Taxation

Mexican companies are generally required to pay the greater of their income tax liability 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 (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%, which is now applicable to the average tax value of virtually all of the company’s assets without reducing 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 2004, 2005 and 2006, we and our subsidiaries paid an aggregate of Ps. 167.9 million, Ps. 141.2 million and Ps. 121.3 million, respectively, in asset taxes.

As a result of changes in the Mexican income tax law, the latest of which became effective on January 1, 2005, the income tax rate was 29% in 2006 and is scheduled to decrease to 28% for 2007 and 28% thereafter. As a result of this change in tax rates, we reversed a portion of our net deferred income tax liability and recorded Ps. 48.4 million as income in 2006. In addition, we amortize investments in our concessions for tax purposes at rates that range from 6% to 10% per year. This accelerated depreciation reduces current income tax payments. As permitted under Mexican tax law, for the 2004 tax year we elected to increase the rate at which we depreciate our investment in Cancun Airport from 10% to 15% for tax purposes and in the 2005 tax year we decided to increase the rates for Villahermosa Airport from 6% to 10%. Because we are required under Mexican NIF to amortize investments in our concessions over a longer period for financial reporting purposes, we will continue to record a deferred tax liability and provision in our financial statements regarding the difference between the amount of amortization for tax and financial reporting purposes.

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 2004, 2005 and 2006 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 its profit sharing liability.

Our results of operations reflect the accrual of a technical assistance fee to ITA under the technical assistance agreement. For further information on this fee, see Item 4, “Information on the Company—History and Development of the Company—Investment by ITA.”

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,		
	2004	2005	2006
Depreciation (appreciation) of the Mexican Peso as compared to the U.S. dollar(1)	(0.7%)	(4.6%)	1.7%
Mexican inflation rate(2)	5.2%	3.3%	4.1%
U.S. inflation rate(3)	3.3%	3.4%	2.5%
Increase in Mexican gross domestic product(4)	4.2%	3.0%	4.8%

(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. 11.1495 per U.S. dollar as of December 31, 2004, Ps. 10.6344 per U.S. dollar as of December 31, 2005 and Ps. 10.8116 per U.S. dollar as of December 31, 2006.

(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: 112.5500 in 2004, 116.3010 in 2005 and 121.0150 in 2006.

(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 16, 2007.

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 foreign 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 NIF 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 NIF, our comprehensive financing cost reflects gains or losses from foreign exchange, gains or losses from monetary position and gains and losses from interest and, as a result is impacted by both inflation and 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.

Operating Results by Airport

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

	Year Ended December 31,		
	2004	2005	2006
		Airport Operating Results (millions of pesos)	
Cancun:			
Revenues:			
Aeronautical services	Ps.1,212.2	Ps.1,103.3	Ps.1,166.2
Non-aeronautical services	411.8	505.6	527.3
Total revenues	1,624.0	1,608.9	1,693.5
Operating income	851.6	780.2	810.4
Merida:			
Revenues:			
Aeronautical services	91.7	100.8	98.1
Non-aeronautical services	34.3	36.5	38.5
Total revenues	126.0	137.4	136.6
Operating income	15.4	19.5	14.2
Villahermosa:			
Revenues:			
Aeronautical Services	64.7	70.8	74.8
Non Aeronautical Services	18.5	21.4	22.2
Total revenues	83.2	92.2	97.0
Operating income	21.3	26.9	16.4
Cozumel:			
Revenues:			
Aeronautical services	66.2	59.7	45.5
Non-aeronautical services	18.6	17.6	15.6
Total revenues	84.8	77.3	61.1
Operating (loss) income(1)	15.5	11.8	(5.9)
Other:(2)			
Revenues:			
Aeronautical services	167.9	185.6	203.3
Non-aeronautical services	38.7	46.2	47.5
Total revenues	206.5	231.7	250.8
Operating (loss) income	(3.1)	(6.6)	(5.4)
Total:			
Revenues:			
Aeronautical services	1,602.6	1,520.2	1,587.9
Non-aeronautical services	521.9	627.3	651.1
Total revenues	2,124.6	2,147.5	2,239.0
Operating income	900.6	831.8	829.7

(1) The losses in 2006 reflect the decrease in passenger volume due to Hurricane Wilma, which we estimate will recover over time.
(2) Reflects the results of operations of our parent holding company, our airports located in Veracruz, Minatitlan, Oaxaca, Huatulco and Tapachula and consolidation adjustments.

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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,		
	2004	**2005**	2006
		(thousands of pesos)	
Revenues:			
Aeronautical services	Ps 1,602,630	Ps. 1,520,152	Ps. 1,587,904
Non-aeronautical services	521,961	627,308	651,057
Total revenues	2,124,591	2,147,460	2,238,961
Operating Expenses:			
Cost of services	(502,494)	(580,611)	(641,173)
General and administrative expenses	(113,710)	(106,889)	(97,491)
Technical assistance(1)	(71,991)	(69,123)	(71,037)
Concession fee(2)	(106,189)	(107,373)	(111,804)
Depreciation and amortization	(429,597)	(451,674)	(487,788)
Total operating expenses	(1,223,981)	(1,315,670)	(1,409,293)
Operating income	900,610	831,790	829,668
Comprehensive Financing Result (Cost):			
Interest income, net	48,864	106,689	99,579
Exchange (losses) gains, net	(7,477)	(16,786)	3,957
Loss from monetary position	(72,253)	(66,234)	(88,322)
Net comprehensive financing (cost) income	(30,866)	23,669	15,214
Income before taxes, employees’ statutory profit sharing and extraordinary items	869,744	855,459	844,882
Provision for income taxes and employees’ statutory profit sharing	(198,053)	(260,115)	(301,113)
Extraordinary items	(19,046)	(9,327)	(15,654)
Net income	652,645	586,017	528,115
Other Operating Data (Unaudited):			
Operating margin(3)	42.4%	38.7%	37.1%
Net margin(4)	30.7%	27.3%	23.6%

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

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

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. 2,238.9 million, 4.3% higher than the Ps. 2,147.5 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. 1,587.9 million in 2006 from Ps. 1,520.2 million in 2005, due primarily to the 3.44% increase in passenger volume. Revenues from passenger charges increased 4.3% to Ps. 1,221.7 million in 2006 (76.9% of our aeronautical revenues during the period) from Ps. 1,216.6 million in 2005 (80.0% of our aeronautical revenues during the period).

Revenues from non-aeronautical services increased 3.8% to Ps. 651.0 million in 2006 from Ps. 627.3 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. 19.1 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. (an affiliate of Grupo Mera) 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. 1,671.6 million, a 4.4% increase compared to Ps. 1,601.7 million in 2005, mainly due to the increase in total passenger traffic of 3.44%. During 2006, Ps. 567.3 million of our revenues derived from non-regulated sources, a 4% increase from the Ps. 545.7 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. 1,409.2 million in 2006, a 7.1% increase from the Ps. 1,315.6 million recorded in 2005, primarily as a result of a 10.4% increase in cost of services, a 2.8% increase in technical assistance fees and a 4.1% increase in concession fees. These sources of increased costs were partially offset by an 8.8% decrease in general and administrative expenses. 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. 641.1 million in 2006 from Ps. 580.6 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. 97.4 million in 2006 from Ps. 106.8 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. 71.0 million in 2006 from Ps. 69.1 million in 2005, and concession fees increased by 4.1% to Ps. 111.8 million in 2006 from Ps. 107.3 million in 2005. The technical assistance fees increased in 2006 due to the corresponding increase in EBITDA during the period. The increase in concession fees was primarily the result of increased revenues.

Depreciation and amortization costs increased by 8.0% to Ps. 487.7 million in 2006 from Ps. 451.6 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.829.6 million in 2006 from Ps. 831.7 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. 810.4 million in 2006 from Ps. 780.2 million in 2005. Our eight other airports, on an aggregate basis, reported operating income of Ps. 17.3 million in 2006 compared to operating income of Ps. 53.4 million in 2005. During 2006, revenues and passenger traffic volume in those eight airports increased 8.2% and 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. 15.2 million in 2006 as compared to income of Ps. 23.6 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, Employees' Statutory Profit Sharing and Asset Tax

Our provision for income taxes, asset tax and employees' statutory profit sharing (all of which represented deferred income and asset taxes and deferred employees' statutory profit sharing) increased by 15.8% to Ps. 301.1 million in 2006 from Ps. 260.1 million in 2005, primarily due to the increase in our revenues in 2006.

Net Income

Net income declined to Ps. 528.1 million in 2006 from Ps. 586.0 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.

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. 2,147.4 million, 1.1% higher than the Ps. 2,124.5 million recorded in 2004. The increase in total revenues resulted primarily from an increase of 20.2% in revenues from non-aeronautical services.

Our revenues from aeronautical services, net of rebates, decreased 5.1% to Ps. 1,520.2 million in 2005 from Ps. 1,602.6 million in 2004, due primarily to the 5.4% decrease in international passengers attributable to the impacts of Hurricanes Wilma and Emily on the passenger volumes of the Cancun and Cozumel airports during the second half of the year. Revenues from passenger charges decreased 5.1% to Ps. 1,216.5 million in 2005 (80.0% of our aeronautical revenues during the period) from Ps. 1,281.6 million in 2004 (80.0% of our aeronautical revenues during the period).

Revenues from non-aeronautical services increased 20.2% to Ps. 627.3 million in 2005 from Ps. 521.9 million in 2004, principally due to an increase in commercial revenues. This increase was primarily the result of a 42.3% increase in duty-free revenues, principally due to rent payments of Ps. 7.3 million in May and Ps. 33.8 million in August by Dufry Mexico for units occupied in the Cancun airport, as mandated by a ruling of the International Court of Arbitration in favor of ASUR, as well as payment of Ps. 10.3 million from Aldeasa. The increase in revenues from non-aeronautical services also resulted in part from an 18.6% increase in food and beverage revenues from our direct commercial operations and a 23.6% increase in retail revenues derived from three convenience stores we have operated directly since 2004 and 16 new convenience stores at the Cancun, Cozumel, Villahermosa, Oaxaca and Minatitlan airports operated by new commercial tenants. A 23.0% increase in revenues from parking lots, particularly at Villahermosa airport, and a 9.5% rise in advertising revenue, resulting from selling advertising space directly rather than through a third party, also contributed to the increase in revenues from non-aeronautical services. This increase was partially offset by a 19.8% decrease in revenues from banking and currency exchange services and a 6.9% decline in revenues from ground transportation.

Our revenues from regulated sources in 2005 were Ps. 1,601.7 million, a 4.3% decrease compared to Ps. 1,673.6 million in 2004, mainly due to the decline in total passenger traffic of 4.1%. During 2005, Ps. 545.7 million of our revenues derived from non-regulated sources, a 21.0% increase from the Ps. 450.9 million of revenues derived from non-regulated sources in 2004. This increase was primarily due to the 18.8% increase in commercial revenues described above.

Operating Expenses and Operating Income

Total operating expenses were Ps. 1,315.6 million in 2005, a 7.5% increase from the Ps. 1,223.9 million recorded in 2004, primarily as a result of an 15.5% increase in cost of services, a 6.0% decrease in general and administrative expenses and a 1.1% increase in concession fees. These sources of increased costs were partially offset by a 4.0% decrease in technical assistance fees. As a percentage of total revenues, operating expenses increased to 61.3% of total revenues in 2005 from 57.6% of total revenues in 2004.

Cost of services increased 15.5% to Ps. 580.6 million in 2005 from Ps. 502.4 million in 2004. The increase was principally due to costs related to our direct operation of two restaurants, a snack bar and three convenience stores previously operated by commercial tenants. This increase in costs of services also resulted from higher maintenance expenses, an increase in salaries to unionized employees effective October 2005 and expenses associated with the evaluation of new projects.

General and administrative expenses decreased 6.0% to Ps. 106.8 million in 2005 from Ps. 113.7 million in 2004. This increase was primarily attributable to an increase in fees paid to consultants during the period.

Technical assistance fees decreased by 4.0% to Ps. 69.1 million in 2005 from Ps. 71.9 million in 2004, and concession fees increased by 1.1% to Ps. 107.3 million in 2005 from Ps. 106.1 million in 2004. The technical assistance fees decreased in 2005 due to the corresponding decline in EBITDA (a factor in the calculation of the fee) during the period. The increase in concession fees was primarily the result of increased revenues.

Depreciation and amortization costs increased by 5.1% to Ps. 451.6 million in 2005 from Ps. 429.5 million in 2004. This increase was principally due to the capitalization of investments in fixed assets and improvements made to concession assets.

Operating income decreased 7.6% to Ps. 831.7 million in 2005 from Ps. 900.6 million in 2004. This decline in operating income was primarily a result of the fact that our 1.1% increase in revenues did not offset the increase in expenses of 7.6%.

Operating income for Cancun Airport decreased by 8.9% to Ps. 780.2 million in 2005 from Ps. 851.6 million in 2004. Our eight other airports, on an aggregate basis, reported operating income of Ps. 53.4 million in 2005 compared to operating income of Ps. 33.6 million in 2004. During 2005, revenues and passenger traffic volume in those eight airports increased 11.2% and 3.4%, respectively, from 2004. The increase in revenues resulted from the increase in non-aeronautical revenues.

Comprehensive Financing Result

Our net comprehensive financing result changed to an income of Ps. 23.6 million in 2005 as compared to an expense of Ps. 30.9 million in 2004, primarily due to higher interest income in 2005 (reflecting our higher cash balances).

Income Taxes, Employees’ Statutory Profit Sharing and Asset Tax

Our provision for income taxes, asset tax and employees’ statutory profit sharing (all of which represented deferred income and asset taxes and deferred employees’ statutory profit sharing) increased by 31.3% to Ps. 260.1 million in 2005 from Ps. 198.0 million in 2004, primarily due to a Ps. 122.4 million tax benefit recognized in 2004 resulting from the reduction in income tax rate last year as a result of amendments to the Income Tax Law.

Net Income

Net income declined to Ps. 586.0 million in 2005 from Ps. 652.6 million in 2004, reflecting the decline in revenues resulting from the impact of Hurricanes Emily and Wilma in July and October 2005, respectively.

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 2006, 2005 and 2004 we used Ps. 211 million, Ps. 200 million and Ps. 190 million, respectively, to pay dividends. At December 31, 2006, we had Ps. 1,241.70 million in cash and marketable securities.

In 2006, we generated Ps. 1,031.6 million in resources from operating activities. Our resources used in financing activities were Ps. 296.7 million, as a result of payment of dividends of Ps. 210.7 million and Ps. 86.0 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. 1,088.9 million for the construction of the Terminal 3 building at Cancun Airport, which is expected to begin operation by the end of 2007.

In 2005, we generated Ps. 1,288.5 million in resources from operating activities. Our resources used in financing activities were Ps. 285.7 million, as a result of payment of dividends of Ps. 200.0 million and Ps. 85.7 million of tax on dividends paid. Our resources used in investing activities in 2005 were Ps. 657.8 million for purchases of machinery, furniture and equipment principally for the Cancun, Villahermosa and Merida airports.

In 2004, we generated Ps. 1,207.2 million in resources from operating activities. Our resources used in financing activities were Ps. 233.5 million, reflecting payment of dividends of Ps. 190.0 million and Ps. 69.4 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 2004 were Ps. 526.4 million for purchases of machinery, furniture and equipment principally for the Cancun, Huatulco and Veracruz 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.

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.334,960	Ps.432,206	Ps.847,797	Ps.1,052,919	Ps. 83,298	Ps.2,751,180
Merida	25,184	27,710	46,255	31,188	2,321	132,658
Cozumel	10,598	68,984	12,442	16,280	10,828	119,132
Villahermosa	47,407	63,602	6,360	11,892	1,303	130,564
Oaxaca	21,502	21,150	10,257	6,624	4,829	64,362
Veracruz	25,161	21,287	11,616	11,205	1,496	70,765
Huatulco	9,820	5,450	3,990	6,816	52,560	78,636
Tapachula	20,202	4,447	9,217	8,158	801	42,825
Minatitlan	10,559	6,156	4,838	2,023	3,062	26,638
Total	Ps.505,393	Ps.650,992	Ps.952,772	Ps.1,147,105	Ps.160,498	Ps.3,416,760

(1) Expressed in constant pesos with purchasing power as of December 31, 2006 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 in the fourth quarter of 2005 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 once the necessary land is received from the government. The Ministry of Communications and Transportation approved the modified plan and recognized Ps. 1,433 million in investments as of December 31, 2006.

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

Capital Expenditures

Year ended December 31,	(thousands of pesos)(1)
2004	Ps. 442,937
2005	715,010
2006(2)	1,040,633

(1) Expressed in constant pesos with purchasing power as of December 31, 2006.
(2) Does not include the Ps. 48.3 million in connection with the re-opening 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.

Mexican aviation authorities recently adopted International Civil Aviation Organization guidelines requiring checked baggage on all international commercial flights to undergo a new comprehensive screening process beginning in January 2006. As of January 2006, we implemented a new screening system for all departing international flights, and we implemented the same system for domestic flights as of July 1, 2006. Although airlines, rather than holders of airport concessions, are responsible for baggage screening under Mexican law, we decided to purchase, install and operate the new screening equipment to facilitate their compliance with the new policy. This could potentially expose us to liability relating to the purchase, installation and operation of the equipment, or require us to purchase, install and operate additional equipment, if, among other things, the new screening procedures failed to detect or intercept any attempted terrorist activities at our airports.

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: (i) fixed monthly rental fees (ii) 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, ASUR’s 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 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 represents 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 1.8% of the average tax value of virtually all of our assets less the average tax value of certain liabilities. In 2006, we were subject to the asset tax, which can be credited against future taxable income for a period of ten years. A company may credit the asset tax against taxable income when it generates taxable income. Deferred 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

Certain accounting standards, which were issued by the Mexican Institute of Public Accountants (IMCP), went into effect on January 1, 2006. The adoption of these standards has not and will not have a significant effect on our financial position or results of operations.

As of June 1, 2004, the Mexican Council for the Investigation and Development of Financial Reporting Standards (*Consejo Mexicano para la Investigacion y Desarrollo de Normas de Informacion Financiera* or CINIF) assumed responsibility for accounting policy in Mexico. As part of this responsibility, and following a process of analysis during the years 2004 and 2005, the CINIF issued a series of Financial Reporting Regulations (*Normas de Informacion Financiera* or NIFs), which became effective as of January 1, 2006.

The NIFs aim to standardize the local regulations used by the various sectors of the Mexican economy and to bring convergence, to the extent possible, with International Financial Reporting Standards (IFRS).

The elements of the NIF structure that are compulsory as of January 1, 2006 are as follows:

- NIFs and NIF Interpretations issued by the CINIF;

- bulletins issued by the Accounting Principles Commission (Comision de Principios de Contabilidad or CPC) of the IMCP that have not been modified, superseded or eliminated by new NIFs; and
- applicable supplementary IFRSs.

CPC circulars will continue to be recommendations and will continue to form part of NIFs until they are rendered obsolete (that is, until they are eliminated or are no longer applicable as they are covered by an NIF).

The following NIFs are not expected to have any wide-reaching implications for financial reporting:

- NIF A-1 “Structure of Financial Reporting Regulations”
- NIF A-2 “Basic Precepts”
- NIF A-3 “User Needs and Objectives of Financial Statements”
- NIF A-4 “Qualitative Characteristics of Financial Statements”
- NIF A-5 “Basic Elements of Financial Statements”
- NIF A-6 “Recognition and Assessment”
- NIF A-7 “Presentation and Disclosure”
- NIF A-8 “Supplementary Nature”
- NIF B-1 “Accounting Changes and Correction of Errors”
- NIF B-3 “Income Statement”
- NIF B-13 “Subsequent Event”
- NIF C-13 “Related Parties”
- NIF D-6 “Capitalizations of the Financing Integral Result”

Differences between Mexican NIF and U.S. GAAP

Our financial statements are prepared in accordance with Mexican NIF, which differs in certain respects from U.S. GAAP. See Note 16 to our financial statements. Net income under U.S. GAAP was Ps. 267.2 million, Ps. 470.2 million and Ps. 416.0 for the years ended December 31, 2004, 2005 and 2006, respectively.

The principal differences between Mexican NIF and U.S. GAAP as they relate to us are deferred income taxes, employees’ statutory profit sharing, tax on dividends paid, the treatment of our investments in our concessions and the rights to use airport facilities, the contract termination fee on leasehold agreements. Each of these differences affects both net income and stockholders’ equity. See Note16 to our financial statements for a discussion of these differences and the effect on our results of operation.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155). SFAS 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation and separate accounting. An irrevocable election may be made at inception to measure such a hybrid financial instrument at fair value, with changes in fair value recognized through income. Such an election needs to be supported by concurrent documentation. SFAS 155 is effective for fiscal years beginning after September 15, 2006, with early adoption permitted. We are currently considering the impact that adoption will have on our consolidated results and financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006. ASUR is currently evaluating the impact of adopting FIN 48.

In June 2006, the EITF ratified the consensus on EITF Issue No. 06-3 (EITF 06-03), How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF 06-03 concluded that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer, such as sales, use, value-added and certain excise taxes is an accounting policy decision that should be disclosed in a company's financial statements. In addition, companies that record such taxes on a gross basis should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF 06-03 is effective for interim and annual reporting periods beginning after December 15, 2006. ASUR does not anticipate that the adoption of EITF 06-03 will have an impact on its financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. ASUR is currently evaluating the impact of adopting SFAS 157 on its financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No.115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 provides entities with the opportunity to mitigate the volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. The Company is currently evaluating the impact of adopting SFAS 159 on its financial condition and results of operations.