

# Question and Answer

## Operator

Ladies and gentlemen, welcome to the question session. (Operator instructions). Your first question comes from the line of Geoff Zame from Craigs Investment Partners. Go ahead please.

## Geoff Zame

*Craigs Investment Partners*

Good afternoon. I just wanted, can you, so I might have missed some of this at the start of the call, but could you talk a little bit about the outlook for in QA? Just in terms of, I mean the EBITDA growth is quite strong another refinance during the year. Is just sort of what your expectations are there?

## Simon D. Robertson

*Former Chief Financial Officer*

Yeah, Jeff, Simon Robertson here. We still believe that in QA here is still a lot of growth potential. We expect that both to come through in passenger volumes, but also in growing EBITDA performance. We've given some guidance previously on that for not FY '12, but for FY '13 in terms of our milestones. I think you can start to take a path towards the FY '13 milestone as a benchmark for performance of in QA for FY '12.

## Simon Moutter

Yeah and I think slightly with the Japan issues, Japan is a very big market for kids. I think we've got to, we're likely to have a sort of tougher beginning to this year I think as we rebuild momentum out of Japan, but that's still confident of hitting the numbers that made FY '12.

## Geoff Zame

*Craigs Investment Partners*

Yeah. The only other thing I just want to touch on was just in terms of the Rugby World Cup and retail spend per passenger. Any sort of insights there in terms of the composition of the likely visitors and the opportunities there to sort of really drive that metric?

## Simon Moutter

Yeah, flogging lots of day to day jerseys do you think? Look, to be frank, no, we don't. We'll do our best to pitch the market as it appears, but it's very, we don't have any real predictions on that and what we've got now in our retail capability is a reasonably dynamic process that responds quite quickly to travel patterns and behavior and we work very hard with our top retailers to adjust their offering quite quickly. So we'll certainly look to maximize, but I think our ability to predict that pattern is a bit weak really to be honest.

## Geoff Zame

*Craigs Investment Partners*

Okay. Just finally for me, just on my pet subject, just the night lights on Queensland airport? You think that they're on?

## Simon Moutter

The night lights are working. We've just got to get an airline willing to fly, but the lights are on.

## Geoff Zame

*Craigs Investment Partners*

Okay. Thanks guys.

## Operator

Your next question comes from the line of Wade Gardiner from UBS. Go ahead please.

**Wade Gardiner**  
UBS

Hi guys. Just a question on the sort of sustained 25 million you're talking about on the existing domestic terminal. What exactly are you envisaging doing and how do you get a long term return on that when the terminal might be closed a few short years after that?

**Simon Moutter**

Yeah, Wade, look, we think we can reorient passenger flows in the terminal to sort of shift it from sort of regional one end of mixed arrivals and departures through the terminal to a terminal that has sort of a more regional lean with more of a departures focus of wanting to run arrivals at the other by sort of tweaking it around, which will make the flow a bit more sensible, buy us a bit of time on the full court which is heavily congested because of the confusion of activity and just get the directional flows and avoid the crossovers of passenger movements in what is a very narrow terminal layout.

So it's sort of the broad thinking which has the broad support of Air New Zealand. In fact a lot of the thinking is theirs. So to give them credit, they came up with a lot of the logic around that and we like the look of it. In terms of the returns is clearly any spend there will have a very short life, but on that basis we will only spin it if it has a very short payback. So it will be obviously a price impact on aeronautical charges that get a recovery of both the capital and a return on that capital in a very short timeframe and next year we'll be handling it. So no one is going to spend that money. At least these are means of getting a decent return on it.

**Wade Gardiner**  
UBS

Where are you at with negotiations with Air New Zealand on that?

**Simon Moutter**

As I said we're in a constructive conversation with our airline partners. Thank you. Next question?

**Operator**

Thank you. Your next question comes from the line of Jeremy Simpson from Forsyth Barr. Go ahead please.

**Jeremy Simpson**  
Forsyth Barr

Good afternoon guys. Just a couple of things really. The passenger growth like you said held up very well considering the weakness at the long haul market and also the weak domestic market. You had very strong growth in New Zealanders traveling internationally and just wondering what your thoughts are around that with given whether this how that's tracked in the first month and a half and also whether you see any risks around that near term, maybe there were some catch ups that paralyzed by people post the recession this year, whether you think that's a trend where you get good growth out of the next couple of years?

**Simon Moutter**

Well, I don't know Jeremy. You got the profit wrong by 100,000 on the pick yesterday. Look, it's really hard to know what those pings, how much they're impacted by the one-offs, how much is pent up demand. So hard to say, but sort of over the course of the year we had 6% out there on growth. So there's no reason to believe that that trend that established last year is going to roll off. The reasonable value of the NZD dollar is, we would expect it to be a contributor to New Zealander's appetite to travel at the moment and we've often talked about that sort of natural hedge we have of when the dollar is weak you get more inbound, when the dollar is high you get more outbound. So it's hard to say if it's much at

risk, but it's hard to see what would change the current trend. I don't know Simon if you've got to add to that.

**Simon D. Robertson**

*Former Chief Financial Officer*

Well, the only thing I would add would be that in the first period New Zealand outbound has still remained robust, strong. So that's as good as guide as we've got to the start of this financial year.

**Jeremy Simpson**

*Forsyth Barr*

Okay, thanks and just on margins, you commented about some of the increased marketing costs and things. Do you think it's possible to get back to the EBITDA top margins that you had a few years ago or is it sort of being quite a shift in terms of the structure?

**Simon D. Robertson**

*Former Chief Financial Officer*

I think we'll see improvements in margins going forward. I think down at 75. That's about as low as I expect them to get. I think we'll see steady improvements in the margins going forward. It's more is our ability to grow revenue faster than expense growth.

**Jeremy Simpson**

*Forsyth Barr*

And just lastly, the (inaudible) the old terminal space, domestic terminal space become? Can you, NZ go into commercial property at that point or do you have to use it as the aeronautical stiff?

**Simon Moutter**

On the future master plan we see that whole precinct is for aeronautical servicing of cargo, flight catering, all of that, sort of the stuff that needs E side axis belongs there. We do want to move the people-centric operations away from there. So we want the public into the terminal zone in between the runways with the international terminals to increase the intensity of people activity up there which enables us to build up properly development focus around that and for that area to basically cease utilization as a scheduled aircraft passenger terminal. That's the intention so I think you would see it, the used long term for some non-scheduled stuff. You could put corporate jets, all things around there or certainly other aviation uses, freight etc.

**Jeremy Simpson**

*Forsyth Barr*

Thanks guys.

**Operator**

Thank you. Next question comes from the line of Marcus Curley from Goldman Sachs. Go ahead please.

**Marcus Curley**

*Goldman Sachs*

Good afternoon. Just a few if I can. First of all on the retail performance, when you look at the chat that you've got on the peak, it looked like performance sort of peaked in May. If you sort of annualized where you got to in May, is that still suggesting? It looks like it's suggesting mid to high single digit growth and spin rates in FY '12?

**Simon Moutter**

I think at the moment Marcus, don't forget June we had all the ash cloud stuff and so I think it's hard to contemplate June as a sort of moving off the peak, but we're still at the moment still seeing solid double digit performance and we're starting to let some of the new build. So it's very encouraging. We thought it

might start to come off but so far as Simon said I think as we're getting better at utilizing the space and fine tuning and the public are getting used to it. We're still seeing quite strong growth. So obviously we'll have an update on it the next briefing.

**Simon D. Robertson**

*Former Chief Financial Officer*

I think just to add is that the duty free component that opened in May of the previous year. So and we'll certainly let that period and as you're well aware that's a strong area of our retail performance, but that being said, the whole passenger spin rates covering the rest of the facilities there, we're still expecting strong growth until again we can start to leap that previous performance and which will be around December. Then probably we'll see a lowering of the growth rate, but we're still expecting growth.

**Marcus Curley**

*Goldman Sachs*

Thanks and you obviously announced, you have the first details on the regulatory asset base. When you look at those numbers for FY '09, have you given any thought to what that means for the next sort of agreements on aeronautical charges you have historically the airport sort of targeted inflation like increases? Is there any reason you're not to assume based on those asset values that that type of thing not achievable in the future?

**Simon D. Robertson**

*Former Chief Financial Officer*

Well Marcus, I think we are at now is we're just kick starting our aeronautical consultation process to establish pricing for beginning 1 July, 2012. So I think right now it would be actually inappropriate for me to give any specifics around that. We've got a consultation process to go through and we've got an open mind on that consultation outcomes. So we will brief you and the market as we near completion of that and have firmer views around the outcomes and the results from the consultation process.

**Marcus Curley**

*Goldman Sachs*

And just on the cost base outside of depreciation, can you give some color on what depreciations are like in the business at the moment and when we'd assume insurance cost are probably going up this year as well?

**Simon D. Robertson**

*Former Chief Financial Officer*

Yeah. That's fair to say that insurance costs are going up. So we keep challenging Charles Spillane to keep delivering better and better outcomes on our insurance and as stellar a guy he is at delivering good results. He'll be particularly challenged on insurance, but some parts of our insurance covered multi years so we won't see all of the impact in FY '12. Some parts we will see an increase and they're substantial but they're only parts of the insurance portfolio.

Other pressures will have a normal I guess wage pressures that we would expect, but broadly we'd be trying to keep a lid on expenses over the next year. We have had a fairly sizeable finish in terms of consulting expenses is one area and legal with regards to say Queenstown consulting on the valuation of Essex etc. They are not expected to continue so hopefully we can get some relief from those non-recurring items.

**Marcus Curley**

*Goldman Sachs*

And then just finally, Simon, could you just give us some guidance on the average interest cost outlook for '12?

**Simon D. Robertson**

*Former Chief Financial Officer*

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Do you know what the Reserve Bank in New Zealand is going to do? No, we would expect interest rates along with the market to start increasing later in the year and so we will expect some modest increases in the underlying interest rates. However, offsetting that, we'll still see some few of those slots drop off during the year. So we expect a modest increase in our average interest cost.

**Marcus Curley**  
*Goldman Sachs*

Okay, thanks.

**Operator**

Thank you. Next question comes from the line of Carolyn Holmes from JPMorgan. Go ahead please.

**Carolyn Holmes**  
*JPMorgan*

Guys have taken most of my questions, but in terms of just the implication of renegotiating the new charges with the airlines as of the 1st of July next year, do I read into that that I should be factoring in the start of the capital works shouldn't really commence until after that's started? Or that's basically going into the FY '13 year?

**Simon Moutter**

Look, I think it's too early to read anything much into that Carolyn, and look, the pricing, the consultation process will run quite hard up to Christmas and would start I think to begin to near its conclusion at around that time. During that time we won't, we would only be advancing sort of planning and conceptual design of this transition. So it's certainly not plausible that we'd be starting to do material building works. We are doing some things like geotechnical surveys and have been doing that around the areas where construction work will continue, but that's pretty small bear in the construction scene. So I think we'd want to see these two things coming together before we would commit to too much in the construction scenes.

**Carolyn Holmes**  
*JPMorgan*

Okay.

**Operator**

Thank you. Next question comes from the line of Rob Bode from First NZ. Go ahead please.

**Rob Bode**  
*First NZ Capital*

First NZ. Hi, Simon. Simon, I'm starting to get into the kind of nitty gritty in terms of the questions. Just on the regulatory asset by, it's just that you've presented the position from 2009. Can you give us just a broad idea of how much that left between 2009 to 2011 in terms of the roll forward?

**Simon D. Robertson**  
*Former Chief Financial Officer*

Well, still there's some work to be done there, Rob. So the valuation reports have only just been finalized. There's more work to be done and those to be ordered to, but if you do take a look at the movements in the land, the current years between '09 and '11, that's going to play a part upwards. So will the CPI adjustments to the specialized assets. Still would be work through some of the roll forwards. It is likely that depreciation from '09 to '11 will be higher actually than the capital expenditure during that period. My expectation around this is probably in excess of 1.1 billion between that and 1.15 probably, but there's still more work to be done in that area, Rob.

**Rob Bode**  
*First NZ Capital*

No, that was all I was looking for. Just on the depreciation, there were the comments regarding the increase this year. Is that the increase from the reevaluation? Is that 6 million or was that the total increase?

**Simon D. Robertson**

*Former Chief Financial Officer*

I don't quite understand what you're meaning there.

**Rob Bode**

*First NZ Capital*

I wasn't sure if I heard it correctly that the reevaluation, did the reevaluation drive a 6 million increase in the next year or is it total increase in depreciation 6 million?

**Simon D. Robertson**

*Former Chief Financial Officer*

The reevaluation drives the 6 million increase in depreciation.

**Rob Bode**

*First NZ Capital*

So depreciation might increase it slightly, wouldn't it?

**Simon D. Robertson**

*Former Chief Financial Officer*

Yeah. If you think about the current CapEx though in terms of the 80 million guidance, a lot of that will be in the investment property areas so it doesn't come with depreciation and a lot of it may also be under construction through most of the period to 2012. So other depreciation increases for new additions is not likely to be significant.

**Rob Bode**

*First NZ Capital*

Sure. Just on that CapEx of 80 million in terms of the guidance, how much of that is property development related?

**Simon D. Robertson**

*Former Chief Financial Officer*

About half.

**Rob Bode**

*First NZ Capital*

Okay and just a couple of questions on your associates to the extent you were able to answer them, the North Queensland net debt levels, whereabouts are they sitting at the moment?

**Simon D. Robertson**

*Former Chief Financial Officer*

About 440 million.

**Rob Bode**

*First NZ Capital*

And can you give a rough idea of the write that you're expecting to pay on that next year?

**Simon D. Robertson**

*Former Chief Financial Officer*

As in interest rate?

**Rob Bode**

*First NZ Capital*

Just a rough idea.

**Simon D. Robertson**

*Former Chief Financial Officer*

I think if you ever get into the real detail now in terms of the financial statement, not disclosure. What I can say because I'm always mindful of the other shareholders here, we have given an interest expense number for 2011. It is our expectation that the interest rate as a percentage will decrease slightly from what has been paid in 2011.

**Rob Bode**

*First NZ Capital*

Okay and just on Queenstown, there was quite a jump in expenses 30 odd percent. Are there non-recurring items in there?

**Simon D. Robertson**

*Former Chief Financial Officer*

Yeah. There is a mixture of items in there. One of it was legal costs that Queenstown Airport incurred with regards to some of the challenges that were put in place with regards to our shareholding. They've also hit the performance on consulting work around trying to manage passenger flows within the terminal. I guess that's one of the challenges when you have a 50% increase in international passenger numbers. It does place a bit of pressure on the business. They were the predominant reasons for the increase in cost there, so not all expected to continue there, Rob.

**Rob Bode**

*First NZ Capital*

Thanks, Simon. That's all I had.

**Operator**

Thank you. Next question comes from the line of Luke Macnab from RBS. Go ahead please.

**Luke Macnab**

*RBS*

Hi guys. Just wondering if you could provide bright on the revenue growth between increase capture through the retail pricing and increase spend for packs.

**Simon D. Robertson**

*Former Chief Financial Officer*

We don't give passenger spin rates for the retail numbers in terms of detail. So unfortunately Luke the answer to that is no.

**Luke Macnab**

*RBS*

Are you able to give like just the split of the increase in relative cents?

**Simon D. Robertson**

*Former Chief Financial Officer*

Well, you can have a look and think of what is the passenger volume growth. Think about that with regards to then what is needed on top of that to get the passenger spin rate growth. The graph that we've

provided there gave a percentage year-on-year increase in passenger spin rates across the international terminal. The problem is you don't know the base and...

**Luke Macnab**

*RBS*

Sorry. The chart on 22 is spin rates, isn't it?

**Simon D. Robertson**

*Former Chief Financial Officer*

Yeah. So that's passenger spin and the international terminal growth. So it says revenue growth, but it's not air revenue, so spend in the terminal.

**Luke Macnab**

*RBS*

Okay, sure. Just also had a quick question on the specific guidance written down in terms of the reevaluations that went through the P&L? Just curious as to which assets particularly were written down by the 60 mil.

**Simon D. Robertson**

*Former Chief Financial Officer*

There's a range, but one of the key components of that relates to the international terminal building. The valuer in assessing the international terminal building had a look and previously in 2006 the life of the Essex associated with the international terminal building was based on engineering life. The review of life in 2011 came to a different conclusion and so that actually the terminal develops faster than what the building is constructed for and if or shortened the average life and that had an impact on the ODRC values of the terminal and that was the dominant aspect with regards to buildings and why that remained flat and that flowed through into some of the components of that into reevaluations downwards for some components.

**Luke Macnab**

*RBS*

Thanks. Just finally, the increased marketing promotion spend, is that likely to remain sort of flat and you indicated a bit what it would be sort of put towards new routes. Is there any sort of timelines when that might taper off? Because that would have though tat the commission returned there or am I wrong on that?

**Simon Moutter**

We hope it doesn't taper off. At the end of that that's drive in growth. So while we've indicated certainly in strategy day, indicated we'd see it more in that order in the future. What we're hoping is that the growth that's been achieved tapers out of needing support or actually winning new customers who are going to put new routes on them or further expansion. So we'd expect if we do a good job that ought to say broadly around that number from here on.

**Luke Macnab**

*RBS*

Cool. Thanks guys.

**Operator**

Thank you. (Operator instructions). Next question comes from the line of Nachiket Moghe from Morningstar Research. Go ahead please.

**Nachiket Moghe**

*Morningstar Research*



Hi guys. Just a question on the guidance. What sort of passenger growth are you assuming in advance \$430 million for F12?

**Simon Moutter**

Sort of in the order of we would be, maybe a little higher, Simon?

**Simon D. Robertson**

*Former Chief Financial Officer*

Yeah. Next year I think the range we've given is quite wide enough. Passenger volumes for the low trend will be the low end of that, but we will need a substantial lift to be at the upper end of that is my view. But if we can achieve something like we've achieved on the last 12 months then that would be a great outcome.

**Nachiket Moghe**

*Morningstar Research*

Right and the other few ones, are you able to quantify the effect of the ash cloud for the month of June, May? What sort of impact did it have on the results, if any?

**Simon D. Robertson**

*Former Chief Financial Officer*

It definitely had an impact on results. We didn't quantify the exact amount, but I think just absolutely fair to say that we would have finished the year a touch stronger had it not been for the impacts of the cancellations of various flights during that period.

**Nachiket Moghe**

*Morningstar Research*

And the last question on the marketing and promotion cost, were they predominantly in the second half or was there any cost in the first half of that?

**Simon Moutter**

We had a lot of big new services starting in the second half. So you can see it's probably two thirds second half, one third first half and round numbers and just to be clear, it's not only air services development and marketing this, what we do on retail and packing is included in that number. So yeah, it's a more year around spin trend. But air services, the spend will tend to follow the inception of new services between the support requirements the highest and we have three quite big ones coming on in the second half.

**Simon D. Robertson**

*Former Chief Financial Officer*

It's time for one final question.

**Operator**

We have a follow up question from the line of Wade Gardiner from UBS. Go ahead please.

**Lance Reynolds**

*UBS*

Yeah, good day guys, it's actually Lance here. I don't know if Peter Alexander is available but this is a bit of a property question. The strategy that you guys hollowed some really good disclosure around the valuation of Peter's state, particularly the landing at about 60 bucks a meter. It would save then the notes for the reevaluation, you've put land for runways into the 100 a meter and you mentioned alternate use. Could you just kind of help me reconcile that firstly and second question is, that land evaluation that you did show us or I guess the property for development of 180 million, has that been reevaluated up and could you give me the adjusted numbers for the total value for that estate and also the permit of it? Thanks.

**Simon D. Robertson**

*Former Chief Financial Officer*

Peter isn't here is the short answer. I'd prefer to take that question offline Lance and if you want to give me a call later I'll see if Peter is around and we can talk about valuation generally.

**Lance Reynolds**

*UBS*

Cheers. Thanks mate.

**Simon Moutter**

Well, thank you very much everyone for participating in the call. Look forward to talking to you again in the future sometime. Cheers. Thank you.