

**Grupo Aeroportuario del Sureste**  
**2Q13 Earnings Call Transcript**  
**July 23, 2013**  
**10:00 am ET; 9:00 am CT**

**Operator**

Good day, ladies and gentlemen, and welcome to the ASUR Second Quarter 2013 Results Conference Call. My name is Alicia and I'll be your operator. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session towards the end of the conference. If you would like to ask a question, please press \* followed by the digit 1. You may withdraw your question by pressing \* followed by the digit 2. If you are using a speaker, please lift the handset before making your selection. As a reminder today's call is being recorded.

For opening remarks and introductions, I'd like to turn this call over to Mr. Adolfo Castro, Chief Executive Officer. Please proceed.

**Adolfo Castro, ASUR Chief Executive Officer:** Thank you, Alicia, and good morning, everybody. Thank you for joining us today for the conference call to discuss our second quarter 2013 results.

Allow me to remind you that certain statements made during the course of our discussion today may constitute forward-looking statements, which are based on current management expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to differ materially, including factors that may be beyond our Company's control. For an explanation of these risks, please refer to our filings with the Securities and Exchange Commission and the Mexican Stock Exchange.

I will start today's call by providing an update on San Juan Puerto Rico International Airport and afterwards, I will briefly review the results for the quarter.

Total passenger traffic at San Juan airport airport was 2.1 million during the quarter, reaching an accumulated 2.9 million since February 28, 2013.

On the financial front, Aerostar's net income contribution for ASUR's 50% ownership stake for the quarter was a net gain of Ps.26.8 million, equivalent to approximately US\$2 million.

Results were also impacted by a foreign exchange loss of Ps.76.5 million and a Ps.77.1 million gain in stockholders' equity. This reflects the impact of the depreciation of the Mexican peso against the US dollar on the valuation of Aerostar's capital stock, Aerostar's indebtedness with Cancun airport, as well as on Cancun airport's higher foreign currency denominated bank debt.

In terms of the work being done at Aerostar, during the quarter we focused on repairing, cleaning and performing maintenance of a sizeable portion of San Juan Airport's infrastructure. We also began preparation work in connection with the remodeling of San Juan terminals, which is expected to begin this November and continue for approximately three years.

Moving on to our consolidated results, passenger traffic increased almost 10% year-on-year, with a 6% expansion in domestic traffic to 2.3 million passengers this quarter, a record for us in a second quarter.

Domestic traffic was particularly strong at Cancun, Veracruz, Merida, Minatitlan, Oaxaca and Villahermosa airports. Cancun continues to post strong growth, again posting a record traffic figure with more than 1.2 million passengers this quarter. As we have been seeing since the third quarter of 2011, the smaller airports remain affected by the limited domestic airline fleet capacity, although the situation is getting better.

International traffic performed very well this quarter, up by 12.9% year-on-year and reaching 2.9 million passengers, a record for a second quarter. The share of international traffic rose to 56.1% of total traffic, up from 54.6% in the second quarter of 2012. Passenger traffic between Mexico, Canada and the United States, represented 87.81% of the total traffic compared with 88.61% a year ago.

Revenues rose 0.6% as higher passenger traffic and the continued expansion in commercial revenues was in large part offset by the 49% decline in construction services revenues. Commercial revenues per passenger, however, fell 1.3% to Ps.74.08, year-on-year.

Two factors affected the growth of our commercial revenues per passenger. One was the depreciation of the Mexican peso against the US dollar and the other was capacity constraints at Cancun's Terminal 2 in light of the continued strong traffic growth. As always, we remain focused on maximizing commercial revenue growth opportunities and are actively working to change the negative trend we have seen since the beginning of the year. For example, we are finalizing work at Cancun airport's Terminal 1 and expect to

open this terminal by October this year, which will allow us to better service domestic passengers and to improve the shopping experience at this airport.

Operating cost and expenses declined 8.4% year-on-year reflecting the 49% reduction in construction cost. Excluding construction costs, operating costs and expenses would have increased 6%.

EBITDA was up by 8.8%, with an EBITDA margin increase of around 470 basis points year-on-year to 62.70%. We made investments of 102 million pesos this quarter as we continue with the terminal expansion in Huatulco, Oaxaca, Villahermosa and Veracruz airports, all of which are expected to be completed during the year 2013.

In terms of our balance sheet, we closed the quarter with cash and cash equivalents of 1.9 billion pesos and bank debt of 2.9 billion pesos. During the quarter, we also paid an ordinary cash dividend of 4 pesos per share.

Now, let me open the floor for questions. Please Alicia, go ahead.

**Operator:** Once again, that's star one if you have a question at this time. Star, one please. We'll go first to Eduardo Couto from Morgan Stanley.

**Eduardo Couto:** Hi, good morning, Adolfo. Congratulations on the results. I have two questions, if I may. The first one regarding Puerto Rico. In the first quarter, excluding the one-off expense that you had there, you are reporting losses around 8 million pesos per month, more or less, if I'm not wrong; and now in the second quarter, you had like the same value, but more or less the same value but it was a gain. So, can you explain a little bit if this gain from Puerto Rico is recurrent? Or, if there is any FX impact there, Adolfo, just to clarify?

**Adolfo Castro:** Well first of all, thank you for your words. It's hard for me to say what would be the future in terms of the rest of the year for Puerto Rico because as you may recall, we do not have a clear history of what has happened last year in terms of the passenger traffic, so we do not have exact or accurate figures for the last year of operations. That means that we do not have the exact seasonality of the airport down there, so it's hard for me to forecast for the moment what will be the rest of the year.

What I believe is that the seasonality of Puerto Rico should be more or less the same as the one that we have in Cancun, which the first part of the year

is the most important so the first part is higher than the second one, the second one is higher than the third one, and the third one is higher than the fourth one. But, to be honest, I am not sure if this is the case or not and what will be, and then the result of the rest of the year. It's very hard for me to forecast that.

What I can say to you is that the second quarter in terms of the operational costs was better than the first one, and of course revenue in terms of the commercial revenue, Puerto Rico was better revenue per passenger. So, I hope that the numbers we saw in the second quarter will be more or less what we expect for the following quarters, but it's very hard to have a precise number.

**Eduardo Couto:** Okay, but the FX impact of the dollar assets that you have there, they go directly through equity, right? They don't pass on this equity income line. Is that right?

**Adolfo Castro:** Okay, that's right. Let me talk about the exchange loss or gain and the effect in the case of ASUR. As you may recall, the investment we made in terms of Puerto Rico was US\$118 million. Also we gave—well, Cancun Airport gave San Juan Puerto Rico a loan of US\$100 million, so on the equity side, you have 218, and on the debt side we requested a loan to BBVA Bancomer and Merrill Lynch, a loan of total US\$215 million. So, more or less you have the same on the equity – well, on the asset side, and in the case of the loan on the equity side. But, the difference in terms of how the gain is applied is that in the case of the investment, the impact of investment is in the equity contribution directly and the case of the debt goes into the P&L of ASUR. So that's why you can see a loss in the P&L of ASUR during this quarter, and on the other side, the gain appears on the capital contribution.

**Eduardo Couto:** Okay. So, the FX impact on your—on Puerto Rico debt, this FX impact goes in your results. That's your point?

**Adolfo Castro:** Well, the FX for an exchange loss or exchange gain in the case of San Juan Puerto Rico, the most important goes into the financial results of ASUR.

**Eduardo Couto:** Okay, okay. And, what's your net debt position in Puerto Rico right now, Adolfo? Do you have this number?

**Adolfo Castro:** Yes. On top of the 100 million, remember that we issued bonds, it was a private placement of US\$350 million.

**Eduardo Couto:** Okay, 350.

**Adolfo Castro:** 350, and the rate is 5.75%

**Eduardo Couto:** Okay. And, just a second question now on ASUR's operations, especially in the case of Cancun. Can you remind us what is the current capacity that you have -- terminal capacity -- that you have in Cancun, including this reopen of the Terminal 1 that you mentioned that could happen in October? And also, you know, it's in the back of investments for Cancun, when do you see the need for a new terminal or the expansions of the existing ones? When does the Company see maybe the requirement of additional investments in terms of terminal capacity?

**Adolfo Castro:** Okay. In terms of—let me start with passenger traffic, more or less what we have for the last 12 months is more than 15 million passengers. If we talk about runway capacity, we have more or less 30 million. If we talk about terminal capacity, we have more or less 17 million. Of this 17 million, Terminal 1, which is the one that we intend to open during October this year, it's more or less 2 million, so the other two terminals are basically reaching its full capacity, and that is why probably one of the reasons why we are not enabled to convert all the passenger traffic into commercial revenues per passenger because of this congestion. So, the intention is to open Terminal 1 in October that will give some kind of relief to Terminal 2. Then we will start at the beginning of next year with the expansion of Terminal 3, and we intend in terms of, of course, in future passenger traffic flow, we intend to start the beginning of the work for Terminal 4 during the year 2017 or '18.

**Eduardo Couto:** Okay, so it can still be included on your next investment cycle that puts this—

**Adolfo Castro:** Yes, for sure, at least a piece of the new Terminal 4 is going to be included in our next five-year period.

**Eduardo Couto:** And, the capacity in—again, in terms of the terminal capacity for this new one?

**Adolfo Castro:** It will depend again on what will be the expansion of Terminal 3, but we say that the expansion of Terminal 3 is 6 million, the new Terminal 4, Phase 1 should be more or less the same as the capacity we have in Terminal 3 today, which is more or less 6 million passengers.

**Eduardo Couto:** Okay, thanks Adolfo. Very helpful.

**Adolfo Castro:** You're welcome.

**Operator:** I'll go next to Bernardo Velez of GBM.

**Bernardo Velez:** Hi, good morning. I was wondering, Adolfo, if you could provide us with a little bit more insight regarding the tax reimbursement.

**Adolfo Castro:** The tax reimbursement?

**Bernardo Velez:** Yes, the tax reimbursement that you received this quarter regarding the change in the concession amortization rate?

**Adolfo Castro:** Okay. It's not exactly a tax reimbursement it is basically an effect on the P&L but does not have to do with the cash, but basically it was decided to use the program that was presented by the Minister of Finance (inaudible) change the disposition rate and to reduce that, and basically to be able to have that expense for the future, and that created the effect that you are seeing in the P&L, a positive effect on the taxes, and also together with a positive effect on deferred tax.

**Bernardo Velez:** Oh, okay. Perfect. You mentioned in your press release that you were active on new international bidding projects. Could you give us a bit more insight on this?

**Adolfo Castro:** Well, we are working in one specific project. We are trying to be participant there, which is the central terminal of the airport in La Guardia, New York.

**Bernardo Velez:** Okay, perfect. Thank you.

**Adolfo Castro:** You're welcome.

**Operator:** I'll go next to Stephen Trent of Citi.

**Stephen Trent:** Good morning Adolfo, and thank you as always for the time. Just two or three for me, some quick ones. I think the first is with respect to President Peña Nieto's infrastructure plans, you know, there seems to be a lot out there, including some potential news of a Mérida to Maya Riviera train and maybe some more airports. I'm wondering if you could give us sort of

your broad view as to how you see ASUR either participating in these plans or what could be the general impact on the business. That would be great.

**Adolfo Castro:** Okay, good morning Steve. The projects that you are mentioning, the one that is clear is the train that goes from Punta Venado to Mérida, and this is a project that has been announced by the President. They are talking about that project as a Phase 1 project, that's the one that is closest to our region.

In terms of what they have announced is basically the remodeling of six airports and the completion of one, which is Palenque. The previous (inaudible) government was working in the new Palenque airport, which is close to Villahermosa, and what they are expecting these plans to conclude with that airport is that it's an airport that will serve the tourist region of Palenque. Those two are the most important airport projects I see in their plans, but I have to say that I was at the meeting where they announced this plan, and the words from the Secretary of Communications and Transport were as well in terms of the Mexico City airport, and basically they said that they are working as well to solve the congestion this airport has. That's basically the important projects. For the moment, I do not expect a major impact on our Company's results.

**Stephen Trent:** Okay, great. Thank you, Adolfo. And, just one or two questions on San Juan. I guess the first is from a disclosure perspective. Some of your peers, of course, as you guys are adhering to IFRS rules on accounting for some items under the equity method, but some of those peers are also providing data on a proportionally consolidated basis. Do you think this is something that ASUR might move to going forward, especially if you guys decide to buy some of Highstar's stake in San Juan?

**Adolfo Castro:** Too many questions there, but basically I would say, we need to understand what's the current of San Juan first. As I said before, we do not have these results. It's hard to (inaudible) numbers and then to try to compare that with the previous ones because I don't have previous ones.

The second comment is that today as we speak, we have no financial statements audited, so we do not have that. It's hard to think about the next step. And the third one is, as you have mentioned, we have a partner there and then we will have to talk about the disclosure we may have on San Juan Puerto Rico's numbers because they would have to approve our disclosure first.

If we are going to buy Highstar Capital's, what I can say to you is probably in the future that it will consider to sell its participation because they are a (inaudible). That future may be between seven to 10 years.

**Stephen Trent:** Understood. Well, appreciate your candor as always, Adolfo, and I'll let somebody else ask a question.

**Adolfo Castro:** Okay, thank you Steve.

**Stephen Trent:** Thank you.

**Operator:** Once again, that's star, one if you have a question over the phone lines – star, one. Again, that's star, one to ask a question.

We'll go next to Eugenio Amador of Credit Suisse.

**Eugenio Amador:** Yes, good morning Adolfo. Thank you for the call. My question is regarding your—the insight, if you could provide it, regarding your next quinquennial cap ex plan. In your year-end report, you have an indicative investment of 2.2 billion pesos for the 2014 – 2018 five-year plan, which is about 51% below the 4.785 billion of 2009 – 2013. Do you still—in the ongoing negotiations, is this still an indicative number? And second, how do you feel this could impact maximum tariffs going forward for your next quinquennial plan.

**Adolfo Castro:** Okay. The number that you have mentioned is an indicative and that was the one that was in the year 2006, more or less. Most of the number that you are mentioning in pesos of December 2006, so you can add inflation on top of that number.

As we speak, we are working with the government to review the proposal we presented last year. I have to say to you that the government will conclude its visits to our nine airports next week – there's one outstanding. Once they conclude, then we will be able to talk in more detail about the investment plan. For the moment, we do not have any comment or anything different than the plan we presented to them.

If this is going to affect the rates, of course, the rates are the result of the numbers we put in terms of investment plan. If the final number of the maximum rates for the next five years are going to be more than what we have today or less than what we have today, that is something that we will have to see by the end of the year, and I hope that we will be able to share

that information with you at the beginning of next year, so the first week of January next year.

**Eugenio Amador:** Thank you, Adolfo.

**Adolfo Castro:** You're welcome.

**Operator:** We'll go next to Eduardo Couto of Morgan Stanley.

**Eduardo Couto:** Hi Adolfo, just a follow-up question on the income tax side. Now on your financial statement, you reported almost—something close to zero in terms of income taxes. I was just wondering what is your actual cash tax payment. I don't know if you have this number in the top of your head, but something to share with that, you know, cash tax instead of the income tax that we see on the results.

**Adolfo Castro:** I don't have it in the top of my head, but what I recommend to you is to see the financial statements of last year and to see specifically in the cash flow, the cash tax payment there.

**Eduardo Couto:** Okay, but you are paying taxes, right, in terms of cash outflow?

**Adolfo Castro:** Absolutely.

**Eduardo Couto:** Okay. Thanks.

**Adolfo Castro:** You're welcome.

**Operator:** Once again, that's star, one to ask a question – star, one please. That's star, one if you have a question at this time.

At this time, I would like to turn the call back over to Mr. Castro since we have no further questions.

**Adolfo Castro:** Thank you, Alicia, and thank you everybody for joining us today on our conference call. As always, do not hesitate to contact me if there is any further question, and thank all of you and have a good day. Goodbye.

**Operator:** That does conclude today's conference. We thank you for your participation.