

Question and Answer

Operator

Your first question comes from the line of Paul Turnbull from First NZ Capital.

Paul Turnbull

Jarden Limited, Research Division

And just I want to cover up on the long-term incentive balance accruals, the number in the balance sheet, is that likely to stay around that level in fiscal '14, and I guess what I am getting at here is I am trying to understand the one-off nature of the \$5 million payment?

Simon D. Robertson

Former Chief Financial Officer

Simon here, good morning. I wish I could have a crystal ball to tell you what the share price will do. I think most of this would be absolutely delighted if that accrual goes up significantly, because what that would mean is that now you have been incredibly well rewarded with very strong share price growth and that would indicate that the company performance has done a great job to direct it.

So very difficult to predict the future, but there is very strong alignment, what I would say is at the moment we are seeing since 2009 market kept increases of in excess of \$2 billion on our stock. So far cash payments under [indiscernible] 2 million. So that still a very, very small fraction of that wealth, it seems, so I think investors should be very much focused on what happens to share price growth not necessarily what the accrual will be, but we do note, yes it was a really large significant bottom that it will be in this size [ph] of the recent years.

Paul Turnbull

Jarden Limited, Research Division

Okay. Secondly, just in terms of on aeronautical growth initiatives. Can you go into a little bit more detail on what you've got planned to retail, particularly I guess and lot of it that continue to be future risk tobacco concessions in this country?

Adrian Littlewood

Chief Executive Officer

Yes. Paul, I'll talk to that, Adrian here. Towards the challenge that we have to deal with, I think there is a couple of things I would say. Number one we already have a great retail business, but we still can miss potential and I think you got that signal around penetration. We have incredible information now about what goes on in our retail businesses and so we're working very closely with the retail in terms of how we can lift that performance and we've seen some initiatives during the year that has really made a marked difference and it's really tactical simple stuff like we're in a \$60 bond [ph] promotion, that went incredibly well. And yes, really unlocked without any material changes and any rules or any new retailers just show that there's more potential in that if we can get that right.

I think combined with it we need to keep broadening I guess the range of the category of products and services that we have and that's about diversifying our base of products because we again know there are things that we don't have today. So we're looking at categories about luxury in other markets, but we can add things to broaden the range of products and category that we carry.

Then thirdly, I'd say adding incremental space, we do have demand for space, we have highly productive retailers. So we can quite comfortably cope with more retail. The question is just where do you do it and how you do it but we got some ideas already that we're working on, on that front and then lastly, I think, it's just thinking about the potential to how do we unlock from the physical boundaries that we have in our business today. If we already have high-quality passengers coming through with time and money to spend, how do we tap into some of the relationships that we've already built with customers.

Operator

Your next question comes from the line of Andy Bowley from Forsyth Barr.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Couple of questions from me. The first around guidance, can you give us an idea of your assumptions that you use for international passenger growth in terms of bottom end of guidance [indiscernible]?

Simon D. Robertson

Former Chief Financial Officer

Andy, Simon here. Good morning to you. Guidance in terms of the range of possibilities, certainly if we had a higher range then we will be at the top end, it would take a very modest to be at lower end but we don't know what the markets going to do in the next little while. So we do know that some aeronautical pricing changes will help us, which is really to do with the passenger services charge which was 50% for people under 12 and they are going to the full charge in FY '14. So we do know we get a good start from that. So we think a broad range at this time of uncertainty, it is right; we hope to take the market as we progress through the year.

Adrian Littlewood

Chief Executive Officer

And to add to that quickly, as you know, we put a lot of effort into the redevelopment work. Obviously, some of those have incredibly long lead times and those times can change depending on the economic conditions that's in line with our operating and so again, part of that sort of broad range just sort of allowed some space to say well, we were not sure when some of this will actually show, we're working hard on some things but the actual timing can easily trip onto another year.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

What about asking in a slightly different way that in the context of the price part assumptions used for international passengers guide, I think it was from 3.6% for fiscal '14, would you in light of kind of the nature of most recent numbers coming in for international passenger growth be disappointed with 3.6% growth for this year?

Simon D. Robertson

Former Chief Financial Officer

Well, it's a great question. Yes, we would slightly be. So we did expect, Adrian referred to we are into the 6 weeks of international passenger numbers which was incredibly strong. But we did expect a very fast half in July and August that's the period where we lost the services but the market at that stage adjusted in New Zealand had directed some capacity into North America or the states last year so July and August are always going to be strong months so it's really about I think what happens as we move into the later in the year.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Okay, and then on the route development clearly this some of the -- now that even spending has been paid off in recent times, can you talk about how you expect markets in promotional cost to trend through in the next 12 months?

Adrian Littlewood

Chief Executive Officer

Look, it does depend on the opportunities and we do invest when the opportunities strike and as I said before the timing of those can often come forward. I'll give you a small example of that in the past year. We had an opportunity, a very short notice, to support China Southern what I call the midget for mill [ph]

flew down 300 or 400 agents to New Zealand that's one of the things you can never plan for but it was something we felt we needed to participate in and I am in no doubt that, that plus follow-up work we have been doing that lasted a while was part of the China Southern's growth and services into Auckland. So, you can't always predict it but we will treat it carefully that where we invest, we are very careful not to over invest and we always tag our investments very carefully. So it's a disciplined approach to how we go about it.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Okay then. And final question to Simon in terms of the CapEx guidance for this year, can you give us a sense how much is property development are recognized some property development that's already commenced is in there, I suspect the hotels in there and in effect can you give us a split of that 120 to 130?

Simon D. Robertson

Former Chief Financial Officer

Yes, absolutely. So in terms of the guidance, our property is around 50 million within that but yes that does include an assumption for part of the hotel incurring in 2014 but it also deals with panel [indiscernible] DHL, and other developments that are already underway, the fast food outlets, the shopping center upgrade but we have got some momentum building in this area so about 50 million is the property component.

Operator

And next question comes from the line of Marcus Curley from Goldman Sachs.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Good morning guys. Just a few from me. Just drilling down on the retail performance in the second half in the slide -- in the pack, it looks like your headline spin rates were down sort of 2% to 3% and your revenue per passenger was up and sort of 2% to 3%. So can you give a little bit color in terms of where the sort of additional support was coming from?

Simon D. Robertson

Former Chief Financial Officer

I guess part of that in remarks is as the consequence without contractual structure, we have minimum guarantee which under [indiscernible] business which is important and those are goods, I think also spin rate also depends on the yield as well, so we have different yielding products as part of our mix and tobacco is obviously a good yielding product and that is important, but we have managed to try and separate some of that's spin into other categories which is supporting and I think we got some incredible categories, 2 were the great examples I kept mentioning before and that is proving to be incredibly successful and so again it gives us confidence that, that spin can continue for the future and can continue to be valuable.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

It's also part of the answer the [indiscernible] does that going into that category?

Simon D. Robertson

Former Chief Financial Officer

No, it's in retail, that's very inappropriate.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Okay, and what sort of level of revenue came from the hotel?

Simon D. Robertson

Former Chief Financial Officer

Off the top of my head, I will get back to you on that one, Marcus.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Okay, and then just looking at staff cost again, how much related to Simon Moutter?

Simon D. Robertson

Former Chief Financial Officer

Nothing.

Adrian Littlewood

Chief Executive Officer

Simon still had some one branch of outstanding options that he can exercise. So the listing [ph] period is complete, but there is still conditions attached to that in terms of share price performance. As of yesterday they were still out of the money, but I guess there's an off chance they may be in the money, but and so just review your notes and some financial statements that was recently explicit I think actually on different components.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Right, I suppose and here is my question. So in terms of the amount that was associated with the long-term interest gain, none of that relates to stock options, how about Simon Moutter?

Simon D. Robertson

Former Chief Financial Officer

Now, I didn't mean to sort of --- I must inform you that's not what I mean. And so overall it's looking at the portfolio of options really. So all that is one component, but yes there is a component to debt accrual what relates to any end of the job and there is one transit that must move ahead. But by far, they are the bigger tranches related to current employee that we believe in.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And if we move and I'll give you an example if you move to a more mid-size normalize to a 10% share price performance a year, could you give us feel in terms of way that sort of provisioning with [indiscernible] is it guys \$1 million or is it what so labor would it go to under that sort of scenario?

Simon D. Robertson

Former Chief Financial Officer

And I think I'll let you make assessments around that there is number of options around that disclosure, that just about all in the money or practically in the money. So you can work at what team improvement[ph] would be.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Right, [inaudible].

Adrian Littlewood

Chief Executive Officer

I think it can be a bit more simple than that because they are all in money, once improvement in share price we think we will once see movement in payout, you need to adjust the time.

Simon D. Robertson

Former Chief Financial Officer

Obviously, Marcus, that changes every year. Obviously, new options become eligible. So it's not an exact science, as you know some of that requires calculation as well as judgment.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Sure, I am just trying with cap rate. As you well know, what I am a fair assumption is going forward given the scheme. And recruitment cost within the staff line, you called that out. Can you give us any color on what are these in terms of amount?

Adrian Littlewood

Chief Executive Officer

The increase was broadly, I think about \$0.5 million so for CO in the current recruitment underway for leadership team in this market.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And then just on the interest cost outlook. Simon, could you give us any color in terms of what you think the average interest cost? What were they in the year just finished and where do you see it going in '14?

Simon D. Robertson

Former Chief Financial Officer

Yes, so that's 6.2% in the year just gone. I would suggest we might be able to creep that down towards 6%, but then we will start to plate[ph] out that we would all assume.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And then finally, you gave some color on the property CapEx. Can you give a little color in terms of what's happening on the aeronautical side? Obviously, it's closed over the terminal, domestic terminal.

Simon D. Robertson

Former Chief Financial Officer

Marcus, Simon here again. So the aeronautical component is significant part of that both still the domestic terminal refurbishment, which is just what Adrian referred to. That's probably about 1/3 of the aeronautical component so we did list that in the financial report section a bit of a breakdown between aeronautical property retail and other aeronautical within, again I think from memory, was about 67, so about a third of that is the domestic terminal refurbishment, but equally where U.S. have ongoing slab replacement, the concrete slabs of the runway and also investing in some risky far equipment both in terms of vehicles and marine fleet replacement.

And we are also upgrading an air bridge to deal with the A380 coming in from Brisbane so putting an new [indiscernible] average on that end of that [indiscernible]. So that would be the more sizable components with the net aeronautical. I think from [indiscernible] perspective, if you think back to aeronautical pricing, we don't, in the assumptions made and CapEx, we don't have any material movement from that 5 year plan in terms of total quantum expected and over the whole 5 year period.

Operator

Your next question comes from the line of Lance Reynolds from UBS.

Lance Reynolds

UBS Investment Bank, Research Division

Just couple of questions less than 3. Firstly on the emerging master plan, could you give us any color on potential changes and views around terminal in terms of passenger throughput capacity. Specifically are we talking the number well into the 30 million?

Second question, North Queensland, could you just give us some color around the strategic decision or how your view has changed around holding that asset given obviously on acquisition one was obviously daily reasons in earnings which would hit those milestones so 2 in on kind of route development?

Third question on domestic terminal, the new domestic terminal should we still be thinking about a levy and could you give me some guidance on timeframe on when we could hear something?

And finally on retail, is there any obvious kind of step change once expected in FY14 and potentially from some just some retendering activity?

Adrian Littlewood

Chief Executive Officer

Adrian here. Look our master plan is emerging -- our time period has been focused on '13. So we are looking at 2044 broadly 40 million packs -- so that's the sort of the breadth what we are considering and obviously we are considering steps along the way. So I think the key in that is that the work is showing that we have got the capacity to grow on the side. We have obviously got a bit more work to do on that. So that's still unfolding, but that's the break. I hope that addresses your question on that.

On NQA, clearly as Simon said, we hit those milestones that we set down some time ago. We are still quite happy with the investments I think as Simon alluded to the potential in that market is still being realized and the recent announcement by Tony Fung, the big Hong Kong property investor to launch this proposal around the investment in Cairns really is a strong signal about how relevant that market can be, particularly to the Asian market.

So we are still quite comfortable with where it's going. It's CapEx, if you want, it's making the most of what it's got, so we are quite comfortable with that investment at the moment. On the [inaudible], are you referring to prospect to future development and with new domestic terminals?

Lance Reynolds

UBS Investment Bank, Research Division

Yes, almost like the recovery charge.

Adrian Littlewood

Chief Executive Officer

Yes, so that is clearly part of the plan and approximately we have not set out any recovery on that, but we tight the wide [ph] and that we introduced in later time, that was exactly through that processing procedure. So it is clearly still part of our thinking. I think the question will come down to timing, about when the terminal actually turns up that may align with next processing period. So different delivery on top of this period versus and just introducing as part of next pricing around still to be determined at this stage.

On retail terms, it's big change. Obviously we always look at ratings [ph] where it's going on and that's a constant crisis we had something underway at the moment. In terms of material ones duty-free is coming up to a close sometimes in the few years, it's that we're already thinking about that and how that lays out, and that is something we need to look at what our plan is on that front and we obviously did engage with the potential parties in the market already.

Lance Reynolds

UBS Investment Bank, Research Division

So acquisition [ph] nothing major in '14?

Adrian Littlewood
Chief Executive Officer

That's your assessment to make but we are obviously looking at how do we maintain the growth in retail, so that could include retendering extensions, all kinds of things, those are all the kinds of things that we look at when we focused on growth.

Operator

The next question in queue comes from the line of Nachi Moghe from Morningstar Research.

Nachiket Moghe
Morningstar Inc., Research Division

Just a few questions for me, the property rental business sort of achieved a very solid growth in 2013. So I am just wondering are you expecting another year of sort of double digit growth for that business. And then the rental income from aeronautical declined, I'm presuming all of that was kind of due to the aeronautical pricing reset. And I guess on EBITDA margins, where do you see EBITDA margins sort of heading over the next few years, as I see that it is one of your sort of goals that you illustrated in the presentation. So just some color on that would be good.

Adrian Littlewood
Chief Executive Officer

So just a quick I'll deal that one, slightly that is about so the shift in the makeup or mix of the year one is reflected in the different price of [indiscernible]. So obviously we moved from a [indiscernible] charge and that's really reflected in that. So you can see that's been picked up through the alternative pricing model now.

On property, yes, so we've had obviously the rental increase, we seen it's been a consequence of development activity in the prior year. I think I would be comfortable in saying we are seeing signs of growth, we're just seeing some of the gains [indiscernible] aeronautical market. The market starting to pick up and seems to the same from an inquiry. So, I think it's been a quite positive sign for the future and it's something we'll be fixed on for the long term.

Obviously, we are working hard on that and we will need to keep the valuable stock if you want and that include services road, but we like to allow that happen, but we've already over the past year done that through areas like landing in the Northern part of airport which gives us some capacity to grow. So I think some positive signs there which we're optimistic about.

In terms of the EBITDA margin, I think if I reflect back on 2 things, obviously driving revenue harder will continue to be the focus and we're very focused on this thing of faster, higher, stronger, maintain the growth momentum we have achieved.

On the cost front, we have matched that with a strong focus on fast, efficient and effective which is about really being very close to what are the underlying cost drivers in that business. So we carefully invest and we then generate the returns in the business and that's the marketing cost and we're clear on that, but the underlying other cost drivers, we keep close heads on. We also look at what's I guess the fixed underlying but also the variable cost attached to passenger growth. So those things we need to keep in balance and we will be keeping close eye on it but we're very conscious and focused on EBITDA margin.

Operator

There are no further questions in queue. Gentlemen, please continue.

Adrian Littlewood
Chief Executive Officer

Okay. If there are no further questions, thank you for your time today and look forward to catching up with those we have seen left today. Thank you for your time.