

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Geoff Zame of Deutsche Bank.

Geoff Zame

Deutsche Bank AG, Research Division

Simon, Geoff Zame. Look, I've just got a couple of questions. Just around the reset in the whole domestic terminal issue, and I know you talked about capacity constraints on the terminal. Is the whole second runway, is it off the agenda over the next sort of 5-year reset period or is that based on sort of moderate passenger growth?

Simon Moutter

Former Chief Executive Officer

Geoff, we -- if you recall our last comment on that was at yearend we were -- yes, we certainly included runway as a stage 2 initiative which came a few years later than stage one and stage one was forecast to be a few years from now. So I think that assumption, we see terminal capacity as the central terminal and apron sort of associated taxi way, forecourts, sort of infrastructure surrounding the terminals as the bigger issue today. Runway capacity, we know that there's -- working with the industry, there's room there yet. So, runway's not the driver of the current CapEx program.

Geoff Zame

Deutsche Bank AG, Research Division

Right. And just another one, just a little bit more color if you can on the retail spend, off the back of the Rugby World Cup what you're seeing there and whether the majority of tenants, is there any pressure on any of the tenancies or are you all above that now?

Simon Moutter

Former Chief Executive Officer

Look, it's a beautiful thing out there at the moment, I would say, Adrian is sitting here in the room listening, and he's nodding. I mean, we have the investment and effort in restructuring our retailer mix, the quality of the operators we've got, the trailing mix structures we put them on. We've spoken openly with you all about our preference for shared upside, and so we've not been aggressive, overly aggressive with upfront guaranteed rents when we brought new parties in. We're intending to use a trailing guaranteed range structure. Pretty much all of our portfolio of retailers are breathing oxygen. They're on the high side of that. And everyone's working together to maximize the opportunity. And we're seeing strong performance across the full portfolio. So I think earlier in the cycle of change we saw Duty Free moving forward more quickly. But today, specialty food and bev, Duty Free, ForEx, everything is moving and contributing positively to those spend rate improvements. So it's actually a pretty complete performance and hard to keep the momentum. I think that's Adrian's job to sort of keep finding new ways to crank it up. But it's going really well. Probably the obvious new dynamic, by the way, is, in the customer mix, is the new Chinese and Asian traveler group who you would have heard Simon talking about World Cup stuff. He sees a similar thing there. What they buy is different. So, the spends can be high but the product mix can change, and it's probably a little bit less about cheap bourbon and a little bit more about sophisticated product, and that changes the margin profile of some of it. So we're learning how best to meet those markets. They're not -- they're relatively new to us. And applying a customer-centric approach, we're still in the process of learning and adapting and working with our retailers to help them understand the needs of this new group of travelers, and make sure we're positioned with the right offers and service rep to meet them.

Geoff Zame

Deutsche Bank AG, Research Division

Thanks, Simon. And just finally, any more sort of updates conceptually on the whole Latin American/Asian sort of hub concept?

Simon Moutter

Former Chief Executive Officer

Nothing substantive, Geoff, still. I think that still the real issue around that is we've got good South American services off Argentina and Chile obviously, but Brazil is the prize everyone's interested in. And that is technically -- that is fundamentally technically challenging for aircrafts. So I think we still don't have a clear path through how to make that link happen at this point. We'll be -- we continue to talk with a number of interested airlines who are genuinely interested in the opportunity to provide that linking service.

Operator

Your next question comes from the line of Jeremy Simpson of Forsyth Barr.

Jeremy Andrew Simpson

Forsyth Barr Group Ltd., Research Division

Just in terms of the domestic terminal, you at least thought at this stage to spend any money in the old terminal or was it sort of band-aid in terms of increasing the ability to handle the higher number of passengers coming through?

Simon Moutter

Former Chief Executive Officer

Look, we spent a little bit last year in the World Cup. We spent a bit modifying the -- we clearly, given we see it as end of life, we're clearly reluctant to spend on that terminal, but I think part of the solution again, part of the solution we indicated to the market last year, so, without sort of shifting, did involve some spending to make it work for a while, while it was still occupied. But we would be looking to keep that to a small number and for it to be functional spend, nothing more, nothing less, whatever we do, do there.

So that's something is part of the consultation process, and I'm sorry it's frustrating not being able to give you more than that at this point. But yes, it is part of the option and certainly how we deal with it in any pricing discussion would clearly contemplate that any spend has a short life and would need to be recovered quite over a short time horizon.

Jeremy Andrew Simpson

Forsyth Barr Group Ltd., Research Division

Yes. And just that comment that Simon made about the car parking yield being back a bit. Was just a slowdown on business travel during the Rugby World Cup period, was it?

Simon D. Robertson

Former Chief Financial Officer

Jeremy, the -- in terms of an ideal product mix for us, the mix change to be more leisure than business. So, some of the product categories right outside the terminal, high ARPU, day rates, etc. was a tougher sell during that period, business travelers I think were scared about accommodation and just put off business travel during that peak period of the Rugby World Cup. But we saw it did come back quite strong in November. So, yes, that was business segment really.

Simon Moutter

Former Chief Executive Officer

I think if you think about parking going forward, the issue we're grappling with, and we signaled it at last year's Investor Day, sort of capacity. We're starting to have the full sign out a lot, so we're still looking for ways to unlock the potential. But in terms of yield management, we're still rolling along quite nicely.

Jeremy Andrew Simpson

Forsyth Barr Group Ltd., Research Division

Right. And just lastly, is it possible to gain any sort of color on what an average Chinese yield would be per passenger spend compared to the average?

Simon Moutter

Former Chief Executive Officer

We'll have a look at that and see if we can help with some of the subsequent briefings. I haven't got that in front of me, but we'll --

Jeremy Andrew Simpson

Forsyth Barr Group Ltd., Research Division

That's okay.

Operator

Your next question comes from the line of Carolyn Holmes of JP Morgan.

Carolyn J. Holmes

JP Morgan Chase & Co, Research Division

My question is on the associates, a great little result coming in from those associates. If I look at the second half of last year, the associate contribution went back into a small loss, and then with the prior period as well. What's the seasonality in these associates' earnings? Should we assume that this is going to be a really good starting point for things to improve so we can estimate a similar type of run rate in the second half?

Simon D. Robertson

Former Chief Financial Officer

It is absolutely fair to say that both of these leisure destinations have seasonal aspects to it. Clearly at Cairns, this current timing is not their peak period. It's really May through to about September/October which is their busy period. And it does tend to mean the first half financial results and cash flow is stronger than the second half. We would expect that mix between the halves to continue. But certainly also very -- are getting more and more confident about the guidance we gave for FY13 of EBITDA of \$75 million out of NQA. Queenstown again is a little bit more cyclical on the international side of the business where a lot of the international from Australia is coming in for the ski season. And again, that's more predominant in July, August, September, so again that seasonal nature tends to have a stronger first half than second half.

Operator

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

Marcus Curley

Goldman Sachs Group Inc., Research Division

Do you have any sort of new additional services in the wings that shortly could be announced?

Simon Moutter

Former Chief Executive Officer

Marcus. Probably. Yes, look, obviously I couldn't -- we couldn't be drawn on that. Those -- Simon signaled there's a bit of comings and goings, we're not -- we're certainly not anticipating the same steep momentum that we had a year or so ago, but there'll always be some movements, and we certainly got some live conversations, but that's -- we really couldn't say anything more than that at this point.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Okay. So you think you'd be on the positive side of the legend in the next 6 months, or do you think people should just assume neutral?

Simon Moutter

Former Chief Executive Officer

I think with what's still coming, with -- Simon referenced we're pretty confident we've got the U.S., now United, but what we always called the Continental Service coming in from the U.S., we've got Emirates upgrading to the A380 on Melbourne, and we've got a few of these seasonal adjustments. Many in New Zealand I think are quite -- I generally have little insight into exactly what they're up to, but reading their own signaling to the market around shifts of capacity might actually be of some benefit to the airport overall, if there's more -- less 2-hop services and more single hops could shift. So I think there's enough there to believe we've got forward momentum even if we have the odd loss like we had with Qantas Airline.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Okay. When you look at the spend rates on retail and car parking in the second half -- sorry, the first half, do you think from that level you've got continued growth, or do you think you're starting to peak out in terms of what was achieved in this half?

Simon Moutter

Former Chief Executive Officer

I think we've for some time we would have come off a bit more than we have. So we've been -- we can sometimes be a little bit pessimistic, more pessimistic than we ought to be, but we did lap a lot of that initiatives that have created this uplift some time ago. So we had anticipated that the growth rates would have ameliorated a bit. We still believe there's more in it yet, and we can keep crying, but Simon in his presentation indicated that we are expecting those growth rates to ameliorate a bit. But still with positive momentum, yes. And we're working hard, Marcus, today we would sort of see what we've done to date in retail as a sort of significant steep shift, and we're working on quite a large project at the moment which will lead into a series of initiatives that will shape into this year's business plan in which we'll obviously inform investors of a little more at our next Investor Day around how -- what future retailing opportunities, how we get closer to end-consumers in the airport using modern retail practice information technologies, and how we sort of fire up retail, picking up some of the global trends around high street retailing and online and all of those things, and how we can apply them in an airport. So we're starting to work on the next range of strategic shifts in retail given this first set of initiatives is starting to -- we think will start to -- we're nearing completion on those.

Marcus Curley

Goldman Sachs Group Inc., Research Division

And then just on the aero reset, I suppose in the presentation you referred to the fact that you could limit price increases due to those factors you spoke about. Should I read that as aeronautical prices will be increasing it's just a matter of how much?

Simon Moutter

Former Chief Executive Officer

I don't think we'd want you to read anything more than what we've exactly said there, Marc, as we just -- it's very awkward for us, and I know it's frustrating for you guys to be on the end of it. But we just -- we are in a confidential process. We just can't add any more color. But I think what Simon was indicating to you is we're not out there seeking large price-based outcomes. With good CapEx management and strong volume growth, we can deliver great outcomes for shareholders at the same time as delivering good outcomes for our airline customers in terms of use of the airport, the charges to use the airport.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Okay. And then just one final small question. In the associates' result, in particular in NQA, there was a decline in cash cost during the half. Could you give some color on how that came about?

Simon D. Robertson

Former Chief Financial Officer

Yes, the NQA business has been reacting really to softer domestic passenger numbers and has spent a lot of their attention over the last little while on the operating costs in the business, and have done a very good job at managing those down during the period.

Simon Moutter

Former Chief Executive Officer

What's happening in, for NZ investors, if you're not aware, in the key Australian domestic where domestic tourism is a significant issue, Gold Coast for example and Cairns certainly being another example, that a high value of the Australian dollar is motivating Australians to travel further afield, and so domestic tourism Australia is down generally, and the airports that have a heavy chunk of business associated with domestic tourism are pretty much all affected on the domestic numbers. Now, actually Cairns not too badly, with sort of about neutral on domestic packs. But if you look at Gold Coast, for example, that's down several percent on domestic. So that's something that will obviously restore itself in the passage of time, but it's an interesting dynamic in that market, the Aussies being so wealthy globally at the moment.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Maybe if I could just squeeze one more. Just on the Formule 1 Hotel in December when occupancy was getting to respectable levels, is the operation profitable at that occupancy level?

Simon Moutter

Former Chief Executive Officer

Yes.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Any color as to what level?

Simon Moutter

Former Chief Executive Officer

I'm pretty confident, Marcus, that whatever number you have in your model won't materially change your pricing assumptions.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Okay.

Simon D. Robertson

Former Chief Financial Officer

The key point in talking about that really is just a highlight, the combination segment has worked very quickly.

Simon Moutter

Former Chief Executive Officer

Yes. I mean, recall, when we pitched we were moving into the zone, we saw it as an adjacent business activity, and I think that's -- we don't expect to share too much detail about these small investments in the future, but we did want to indicate to the market just to give you the confidence that these initiatives have proven to be successful about building their business cases easily, and accommodation clearly is a

market we can participate in, with the help of a world-class operator like Accor, we can participate and profit from it. And as we remind you all, it's not just the return we get from people sleeping in the hotel, it's the fact that nearly all of them end up in the restaurants and bar underneath it. And those operations are trading well also. And so that's the sort of overall synergy of having those -- that activity on the airport that's of wider interest to us, the car parks, etc.

Operator

Your next question comes from the line of Rob Bode of First New Zealand Capital.

Robert Bode

Jarden Limited, Research Division

Starting to scrape the bottom of the barrel of questions. Just on Cairns, big growth in transit. Is that due to changes in the Japanese market, the servicing there?

Simon D. Robertson

Former Chief Financial Officer

Yes, broadly. Yes. So, there were some dynamic changes of triangulation during the period which has impacted that.

Robert Bode

Jarden Limited, Research Division

Okay. Just on the property side, you had a target that was set a while ago of increasing your rent roll from 50 to 60. And it's kind of proving to be relatively hard to develop. Are you kind of in line with that target still or you think by FY14?

Simon Moutter

Former Chief Executive Officer

I think our property team remain committed to it, but for the 2 of us, look at it, we'd say it's under a fair amount of pressure. It's not going to be easy with -- I think at the time when we talked about that time, we did say we needed a bit more -- we'd need a bit of improvement in market conditions. We haven't seen it yet. So I'd say that once -- have yearly goals, they're one of the more pressured at the moment.

Robert Bode

Jarden Limited, Research Division

Right. And I think part of the -- what was being looked at was expansion of the shopping center. Is that kind of -- I think there was a feasibility being done there. Has that been kept to touch or --

Simon Moutter

Former Chief Executive Officer

Still battling with it conceptually, to be honest, Rob. So I think connected with the exercise we're in around terminals and the consequential impact on master planning has just put a little bit of a spinner in the wheel of what we do with off-terminal retail, until we're clear with all the airline partners on the agreed development path and timing around how they -- how the flows of people on the side, how the roading network will be adapted to accommodate them, etc., it's just really got a spinner in the gears, to be honest. So we're a little bit -- we're just a bit stuck. It will be my take on it until we get some clarity around that. So, hopefully we get the, as we've indicated in May, we get some decisions on that, that will unlock our properties teams. Thinking around what the -- what off-terminal retail and services might look like, what roading might look like and therefore what they can put in front of potential tenancies, opportunities.

Robert Bode

Jarden Limited, Research Division

Okay.

Simon Moutter

Former Chief Executive Officer

We've had strong interest in it by the way, though. So when we've talked to the market, there's a lot of interest in the opportunity to be here.

Robert Bode

Jarden Limited, Research Division

Okay. And lastly, just on -- we haven't really discussed overall cost much in the questions. Can you maybe just give us some color on what we may be seeing going forward? I mean I think you -- Cairns talked about kind of addressing costs? And you commented -- you've commented that area service developments kind of are going to be -- are going to kind of taper off. Are we going to see maintenance costs kind of come off as a result of the [indiscernible] completes?

Simon Moutter

Former Chief Executive Officer

Yes. We are, at this point, on costs -- well, I can remember at the half-year -- at the full-year results, we indicated that we expected marketing costs to be broadly flat. We still -- that's still our budget view. So, while it looks high in the first half, as Simon explained, it's coincidental with the skew of new entry airline activity. And so, yes, we're definitely expecting that to ameliorate second half and end up without significant growth. I think on maintenance we definitely are a little bit ahead. We might not be able to get that right back in its box to budget, but with the team working to that. So we saw it more a timing issue than a total issue. Some of those other -- we were a price taker, rates, etc., there's not much we can do about that. But on the controllables, I think we're pretty confident we're not talking about 15% year-over-year growth at the full year, nothing like it, so, yes.

Robert Bode

Jarden Limited, Research Division

And on the insurance side, not surprisingly, we've seen that lift. Are there more lifts to come on insurance?

Simon Moutter

Former Chief Executive Officer

It's fair to say that not all of the insurance policies have had the impact of price increases because of how we staggered policies to cover longer periods. So there could be some more to come in that area.

Operator

Your next question comes from Nachi Moghe of Morningstar Research.

Nachiket Moghe

Morningstar Inc., Research Division

Just a question on capital expenditure. I think at the full year results you had sort of indicated that the capital expenditure will likely be around \$80 million. I think now you've given a guidance of \$90 million. So, just wondering what the difference is -- what does the difference reflect?

Simon D. Robertson

Former Chief Financial Officer

Pretty straight forward there, actually. At the full year, we excluded any as yet uncommitted property expenditure. We get to the point now in the year end process where even if we got a deal tomorrow, we really know that no significant capital expenditure will occur over the next 4 months. So, therefore, can get a little bit more certain around the property part of that equation. So that's where we -- that's where it is. It's not a lift in our mind, it's just being a little bit more -- providing a little bit more certainty to the market about the property part of the business.

Simon Moutter

Former Chief Executive Officer

Chunk of it will be -- the developments that were won, that we secured and signed a lease and we've got on with it post the year end results. So that explains the \$10 million because that's the deals that were done.

Nachiket Moghe

Morningstar Inc., Research Division

Yes. The other thing is, what is the assessment of the property business? Do you expect your revenues to sort of accelerate given that you're developing a lot of properties?

Simon D. Robertson

Former Chief Financial Officer

No. So, if I understood your question, you're asking about whether we thought there would be a rental impact by causing us to have more supply in the market, which is --

Nachiket Moghe

Morningstar Inc., Research Division

Yes.

Simon D. Robertson

Former Chief Financial Officer

No, that's not what we're finding. The vacancy levels are negligible. So, actually we're still very attractive to tenants who want to be near the airport. We're not finding any pressure -- total pressure on overall portfolio. There will be 1 or 2 tenants that are facing harder times and it's normal with any portfolio, but we're not finding any significant pressure on rental rates at all.

Simon Moutter

Former Chief Executive Officer

I think it's worth, Simon, can you just, in terms of the revenue reporting on Page 14, just explain how rental includes both aero and so it sort of hides or masks a little bit the uplift in rents in investment property.

Simon D. Robertson

Former Chief Financial Officer

Yes, and that's right, later on in the portfolio we talked about the property segment. So, what Pete and his team are therefore managing, the rental income line within our revenue includes both aeronautical and the property team. Aeronautical did come under a bit of pressure in that area and had -- was flat at best, a little bit down, and whereas all the growth is really coming from the property business. So, and that's where we continually focus on that with regards to the guidance we've given long term, that's where we see the growth coming from.

Simon Moutter

Former Chief Executive Officer

Yes. So we have no doubt that we'll continue to grow rental from the investment property portfolio and that will simply follow the projects as they are built and delivered and begin producing rents. So, we know we have continuing growth there given that we still got quite a bit in flight. We did indicate before in response to another question, actually the market is still pretty tough, so deal flow was hard, and we are certainly stretched to hit our big goals there. But we'll definitely be delivering positive results, that's for sure.

Operator

[Operator Instructions] And your next question comes from the line of Marcus Curley, Goldman Sachs.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Just a couple of small follow-ups. Simon, just with regard to the ongoing, I suppose I think it's court cases now on price setting, is that -- could you give us an update on where that process is, when, if any, resolutions you're seeing in the near term? As opposed to the price reset, I mean the Commerce Commission framework process.

Simon D. Robertson

Former Chief Financial Officer

It's been a long-drawn out prices. It's fair to say so. The judicial review process that some participants started to undertake finished in the last year. We're not sure whether -- well, I am not sure today whether there has been any appeal in that. So, whether the victor has or not, that has to be resolved before the next stage in the process, which would be the merits appeal. We're still expecting that to be still some time away before we enter into that stage of the ComCom process. We think probably one of the next key areas for us in regulatory will be the ComCom's review of how well the new disclosure regime is working, which is sometime in 2012, which will be post I think the main airports updating for their pricing consultation results.

Simon Moutter

Former Chief Executive Officer

That was Simon giving you the formal response. My informal response is I'll be long dead before the stuff even starts getting out.

Marcus Curley

Goldman Sachs Group Inc., Research Division

Does that unfortunately mean that you've got to handle the legal costs ongoing with this affair?

Simon Moutter

Former Chief Executive Officer

I suspect we've got to have some, yes. I mean we are very much in the line of getting on with life and improving the regime that's in existence today will work, and certainly our preference to detach as far as possible as we came from these sort of processes, but sometimes you got to be there.

Simon D. Robertson

Former Chief Financial Officer

In terms of the -- we weren't involved in that judicial review. A lot of our regulatory focused expenditure in this period and for the rest of the year is really around understanding our long-term planning needs, our consultation with airlines on that and pricing consultation, and the experts that we require opinions on to make sure that we're making the best decisions that we can during and after the consultation process. So that's been the key area of expenses in that area. And that's probably more likely to be replaced if I think about the next year ahead, as we conclude that consultation and have other regulatory focuses like the merits review.

Simon Moutter

Former Chief Executive Officer

I think we've just time for one more question. We've gone over time, so.

Operator

[Operator Instructions] And there are no further questions at this time. Please continue.

Simon Moutter

Former Chief Executive Officer

Everyone, thank you very much. We look forward to engaging with you over the next few days, if you have a further discussion on some of the other briefing sessions, so thank you very much for joining the call this morning.

Operator

Thank you for participating. You may now all disconnect.