POLYONE CORP
Form 10-Q
October 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .
Commission file number 1-16091

POLYONE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	34-1730488
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
33587 Walker Road, Avon Lake, Ohio	44012
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (440) 930-1000

Former name, former address and former fiscal year, if changed since last report: Not Applicable
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	£	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The number of outstanding shares of the registrant’s common stock, $0.01 par value, as of October 10, 2013 was 96,240,833.

Part I — Financial Information
Item 1. Financial Statements
PolyOne Corporation
Condensed Consolidated Statements of Income (Unaudited)
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	Adjusted 2012	2013	Adjusted2012
Sales	$1,008.9	$707.7	$2,847.6	$ 2,209.8
Cost of sales	827.6	572.6	2,300.3	1,798.4
Gross margin	181.3	135.1	547.3	411.4
Selling and administrative expense	119.7	91.6	364.6	287.6
Income related to previously owned equity affiliates	—	—	0.1	0.4
Operating income	61.6	43.5	182.8	124.2
Interest expense, net	(16.0)	(12.4)	(48.2)	(37.1)
Debt extinguishment costs	(5.2)	—	(15.8)	—
Other expense, net	(1.6)	(0.5)	(1.4)	(2.7)
Income from continuing operations before income taxes	38.8	30.6	117.4	84.4
Income tax expense	(15.8)	(11.2)	(45.1)	(31.3)
Net income from continuing operations	23.0	19.4	72.3	53.1
Income from discontinued operations, net of income taxes	(0.2)	4.6	146.2	15.7
Net income	$22.8	$24.0	$218.5	$ 68.8
Net loss attributable to noncontrolling interests	0.2	—	0.7	—
Net income attributable to PolyOne common shareholders	$23.0	$24.0	$219.2	$ 68.8
Earnings per common share attributable to PolyOne common shareholders - Basic:				
Continuing operations	$0.24	$0.22	$0.77	$ 0.60
Discontinued operations	—	0.05	1.53	0.17
Total	$0.24	$0.27	$2.30	$ 0.77
Earnings per common share attributable to PolyOne common shareholders - Diluted:				
Continuing operations	$0.24	$0.22	$0.76	$ 0.59
Discontinued operations	—	0.05	1.51	0.17
Total	$0.24	$0.27	$2.27	$ 0.76
Weighted-average shares used to compute earnings per share:				
Basic	96.7	88.8	95.4	89.0
Diluted	98.1	90.2	96.4	90.1
Cash dividends declared per share of common stock	$0.06	$0.05	$0.18	$ 0.15

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$22.8	$24.0	$218.5	$68.8
Other comprehensive income				
Translation adjustment	7.7	4.2	(3.0)	(1.2)
Amortization of prior service credits, net of tax	—	(2.7)	—	(8.2)
Total comprehensive income	30.5	25.5	215.5	59.4
Comprehensive loss attributable to noncontrolling interests	0.2	—	0.7	—
Comprehensive income attributable to PolyOne common shareholders	$30.7	$25.5	$216.2	$59.4

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Condensed Consolidated Balance Sheets
(In millions)

	(Unaudited)September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 322.8	$210.0
Accounts receivable, net	505.0	313.9
Inventories, net	341.5	244.4
Assets held-for-sale	—	39.3
Other current assets	63.4	81.1
Total current assets	1,232.7	888.7
Property, net	644.4	385.8
Goodwill	555.6	405.5
Intangible assets, net	370.8	340.0
Other non-current assets	139.6	108.0
Total assets	$ 2,943.1	$2,128.0
Liabilities and Shareholders’ Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 9.9	$3.8
Accounts payable	399.9	296.1
Liabilities held-for-sale	—	18.0
Accrued expenses	185.4	141.9
Total current liabilities	595.2	459.8
Non-current liabilities:		
Long-term debt	977.8	703.1
Post-retirement benefits other than pensions	15.9	17.0
Pension benefits	107.6	182.8
Deferred income taxes	140.7	31.8
Other non-current liabilities	109.3	102.1
Total non-current liabilities	1,351.3	1,036.8
Commitments and contingencies (Note 13)		
Shareholders’ equity		
PolyOne shareholders’ equity	994.6	629.1
Noncontrolling interests	2.0	2.3
Total equity	996.6	631.4
Total liabilities and shareholders’ equity	$ 2,943.1	$2,128.0

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2013	Adjusted 2012
Operating Activities		
Net income	$218.5	$68.8
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	71.3	52.8
Restructuring - asset related charges	4.8	—
Debt extinguishment costs	15.8	—
Provision for doubtful accounts	0.5	0.7
Stock based compensation expense	13.2	7.8
Gain on sale of business	(223.7)	—
Change in assets and liabilities, net of the effect of acquisitions and disposal:		
Increase in accounts receivable	(50.8)	(54.2)
Decrease (Increase) in inventories	21.5	(14.3)
(Decrease) Increase in accounts payable	(2.8)	30.3
Decrease in pensions and other post-retirement benefits	(76.9)	(30.6)
Increase in accrued expenses and other	3.8	25.6
Net cash (used) provided by operating activities	(4.8)	86.9
Investing Activities		
Capital expenditures	(41.8)	(33.0)
Business acquisitions, net of cash acquired	(259.4)	—
Proceeds from sale of businesses and other assets	274.7	18.9
Net cash used by investing activities	(26.5)	(14.1)
Financing Activities		
Repayment of long-term debt	(341.7)	(2.3)
Premium on early extinguishment of long-term debt	(4.6)	—
Proceeds from long-term debt	600.0	—
Debt financing costs	(13.0)	—
Borrowings under credit facilities	126.2	—
Repayments under credit facilities	(117.5)	—
Purchase of common shares for treasury	(95.7)	(15.9)
Exercise of stock awards	5.2	11.7
Cash dividends paid	(15.7)	(12.5)
Proceeds from noncontrolling interests	—	2.4
Net cash provided (used) by financing activities	143.2	(16.6)
Effect of exchange rate changes on cash	0.9	0.6
Increase in cash and cash equivalents	112.8	56.8
Cash and cash equivalents at beginning of period	210.0	191.9
Cash and cash equivalents at end of period	$322.8	$248.7

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 — BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2012 of PolyOne Corporation, as updated by PolyOne's current report on Form 8-K filed August 23, 2013. Throughout this document prior period amounts have been referred to as "adjusted", which accounts for the Resin Business being classified as a discontinued operation as well as the re-organization of segment information, as discussed below.

Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be attained in subsequent periods, or for the year ending December 31, 2013.

On March 13, 2013, pursuant to the terms and conditions of the Agreement and Plan of Merger dated October 23, 2012 (Spartech Merger Agreement), PolyOne acquired Spartech Corporation (Spartech), a supplier of sustainable plastic sheet, color and engineered materials, and packaging solutions, based in Clayton, Missouri. Spartech expands PolyOne's specialty portfolio with adjacent technologies in attractive end markets where we already participate, as well as new end markets such as aerospace and security. By combining Spartech's leading market positions in sheet, rigid barrier packaging and specialty cast acrylics with PolyOne's capabilities, we believe we can better serve our customers and accelerate growth.

On May 30, 2013, PolyOne sold its vinyl dispersion, blending and suspension resin assets (Resin Business) to Mexichem Specialty Resins Inc. (Mexichem), a wholly-owned subsidiary of Mexichem, S.A.B. de C.V., for $250.0 million cash consideration, subject to a working capital adjustment that is expected to be finalized in the fourth quarter of 2013. This sale resulted in the recognition of a pre-tax gain of $223.7 million ($138.0 million net of tax), which is reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

Reorganization of Segment Information

As a result of the acquisition of Spartech, we created a new segment. Spartech's former Custom Sheet and Rollstock and Packaging Technology businesses are reported within this new segment referred to as "Designed Structures and Solutions", and the remaining Spartech businesses are being split among PolyOne's existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments.

As a result of the sale of our Resin Business, this business has been removed from the Performance Products and Solutions segment and presented as a discontinued operation. Additionally, our Specialty Coatings business, which was previously included in the Performance Products and Solutions segment, is now included within the Global Color, Additives and Inks segment. Historical segment information has been retrospectively adjusted to reflect these changes. See Note 12, Segment Information for further information.

Note 2 — BUSINESS COMBINATIONS

Spartech Corporation

On March 13, 2013, pursuant to the terms and conditions of the Spartech Merger Agreement, PolyOne acquired Spartech, a supplier of sustainable plastic sheet, color and engineered materials, and packaging solutions, based in Clayton, Missouri, with 2012 sales of $1,149.4 million and net income from continuing operations of $2.7 million.

At the effective time of the merger, each issued and outstanding share of Spartech common stock was canceled and converted into the right to receive consideration equal to $2.67 in cash and 0.3167 shares of PolyOne common stock. PolyOne paid $83.4 million in cash and issued approximately 10.0 million shares of its common stock to Spartech's stockholders. PolyOne funded the cash portion of the consideration, and the repayment of certain portions of Spartech's debt, with a portion of the net proceeds of its issuance of 5.25% senior notes due 2023, discussed in Note 11, Financing Arrangements.

PolyOne's management believes that the acquisition of Spartech will provide substantial synergies through enhanced operational cost efficiencies and will expand PolyOne's specialty portfolio. By combining Spartech's leading market positions in sheet, rigid barrier packaging and specialty cast acrylics with PolyOne's capabilities, we believe that we can better serve our customers and accelerate growth.

Spartech's results have been reflected within our Condensed Consolidated Statements of Income and within our newly created segment Designed Structures and Solutions, as well as our existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments since the date of acquisition. Sales of former Spartech businesses included in our three and nine months ended September 30, 2013 results were $260.8 million and $593.0 million, respectively.

Based on the closing price of PolyOne's common stock on March 13, 2013, the purchase price was comprised of the following:

(In millions, except stock price and share data)		
Spartech shares outstanding	31.2	
Spartech restricted stock units	0.2	
Spartech shares converted	31.4	
Exchange ratio	0.3167	
PolyOne shares issued	10.0	
PolyOne closing stock price on March 13, 2013	$25.05	
Total value of PolyOne shares issued	$249.9	
Cash consideration transferred to Spartech shareholders	83.4	
Fair value of Spartech equity awards, net of deferred tax benefits (1)	2.4	
Total consideration transferred to Spartech equity holders	335.7	
Spartech revolving credit facilities repaid at close (2)	77.2	
Spartech senior notes repaid at close (2)	102.3	
Total consideration transferred to debt and equity holders	515.2	
Cash acquired	(4.1	)
Total consideration transferred to debt and equity holders, net of cash acquired	$511.1	

(1) In accordance with ASC 718, Compensation — Stock Compensation, the fair value of replacement awards attributable to pre-combination service is recognized as part of purchase consideration. The $2.4 million represents the fair value of Spartech replacement equity awards of $3.9 million net of deferred tax benefits of $1.5 million. The fair value of awards attributable to post-combination service amounted to $2.7 million and are being recognized as stock compensation over their requisite service periods within PolyOne's Condensed Consolidated Statements of Income.

(2) In accordance with the provisions of Spartech's 7.08% senior notes due 2016 and revolving credit facilities, at the time of closing, PolyOne repaid all borrowings under Spartech's revolving credit facilities, which amounted to $77.2 million. Additionally, PolyOne repaid $102.3 million related to Spartech's 7.08% senior notes due 2016, including $88.9 million of aggregated principal, $10.3 million make-whole provisions, and $3.1 million of interest payable.

The acquisition of Spartech has been accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. During the third quarter of 2013, we continued to refine our preliminary purchase price allocation, which resulted in a net increase to goodwill of $5.5 million. As of September 30, 2013, the purchase price allocation remains preliminary as we complete our assessment of certain reserves including environmental, legal and tax matters, as well as an assessment of deferred income taxes.

The following table summarizes PolyOne's preliminary fair value estimates as of September 30, 2013:

(In millions)	Preliminary Allocation
Accounts receivable, net	$139.5
Inventories, net	118.3
Other current assets	17.4
Property, net	280.5
Other non-current assets	20.2
Intangible assets, net	44.6
Goodwill	148.2
Total assets acquired	768.7
Short-term and current portion of long-term debt	0.5
Accounts payable	105.2
Accrued expenses	42.9
Long-term debt	11.0
Other non-current liabilities	98.0
Total liabilities assumed	257.6
Net assets acquired	$511.1

Goodwill is calculated as the excess of the consideration transferred over the assets acquired, and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill has been allocated, on a preliminary basis, to the Designed Structures and Solutions, Global Color, Additives and Inks, Global Specialty Engineered Materials and Performance Products and Solutions segments. Goodwill recognized as a result of this acquisition is not deductible for tax purposes. See Note 4, Goodwill and Intangible Assets for information about goodwill and intangible assets.

The following unaudited pro forma information presents a summary of PolyOne's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2012, which includes Spartech's Statement of Operations for the respective periods, as if the acquisition and related financing occurred on January 1, 2012. Spartech's fiscal year ends on the Saturday closest to October 31, and as a result, the nine months ended September 30, 2012 includes an additional week in comparison to the nine months ended September 30, 2013. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction occurred on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	Actual 2013	Pro Forma 2012	Pro Forma 2013	Pro Forma 2012
Sales	$1,008.9	$989.5	$3,065.6	$3,069.7
Net income from continuing operations	$23.0	$21.4	$73.8	$57.9

The unaudited pro forma financial information presented in the table above has been adjusted to give effect to adjustments that are: (1) directly related to the business combination; (2) factually supportable; and (3) expected to have a continuing impact. These adjustments include, but are not limited to, depreciation and amortization related to fair value adjustments to property, plant and equipment and intangible assets, and interest expense on acquisition-related debt.

Other Acquisitions

On December 19, 2012, PolyOne acquired all of the outstanding equity of Glasforms Inc. (Glasforms), a leading manufacturer of glass and carbon fiber reinforced polymers and advanced composite products, with 2012 annual sales of $51.1 million. The purchase marks PolyOne's entry into advanced composites, an adjacent technology consistent with the Company's strategy of providing specialty solutions that deliver high value to customers.

Consideration transferred was $34.3 million, net of cash acquired of $1.2 million. Glasforms results are reflected within our Global Specialty Engineered Materials segment. On a preliminary basis, the acquisition resulted in goodwill of $12.8 million and $10.7 million of identifiable intangible assets. The purchase price allocation will be finalized during 2013 as we complete our assessment of certain reserves and deferred income taxes.
During the nine months ended September 30, 2013, we incurred $7.2 million of acquisition-related costs primarily associated with the Spartech acquisition, which are included within the Selling and administrative expense line in our Condensed Consolidated Statements of Income.

Note 3 — DISCONTINUED OPERATIONS

On May 30, 2013, PolyOne sold its Resin Business to Mexichem for $250.0 million cash consideration, subject to a working capital adjustment that is expected to be finalized in the fourth quarter of 2013. We do not expect the working capital adjustment to have a material impact on our financial statements. This sale resulted in the recognition of a pre-tax gain of $223.7 million ($138.0 million net of tax), which is reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

PolyOne has classified the Resin Business assets and liabilities as held-for-sale for periods prior to disposition in the accompanying Condensed Consolidated Balance Sheets and has classified the Resin Business operating results and the gain on sale, net of tax, as discontinued operations in the accompanying Condensed Consolidated Statements of Income for all periods presented. Previously, the Resin Business was included in the Performance Products and Solutions segment. The Resin Business' sales, income before income taxes and income from discontinued operations, net of income taxes were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013*	2012
Sales	$—	$32.5	$55.3	$103.5
Gain on sale	$0.1	$—	$223.7	$—
Income from operations	—	7.0	12.2	24.2
Income before taxes	0.1	7.0	235.9	24.2
Income tax expense	(0.3)	(2.4)	(89.7)	(8.5)
Income from discontinued operations, net of income taxes	$(0.2)	$4.6	$146.2	$15.7

* Includes the Resin Business' operating results through May 29, 2013.

The following table summarizes the assets and liabilities of the Resin Business as of December 31, 2012:

(In millions)	December 31, 2012
Assets:	
Accounts receivable, net	$8.8
Inventories, net	8.2
Property, net	21.7
Other assets	0.6
Assets held-for-sale	$39.3
Liabilities:	
Accounts payable	$15.8
Accrued expenses	2.2
Liabilities held-for-sale	$18.0

Note 4 — GOODWILL AND INTANGIBLE ASSETS

Goodwill as of and for the periods ended September 30, 2013 and December 31, 2012, and changes in the carrying amount of goodwill by operating segments were as follows:

(In millions)	Global Specialty Engineered Materials	Global Color, Additives and Inks	Designed Structures and Solutions	Performance Products and Solutions	PolyOne Distribution	Total
Balance December 31, 2011	$89.2	$297.3	$—	$7.4	$1.6	$395.5
Acquisitions of businesses	10.0	0.6	—	—	—	10.6
Currency translation	(0.6)	—	—	—	—	(0.6)
Balance December 31, 2012	98.6	297.9	—	7.4	1.6	405.5
Acquisitions of businesses	4.3	12.8	131.8	1.5	—	150.4
Currency translation	(0.3)	—	—	—	—	(0.3)
Balance September 30, 2013	$102.6	$310.7	$131.8	$8.9	$1.6	$555.6

Indefinite and finite-lived intangible assets consisted of the following:

	As of September 30, 2013			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	$190.4	$(32.0)	$0.3	$158.7
Sales contracts	11.4	(10.8)	—	0.6
Patents, technology and other	128.5	(16.8)	0.1	111.8
Indefinite-lived trade names	96.3	—	—	96.3
In-process research and development	3.4	—	—	3.4
Total	$430.0	$(59.6)	$0.4	$370.8

	As of December 31, 2012			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	$173.1	$(25.7)	$0.5	$147.9
Sales contracts	11.4	(10.8)	—	0.6
Patents, technology and other	89.3	(10.1)	0.1	79.3
Indefinite-lived trade names	96.3	—	—	96.3
In-process research and development	15.9	—	—	15.9
Total	$386.0	$(46.6)	$0.6	$340.0

The fair values of intangible assets acquired in the Spartech acquisition included in the table below were determined using an income valuation approach. The fair value of these identifiable intangible assets, useful lives and valuation methodology are as follows:

(In millions)	Fair Value	Useful Life	Valuation Method
Technology	$27.3	7 years	Relief-from royalty
Customer Relationships	17.3	20 years	Multi-period excess earnings
	$44.6		

Note 5 — EMPLOYEE SEPARATION AND PLANT PHASE-OUT COSTS

On July 10, 2013, PolyOne determined it would close six former Spartech North American manufacturing facilities acquired in the March 2013 acquisition, and relocate production to other PolyOne facilities over the next 12 to 18 months. These actions are expected to be completed by the end of 2014. The manufacturing facilities' closings are part of the Company's ongoing integration of Spartech. This North American realignment is designed to enable the Company to better serve customers, improve efficiency and deliver a portion of the anticipated synergy-related cost savings in connection with the Spartech acquisition.
The Company anticipates that it will incur approximately $35.0 million of charges in connection with this realignment, which are comprised of approximately $20.0 million of cash charges, primarily related to employee severance and plant exit costs, and approximately $15.0 million of non-cash charges, primarily related to accelerated depreciation. In the third quarter of 2013, we have incurred $1.8 million of cash related charges and $1.8 million of non-cash related charges under the North American realignment plan.
Since the date of the acquisition through September 30, 2013, PolyOne has incurred severance charges totaling $11.6 million, including $1.8 million from the North American realignment, and $9.8 million primarily related to former Spartech executives and other former Corporate employees. Asset-related charges and other ongoing costs totaling $6.9 million were recognized since the date of acquisition through September 30, 2013, including $1.8 million related to the North American realignment, and $5.1 million primarily related to asset rationalization at other former Spartech locations, in addition to costs incurred under previously announced Spartech restructuring plans that were underway prior to PolyOne's acquisition of Spartech.
The table below summarizes restructuring activity related to Spartech since the date of acquisition.

(In millions)	Long-Lived Asset Charges	Employee Separation	Other Costs	Total
Accrual balance at December 31, 2012	$—	$—	$—	$—
Charge to expense	4.8	11.6	2.1	18.5
Cash payments	—	(3.1)	(2.1)	(5.2)
Non-cash utilization	(4.8)	—	—	(4.8)
Accrual balance at September 30, 2013	$—	$8.5	$—	$8.5

In addition to the $18.5 million of Spartech related charges incurred since the date of acquisition, in the nine months ended September 30, 2013, we incurred $5.2 million of restructuring charges related to other actions to realign production capacities and improve return on invested capital. Total restructuring charges of $23.7 million included $4.8 million that were recognized within Cost of goods sold and $18.9 million that were recognized in Selling and administrative expenses within the Condensed Consolidated Statements of Income and Corporate and eliminations within segment disclosures for the nine months ended September 30, 2013.
During the second quarter of 2012, the Company undertook actions to realign production capacities and improve return on invested capital. These actions were primarily in response to weak demand in Europe. These actions resulted in charges of $1.3 million and $10.5 million related to plant closure costs and reductions in force for the three and nine months ended September 30, 2012. These costs were primarily recognized within Selling and administrative expense in our Condensed Consolidated Statements of Income and within Corporate and eliminations in segment disclosures.

Note 6 — INVENTORIES, NET

Components of Inventories, net are as follows:

(In millions)	September 30, 2013	December 31, 2012
At FIFO cost:		
Finished products	$198.0	$165.0
Work in process	4.1	2.4
Raw materials and supplies	139.4	77.0
Inventories, net	$341.5	$244.4

Note 7 — PROPERTY, NET

Components of Property, net are as follows:

(In millions)	September 30, 2013	December 31, 2012
Land and land improvements	$52.7	$34.7
Buildings	315.0	241.4
Machinery and equipment	1,066.6	844.5
Property, gross	1,434.3	1,120.6
Less accumulated depreciation and amortization	(789.9)	(734.8)
Property, net	$644.4	$385.8

Note 8 — INCOME TAXES

Income tax expense from continuing operations was $15.8 million for the third quarter of 2013 compared to $11.2 million in the third quarter of 2012. Income tax expense from continuing operations was $45.1 million for the nine months ended September 30, 2013 compared to $31.3 million for the nine months ended September 30, 2012. These income tax increases were driven primarily by increased earnings in 2013, with a shift in earnings to the United States driven by the acquisitions of Spartech and Glasforms, which have earnings primarily in the United States.

Note 9 — WEIGHTED-AVERAGE SHARES USED IN COMPUTING EARNINGS PER SHARE

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Weighted-average shares outstanding – basic	96.7	88.8	95.4	89.0
Plus dilutive impact of stock options and awards	1.4	1.4	1.0	1.1
Weighted-average shares – diluted	98.1	90.2	96.4	90.1

For the three months ended September 30, 2013 and 2012, 0.2 million and 0.5 million of equity-based awards, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

For the nine months ended September 30, 2013 and 2012, 0.6 million and 1.0 million of equity-based awards, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

During the first quarter of 2013, 0.5 million stock appreciation rights were granted under the PolyOne Corporation 2010 Equity and Performance Incentive Plan. These awards vest in one-third increments annually over a three-year service period and upon the achievement of certain stock price targets. Because not all market conditions were met as of September 30, 2013, 0.2 million of the awards were excluded from the calculation of earnings per share.

Note 10 — EMPLOYEE BENEFIT PLANS

Components of defined benefit pension plan (gains) costs are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Service cost	$0.4	$0.3	$1.2	$1.1
Interest cost	5.9	6.7	17.7	20.1
Expected return on plan assets	(9.3)	(6.9)	(27.9)	(20.7)
Net periodic benefit (gains) costs	$(3.0)	$0.1	$(9.0)	$0.5

Components of post-retirement health care plan benefit costs (gains) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Interest cost	$0.2	$0.2	$0.6	$0.7
Amortization of prior service costs	—	(4.4)	—	(13.1)
Net periodic benefit costs (gains)	$0.2	$(4.2)	$0.6	$(12.4)

Note 11 — FINANCING ARRANGEMENTS

Debt consists of the following instruments:

(Dollars in millions)	September 30, 2013	December 31, 2012 (1)
7.500% debentures due 2015	$48.7	$50.0
Senior secured term loan due 2017	—	294.5
7.375% senior notes due 2020	316.6	360.0
5.250% senior notes due 2023	600.0	—
Other debt	22.4	2.4
Total long-term debt	987.7	706.9
Less current portion	9.9	3.8
Total long-term debt, net of current portion	$977.8	$703.1

(1) Book values include unamortized discounts, as applicable.

During the third quarter of 2013, we repurchased $43.4 million aggregate principal amount of our 7.375% senior notes due 2020 and $1.3 million aggregate principal amount of our 7.50% debentures due 2015. We recognized $5.2 million of debt extinguishment costs within the Debt extinguishment costs line in our Condensed Consolidated Statements of Income in the third quarter of 2013, in connection with such repurchases.

On February 28, 2013, PolyOne issued $600.0 million aggregate principal amount of senior notes, which mature on March 15, 2023. The senior notes bear an interest rate of 5.25% per year, payable semi-annually, in arrears, on March 15 and September 15 of each year, which commenced on September 15, 2013. We used a portion of the net proceeds of the offering to pay the cash portion of the Spartech acquisition, and to repay certain Spartech debt, including the $88.9 million aggregate principal amount of its senior notes due 2016 and related interest and make-whole payments totaling $13.4 million and all outstanding amounts under its revolving credit facility. We also used a portion of these net proceeds to make a voluntary $50.0 million contribution to our U.S. qualified defined benefit plan and to repay the outstanding principal amount of $297.0 million under our senior secured term loan.

Debt extinguishment costs of $10.6 million related to the early retirement of our senior secured term loan included $8.2 million of deferred financing cost write-offs and $2.4 million of discount write-offs. These costs are presented within the Debt extinguishment costs line in our Condensed Consolidated Statements of Income. As a result of the issuance of our 2023 senior notes, the bridge financing commitment that provided for borrowings of $250.0 million obtained at the time of the announced acquisition of Spartech expired. We recognized $1.9 million of deferred financing costs within Interest expense, net within the Condensed Consolidated Statements of Income in the first quarter of 2013, related to this committed financing arrangement.

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On March 1, 2013, the agreement governing our $300.0 million five-year senior secured revolving credit facility was amended and restated. The amendment and restatement resulted in an increase in commitments of $100.0 million for a maximum borrowing facility size of $400.0 million, subject to a borrowing base with advances against certain U.S. and Canadian accounts receivable and inventory. We have the option to increase the availability under the facility to $450.0 million, subject to meeting certain requirements and obtaining commitments for such increase. In connection with the amendment and restatement, we also extended the maturity date to March 1, 2018. As of September 30, 2013, we were in compliance with all covenants, had no outstanding borrowings and had availability of $307.8 million under this facility.

On October 2, 2012, the Company entered into a credit line with Saudi Hollandi Bank for $10.7 million, with an interest rate equal to the Saudi Arabia Interbank Offered Rate (SAIBOR) plus a fixed rate of 0.85%. The credit line is being used to fund capital expenditures related to the manufacturing facility in Jeddah, Saudi Arabia and is subject to an annual renewal. In 2013, the Company renewed the credit line with Saudi Hollandi Bank. As of September 30, 2013, borrowings under the credit line were $9.1 million with an interest rate of 1.85%.

Note 12 — SEGMENT INFORMATION

As a result of the acquisition of Spartech, we created a new segment. Spartech's former Custom Sheet and Rollstock and Packaging Technology businesses are reported within this new segment referred to as "Designed Structures and Solutions", and the remaining Spartech businesses are being split among PolyOne's existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments.

As a result of the sale of our Resin Business, this business has been removed from the Performance Products and Solutions segment and presented as a discontinued operation. Additionally, our Specialty Coatings business, which was previously included in the Performance Products and Solutions segment, is now included within the Global Color, Additives and Inks segment. Historical segment information has been retrospectively adjusted to reflect these changes.

Segment information for the three and nine months ended September 30, 2013 and 2012 is as follows:

	Three Months Ended September 30, 2013			Adjusted Three Months Ended September 30, 2012		
(In millions)	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Global Specialty Engineered Materials	$177.4	$188.8	$15.7	$126.9	$136.6	$13.1
Global Color, Additives and Inks	216.4	219.0	28.7	190.5	191.1	18.6
Designed Structures and Solutions	187.4	187.8	10.9	—	—	—
Performance Products and Solutions	155.2	176.1	14.3	137.5	156.3	12.3
PolyOne Distribution	272.5	275.0	16.6	252.8	254.4	16.4
Corporate and eliminations	—	(37.8)	(24.6)	—	(30.7)	(16.9)
Total	$1,008.9	$1,008.9	$61.6	$707.7	$707.7	$43.5

	Nine Months Ended September 30, 2013			Adjusted Nine Months Ended September 30, 2012		
(In millions)	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Global Specialty Engineered Materials	$507.1	$540.8	$48.2	$385.0	$417.5	$37.7
Global Color, Additives and Inks	648.9	653.7	83.4	603.4	605.0	62.6
Designed Structures and Solutions	427.1	428.2	21.4	—	—	—
Performance Products and Solutions	452.8	512.8	41.8	437.8	492.3	31.6
PolyOne Distribution	811.7	818.1	49.7	783.6	788.0	49.8
Corporate and eliminations	—	(106.0)	(61.7)	—	(93.0)	(57.5)
Total	$2,847.6	$2,847.6	$182.8	$2,209.8	$2,209.8	$124.2

	Total Assets	
(In millions)	September 30, 2013	December 31, 2012
Global Specialty Engineered Materials	$476.9	$396.6
Global Color, Additives and Inks	963.2	901.7
Designed Structures and Solutions	556.9	—
Performance Products and Solutions	237.2	205.4
PolyOne Distribution	225.4	212.9
Corporate and eliminations	483.5	411.4
Total assets	$2,943.1	$2,128.0

Note 13 — COMMITMENTS AND CONTINGENCIES

Environmental — We or our subsidiaries have been notified by federal and state environmental agencies and by private parties that we may be a potentially responsible party (PRP) in connection with the investigation and remediation of certain environmental waste disposal sites. While government agencies frequently assert that PRPs are jointly and severally liable at these sites, in our experience, the interim and final allocations of liability costs are generally made based on the relative contribution of waste. We initiate corrective and preventive environmental projects of our own to ensure safe and lawful activities at our operations. We believe that compliance with current governmental regulations at all levels will not have a material adverse effect on our financial condition.

In September 2007, we were informed of rulings by the United States District Court for the Western District of Kentucky on several pending motions in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al., which had been pending since 2003. The Court held that PolyOne must pay the remediation costs at the former Goodrich Corporation (now Westlake Vinyls, Inc.), Calvert City facility, together with certain defense costs of Goodrich Corporation. The rulings also provided that PolyOne can seek indemnification for contamination attributable to Westlake Vinyls.

The environmental obligation at the site arose as a result of an agreement between The B.F.Goodrich Company (nka Goodrich Corporation) and our predecessor, The Geon Company, at the time of the initial public offering in 1993, by which the Geon Company became a public company, to indemnify Goodrich Corporation for environmental costs at the site. At the time, neither PolyOne nor The Geon Company ever owned or operated the facility. Following the Court rulings, the parties to the litigation entered into settlement negotiations and agreed to settle all claims regarding past environmental costs incurred at the site. These same Court rulings and the settlement agreement provide a mechanism to allocate future remediation costs at the Calvert City facility to Westlake Vinyls, Inc. We will adjust our environmental reserve in the future, consistent with any such future allocation of costs.

A remedial investigation and feasibility study is underway at Calvert City. During the third quarter of 2013, we submitted a remedial investigation report to the United States Environmental Protection Agency (USEPA). USEPA has required certain changes to the remedial investigation report, and revisions are ongoing. We have since undertaken steps to develop a feasibility study, including engaging a third party to perform ground water modeling at this site. We believe the results of the ongoing ground water model will allow us to begin developing remedial alternatives. As of September 30, 2013, we cannot reasonably estimate an adjustment to our current reserves because the remediation alternatives have not yet advanced to a stage where a reasonable estimate can be made. As such, it is reasonably possible that a future adjustment may have a material adverse impact to our Condensed Consolidated Statements of Income.

On March 13, 2013, PolyOne acquired Spartech. One of Spartech's subsidiaries, Franklin-Burlington Plastics, Inc. (Franklin-Burlington), operated a plastic resin manufacturing facility in Kearny, New Jersey, located adjacent to the Lower Passaic River. Spartech acquired the owner of this facility, Franklin Plastics Corp., in a 1986 stock transaction, and Franklin Plastics Corp. subsequently became Franklin-Burlington. The USEPA has requested that companies located in the area of the Lower Passaic River, including Franklin-Burlington, cooperate in an investigation of contamination of the Lower Passaic River. In response, Franklin-Burlington and approximately 70 other companies (collectively, the Cooperating Parties) agreed, pursuant to an Administrative Order of Consent with the USEPA, to assume responsibility for completing a remedial investigation/feasibility study (RIFS) of the Lower Passaic River. The

RIFS costs are exclusive of any costs that may ultimately be required to remediate the Lower Passaic River area being studied or costs associated with natural resource damages that may be assessed. By agreeing to bear a portion of the cost of the RIFS, Franklin-Burlington did not admit to or agree to bear any such

remediation or natural resource damage costs. The USEPA continues to evaluate the remedial options, and the scope and cost of any remedial activity has not yet been determined.
Given the uncertainties related to the Lower Passaic River, including the fact that the final remedial actions and scope, and the ultimate allocation to Franklin-Burlington have not yet been determined, we are not able to assess or estimate our liability, if any, related to this matter.
During the nine months ended September 30, 2013 and 2012, PolyOne recognized $8.6 million and $9.7 million, respectively, of expense related to environmental activities at all of our active and inactive sites. During the nine months ended September 30, 2013, we received $20.1 million of proceeds from insurance recoveries compared to less than $0.1 million during the nine months ended September 30, 2012. These expenses and the gains associated with these reimbursements are included within Cost of sales within our Condensed Consolidated Statements of Income.
Based on estimates that were prepared by our environmental engineers and consultants, our reserve balance was $76.5 million at September 30, 2013 and $75.4 million at December 31, 2012, for probable future environmental expenditures related to previously contaminated sites. The accruals represent our best estimate of the remaining probable remediation costs, based upon information and technology that is currently available and our view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that we could incur additional costs in excess of the amount accrued at September 30, 2013. However, such additional costs, if any, cannot presently be estimated.

Other legal matters — In the third quarter of 2013, we received $7.0 million in connection with the resolution of commercial litigation in which we had an interest. We recognized this gain within the Selling and administrative expense line within our Condensed Consolidated Statements of Income in the three months ended September 30, 2013.
Litigation Related to the Merger with Spartech — On March 5, 2013, counsel for the parties in the lawsuits entered into a memorandum of understanding, in which they agreed on the terms of a settlement of the In re Spartech Corporation Shareholder Litigation, including dismissal with prejudice and a release of all claims made therein against all defendants. Defendants agreed to the terms of the proposed settlement in order to avoid the substantial burden, expense, risk, inconvenience, and distraction of continued litigation, including the risk of delaying or adversely affecting the merger. On October 22, 2013, the parties entered into a stipulation of settlement. The proposed settlement remains conditioned upon, among other things, final approval of the proposed settlement by the Circuit Court of St. Louis County, Missouri. There can be no assurance that the court will approve the settlement, or that the settlement conditions will be met. PolyOne is insured with respect to these lawsuits.
Guarantee — On February 28, 2011, we sold our 50% equity interest in SunBelt Chlor Alkali Partnership (SunBelt) to Olin Corporation (Olin) for $132.3 million in cash and the assumption by Olin of the obligations under our guarantee of senior secured notes issued by SunBelt of $42.7 million at the time of sale, and $30.5 million as of September 30, 2013. Unless the guarantee is formally assigned to Olin, we remain obligated under the guarantee, although Olin has agreed to indemnify us for amounts that we may be obligated to pay under the guarantee.
Note 14 — FAIR VALUE
Fair value is measured based on an exit price, representing the amount that would be received to sell an asset or paid to satisfy a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy is established, which categorizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial instruments accounted for at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013			
(In millions)	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Cash and cash equivalents	$322.8	$322.8	$—	$—
Foreign currency forwards	—	—	—	—
Foreign currency options	—	—	—	—

	December 31, 2012			
(In millions)	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Cash and cash equivalents	$210.0	$210.0	$—	$—
Foreign currency forwards	—	—	—	—
Foreign currency options	0.6	—	0.6	—

The fair value of derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and spot and forward foreign currency rates as well as option volatility and non-performance risk.

Other Fair Value Measurements

The estimated fair value of PolyOne's debt instruments at September 30, 2013 and December 31, 2012 was $983.7 million and $741.0 million, respectively, compared to carrying values of $987.7 million and $706.9 million as of September 30, 2013 and December 31, 2012, respectively. The fair value of PolyOne's debt instruments primarily represent Level 1 measurements within the fair value hierarchy.

Note 15 — DERIVATIVE INSTRUMENTS

When translating results from foreign operations into U.S. dollars, we are subject to foreign exchange related risks in our operating results. We are also exposed to foreign exchange risk arising from intercompany lending transactions denominated in various foreign currencies that are subject to foreign exchange rate movement over the term of the loans. To mitigate these risks, we enter into foreign exchange option and forward contracts. The counterparties to these instruments are financial institutions with strong credit ratings. PolyOne maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit ratings of these institutions.

Derivative financial instruments are accounted for at fair value and recognized as assets or liabilities in the Condensed Consolidated Balance Sheets. These instruments are not designated as a hedge, and therefore, any gain or loss is immediately recognized in income.

The fair value of derivative financial instruments recorded in the Condensed Consolidated Balance Sheets are as follows:

	September 30, 2013	
(In millions)	Notional	Other current assets
Foreign currency options	$6.8	$—
Foreign currency forwards	13.0	—
Total		$—

(In millions)	December 31, 2012 Notional	Other current assets
Foreign currency options	$31.2	$0.6
Foreign currency forwards	13.8	—
Total		$0.6

The effects of derivative instruments on our Condensed Consolidated Statements of Income are as follows:

	Three Months Ended September 30,		
(In millions)	2013	2012	Location
Foreign currency options losses	$(0.2)	$(0.7)	Selling and administrative expense
Foreign currency forwards losses	(0.5)	(0.2)	Other expense, net

	Nine Months Ended September 30,		
(In millions)	2013	2012	Location
Foreign currency options losses	$(0.4)	$(0.6)	Selling and administrative expense
Foreign currency forwards - gains	0.1	—	Other expense, net

Note 16 — EQUITY

Changes in equity for the nine months ended September 30, 2013 and September 30, 2012 are as follows:

(In millions)	PolyOne Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	$629.1	$2.3	$631.4
Net income	219.2	(0.7)	218.5
Other comprehensive income			
Translation adjustment	(3.0)	—	(3.0)
Total comprehensive income	216.2	(0.7)	215.5
Cash dividend declared	(16.9)	—	(16.9)
Issuance of common shares in connection to the Spartech acquisition	253.8	—	253.8
Repurchase of common shares	(95.7)	—	(95.7)
Stock incentive plan activity	8.1	—	8.1
Noncontrolling interest activity	—	0.4	0.4
Balance at September 30, 2013	$994.6	$2.0	$996.6
Balance at December 31, 2011	$588.3	$—	$588.3
Net income	68.8	—	68.8
Other comprehensive income			
Translation adjustment	(1.2)	—	(1.2)
Amortization of prior service credits, net of $4.9 tax	(8.2)	—	(8.2)
Total comprehensive income	59.4	—	59.4
Cash dividend declared	(13.3)	—	(13.3)
Repurchase of common shares	(15.9)	—	(15.9)
Stock incentive plan activity	10.8	—	10.8
Noncontrolling interest activity	—	2.4	2.4
Balance at September 30, 2012	$629.3	$2.4	$631.7

On October 23, 2012, PolyOne's Board of Directors further increased the common stock repurchase authorization amount by 13.2 million shares of common stock to 20.0 million. During 2013, we repurchased approximately 3.8 million shares of common stock at an aggregate price of $95.7 million. As of September 30, 2013, there were approximately 16.2 million shares available for repurchase under these authorizations.

Effective January 1, 2013, the Company adopted recently issued accounting guidance that requires the Company to separately disclose, on a prospective basis, the change in each component of other comprehensive income (loss) relating to reclassification adjustments to current period other comprehensive income (loss). As the new guidance relates to presentation only, the adoption did not have a material impact on the Company's results of operations, financial position or cash flows. Further, for the nine-month period ended September 30, 2013, there were no reclassifications from accumulated other comprehensive loss to other comprehensive income.

Changes in accumulated other comprehensive loss year-to-date as of September 30, 2013 and 2012 were as follows:

(In millions)	Cumulative Translation Adjustment	Pension and Other Post-Retirement Benefits	Unrealized Gain in Available-for-Sale Securities	Total
Balance at January 1, 2013	$(16.5)	$ 5.2	$ 0.2	$(11.1)
Translation adjustments	(3.0)	—	—	(3.0)
Balance at September 30, 2013	$(19.5)	$ 5.2	$ 0.2	$(14.1)
Balance at January 1, 2012	$(17.6)	$ 16.1	$ 0.2	$(1.3)
Translation adjustments	(1.2)	—	—	(1.2)
Prior service credits recognized during the year, net of tax of $4.9	—	(8.2)	—	(8.2)
Balance at September 30, 2012	$(18.8)	$ 7.9	$ 0.2	$(10.7)

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Business

We are a premier provider of specialized polymer materials, services and solutions with operations in specialty polymer formulations, color and additive systems, plastic sheet and packaging solutions and polymer distribution. We are also a highly specialized developer and manufacturer of performance enhancing additives, liquid colorants, and fluoropolymer and silicone colorants. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites and distribution facilities in North America, South America, Europe and Asia. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain capabilities to provide value added solutions to designers, assemblers and processors of plastics (our customers). When used in this quarterly report on Form 10-Q, the terms "we," "us," "our" and the "Company" mean PolyOne Corporation and its consolidated subsidiaries.

Highlights and Executive Summary

A summary of PolyOne's sales, operating income, income from continuing operations and net income attributable to PolyOne common shareholders follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	Adjusted 2012	2013	Adjusted 2012
Sales	$1,008.9	$707.7	$2,847.6	$2,209.8
Operating income	61.6	43.5	182.8	124.2
Net income from continuing operations	23.0	19.4	72.3	53.1
Net income attributable to PolyOne common shareholders	$23.0	$24.0	$219.2	$68.8

On March 13, 2013, pursuant to the terms and conditions of the Agreement and Plan of Merger dated October 23, 2012 (Spartech Merger Agreement), PolyOne acquired Spartech Corporation (Spartech), a supplier of sustainable plastic sheet, color and engineered materials, and packaging solutions, based in Clayton, Missouri. Spartech expands PolyOne's specialty portfolio with adjacent technologies in attractive end markets where we already participate, as well as new end markets such as aerospace and security. By combining Spartech's leading market positions in sheet, rigid barrier packaging and specialty cast acrylics with PolyOne's capabilities, we believe we can better serve our customers and accelerate growth.

At the effective time of the merger, each issued and outstanding share of Spartech common stock was canceled and converted into the right to receive consideration equal to $2.67 in cash and 0.3167 shares of PolyOne common stock. PolyOne paid $83.4 million in cash and issued approximately 10.0 million shares of its common stock to Spartech's stockholders. PolyOne funded the cash portion of the consideration, and the repayment of certain of Spartech's debt, with a portion of the net proceeds of its issuance of 5.25% senior notes due 2023, discussed in Note 11, Financing Arrangements.

Spartech's results have been reflected within our Condensed Consolidated Statements of Income and within our newly created segment Designed Structures and Solutions, as well as our existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments, since the date of acquisition.

On July 10, 2013, PolyOne determined that it will close six former Spartech North American manufacturing facilities acquired in the March 2013 acquisition and relocate production to other PolyOne facilities over the next 12 to 18 months. These actions are expected to be completed by the end of 2014 and generate annualized pre-tax savings of approximately $25.0 million by 2015.

On May 30, 2013, PolyOne sold its vinyl dispersion, blending and suspension resin assets (Resin Business) to Mexichem Specialty Resins Inc. (Mexichem), a wholly-owned subsidiary of Mexichem, S.A.B. de C.V., for $250.0 million cash consideration, subject to a working capital adjustment that is expected to be finalized in the fourth quarter of 2013. This sale resulted in the recognition of a pre-tax gain of $223.7 million ($138.0 million net of tax), which is reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated

Statements of Income.

As a result of the sale of our Resin Business, this business has been removed from the Performance Products and Solutions segment and presented as a discontinued operation. Additionally, our Specialty Coatings business, which was previously included in the Performance Products and Solutions segment, is now included within the Global Color, Additives and Inks segment. Historical segment information has been retrospectively adjusted to reflect these changes.

Results of Operations — Three and nine months ended September 30, 2013 compared to three and nine months ended September 30, 2012:

	Three Months Ended September 30,		Variances — Favorable (Unfavorable)		Nine Months Ended September 30,		Variances — Favorable (Unfavorable)	
(Dollars in millions, except per share data)	2013	Adjusted 2012**	Change	% Change	2013	Adjusted 2012**	Change	% Change
Sales	$1,008.9	$707.7	$301.2	42.6 %	$2,847.6	$2,209.8	$637.8	28.9 %
Cost of sales	827.6	572.6	(255.0)	(44.5)%	2,300.3	1,798.4	(501.9)	(27.9)%
Gross margin	181.3	135.1	46.2	34.2 %	547.3	411.4	135.9	33.0 %
Selling and administrative expense	119.7	91.6	(28.1)	(30.7)%	364.6	287.6	(77.0)	(26.8)%
Income related to previously owned equity affiliates	—	—	—	—	0.1	0.4	(0.3)	(75.0)%
Operating income	61.6	43.5	18.1	41.6 %	182.8	124.2	58.6	47.2 %
Interest expense, net	(16.0)	(12.4)	(3.6)	(29.0)%	(48.2)	(37.1)	(11.1)	(29.9)%
Debt extinguishment costs	(5.2)	—	(5.2)	nm*	(15.8)	—	(15.8)	nm*
Other expense, net	(1.6)	(0.5)	(1.1)	(220.0)%	(1.4)	(2.7)	1.3	48.1 %
Income from continuing operations before income taxes	38.8	30.6	8.2	26.8 %	117.4	84.4	33.0	39.1 %
Income tax expense	(15.8)	(11.2)	(4.6)	(41.1)%	(45.1)	(31.3)	(13.8)	(44.1)%
Net income from continuing operations	23.0	19.4	3.6	18.6 %	72.3	53.1	19.2	36.2 %
Income from discontinued operations, net of income taxes	(0.2)	4.6	(4.8)	nm*	146.2	15.7	130.5	nm*
Net income	$22.8	$24.0	$(1.2)	(5.0)%	$218.5	$68.8	$149.7	217.6 %
Net loss attributable to noncontrolling interests	0.2	—	0.2	nm*	0.7	—	0.7	nm*
Net income attributable to PolyOne common shareholders	$23.0	$24.0	$(1.0)	(4.2)%	$219.2	$68.8	$150.4	218.6 %
Earnings per common share attributable to PolyOne common shareholders - Basic:								
Continuing operations	$0.24	$0.22			$0.77	$0.60		
Discontinued operations	—	0.05			1.53	0.17		
Total	$0.24	$0.27			$2.30	$0.77		
Earnings per common share attributable to PolyOne common shareholders - Diluted:								
Continuing operations	$0.24	$0.22			$0.76	$0.59		
Discontinued operations	—	0.05			1.51	0.17		
Total	$0.24	$0.27			$2.27	$0.76		

*Not meaningful.

** Adjusted to present the Resin Business as a discontinued operation.

Sales

Sales increased 42.6% in the third quarter of 2013 compared to the third quarter of 2012, driven by a 38.8% increase attributable to the acquisitions of Spartech and Glasforms Inc. (Glasforms). Increased pricing, primarily associated with higher raw material costs, combined with improved mix, increased sales 3.7%, while favorable currency exchange rates impacted sales by 0.7%. These increases were partially offset by volume declines of 0.6%.

Sales increased 28.9% in the nine months ended September 30, 2013 compared to the nine months ended September, 30 2012, driven by a 28.4% increase attributable to the acquisitions of Spartech and Glasforms, and a 2.7% increase due to higher pricing primarily associated with raw material inflation and improved mix, while favorable currency exchange rates impacted sales by 0.3%. These increases were partially offset by a 2.5% decrease in volumes, primarily related to lower demand in Europe.

Cost of sales

As a percent of sales, cost of sales increased from 80.9% in the third quarter of 2012 to 82.0% in the third quarter of 2013, primarily due to $4.8 million of asset-related restructuring charges reflected within Costs of goods sold, combined with the impact of Spartech' sales, which currently have lower margins than organic PolyOne. Costs of sales as a percentage of sales declined from 81.4% in the nine months ended September 30, 2012 to 80.8% in the nine months ended September 30, 2013. The improvement for the nine months ended September 30, 2013 was driven primarily by improved organic mix in our specialty segments and insurance recoveries of $20.1 million. These improvements were partially offset by the mix effect of Spartech's sales, which currently have lower margins than organic PolyOne, and the $4.8 million of asset-related restructuring charges.

Selling and administrative expense

Selling and administrative expense increased $28.1 million during the three months ended September 30, 2013 compared to the three months ended September 30, 2012, primarily related to acquisitions and acquisition-related costs totaling $21.4 million and increased restructuring costs of $4.8 million. The remaining increase primarily relates to additional commercial resources and inflation, which more than offset a commercial litigation gain of $7.0 million. Selling and administrative expense increased $77.0 million during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, primarily related to acquisitions and acquisition-related costs totaling $53.5 million, increased restructuring costs of $8.8 million and increased stock based compensation expense of $5.4 million. The remaining increase primarily relates to additional commercial resources and inflation, which more than offset a commercial litigation gain of $7.0 million.

Interest expense, net

Net interest expense increased in the third quarter and nine months ended September 30, 2013, as compared to the third quarter and nine months ended September 30, 2012, due to a higher average debt balance during 2013, as discussed in Note 11, Financing Arrangements.

Debt extinguishment costs

Debt extinguishment costs of $5.2 million were recognized during the third quarter of 2013 related to the repurchase of $43.4 million aggregate principal amount of our 7.375% senior notes due 2020 and $1.3 million aggregate principal amount of our 7.50% debentures due 2015. Debt extinguishment costs of $15.8 million for the nine months ended September 30, 2013, includes $10.6 million related to the repayment, in the first quarter, of the outstanding principal amount of $297.0 million under our senior secured term loan.

Income tax expense

Income tax expense from continuing operations was $15.8 million for the third quarter of 2013 compared to $11.2 million in the third quarter of 2012. Income tax expense was $45.1 million for the nine months ended September 30, 2013 compared to $31.3 million for the nine months ended September 30, 2012. These income tax increases were driven primarily by increased earnings in 2013, with a shift in earnings to the United States driven by the acquisitions of Spartech and Glasforms, which have earnings primarily in the United States.

Discontinued operations, net of income taxes

On May 30, 2013, PolyOne sold its Resin Business to Mexichem for $250.0 million cash consideration which resulted in the recognition of a pre-tax gain of $223.7 million ($138.0 million net of tax). This gain, net of tax, along with the operating results through the date of sale, are reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

SEGMENT INFORMATION

Operating income is the primary financial measure that is reported to the chief operating decision makers for purposes of allocating resources to segments and assessing segment performance. Operating income at the segment level does not include: corporate general and administrative costs that are not allocated to segments; intersegment sales and profit eliminations; charges related to specific strategic initiatives, such as the consolidation of operations; restructuring activities, including employee separation costs resulting from personnel reduction programs, plant closure and phase-out costs; executive separation agreements; share-based compensation costs; asset and goodwill impairments; environmental remediation costs for facilities no longer owned or closed in prior years; gains and losses on the divestiture of joint ventures and equity investments; and certain other items that are not included in the measure of segment profit or loss that is reported to and reviewed by the chief operating decision makers. These costs are included in Corporate and eliminations.

Sales and Operating Income — Three and nine months ended September 30, 2013 compared to the three and nine months ended September 30, 2012:

	Three Months Ended September 30,		Variances — Favorable (Unfavorable)		Nine Months Ended September 30,		Variances — Favorable (Unfavorable)	
(Dollars in millions)	2013	Adjusted 2012 **	Change	% Change	2013	Adjusted 2012**	Change	% Change
Sales:								
Global Specialty Engineered Materials	$188.8	$136.6	$52.2	38.2 %	$540.8	$417.5	$123.3	29.5 %
Global Color, Additives and Inks	219.0	191.1	27.9	14.6 %	653.7	605.0	48.7	8.0 %
Designed Structures and Solutions	187.8	—	187.8	nm*	428.2	—	428.2	nm*
Performance Products and Solutions	176.1	156.3	19.8	12.7 %	512.8	492.3	20.5	4.2 %
PolyOne Distribution	275.0	254.4	20.6	8.1 %	818.1	788.0	30.1	3.8 %
Corporate and eliminations	(37.8)	(30.7)	(7.1)	(23.1)%	(106.0)	(93.0)	(13.0)	(14.0)%
Total Sales	$1,008.9	$707.7	$301.2	42.6 %	$2,847.6	$2,209.8	$637.8	28.9 %
Operating income:								
Global Specialty Engineered Materials	$15.7	$13.1	$2.6	19.8 %	$48.2	$37.7	$10.5	27.9 %
Global Color, Additives and Inks	28.7	18.6	10.1	54.3 %	83.4	62.6	20.8	33.2 %
Designed Structures and Solutions	10.9	—	10.9	nm*	21.4	—	21.4	nm*
Performance Products and Solutions	14.3	12.3	2.0	16.3 %	41.8	31.6	10.2	32.3 %
PolyOne Distribution	16.6	16.4	0.2	1.2 %	49.7	49.8	(0.1)	(0.2 F - 7

Series BB shares held by ITA grant ITA certain rights including the right to name two members of the Board of Directors of the Company, and veto rights with respect to certain corporate shares. The technical assistance contract grants ITA certain rights including the right to name and remove the chief executive officer, and half the members of the Company s Executive Management.

On April 27, 2006, in compliance with the provisions of the Mexican Stock Market Law *(Ley del Mercado de Valores)* published on December 30, 2006, the Company s shareholders resolved at an Extraordinary General Meeting to change the name of the Company from Grupo Aeroportuario del Sureste, S.A. de C.V. to Grupo Aeroportuario del Sureste, S.A.B. de C.V. They also amended the Company bylaws to reflect the new composition, organization and functions of the Company s corporate governance bodies and the new rights of minority shareholders.

In October 2005, Hurricane Wilma caused severe damage to large portions of Cancun, Mexico. The storm resulted in extensive flooding in Cancun and Cozumel airports, severe damage in Terminal 1 building and damage (electrical installations, other equipment, etc.) in Terminal 2 building and corporate offices building in Cancun airport.

As a result, as of December 31, 2005 the Company wrote off Terminal 1 building, provided for the estimated restoration costs for Terminal 2 building and corporate offices building in Cancun airport, and incurred other losses, all classified as loss on natural disasters in the results of operations of the year as indicated in the table below. In addition, the Company recorded an asset related to the insurance recovery for the loss recognized in the consolidated financial statements related to the effects of Hurricane Wilma.

In July 2006, the Company was instructed by the Mexican Government to repair the Terminal 1 building and therefore the Company reversed a portion of the 2005 write-off related to certain assets of Terminal 1 which were once again to be placed in service. In addition, during 2006, the Company recognized the actual restoration costs on the Terminal 2 building and corporate offices and the insurance remaining settlement amounts. As of December 2006 and 2005, the balance of the account receivable from the insurance company amounted to Ps.0 and Ps. 44 million, respectively.

The components of the loss on natural disaster for the years ended December 31, 2006 and 2005 are as follows:

	2005	2006
Terminal 1 building write-off (reversal)	Ps. 57,194	(Ps.48,544)
Restoration costs	104,608	60,038
Insurance deductible	3,746	-
Other expenses	7,326	-
Other losses for natural disasters in other airports	1,251	1,522
Insurance recovery	(161,803)	(3,501)
Deferred taxes	(2,995)	(2,341)
Net loss on natural disasters	Ps. 9,327	Ps. 7,174

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2. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards (Normas de Información Financiera or NIF) as promulgated by the Mexican Financial Reporting Standards Board (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF).

Beginning June 1, 2004, the CINIF assumed the responsibility for setting accounting and reporting standards in Mexico. In compliance with this responsibility, the CINIF issued several NIF that became effective on January 1, 2006. These dispositions did not have a significant impact on the consolidated financial statements.

The principal accounting policies followed by the Company are as follows:

a) Basis of presentation

All significant intercompany balances and transactions have been eliminated. The consolidated Subsidiaries of the Company are:

Subsidiary	Ownership interest (direct and indirect)	
	2005	2006
Aeropuerto de Cancún, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Cozumel, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Mérida, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Huatulco, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Oaxaca, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Veracruz, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Villahermosa, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Tapachula, S. A. de C. V.	99.99%	99.99%
Aeropuerto de Minatitlán, S. A. de C. V.	99.99%	99.99%
Servicios Aeroportuarios del Sureste, S. A. de C. V.	99.99%	99.99%

The preparation of consolidated financial statements in conformity with Mexican Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b) Recognition of the effects of inflation

The consolidated financial statements have been prepared in accordance with Bulletin B-10, Recognition of the Effects of Inflation on Financial Information (Bulletin B-10), and determined as follows:

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The consolidated statements of income and changes in stockholders equity were restated applying Mexican National Consumer Price Index (Mexican CPI) factors from the periods in which the transactions occurred. The consolidated financial statements of the Company for the years ended December 31, 2004 and 2005, have been restated for comparability purposes to December 31, 2006 purchasing power, by applying the restatement factors of 1.075 and 1.040, respectively.

The consolidated statements of changes in financial position present, in constant pesos, the resources provided by or used in operating, financing and investing activities.

The methodology for the restatement of the individual financial statement items is as follows:

Restatement of non-monetary assets:

Machinery, furniture and equipment, net are recorded at acquisition cost, restated using Mexican CPI factors from the date the asset was purchased to the date of the financial statements. Depreciation expense is based on the restated carrying value of the assets.

The rights to use the airport facilities, net and the airport concessions, net were recorded based on the allocation of the purchase cost of the airport concessions and the acquisition cost of the rights of Cancun Air, Dicas and Aeropremier to the assets and liabilities acquired (see Notes 2f, 5, and 6) and are restated using Mexican CPI factors. Amortization expense is computed on the restated carrying values of the rights to use the airport facilities and the airport concessions.

Restatement of stockholders equity:

The restatement of the Company s capital stock, contributed capital, legal reserve, reserve for the repurchase of stock and retained earnings is determined by applying Mexican CPI factors from the dates on which capital was contributed and earnings were generated and reflects the amounts necessary to maintain the stockholders investment at the purchasing power of the original amounts.

Loss from monetary position:

Loss from monetary position represents the inflationary effect, measured by the Mexican CPI, on the monetary assets and liabilities.

c) Cash and marketable securities

Cash and marketable securities includes cash, temporary investments and marketable securities. As of December 31, 2005 and 2006, cash and marketable securities consisted primarily of money market accounts and short-term Mexican government bonds.

d) Derivatives

Derivatives (including embedded derivatives) are accounted for at fair value at the balance sheet date in accordance with Bulletin C-10 Derivative Financial Instruments and Hedge Transactions .

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e) Improvements to concessioned assets, land, machinery, furniture and equipment, net

Depreciation of machinery, furniture and equipment is based upon the restated carrying value of the assets and is recognized using the straight-line method over the estimated useful lives of the assets. The useful lives of the Company s machinery, furniture and equipment are as follows:

	Years
Improvements to concessioned assets	10-50
Machinery and equipment	10
Office furniture and equipment	10
Computer equipment	3
Automotive equipment	4
Other	various

When assets are retired or otherwise disposed of, the restated cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded in results of operations.

f) Rights to use airport facilities, environmental liabilities and airport concessions

Rights to use airport facilities and airport concessions include the acquisition of the nine airport concessions and the rights acquired from Cancun Air, Dicas and Aeropremier. Although the Company has, through its concessions, the rights to operate, maintain and develop the nine airports, all the permanent fixed assets in the airports are owned by the Mexican nation. Upon termination of the Company s concessions, these assets, including any improvements made during the term of the concessions automatically revert to the Mexican nation.

The acquisition costs of the nine airports concessions and the acquisition costs of rights acquired from others entities was allocated to the rights to use the airport facilities and to certain environmental liabilities assumed with the excess acquisition cost recorded as airport concessions. The amounts allocated to the rights to use the airport facilities were based on the depreciated replacement cost of the assets as determined by an independent appraiser. The amounts allocated to the environmental liabilities assumed were based on management s best estimate of the actual costs to be incurred and reflect the terms of an agreement with the environmental authorities, (see Note 5).

The rights to use the airports facilities are being amortized on a straight-line basis over the estimated remaining useful lives of the underlying assets. The amounts allocated to the airports concessions are being amortized on a straight-line basis over the life of the concessions and the rights acquired.

g) Review of the book value of long lived assets

The Company estimates the recoverable value of the rights to use airport facilities, airport concessions and improvements to concessioned assets to be the estimated discounted future net cash flows from the nine airport concessions in the aggregate. If the carrying value of the assets exceeds the recoverable value an impairment loss is recognized. At December 31, 2005 and 2006, the recoverable value exceeds the net book value.

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The procedures and criterion used by the Company are in line with the provisions of Bulletin C-15, Impairment in the Value of Long-lived Assets and Their Disposal , which went into effect on January 1, 2004.

h) Seniority premiums and employee severance pay

Seniority premiums to which employees are entitled after 15 years of service are recorded as cost in the years in which the services are rendered, as required by Bulletin D-3, Labor Obligations .

As of 2005, this bulletin requires that a liability be recognized for payments made to employees at the end of their employment (severance pay), calculated on the basis of the projected unit credit method. The initial effects were recognized, as permitted by the accounting principle, over the average working life of the employees and consequently had no effects on the consolidated results of the period upon adoption. Previously severance pay was recognized in the accounting results of the year in which amounts were paid.

i) 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 a passenger charge for each departing passenger (excluding diplomats, infants, and transfer and transit passengers), a landing charge 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 the terminal, based on hour of arrival, and airport security charges for each departing passenger. 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 services revenues consist primarily of the leasing of space in the airport terminals, access fees received from third parties providing handling, catering and other services at the airports and miscellaneous other revenues.

Rental income is recognized on terminal space which is leased through operating leases. Such leases stipulate either: i) fixed monthly rental fees, or 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 services revenues are recognized as services are provided. All amounts are calculated and recognized on a monthly basis.

Under the Airport Law and its regulations, the Company 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 and related activities

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that provide support to 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.

The following table presents the Company s revenues for the years ended December 31, 2004, 2005 and 2006, using the classifications established under the Airport Law and its regulations (see below for discussion of revenue regulation):

	Year ended December 31,		
	2004	2005	2006
Regulated services:			
Airport services	Ps. 1,673,657	Ps. 1,601,756	Ps. 1,671,636
Non-regulated services:			
Airport services:			
Access fees from non-permanent ground transportation	8,436	7,748	8,695
Car parking lots and related access fees	27,670	34,040	37,710
Other access fees	3,375	3,179	2,362
Commercial services	397,186	478,745	494,550
Other services	14,267	21,992	24,008
Total non-regulated services	450,934	545,704	567,325
	Ps. 2,124,591	Ps. 2,147,460	Ps. 2,238,961

j*) Transactions in foreign currency and exchange rate differences*

Monetary assets and liabilities denominated in foreign currencies are translated into Mexican pesos at the exchange rates in effect as of the balance sheet dates. Currency exchange fluctuations are included in income for the period and reflected in comprehensive financing cost.

k) Deferred income tax, employees statutory profit sharing and tax on dividends

Deferred income tax is recorded using the full-liability method of assets and liabilities, which consists of determining deferred income tax by applying the corresponding tax rate to the differences between the book and tax values of assets and liabilities at the date of the consolidated financial statements.

Deferred employees statutory profit sharing is calculated based on nonrecurring temporary differences between the book profit and the profit subject to employees statutory profit sharing.

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Deferred income tax and employees statutory profit sharing assets are reduced, if necessary, by the amount of any tax benefits for which evidence does not indicate that there is a high probability of future taxable income to realize the assets.

Tax on dividends is recorded against retained earnings pursuant to Bulletin D-4 issued by the MIPA. Any recovered tax on dividends previously paid is also recorded in retained earnings.

l) Comprehensive income

Comprehensive income is represented by the net income plus items required by specific accounting standards to be reflected in stockholders equity but which do not constitute capital contributions, reductions or distributions. It is restated on the basis of Mexican CPI factors.

m) Earnings per share

Basic earnings per share were computed by dividing income available to stockholders by the weighted-average number of shares outstanding (see Note 8). Weighted-average shares outstanding for calculating diluted earnings per share reflects the potential dilution that could occur if dilutive securities and other contracts to issue common stock were exercised or converted into shares, using the treasury stock method. Under the treasury stock method, proceeds received from the assumed exercise of the stock options would be used to repurchase the Company s shares at the average market price during the period.

The weighted average shares outstanding for calculating both basic and diluted earnings per share was 300 million shares for the years ended December 31, 2004, 2005 and 2006.

n) Concentrations

Trade receivables consist primarily of receivables from major domestic and international airlines. Approximately 19% and 6% of trade receivables as of December 31, 2005 and 2006, respectively were receivable from air carriers and other entities controlled by Cintra S.A. de C.V. (Cintra) including Aeromexico and Aerolitoral. A majority of Cintra s capital stock is owned by the Institute for the Protection of Bank Savings, a decentralized entity within the Mexican federal public administration, and by the Mexican government. Effective December 20, 2005, Cintra completed the sale of Mexicana to Grupo Posadas, a Mexican large hotel operator. Mexicana represented 10% and 9% of 2005 and 2006 revenue.

Further, approximately 77%, 75% and 76% of revenues during the years ended December 31, 2004, 2005 and 2006, respectively, were generated from operations at the Cancún International Airport.

As of December 31, 2006, 2005 and 2004, the Company maintained its cash and marketable securities with a major Mexican brokerage firm and other Mexican financial institutions. The Company would be adversely affected in the event of non-performance by any of these institutions. Management does not anticipate non-performance.

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o) Recently issued accounting standards

Beginning January 1, 2007, the dispositions of the following Mexican Financial Reporting Standards (NIF) issued by the Mexican Financial Reporting Standards Board became effective. These dispositions will not have a significant impact on the financial information.

NIF B-3 Income statement Incorporates a new approach to classify income, costs and expenses as ordinary and non-ordinary, eliminates special and extraordinary items and establishes employees profit sharing as an ordinary expense and not as a tax.

NIF B-13 Subsequent events Requires recognition of assets and liabilities restructuring in the period in which they actually take place and the recognition of creditors waivers to enforce their right to demand payment of debts in the event of lack of compliance of the entity with debt agreement commitments. These issues will be disclosed in the notes to financial statements, if any.

NIF C-13 Related parties Extends the definition (scope) of the related-party concept and increases the disclosure requirements in the notes to financial statements.

NIF D-6 Capitalization of the Financing Integral Result Establishes the obligation of capitalization of the financing integral result and the rules for its capitalization.

3. Trade receivables, net

As of December 31, 2005 and 2006, trade receivables, net consist of the following:

	December 31,	
	2005	2006
Trade receivables	Ps. 179,554	Ps. 235,830
Less: allowance for doubtful accounts	(10,141)	(289)
Net	Ps. 169,413	Ps. 235,541

The following table presents the roll forward of the allowance for doubtful accounts for the years ended December 31, 2004, 2005 and 2006:

	December 31,		
	2004	2005	2006
Balance at the beginning of the period	(Ps.6,490)	(Ps. 6,168)	(Ps.10,141)
Increases, applications and cancellations, net.		(4,171)	9,185
Effects of inflation	322	199	1,245
Balance at the end of the period	(Ps.6,168)	(Ps.10,141)	(Ps. 289)

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4. Improvements to concessioned assets, land, machinery, furniture and equipment

As of December 31, 2005 and 2006, improvements to concessioned assets, land, machinery, furniture and equipment, net consists of the following:

	December 31,	
	2005	2006
Machinery and equipment	Ps. 71,866	Ps. 82,116
Office furniture and equipment	76,478	94,668
Automotive equipment	138,523	159,683
Improvements to concessioned assets (a)	1,800,663	2,430,202
Others	9,447	3,921
	2,096,977	2,770,590
Less: accumulated depreciation	(384,865)	(534,573)
Total	1,712,112	2,236,017
Land	113,532	113,532
Construction in progress (b)	227,071	723,905
Advances to contractors	213,199	75,904
Net	Ps. 2,265,914	Ps. 3,149,358

Depreciation expense for the years ended December 31, 2004, 2005 and 2006 was Ps.93,335, Ps.128,217 and Ps.156,458, respectively.

(a) Improvements to concessioned assets as of December 31, 2005 and 2006, were comprised of the following:

	December 31,	
	2005	2006
Buildings	Ps. 699,652	Ps. 845,677
Air side	563,882	703,227
Land side	180,479	189,794
Technical installations	123,426	223,323
Machinery and equipment	42,172	62,469
Security equipment	40,778	220,158
IT equipment	132,920	162,743
Others	17,354	22,811
Total	Ps. 1,800,663	Ps. 2,430,202

(b) Construction in progress includes $552,495 related to Terminal 3 building at Cancún Airport which is expected to start operations by the end of 2007.

5. Airport concessions

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As stated in Note 1, in June 1998, the Ministry of Communications and Transportation granted to the Company the concessions to operate, maintain and develop nine airports in the Southeast region of Mexico for Ps. 12,249,946 (December 31, 2006 constant pesos). The total cost of the airport concessions, at the acquisition date, were allocated to the rights to use the airport facilities based on the assets depreciated replacement cost, as determined by an independent appraiser, and to certain environmental liabilities assumed based on management s best estimate of the actual costs to be incurred, with the excess acquisition cost allocated to the airport concessions as follows:

		Remaining estimated useful life (years)
Acquisition cost	Ps. 12,249,946	
allocated to:		
Rights to use airport facilities:		
Runways, taxiways, and aprons	Ps. 1,525,160	40-42
Buildings	493,314	17-42
Other infrastructure	127,282	23
Land	659,918	42
	2,805,674	
Environmental liabilities	(14,966)	
Airport concessions	9,459,238	42
Total	Ps. 12,249,946	

Total amortization expense for the years ended December 31, 2004, 2005 and 2006, was Ps.264,639.

Each of the Company s airport concessions contain the following basic terms and conditions:

The concession holder should undertake the construction, improvement or maintenance of the facilities in accordance with its Master Development Plan and is required to update the plan every five years (see Note 14).

The concession holder may only use the airport facilities for the purposes specified in the concession and must provide services in accordance with all applicable law and regulations, and is subject to statutory oversight by the Ministry of Communications and Transportation .

The concession holder must pay a concession fee (currently 5% of each concession holder s gross annual revenues) from the use of public domain assets pursuant to the terms of its concessions as required by applicable law.

Fuel services and supply are to be provided by the Mexican Airport and Auxiliary Services Agency.

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The concession holder must grant access to and the use of specific areas of the airport to government agencies to perform their activities inside the airports.

The concession may be terminated for non-performance if the concession holder fails to comply with certain of the obligations imposed by the concession as established in Article 27 or for the reasons specified in Article 26 of the Airport Law.

The terms and conditions of the regulations governing the operations of the Company may be modified by the Ministry of Communications and Transportation.

6. Other rights acquired

Effective June 30, 1999, the Company acquired the rights of Cancun Air and Dicas to provide certain services at Cancún International Airport, the rights of Aeropremier to provide certain services at Mérida International Airport and certain related machinery, furniture and equipment for cash and promissory notes of approximately US$39.6 million. The Mexican Airport and Auxiliary Services Agency also granted Dicas the right to construct, maintain and collect the revenues from the commercial activities and passenger walkway charges generated by the satellite wing of the main terminal building at the Cancun International Airport through 2010.

In December 1991, the Mexican Airport and Auxiliary Services Agency granted Aeropremier the right to construct and operate a general aviation terminal, a first class lounge, a tourism office and other commercial areas at Merida International Airport through 2010.

Effective with the acquisition of the rights of Cancun Air, Dicas and Aeropremier, the Company assumed the rights and obligations of Cancun Air, Dicas and Aeropremier under their agreements with third parties.

The acquisition cost of the rights has been allocated to the rights to use the underlying facilities based on the assets depreciated replacement cost, as determined by an independent appraiser, with the excess allocated to airport concessions as follows:

	2006	Remaining estimated useful lives (years)
Acquisition cost	Ps. 535,997	
allocated to:		
Rights to use:		
Buildings	Ps. 57,531	20-43
Other infrastructure	2,715	5-10
	60,246	
Airport concessions	475,751	0.5-3
Total	Ps. 535,997	

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Amortization of the rights to use the underlying facilities is recorded on a straight-line basis over the estimated remaining useful lives of the assets. Amortization of amounts allocated to airport concessions is recorded over the term of the rights acquired. Amortization expense for the years ended December 31, 2004, 2005 and 2006 was Ps.61,225, Ps.42,950 and Ps.51,373, respectively.

Through an agreement in March 2004, the Company terminated some lease agreements early at the Aeropuerto de Cancun, S.A. de C.V., with one of its operators of restaurants and convenience stores. The price of this transaction amounted to USD7 million dollars, and is being amortized by using the straight-line method over the remaining lives of the original lease agreements signed by the parties.

In July 2006, ASUR signed an agreement with a third party by which the Company transferred the operation of the restaurant and snack bar in the Cancun Airport. The total amount of the transaction is USD2.55 million, that is been be paid in 9 semi-annual installments with an interest rate of 15%.

During 2006, the Company invested in various feasibility studies in connection with the bidding for the concession to construct and operate an alternative airport in southeast area of Riviera Maya. As of December 31, 2006, the Company has capitalized expenses for USD1 million.

7. Accrued expenses and other payables

As of December 31, 2005 and 2006, this account consists of the following:

	December 31,	
	2005	2006
Taxes payable	Ps. 38,839	Ps. 31,776
Concession fees	26,094	26,064
Due To Shareholder ITA	50,815	42,710
Due to Supplier Provetecnia, S.A. de C.V.	43,712	10,155
Provision for restoration costs, net	48,179	17,283
Other accruals	136,691	111,109
Total	Ps. 344,330	Ps. 239,097

8. Stockholders equity

At December 31, 2005 and 2006, the minimum fixed capital with no withdrawal rights is Ps.7,767,276 (nominal figure), represented by 300,000,000 ordinary nominative Class I shares with no par value, fully subscribed and paid in. The variable portion of the capital stock is represented by ordinary nominative Class II shares.

As of December 31, 2005 and 2006, capital stock was restated as follows:

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	Nominal value	Restatement	Restated value
Capital stock:			
Fixed	Ps. 7,767,276	Ps. 4,568,231	Ps. 12,335,507

ASUR and each of its Subsidiaries are legally required to allocate at least 5% of their unconsolidated annual net income to a legal equity reserve fund. This allocation must be continued until the equity reserve is equal to 20% of the issued and outstanding capital stock of the relevant Company. Mexican Corporations may pay dividends only out of earnings after such allocation to the reserve fund. As of December 31, 2005 and 2006, the Company transferred Ps.32,632 and Ps.28,992, respectively from retained earnings to legal reserve.

At the April 28, 2005 and April 27, 2006, general stockholders meetings, the Shareholders agreed to establish a reserve for the repurchase of shares amounting to Ps.353,532 (Ps.328,804 nominal) and Ps.254,178 (Ps.246,860 nominal), respectively, against retained earnings.

Stock Options

Inversiones y Técnicas Aeroportuarias, S. A. de C. V., did not exercise the options, nor did it transfer or assign its options to any of its stockholders during the stock option exercise periods ended December 18, 2003, 2004 and 2005 (see Note 1). As of December 31, 2005 all options were forfeited.

Dividends

At the April 29, 2004 general stockholders meeting, the Company s stockholders agreed to pay net dividends after income tax of Ps.190,013 (Ps. 168,000 nominal), or Ps.0.56 (nominal) per share, thus giving rise to an income tax on dividends of Ps.69,422 (Ps. 61,380 nominal), since they were not from the After-tax Earnings Account (see note 11).

At the April 28, 2005 general stockholders meeting, the Company s stockholders agreed to pay net dividends after income tax of Ps.199,989 (Ps.186,000 nominal), or Ps. 0.62 (nominal) per share, thus giving rise to an income tax on dividends of Ps.85,713 (Ps. 79,714 nominal), since they were not from the After-tax Earnings Account (see note 11).

At the April 27, 2006 general stockholders meeting, the Company s stockholders agreed to pay net dividends after income tax of Ps.210,663 (Ps.204,600 nominal), or Ps.0.68 (nominal) per share, thus giving rise to an income tax on dividends of Ps.86,048 (Ps.83,569 nominal), since they were not from the After-tax Earnings Account (see note 11).

Dividend will be tax free if paid out of the CUFIN (Net Taxable Income Account). Dividends paid in excess of the CUFIN balance will be subject to a tax equivalent to 38.89% if paid during fiscal 2007. Tax due will be payable by the Company. It may be credited against Income Tax of the year or the Income Tax of the two immediately following fiscal years. Dividends paid will not be subject to any withholding tax.

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In case of a capital reduction, any excess of stockholders equity over paid-in capital accounts balances will be given the same tax treatment as a dividend, in accordance with the procedures provided for in the Income Tax Law.
Substantially all consolidated profits of the Company were generated by its Subsidiaries. Retained earnings can be distributed to the Stockholders of ASUR to the extent that its Subsidiaries have distributed profits to ASUR.

Earnings per share

Earnings per share for the years ended December 31, 2004, 2005 and 2006, are presented as follows:

	2004	2005	2006
Income from continuing operations	Ps. 2.24	Ps. 1.98	Ps. 1.81
Extraordinary items	Ps. (0.06)	Ps. (0.03)	Ps. (0.05)
Net income	Ps. 2.18	Ps. 1.95	Ps. 1.76

9. Rentals under operating leases

The Company leases commercial space inside and outside the terminals to third parties under operating leases. The following is a schedule by years of minimum future rentals on noncancelable operating leases as of December 31, 2006 including minimum secured commercial lease agreements per passenger:

Period ending December 31:

2007	Ps. 388,984
2008	423,271
2009	446,448
2010	418,130
2011	377,676
Thereafter	2,004,384
Total	Ps. 4,058,893

10. Foreign currency balances and transactions

The foreign currency position of monetary items at December 31, 2005 and 2006, were as follows:

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	Foreign currency amounts (thousands)		Period end exchange rate		Mexican pesos (thousands)	
December 31, 2005						
Assets:						
Cash and marketable securities	US$	20,803	Ps.	10.6344	Ps.	221,422
Prepaids		1,043		10.6344		11,097
Others		2,249		10.6344		23,913
Liabilities:						
Accrued expenses and other payables	US$	6,984		10.6344		74,267

	Foreign currency amounts (thousands)		Period end exchange rate		Mexican pesos (thousands)	
December 31, 2006						
Assets:						
Cash and marketable securities	US$	9,441	Ps.	10.8116	Ps.	102,074
Prepaids		1,445		10.8116		15,622
Deposits		41		10.8116		438
Clients		2,597		10.8116		28,086
Liabilities:						
Accrued expenses and other payables	US$	3,459		10.8116		37,393
Deposits		1,018		10.8116		11,007

The principal foreign currency transactions during the year ended December 31, 2004, 2005 and 2006, were as follows:

	Foreign currency amounts (thousands)		Average exchange rate		Mexican pesos (thousands)	
Year ended December 31, 2004						
Income statement:						
Technical assistance fees and related costs	US$	2,322	Ps.	11.59	Ps.	26,912
Professional services expenses		664		11.82		7,848
Other		1,199		11.65		13,968
Year ended December 31, 2005						
Income statement:						

Technical assistance fees and related costs	US$	2,311	Ps.	10.84	Ps.	25,048
Professional services expenses		1,916		12.58		24,111
Other		38		11.02		419
Year ended December 31, 2006						
Income statement:						
Technical assistance fees and related costs	US$	2,391	Ps.	10.98	Ps.	26,260
Professional services expenses		1,304		10.86		14,161
Other		876		10.90		9,548

The prevailing exchange rate between the Mexican peso and the US dollar at December 31, 2005 and 2006 was Ps.10.6344 and Ps.10.8116, per US dollar, respectively. The exchange rate was Ps.10.9920 per US dollar on April 19, 2007.

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11. Income tax, asset tax and employees statutory profit sharing

The Company does not currently prepare a consolidated tax return.

Under current Mexican Income Tax Law, ASUR and its subsidiaries must pay the higher of the income tax or the asset tax. The asset tax is a minimum tax, which is calculated as 1.8% of the average tax value of virtually all of the Company s assets (including the airport concessions), less the average tax value of certain liabilities (basically liabilities with Mexican residents excluding those with financial institutions or their intermediaries). The average tax value of each asset or liability is calculated differently depending on its classification under the tax law. In 2004, 2005 and 2006, the Company incurred Ps.167,993, Ps.141,278 and Ps.121,352, respectively in asset taxes of which Ps.55,442, Ps. 37,743 and Ps.43,307, respectively were directly charged to income for the year, since there was no certainty of the recoverability in the future. The asset tax balance (after adjustments for recoverability) is estimated to be recovered in the following ten years, when income tax incurred exceeds asset tax in any of those years. The asset tax is restated by applying factors derived from the NCPI.

In December of 2006, Mexican Tax Authorities approved a change in the calculation of the asset tax diminishing the tax rate from 1.8% to 1.25% and eliminating the deduction of debts. These changes will become effective January 1, 2007 and the Company considers that they will not have significant effects in the consolidated financial statements.

Employees statutory profit sharing in Mexico is determined for each Subsidiary, rather than on a consolidated basis.

The components of income tax and employees statutory profit sharing expense for the years ended December 31, 2004, 2005 and 2006, are as follows:

	For the years ended December 31,		
	2004	2005	2006
Income tax-deferred	Ps. 168,006	Ps. 234,617	Ps. 276,970
Income tax-deferred accounted for in extraordinary items	4,565	2,995	2,464
Provision for income tax	Ps. 172,571	Ps. 237,612	Ps. 279,434

The following items represent the principal differences between income tax computed at the statutory tax rate and the Company s provision for income taxes for the years ended December 31, 2004, 2005 and 2006:

	For the years ended December 31,		
	2004	2005	2006
Tax at statutory rate	(33%)	(30%)	(29%)
Non-deductible items and other permanent differences	6%	4%	(2%)
Increase in valuation allowance, net	(3%)	(1%)	(1%)
Change in income tax rate	14%	1%	1%
Provision for income taxes	(16%)	(26%)	(31%)

As a result of the amendments enacted to the Income Tax Law enacted on November 13, 2004, the Income Tax rate will be 28% in 2007. Accordingly, the effect of these reductions of the Income Tax rate was considered in the valuation of deferred income tax.

The tax and employee s statutory profit sharing effects of temporary differences that give rise to significant deferred tax and employee s statutory profit sharing assets and liabilities at December 31, 2005 and 2006, are as follows:

	December 31,	
	2005	2006
Deferred income tax		
Deferred tax assets:		
Tax loss carryforwards	Ps. 597,661	Ps. 709,343
Other	50,623	31,834
Valuation allowance	(75,262)	(84,486)
	573,022	656,691
Deferred tax liabilities:		
Airport concessions, rights to use airport facilities and machinery furniture and equipment	(1,734,204)	(2,091,146)
Other	(1,312)	(5,009)
	(1,735,516)	(2,096,155)
Net deferred tax liabilities before recoverable asset tax	(1,162,494)	(1,439,464)
Recoverable asset tax, net of valuation allowance of Ps.181,324 and Ps.224,631, respectively	495,468	573,513
Net deferred tax liabilities	(Ps667,026)	(Ps865,951)

	December 31,	
	2005	2006
Deferred employees statutory profit sharing:		
Net deferred employees statutory profit sharing liabilities recognized in respect of all the non recurring temporary differences generated in the year ended December 31, 2000, between the tax and the book basis	(Ps.39,015)	(Ps.37,497)
Net deferred income tax and employees statutory profit sharing liabilities	(Ps.706,041)	(Ps.903,448)

Based on the weight of available evidence as of December 31, 2005 and 2006, valuation allowances were recognized for the amount of the net deferred tax assets as of December 31, 2005 and 2006, for which evidence does not indicate that there is a high probability of future taxable income to realize the assets.

For tax purposes, the Company is currently amortizing the value of its airport concessions at rates ranging from 6% to 15%. Tax losses (including those generated from the tax amortization of the airport concessions) may be carried forward until the expiration of the initial term of the concessions. As of December 31, 2005 and 2006, the Company had tax loss carryforwards of approximately Ps.2,134,504 and Ps.2,533,368, respectively.

12. Technical assistance agreement

In connection with the sale of the Series BB shares to Inversiones y Técnicas Aeroportuarias, S. A. de C. V. (ITA), ASUR entered into a technical assistance agreement with ITA in which ITA and its Stockholders agreed to provide management and consulting services and transfer industry expertise and technology to ASUR in exchange for a technical assistance fee. The agreement has an initial fifteen-year term and is automatically renewed for successive five-year terms, unless one party provides the other a notice of termination within a specified period prior to a scheduled expiration date. The Company may only exercise its termination right pursuant to a Stockholder s resolution. ITA, began providing assistance under the agreement on April 19, 1999.

Under the agreement, the Company agreed to pay an annual fee equal to the greater of a fixed fee or 5% of the Company s earnings prior to deducting the technical assistance fee and before comprehensive financing cost, income taxes and depreciation and amortization, determined in accordance with Mexican GAAP. For the years 2004, 2005 and 2006 the fixed fee is equal to US$2 million. Each year the fixed fee will be increased by the rate of inflation in the US. ASUR must also pay the value-added tax on the payment amount.

For the years ended on December 31, 2004, 2005 and 2006, technical assistance expenses were Ps.71,991, Ps.69,123 and Ps.71,037, respectively.

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ITA is also entitled to reimbursement for the out-of-pocket expenses it incurs in its provision of services under the agreement.

ITA s Series BB shares were placed in a trust to, among other things, ensure performance under the technical assistance agreement.

13. Related party transactions

On March 8, 2005, the Mexican government sold its remaining 11.1% equity interest in ASUR pursuant to a public offering, and ceased to be related party.

In addition to the revenues earned from Cintra (see Note 2), the Company recorded revenues from several Mexican federal and state government agencies. Revenues from related parties excluding Cintra were Ps.1,046 by the period from January to February 2005.

During the period from January to February 2005, the Company recorded expenses of Ps.10,434, for electricity, waste disposal, water and other services obtained from entities or agencies of the Mexican federal government.

See notes 2(n), 8 and 12 for disclosures concerning certain other transactions with related parties.

14. Commitments and contingencies

Commitments:

In 2005, the Company entered into a new 60 month operating lease for its corporate offices with monthly payments of US$ 17,832.

Rental expense was approximately Ps.3,607, Ps.4,500 and Ps.2,390 for the years ended December 31, 2004, 2005 and 2006, respectively.

On December 30, 2003, the Company received the Ministry of Communications and Transportation approval for its Master Development Plan (MDP) for each of the nine airports for the period from 2004 through 2008. Based on the MDPs presented, the Company has agreed to make total improvements of Ps.3,416,760 from 2004 through 2008, the commitments for the next two years as follows:

Period	Amount (1)
2007	Ps. 1,147,105
2008	160,498
Total	Ps. 1,307,603

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(1) Expressed in thousands of pesos in purchasing power as of December 31, 2006 applying Mexican National Construction Price Index factors according with the MDP s terms.

Contingencies:

a) The operations of the Company are subject to Mexican federal and state laws and regulations relating to the protection of the environment. Under these laws, regulations have been issued concerning water and air pollution, environmental impact studies, noise control and hazardous wastes. The Ministry of the Environment, Natural Resources and Fishing can bring administrative, civil and criminal proceedings against companies that violate environmental laws and has the power to close non-complying facilities.

b) At present, there are two labor-law claims against the Company. The Company is in the judicial process. Moreover, no ruling has been handed down at the date of this report.

c) Claims have been asserted against the Company by the municipalities of Huatulco and Oaxaca or the payment of property taxes in respect of the land comprising the airports in this community. Based on the opinion of outside counsel, management believes that there is no legal basis for these claims and the Company intends to take legal action to have the claims dismissed.

Management does not believe that any liabilities relating to these claims are likely to have a material adverse effect on the Company s consolidated financial condition or results of operations.

15. Segment information

The Company evaluates and assesses its performance on an airport-by-airport basis prior to the allocation of employee and other costs from Servicios Aeroportuarios del Sureste, S.A. de C.V. (Servicios), the Company s wholly-owned Subsidiary which employs certain of the Company s employees. The performance of Servicios is evaluated and assessed separately by management. All of the airports provide substantially the same services to their customers. Summarized financial information concerning the Company s reportable segments including Cancún International Airport (Cancun), Mérida International Airport (Merida), Villahermosa Airport (Villahermosa) and Servicios is shown in the following table. The financial information of the remaining six airports and that of the parent holding company (including ASUR s investment in its Subsidiaries) have been aggregated and included as Other . The elimination of ASUR s investment in its Subsidiaries is included in the consolidation adjustments column.

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Year ended **December 31, 2004**	Cancun	Villahermosa	Mérida	Servicios	Other	Consolidation adjustments	Total
Total revenues	Ps. 1,623,993	Ps. 83,174	Ps. 126,004	Ps. 190,710	Ps. 308,389	(Ps.207,679)	Ps. 2,124,591
Operating income (loss)	856,368	21,324	15,411	10,226	204,960	(207,679)	900,610
Total assets	9,587,364	735,766	1,078,645	35,441	16,256,346	(13,657,188)	14,036,374
Capital expenditures	281,715	28,377	19,288	1,183	112,374		442,937
Depreciation and amortization	273,873	22,053	37,220	2,244	94,207		429,597

Year ended December 31, 2005	Cancun	Villahermosa	Mérida	Servicios	Other	Consolidation adjustments	Total
Total revenues	Ps. 1,608,863	Ps. 92,190	Ps. 137,400	Ps. 186,613	Ps. 327,681	(Ps.205,287)	Ps. 2,147,460
Operating income (loss)	780,185	26,952	19,493	(2,496)	212,943	(205,287)	831,790
Total assets	10,128,825	765,808	1,089,107	31,215	16,622,392	(14,003,897)	14,633,450
Capital expenditures	473,757	68,207	24,638	5,098	86,130	0	657,830
Depreciation and amortization	285,421	23,156	39,283	2,283	101,531	0	451,674

Year ended **December 31, 2006**	Cancun	Villahermosa	Mérida	Servicios	Other	Consolidation adjustments	Total
Total revenues	Ps. 1,693,470	Ps. 97,008	Ps. 136,590	Ps. 189,253	Ps. 333,165	(Ps.210,525)	Ps. 2,238,961
Operating income (loss)	810,437	16,428	14,206	1,761	(13,164)		829,668
Total assets	10,505,542	771,233	1,086,658	29,998	16,814,395	(14,266,425)	14,941,401
Capital expenditures	922,898	30,927	41,610	1,774	91,771		1,088,980
Depreciation and amortization	311,947	28,009	37,613	2,329	107,890		487,788

The accounting policies of the reportable segments are the same as those described in note 2.

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16. Differences between Mexican Financial Reporting Standards and US GAAP

The Company s consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards (Normas de Información Financiera or NIF) , which differ in certain significant respects from Generally Accepted Accounting Principles in the United States of America (US GAAP). The NIF consolidated financial statements include the effects of inflation as provided for under Bulletin B-10 and its amendments (see note 2), whereas consolidated financial statements prepared in accordance with US GAAP are presented on a historical cost basis. The reconciliation does not include the reversal of adjustments to the financial statements for the effects of inflation required under NIF because the application of Bulletin B-10 represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy and, as such, is considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and US accounting purposes.

The principal differences between NIF and US GAAP and the effect on the Company s net income and stockholders equity are presented below with an explanation of the adjustments:

	For the year ended December 31,		
	2004	2005	2006
Reconciliation of net income:			
Net income as reported under NIF	Ps. 652,645	Ps. 586,017	Ps. 528,115
US GAAP adjustments:			
(A) Amortization of airport concessions	189,223	189,223	189,223
(A) Amortization of rights to use airport facilities	17,988	16,910	15,305
(B) Terminal 1 building write-off reversal	-	-	(48,345)
(C) Contract termination fee on leasehold agreement	(73,070)	15,869	15,318
(D) Concession fee on lease hold agreement	-	-	(3,869)
(E) Tax on dividends, net	(41,808)	(85,712)	(86,048)
(F) Professional fees for recovered tax on dividends	(1,683)	-	-
(G) Deferred employees statutory profit sharing	(105,458)	(250,844)	(148,184)
(H) Deferred income taxes, net of inflation effects	(370,684)	(1,202)	(45,554)
Total US GAAP adjustments	(385,492)	(115,756)	(112,154)
Net income under US GAAP	Ps. 267,153	Ps. 470,261	Ps. 415,961
Basic and diluted earnings per share	Ps. 0.89	Ps. 1.57	Ps. 1.39

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	As of December 31,	
	2005	2006
Reconciliation of stockholders equity:		
Total stockholders equity reported under NIF	Ps. 13,553,697	Ps. 13,785,101
US GAAP adjustments:		
(A) Airport concessions	(8,103,583)	(7,914,360)
(A) Rights to use airport facilities	(477,135)	(461,830)
(B) Terminal 1 write-off reversal		(48,345)
(C) Contract termination fee on leasehold agreement	(57,201)	(41,883)
(D) Concession fee on lease hold agreement		(3,869)
(G) Deferred employees statutory profit sharing	281,096	132,912
(H) Deferred income taxes	2,315,346	2,269,792
Total US GAAP adjustments	(6,041,477)	(6,067,583)
Total stockholders equity under US GAAP	Ps. 7,512,220	Ps. 7,717,518

A summary of the Company s statement of changes in stockholders equity with balances determined under US GAAP are as follows:

Balance at December 31, 2004	Ps. 7,241,948
Net income	470,261
Dividends declared	(199,989)
Balance at December 31, 2005	7,512,220
Net income	415,961
Dividends declared	(210,663)
Balance at December 31, 2006	Ps. 7,717,518

The following tables present the condensed consolidated balance sheets and statements of income of the Company, including all US GAAP adjustments, as of December 31, 2005 and 2006, and for the years ended December 31, 2004, 2005 and 2006.

	As of December 31,	
	2005	2006
Assets		
Current assets:		
Cash and cash equivalents	Ps. 1,117,236	Ps. 828,706
Other current assets	816,701	811,984

Net current deferred tax asset	45,718	23,860
Total current assets	1,979,655	1,664,550

	As of December 31,	
	2005	2006
Improvements to concessioned assets, land, machinery, furniture and equipment net	2,264,172	3,149,358
Airport concessions net	89,448	29,796
Rights to use airport facilities net	1,706,238	1,655,139
Deferred employees statutory profit sharing	243,599	95,415
Deferred income taxes	1,602,602	1,379,981
Total assets	Ps. 7,885,714	Ps. 7,974,239
Liabilities and Stockholders Equity		
Seniority premiums	Ps. 6,548	Ps. 7,511
Other current liabilities	366,946	249,210
Total liabilities	373,494	256,721
Total stockholders equity	7,512,220	7,717,518
Total liabilities and stockholders equity	Ps. 7,885,714	Ps. 7,974,239

	For the years ended December 31,		
	2004	2005	2006
Net revenues	Ps. 2,124,591	Ps. 2,147,460	Ps. 2,235,092
Cost of services (1)	(609,569)	(808,960)	(784,554)
General and administrative expenses (1)	(219,160)	(129,384)	(102,293)
Depreciation and amortization	(212,034)	(229,673)	(267,743)
Other expenses	(179,864)	(189,581)	(249,505)
Operating expenses	(1,220,627)	(1,357,598)	(1,404,095)
Operating income	903,964	789,862	830,997
Net comprehensive financing income (cost)	(34,928)	22,820	15,214

Income tax expense (2)		(601,883)		(342,421)		(430,250)
Net income	Ps.	267,153	Ps.	470,261	Ps.	415,961

(1) Exclusive of depreciation and amortization.

(2) Consists of assets tax, tax on dividends and income taxes.

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(A) Airport concessions, rights to use airport facilities and environmental liabilities

Under NIF, the acquisition costs of the nine airport concessions were allocated to the rights to use the airport facilities and to the environmental liabilities assumed, with the remainder allocated to airport concessions. The amount allocated to the rights to use the airport facilities was based on the results of an independent appraisal. The fair values of the environmental liabilities assumed are based on management s best estimate of the actual costs to be incurred and reflect the terms of a new agreement with the environmental Authorities.

The rights to use the airport facilities, environmental liabilities and the airport concessions were transferred between entities under common control. Under US GAAP, the rights to use the airport facilities and the environmental liabilities were recorded equal to their historical book value at November 1, 1998 (Ps.1,935,314 and Ps.25,235, respectively) and no value was assigned to the airport concessions from the predecessor.

(B) Terminal 1 building write-off reversal

As described in Note 1 in July 2006, the Company was instructed by the Mexican government to repair the Terminal 1 building and under NIF, the Company reversed a portion of the 2005 write-off related to certain assets of Terminal 1 which were once again to be placed in service.

Under US GAAP, reversal of losses is not permitted, therefore, the amount reversed and its related depreciation recognized in NIF was adjusted under US GAAP. That is, under US GAAP the carrying value of these Terminal 1 assets pre-July 2007 decision is zero.

(C) Contract termination fee on leasehold agreements

Under NIF, the Company capitalized a one-time termination fee on a concessionaire s leases at the Cancun airport, which is being amortized over the remaining lives of the original lease agreements (see Note 6). Under US GAAP, pursuant to SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities* this fee represents a contract termination cost that should be expensed when the Company terminates the leases. Therefore, charges of Ps.15,869 and Ps.15,318 in the US GAAP reconciliation in 2005 and 2006, respectively, reflect the reversal of amortization expense recorded under NIF.

(D) Concession fee on Leasehold agreement

During 2006, the Company entered into an agreement to transfer the operation of the Restaurant and Snack Bar in Cancun Airport to a third party for an USD 2.55 million fee of which USD 638.89 Thousand were collected in December 2006, and the remainder will be paid in 8 semi-annual installments with an interest rate of 15%.

Under NIF the Company recognized the fee as income as it becomes receivable according to the provision of the agreement.

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Under US GAAP, pursuant to SFAS No. 13 Accounting For Leases this agreement is accounted for as an operation lease; therefore income is recognized on a straight line basis over the term of the agreement.

(E) Tax on dividends

Under NIF, tax on dividends is recorded as a reduction of retained earnings. For the years ended December 31, 2004, 2005 and 2006, the Company paid tax on dividends amounting to Ps.69,422 , Ps. 85,712 and Ps. 86,048, respectively. Under US GAAP, tax on dividends is recorded within a tax expense since in accordance with Mexican Tax Law it can be used to reduce future taxable income in the year incurred and the following two years. Such tax on dividends is subject to a valuation allowance. During the year ended December 31, 2004, 2005 and 2006, the Company recovered Ps. 25,931, Ps. 0 and Ps. 0 (net of Ps. 1,683, Ps. 0 and Ps. 0 of related professional fees), respectively, which under NIF was recorded as a credit to retained earnings. Under US GAAP, the recovered tax on dividends was recorded as an income tax benefit in the income statement.

(F) Professional fees for recovered tax on dividends

Under NIF, the Company recorded professional fees incurred in 2004 in connection with the recovery of the tax on dividends against retained earnings. Under US GAAP, these professional fees are not payments made to the tax authorities and, accordingly, they are not classified in the income statement as income tax expenses, but rather as other expenses.

(G) Employees Statutory Profit Sharing

Under NIF, Bulletin D-4 requires the recognition of employees statutory profit sharing for all nonrecurring temporary differences generated during the period.

Under US GAAP, employees statutory profit sharing is recognized in accordance with the requirements of SFAS 109. Under this method, employees statutory profit sharing is recognized in respect of all temporary differences utilizing a full liability method. In addition, under US GAAP, the benefit or expense recognized during the period is recorded in pretax earnings.

Through December 31, 2004, the Company calculates profit sharing liabilities as 10% of its net taxable income. In calculating the net taxable income for profit sharing purposes, the Company deducts net operating loss, or NOL, carryforwards. The application of NOL carryforwards can result in a deferred profit sharing asset for a given period instead of a profit sharing liability.

On May 3, 2005, the Mexican Supreme Court ruled in a plenary session relating to four cases that NOL carryforwards could not be deducted when calculating net taxable income for profit sharing liability purposes. In light of these decisions, the Company s management decided not to include the NOL carryforwards in the calculation of its profit sharing liability.

The components of employees statutory profit sharing expense, prepared after considering the impact of US GAAP adjustments, for the years ended December 31, 2004, 2005 and 2006 are as follows:

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	For the years ended December 31,		
	2004	2005	2006
Deferred	Ps. 105,458	Ps. 250,844	Ps. 148,184
	Ps. 105,458	Ps. 250,844	Ps. 148,184

The effects of temporary differences that give rise to significant deferred employees statutory profit sharing assets, prepared after considering the impact of US GAAP adjustments, at December 31, 2005 and 2006 are as follows:

	December 31,	
	2005	2006
Deferred assets:		
Airport concessions, rights to use airport facilities and machinery, furniture and equipment	Ps. 237,621	Ps. 94,363
Tax loss carryforwards		
Other	23,234	15,325
Valuation allowance	(16,788)	(12,484)
	244,067	97,204
Deferred liabilities	(468)	(1,789)
Net deferred employees statutory profit sharing asset	Ps. 243,599	Ps. 95,415

(H) Deferred income taxes

Accounting for income taxes in accordance with Bulletin D-4 is similar to accounting for income taxes in accordance with US GAAP, SFAS No. 109 (SFAS 109), Accounting for Income Taxes .

Bulletin D-4 requires that the change in net deferred income taxes during the period resulting from inflation on monetary deferred tax assets and liabilities be recorded against the gain or loss on monetary position. For US GAAP purposes, the Company applied the guidance in EITF 93-9, Application of FASB Statement No. 109 in Foreign Financial Statements Restated for General Price-Level Changes and consequently, the deferred tax expense is calculated comparing beginning and ending deferred tax balances on a constant currency basis (i.e. December 31, 2006 constant pesos). The monetary gain related to deferred income taxes for the years ended December 31, 2004, 2005 and 2006 amounted to Ps.4,062, Ps. 849 and Ps.1,870, respectively which have been reflected in the deferred tax line item for US GAAP purposes.

The deferred tax adjustments required to reconcile stockholders equity and net income under Mexican GAAP to US GAAP as of and for the years ended December 31, 2004, 2005 and 2006, result from the differences in accounting for the airport concessions, the rights to use airport facilities, the contract termination fee on leasehold agreements and the difference in presenting the effects of inflation.

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The tax effects of temporary differences that give rise to significant deferred tax assets and liabilities, prepared after considering the impact of US GAAP adjustments, at December 31, 2005 and 2006 are as follows:

	As of December 31,	
	2005	2006
Current deferred tax asset:		
Accrued liabilities	Ps. 45,596	Ps. 23,123
Prepaids and other current assets	2,803	6,714
	48,399	29,837
Less: current valuation allowance	(2,681)	(2,806)
Current deferred tax asset	45,718	27,031
Current deferred tax liability:		
Inventories		(3,171)
Current deferred tax liability		(3171)
Net current deferred tax asset	Ps. 45,718	Ps. 23,860
Noncurrent deferred tax asset:		
Contract termination fee on leasehold agreement	Ps. 18,479	Ps. 14,798
Tax paid on dividends	86,048	85,712
Tax loss carryforwards	597,662	709,343
Fixed assets	665,355	264,217
Seniority premiums	1,485	
	1,369,029	1,074,070
Less: noncurrent valuation allowance	(260,642)	(265,832)
Noncurrent deferred tax asset	1,108,387	808,238
Noncurrent deferred tax liability:		
Other deferred assets	(1,253)	(1,770)
Non current deferred tax liability	(1,253)	(1,770)
Net noncurrent deferred tax liability	1,107,134	806,468
Total net deferred tax asset	1,152,852	830,328

Recoverable asset tax	495,468	573,513
Total deferred tax asset	1,648,320	1,403,841

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	As of December 31,	
	2005	2006
Net deferred tax asset under U.S. GAAP	1,648,320	1,403,841
Net deferred tax liability under Mexican Reporting Standards	667,026	865,951
Net deferred U.S. GAAP adjustments to the net deferred tax asset	Ps. 2,315,346	Ps. 2,269,792

Based on cumulative tax losses in recent years, valuation allowances were recognized as of December 31, 2005 and 2006, for the amount of the net deferred tax assets (including net operating loss carryforwards) and asset tax credit carryforwards for the airports of Huatulco, Minatitlan, Cozumel and Tapachula and for Servicios Aeroportuarios del Sureste S.A. de C.V. and Grupo Aeroportuario del Sureste, S.A. de C.V.

(I) Cash and marketable securities

Under NIF, temporary investments and marketable securities, expected to be held less than one year, are considered to be cash equivalents.

Under US GAAP, temporary investments and marketable securities with original maturities greater than 90 days are considered to be short-term investments and, accordingly, are shown separately from cash in the balance sheet and cash flow statement.

(J) Restructure, contract termination fees and loss on natural disaster

Under NIF, restructure costs, certain contract termination fees and loss on natural disaster were charged against the results of operations as an extraordinary item. Under US GAAP, restructure costs, contract termination fees and loss from natural disaster would be considered an operating expense. These charges have been reclassified as an operating expense in the US GAAP condensed consolidated income statement.

(K) Supplemental Cash Flow Information

NIF Bulletin B-12, Statements of Changes in Financial Position (Bulletin B-12), specifies the appropriate presentation of the statement of changes in financial position. Under Bulletin B-12, the sources and uses of resources are determined based upon differences between beginning and ending consolidated financial statement balances in constant pesos. Under US GAAP, a statement of cash flows is required, which presents only cash movements and excludes non-cash items.

Presented below are statements of cash flows of the Company for the years ended December 31, 2004, 2005 and 2006, prepared after considering the impact of US GAAP adjustments. The cash flow

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statements present nominal cash flows during the periods, adjusted to December 31, 2006, purchasing power.

	For the years ended December 31,		
	2004	2005	2006
Operating activities:			
Net income under US GAAP	Ps. 267,153	Ps. 470,261	Ps. 415,961
Adjustments to reconcile net income to cash flows provided by operating activities:			
Loss from monetary position	72,253	66,234	88,322
Asset tax, tax on dividends and deferred income taxes	601,882	342,421	430,250
Deferred employees statutory profit sharing	105,451	250,844	148,184
Depreciation and amortization	212,034	229,673	267,743
Other provisions		196,306	59,993
Write off of fixed assets		57,184	
Changes in operating assets and liabilities:			
Trade receivables	(44,952)	69,459	(72,727)
Recoverable taxes and other current assets	(193,331)	(140,883)	(162,013)
Trade accounts payable	869	11,389	(15,701)
Accrued expenses and other payables	40,598	(213,825)	(190,188)
Cash flows provided by operating activities	1,061,957	1,339,063	969,824
Investing activities:			
Short-term investments			
Purchases of short term investments	(629,628)	(401,788)	(341,283)
Proceeds from short term investments	718,699	125,145	388,180
Purchase of other rights and machinery furniture and equipment	(442,937)	(620,332)	(996,763)
Cash flows provided by (used in) investing activities	(353,868)	(896,976)	(949,866)
Insurance proceeds		(115,496)	(54,304)
Financing activities:			
Payment of dividends	(190,013)	(199,989)	(210,663)
Cash flows used in financing activities	(190,013)	(199,989)	(210,663)

Effects of inflation on cash and cash equivalents	15,245	(33,015)	(43,521)
Decrease in cash and cash equivalents	533,321	93,587	(288,530)
Cash and cash equivalents at beginning of period	490,328	1,023,649	1,117,236
Cash and cash equivalents at end of period	Ps. 1,023,649	Ps. 1,117,236	Ps. 828,706
Supplemental cash disclosures:			
Asset tax and tax paid on dividends	Ps. 238,785	Ps. 226,990	Ps. 211,668
Supplemental non-cash disclosures:			
Recovered tax on dividends	Ps. 27,622	Ps. 0	Ps. 0

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(L) Recently Issued Accounting Standards

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. The Company 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. The Company 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. The Company is currently evaluating the impact of adopting SFAS 157 on its financial condition and results of operations.

The sixteen notes are part of these consolidated financial statements, which were authorized for its emission dated April 18, 2007, by the executive that signed completely these consolidated financial statements and its notes.

C.P.A. Adolfo Castro Rivas
Chief Financial and Strategic Planning Officer
Grupo Aeroportuario del Sureste, S.A.B. de C.V.

EXHIBIT INDEX

Exhibit No.	Description
1.1	An English translation of the Amended and Restated Bylaws (*Estatutos Sociales*) of the Company.
2.1	Deposit Agreement among the Company, The Bank of New York and all registered holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to our registration statement on Form F-1 (File No. 333-12486) filed on September 7, 2000).
3.1	Trust Agreement among the Company, ITA and Bancomext, together with an English translation (incorporated by reference to our registration statement on Form F-1 (File No. 333-12486) filed on September 7, 2000).
3.2	Amendment dated May 15, 2007 to the Trust Agreement dated November 18, 1998 among the Company, ITA and Bancomext, English translation.
4.1	Amended and Restated Cancun Airport Concession Agreement and annexes thereto, together with an English translation and a schedule highlighting the differences between this concession and the Company s other concessions (incorporated by reference to our registration statement on Form F-1 (File No. 333-12486) filed on September 7, 2000).
4.2	Participation Agreement among the Company, the Mexican Federal Government through the Ministry of Communications and Transportation, Nacional Financiera, S.N.C. (NAFIN), Servicios Aeroportuarios del Sureste, S.A. de C.V., Aeropuerto de Cancun, S.A. de C.V., Aeropuerto de Cozumel, S.A. de C.V., Aeropuerto de Huatulco, S.A. de C.V., Aeropuerto de Merida, S.A. de C.V., Aeropuerto de Minatitlan, S.A. de C.V., Aeropuerto de Oaxaca, S.A. de C.V., Aeropuerto de Tapachula, S.A. de C.V., Aeropuerto de Veracruz, S.A. de C.V., Aeropuerto de Villahermosa, S.A. de C.V., Triturados Basalticos y Derivados, S.A. de C.V., Copenhagen Airports, Cintra Concesiones de Infraestructuras de Transporte, S.A., Groupe GTM, S.A., Inversiones y Tecnicas Aeroportuarias, S.A. de C.V. (ITA), Banco Nacional de Comercio Exterior, S.N.C. (Bancomext) and Aeropuertos y Servicios Auxiliares (ASA), together with an English translation (incorporated by reference to our registration statement on Form F-1 (File No. 333-12486) filed on September 7, 2000).
4.3	First Amendment to the Participation Agreement, the Shareholders Agreement and the Technical Assistance Agreement among the Mexican Federal Government through the Ministry of Communications and Transportation, NAFIN, Bancomext, the Company, Servicios Aeroportuario del Sureste, S.A. de C.V., Aeropuerto de Cancun, S.A. de C.V., Aeropuerto de Cozumel, S.A. de C.V., Aeropuerto de Huatulco, S.A. de C.V., Aeropuerto de Merida, S.A. de C.V., Aeropuerto de Minatitlan, S.A. de C.V., Aeropuerto de Oaxaca, S.A. de C.V., Aeropuerto de Tapachula, S.A. de C.V., Aeropuerto de Veracruz, S.A. de C.V. and Aeropuerto de Villahermosa, S.A. de C.V.; ITA, Triturados Basalticos y Derivados, S.A. de C.V., Copenhagen Airports, Cintra Concesiones de Infraestructura de Transporte, S.A. de C.V. and Groupe GTM, S.A. (incorporated by reference to our registration statement on Form F-1 (File No. 333-12486) filed on September 7, 2000).
4.4	Second Amendment dated April 30, 2007 to the Participation Agreement dated December 18, 1998 among the Company, the Mexican Federal Government through the Ministry of Communications and Transportation, NAFIN, Servicios Aeroportuarios del Sureste, S.A. de C.V., Aeropuerto de

Cancun, S.A. de C.V., Aeropuerto de Cozumel, S.A. de C.V., Aeropuerto de Huatulco, S.A. de C.V., Aeropuerto de Merida, S.A. de C.V., Aeropuerto de Minatitlan, S.A. de C.V., Aeropuerto de Oaxaca, S.A. de C.V., Aeropuerto de Tapachula, S.A. de C.V., Aeropuerto de Veracruz, S.A. de C.V., Aeropuerto de Villahermosa, S.A. de C.V., Triturados Basalticos y Derivados, S.A. de C.V., Copenhagen Airports, Cintra Concesiones de Infraestructuras de Transporte, S.A., Groupe GTM, S.A., ITA, Bancomext, ASA and Fernando Chico Pardo, English translation.

4.5	Technical Assistance and Transfer of Technology Agreement among the Company, Servicios Aeroportuarios del Sureste, S.A. de C.V., Aeropuerto de Cancun, S.A. de C.V., Aeropuerto de Cozumel, S.A. de C.V., Aeropuerto de Huatulco, S.A. de C.V., Aeropuerto de Merida, S.A. de C.V., Aeropuerto de Minatitlan, S.A. de C.V., Aeropuerto de Oaxaca, S.A. de C.V., Aeropuerto de Tapachula, S.A. de C.V., Aeropuerto de Veracruz, S.A. de C.V., Aeropuerto de Villahermosa, S.A. de C.V., Triturados Basalticos y Derivados, S.A. de C.V., Copenhagen Airports, Cintra Concesiones de Infraestructuras de Transporte, S.A., VINCI, S.A. and ITA, together with an English translation (incorporated by reference to our registration statement on Form F-1 (File No. 333-12486) filed on September 7, 2000).
8.1	List of subsidiaries of the Company (incorporated by reference to our registration statement on Form F-1 (File No. 333-12486) filed on September 7, 2000).
11.1	Code of Ethics (incorporated by reference to our Form 20-F filed on June 16, 2004).
12.1	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certifications of Chief Financial Officer and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.