	Ps. 678.8	Ps. 1,351.2	Ps. 230.1	Ps. 171.0

(1) Figures expressed in constant pesos as of December 31, 2004 based on the Mexican production, merchandise and construction price index (*Índice Nacional de Precios a la Producción, Mercancias y Servicios Finales, Sector Secundario Construcción*), which is the index that the SCT directed us to apply in restating those values. We have submitted a formal request to the SCT seeking confirmation that the correct index to be applied to update the amounts set forth in our master development programs is instead the general Mexican Producer Price Index. Should the SCT approve our request, each of the figures set forth in the table above would be reduced by approximately 6%.

(2) Reflects a minimum fixed annual payment of U.S.$4.0 million required to be paid under our technical assistance agreement, assuming an average exchange rate of Ps. 13.65 per U.S. dollar and an annual U.S. inflation rate of 2.7%. The amount ultimately to be paid in any year will depend on our profitability.

(3) Includes leasing of buildings and vehicles.

(4) Amount for less than one year corresponds to obligations for the remainder of 2006.

(5) In the fifth year of the master development programs, a negotiation will take place with the SCT to determine the new master development program commitments for the subsequent five-year period.

New Accounting Pronouncements

Mexican GAAP

As of May 31, 2004, the Mexican Institute of Public Accountants, or IMCP, formally transferred the function of establishing and issuing financial reporting standards to the Mexican Board for Research and Development of Financial Reporting Standards, or CINIF, consistent with the international trend of requiring this function be performed by an independent entity.

Accordingly, the task of establishing Mexican GAAP bulletins and circulars issued by the IMCP became the responsibility of the CINIF, which subsequently changed the terminology referring to the body of Mexican accounting principles to "*Normas de Información Financiera*" (Mexican Financial Reporting Standards, or Mexican FRSs, with bulletins thereunder denominated "NIFs"), and determined that Mexican FRSs encompass (i) new bulletins established under the new function; (ii) any interpretations issued thereon; (iii) any Mexican GAAP bulletins that have not been amended, replaced or revoked by the new Mexican FRS; and (iv) International Financial Reporting Standards (IFRSs) that are supplementary guidance to be used when Mexican GAAP does not provide primary guidance.

One of the main objectives of CINIF is to achieve greater concurrence with IFRS. To this end, it started by reviewing the theoretical concepts contained in Mexican GAAP and establishing a Conceptual Framework ("CF") to support the development of financial reporting standards and to serve as a reference in resolving issues arising in the accounting practice. The CF consists of eight financial reporting standards, which comprise the NIF-A series. The NIF-A series, together with NIF B-1, were issued on October 31, 2005. Their provisions are effective for years beginning January 1, 2006, superseding all existing Mexican GAAP Series-A bulletins.

The new NIFs are as follows:

NIF A-1 Structure of Financial Reporting Standards
NIF A-2 Fundamental Principles
NIF A-3 Users' Needs and Financial Statement Objectives
NIF A-4 Qualitative Characteristics of Financial Statements
NIF A-5 Basic Elements of Financial Statements
NIF A-6 Recognition and Valuation
NIF A-7 Presentation and Disclosure
NIF A-8 Supplementary Standards to Mexican GAAP
NIF B-1 Accounting Changes

The most significant changes established by these standards are as follows:

· In addition to the statement of changes in financial position, NIF A-3 includes the statement of cash flows, which should be issued when required by a particular standard.

· NIF A-5 includes a new classification for revenues and expenses: ordinary and not ordinary. Ordinary revenues and expenses are derived from transactions or events that are within the normal course of business or that are inherent in the entity’s activities, whether frequent or not; revenues and expenses classified as not ordinary refer to unusual transactions and events, whether frequent or not.

· NIF A-7 requires the presentation of comparative financial statements for at least the preceding period. Through December 31, 2004, the presentation of prior years’ financial statements was optional. The financial statements must disclose the authorized date for their issuance, and the name(s) of the officer(s) or administrative body(ies) authorizing the related issuance.

· NIF B-1 establishes that changes in particular standards, reclassifications and corrections of errors must be recognized retroactively. Consequently, basic financial statements presented on a comparative basis with the current year that might be affected by the change, must be adjusted as of the beginning of the earliest period presented.

As of December 31, 2006, the adoption of these standards has not had a material effect on our consolidated financial information.

U.S. GAAP

In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 123 (revised 2004), *Share-Based Payments*. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees* to stock compensation awards issued to employees. Rather, SFAS No. 123(R) requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award—the requisite service period (usually the vesting period). SFAS No. 123(R) applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS No. 123(R) will be effective for our fiscal year ending December 31, 2006. We do not believe the effect of the future adoption of SFAS No. 123(R) will have a material impact on its financial position, results of operations or cash flows.

In December 2004, FASB issued SFAS No. 153, *Exchange of Nonmonetary Assets—an amendment of APB Opinion No. 29*, which amends APB Opinion No. 29, *Accounting for Nonmonetary Transactions* to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring after January 1, 2006. We do not anticipate that the adoption of this statement will have a material effect on its financial position, results of operations or cash flows.