Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Andy Bowley from Forsyth Barr.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

First question I've got is on the retail business. And Adrian, you mentioned a couple of price points for a couple of items in terms of where the online channel now is represented relative to downtown Auckland. But can you talk more broadly about the price positioning of duty free Auckland versus some of the connecting airports? And I guess, my point here is that passenger spend rate is in decline here. Recognize you're talking about the Aussie dollar rate. But in contrast, across the Tasman, passenger spend rate is increasing quite sharply.

Adrian Littlewood
Chief Executive Officer

Yes. Look, there's a couple of things there, Andy. Adrian here. What I'd say is I think the Australians are lapping some of the changes that they'd had in prior years where that had underperformance on passenger spend rate, and that's come back now as they've lapped through that period. We've had some of those headwinds as you know around tobacco display changes and the Aussie dollar cross rate. But I think we see that the interims, we probably missed a bit of the trick our retailers did around maintaining that competitiveness with the change in the Australian dollar that moved reasonably quickly, and our retailers didn't move fast enough. So we have been focusing on that and keeping a close tab on that. We know pretty specifically where the issues are, and it is specifically around Australian outbound markets. So the question for us is how do we use what we've got and, particularly, online as an interesting way to target areas where there is elasticity and give value in a selective way to really open up opportunities for us. Because I know from different businesses that we run and past experience that if you try and hit all the market with heavy discounting, you can destroy spend rates -- and not get the volume up what you need. So we see this is a multichannel approach, a multipronged approach to deal with that issue, and we do keep a very close eye on it.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

And just as kind of an ancillary question on the retail sides of things, in terms of the tobacco changes that are due to take place shortly in -- to New Zealand inbound, how should we think about that from a modeling point of view?

Adrian Littlewood
Chief Executive Officer

Well, I think we've kind of given guidance overall that the impact to the changes was about $7 million to $8 million a year. So it's coming in from 1 November, so you can probably make your own assessment [indiscernible] point of view.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Simple pro rata?

Adrian Littlewood
Chief Executive Officer

Important to note, just a reminder that outbound allowances don't change. So this is only an inbound issue, but the guidance we've given before is still accurate.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Second question on the regulatory environment. Recognize you talked about the WACC review and the worst-case scenario from the WACC percentile point of view is pretty clear but less clear in terms of the 2 other kind of why the regulatory regime reviews that have kicked off this month in the sector, in particular, the MIMBI [ph] review. Could you talk about those reviews that have commenced and how you'd approach them and I guess, lastly, how you see them unfolding?

Adrian Littlewood
Chief Executive Officer

Sure. Look, 2 of those reviews -- those other 2 reviews you referred to were well known and we were expecting those obviously. So the MIMBI [ph] review is really just part of the process of a assessing the effectiveness of the regime. So they're obliged to go out and seek final feedback on the reviews that have taken place. So we remain very engaged in that and obviously, we'll wait to see how that unfolds. We, obviously, keep in close contact with the department at MIMBI [ph], and we'll await that. On the other review, the AAA review, again, we knew that was coming. And we'll, again, await that. There is a process that is running, and we'll engage in that as appropriate. Again, hard to predict what that would turn out like. They are separate reviews, but we're working through the process.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Do you think those -- I recognize that Ministry of Transport review is going to take place anyway. But speaking to MIMBI [ph], they've been suggesting that, that review is really a reflection of the outcome from the Section 56G report and, therefore, may not have happened otherwise. Was it something that you were expecting or...

Adrian Littlewood
Chief Executive Officer

We knew it was coming. So we -- again, it's been something we've been expecting and working through. Look, I think they are all probably connected in some way, but they are part of a process that we're just engaging in, so we can't predict what the outcome is.

Operator

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

Lance Reynolds
UBS Investment Bank, Research Division

Just a question on CapEx. I just see in the annual report, you got CapEx guidance in there of, I think, $120 million, $130-odd million, of which aeronautical is about $74 million. Am I right in thinking that your CapEx is trailing what the expectations were on the price setting document? I've got a trailing -- if you include [indiscernible], right -- round about $25 million, $30 million. Also, on top of that, obviously, the original estimates didn't include new domestic terminal CapEx. Could you just touch on those 2 issues please?

Simon D. Robertson
Former Chief Financial Officer

Yes. Lance, Simon here. So ultimately, the pricing decision for the period 2013 and 2017 had aeronautical investment of about $265 million through that period. You are correct to say we are slightly behind that program to date, largely on the back of the pools that we had as we assist the long-term development, as our 30-year vision. Key to that was clearly thinking about the location of further aeronautical investments, and it would have been very weak of us to progress with certain expenditure while that review was going under way. We've got the clarity now. We still expect $265 million over the whole 5 years, so we will expect to catch up a little bit on that aeronautical investment through the rest of this cycle to 2017.

Lance Reynolds
UBS Investment Bank, Research Division

But that -- those estimates didn't include the $300 million odd for the new domestic terminal at the time. Will that be rolled in at some point in terms of that expansion CapEx for that?

Simon D. Robertson
Former Chief Financial Officer

We're certainly starting some initial inception work to pull together some ideas of how -- what does an integrated domestic and international terminal look like. We don't envisage significant expenditure on that load prior to the end of this pricing regime. We see that as being more about the next pricing period between '17 and '22.

Operator

Your next question comes from the line of Carolyn Holmes from JPMorgan.

Carolyn J. Holmes
JP Morgan Chase & Co, Research Division

In terms of getting to your guidance, what are you expecting in terms of underlying pax growth in the current year and also just the average cost of debt now that you've done that final refinancing tranche in July?

Simon D. Robertson
Former Chief Financial Officer

Simon Robertson here. In terms of guidance on passenger numbers, we'll never be specific on that. We will have a range of possible outcomes, as you will. It is fair to say we would expect a softer growth than what we had after a very good 2014 year, but we're still very much focused on, particularly, the next summer coming forward in how we can grow and develop our inbound passenger numbers in particular. And we do see opportunities across the Tasman where there's capacity already existing, and we're hopeful of trying to lift the number of people on those existing routes as a sort of latent potential there within the aircraft movements. In terms of cost of debt, we're sort of aiming around -- to maintain the sort of current level of interest costs. So we're expecting around about that 6% level next year again. So in a rising interest rate environment, that would be a great outcome for us.

Operator

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

Marcus Curley
Goldman Sachs Group Inc., Research Division

Just a few questions. First, on retail, if you can, are you able to tell us what was happening to the spend rate x tobacco?

Adrian Littlewood
Chief Executive Officer

No, we don't have that, do you? So listen, we don't necessarily always break it out. What we've given is a bit of information about what's going on at the total level and some underlying numbers there. Look, what you do need to know is that tobacco has been an important part of the spend rate impact, and that's why I say we know where the issue lies. So that's why it becomes -- it remains important for us to continue to build and extend other categories.

Marcus Curley
Goldman Sachs Group Inc., Research Division

Okay. And then when we look into '15, you've talked about a bit of additional space. Can you give us any color on that? I think previously you're talking about 400 square meters.

Adrian Littlewood
Chief Executive Officer

Yes. So that's completed, and that's already got some trading going on it right now. The -- that also forms quite an important part of the duty free tender for the future, so that's -- it's included in the tender, and so that's in this coming year. And then the big other part of it is in the additional NLA that's coming out of that outbound reconfiguration that I talked about earlier. So there's a series of tranches of new concessions, refurbishments, new space and then significant additional space in the future.

Marcus Curley
Goldman Sachs Group Inc., Research Division

And could you just be a little bit more precise in terms of, yes, exactly how much NLA is coming from the $125 million investment and when you would expect that to come on?

Adrian Littlewood
Chief Executive Officer

Yes. Look, I've said up to 80% increase in NLA at this stage, and I only say it at this stage because we are still -- it's still early doors. We're still working through how this whole thing will work. Because as you can image, it's a series of interconnected demands and activities around processing, throughput, airline activities and services, passenger common area and retail all combined. So we need to get that balance entirely right. What the key in there is that, and I mentioned this -- alluded to this earlier, the 30-year vision has actually given us some confidence around understanding where the future development path or nodes of activity are. So we are able to extend and build a footprint on a common footprint in the first-floor level. So you can kind of get a sense of that from the mockup that we've shown you today. That means we've got a contiguous single space for retail and common area, which we think is really, really important for highly efficient and effective retailing performance.

Marcus Curley
Goldman Sachs Group Inc., Research Division

And sorry, 80% of an unknown number doesn't necessarily mean much to me. Can you just -- can you tell me what the number is?

Adrian Littlewood
Chief Executive Officer

In terms of footprint, no, we don't talk about square meters, Marcus. I think we've talked about this before. But 80% of current.

Marcus Curley
Goldman Sachs Group Inc., Research Division

But what's the current?

Adrian Littlewood
Chief Executive Officer

Oh, I think I said before, we don't share the current square meters.

Marcus Curley
Goldman Sachs Group Inc., Research Division

Okay. Well, obviously, it's pretty hard to model if we don't have an understanding of what you're adding. And timing, when do you think...

Adrian Littlewood
Chief Executive Officer

So listen, it's probably going to unfold over the next couple of years, so through to probably FY '16, '17. The best guide is probably the redevelopment we did in 2009 and '10, sort of a couple of years to do that in a staged fashion. This will be the same. But the guys have come up with quite an efficient development path, which allows new space to be created without affecting the current processing throughputs. So that's an important part of the future.

Marcus Curley
Goldman Sachs Group Inc., Research Division

So at this stage, you wouldn't be anticipating any disruption I suppose. Your predecessor's ran into a bit of a problem with disruption last time they did a major retail expansion.

Adrian Littlewood
Chief Executive Officer

Yes, so that's exactly right. So what we're trying to do, and it's not perfectly possible always, but we are trying to extend this in a way that doesn't, as much as we can, affect current trading or processing.

Marcus Curley
Goldman Sachs Group Inc., Research Division

Okay. And then on car parking, your yields flattening off a little bit in the second half. Do you think you squeezed the limit as far as you can in terms of yields per car park? I know you're adding an additional 600 spaces this year, which you expect yields to be flat or do you think there's chances to lift that as well?

Adrian Littlewood
Chief Executive Officer

Look, I think there are still chances in there. I think that's why we're focusing on product developments. I think there's no doubt in the premium end of the market that we haven't had the kind of products that the premium end of the market want. I do think there's also a bundling opportunities that we haven't previously exploited. I think, though, that just generally, there is strong demand for parking, and the channel allows us to extend our parking business in a fairly targeted way. So we'll continue the path we've been on to try and grow yields through new capacity and new product.

Marcus Curley
Goldman Sachs Group Inc., Research Division

And finally, within the guidance, are you assuming any material uplifts from the duty free re-tender? One would assume that sort of potentially hit the numbers at some stage in the second half.

Adrian Littlewood
Chief Executive Officer

No, it probably doesn't. No, it's more a year after.

Operator

Your next question comes from the line of Grant Swanepoel from Craigs Investment Partners.

Grant Swanepoel
Craigs Investment Partners Limited, Research Division

Just following on from Marcus, when is that duty free contract expected to be effective from? And a more important question is around the ComCom's review. You mentioned that we should get some clarity towards the end of the year. The ComCom said they would be doing a full review of the airport with a focus on does the airport even need to get above a P50, considering it has the dual-till and also considering where your path was that you put in your last -- as I've mentioned, your pax growth is well ahead of where you put it in. Your costs are down where you put it in and the potential downward pressure on the WACC as well. While you guys appear to still be talking about a regulatory regime that's in check, do you think we're not walking into a problem soon?

Adrian Littlewood
Chief Executive Officer

So just to address your first question on the duty free tender, look, that's -- it's going to -- the process is under way now. It's running towards the end of this year. In terms of when it becomes effective, that will very much depend on specifically what happens with the tender outcome or what happens with existing operators. That will still work out. I guess, what I'm citing before, to Marcus' question, is unlikely to have a major impact in this financial year, more likely to impact next financial year. Look, I think in terms of regulation overall, it's -- I don't think we're necessarily walking into anything or ignoring anything. I think this is a process that continues on and on. I think people somewhat expect that they will -- there's a conclusion to this. I think this is something we have accepted and adopted and are now working through in our business. We continue to respond to the process that are put forward, and we'll engage in those properly. Look, in terms of how it affects or connects to our pricing, those are forecast at the time. We'll work though those in the next price-setting event, but I think what Simon's indicated is that, for example in terms of our capital program, we have naturally had a pause around our investment program. There'll likely be a catch-up, and we're still expecting to be within the envelope that's been set. And that's just the way it's -- we're going to have to roll it through in the next coming year. We'll review that again when we get to next price-setting period.

Grant Swanepoel
Craigs Investment Partners Limited, Research Division

So sorry, and then you said -- you mentioned...

Simon D. Robertson
Former Chief Financial Officer

You're assuming costs below. That's not quite correct. So remember in the pricing, we excluded from that marketing associated with growth in new routes. So to the extent that we have international passenger numbers, in particular, growing faster than what we see in the pricing, we expected it. We were hoping to achieve that through the route development work, but excluded from that was the costs associated with it. So we would actually expect our cost base to be higher than what was assumed in pricing.

Grant Swanepoel
Craigs Investment Partners Limited, Research Division

So you're -- just to clarify, you're indicating that CapEx will come within the envelope. Price we'll probably come in slightly ahead of your envelope and revenue...

Simon D. Robertson
Former Chief Financial Officer

Well, too early to predict the next few years. But right now, we would say international would be -- not be significantly different from what we said in pricing. So the first year was slightly below, and we started with a base that was slightly below where we thought, too. So I would say at this stage, not materially different. But we would be trying to grow passenger volumes, but with it would come marketing expenditure.

Grant Swanepoel
Craigs Investment Partners Limited, Research Division

Just in terms of the first part of the question, you mentioned that we would have some clarity near the end of the year. Does that mean that you are aware that the ComCom is going to have completed their process on airports by the end of the year?

Adrian Littlewood
Chief Executive Officer

No. Process time is still to be determined. The indications we've had is it's going to be later rather than sooner.

Grant Swanepoel
Craigs Investment Partners Limited, Research Division

Later next year or...

Adrian Littlewood
Chief Executive Officer

Yes. '15 calendar is all we've got, same as the information you have.

Operator

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

Paul Turnbull
Jarden Limited, Research Division

Just a couple of questions. Firstly, on the retail, are you comfortable with the current incentivization structures that you've got in place with the duty free concessions that you're running at present? And would you be looking to change that materially at the conclusion of the current tender process?

Adrian Littlewood
Chief Executive Officer

Sorry, how do you mean by incentivization?

Paul Turnbull
Jarden Limited, Research Division

Well, the way, I guess, that you're driving growth for the retailers. So are they incentivized in a way that you're comfortable with -- that maximizes, I guess, the revenue and profits you can make out at duty free?

Adrian Littlewood
Chief Executive Officer

I think I understand what you're saying. So if you mean the fundamental model, I think, yes, we are comfortable with the fundamental model. I think it has worked well for us, and I think it is well understood. Having said that, we're always looking for opportunities to innovate around the -- around that. And I think we've been quite clear throughout our tender process that we're looking for retailers who are willing to push the boundaries a bit more. So it's a case of a model that works and building on the shoulders of that model. There's fundamentally no material change.

Paul Turnbull
Jarden Limited, Research Division

Right, okay. Secondly, just again on retail. It's obviously a messy year coming out with tobacco concession changes. But in an underlying sense, do you have confidence that you can return to a positive retail spend per pax in FY '15?

Adrian Littlewood
Chief Executive Officer

Yes. Look, that's why I highlighted a couple of points there. So that Asian blended growth rates -- spend rate, strongly up at 10%, which we think is a very strong sign. And so if we think about our long-term future and the things we are focusing on, there is some very strong signals in there. And I know from looking at some of the retailers that we've got on the floor, they're doing very well. I mean, and this has been a bit of a theme for the last couple of years, retailers performing comfortably double-digit performance year-over-year, well ahead of passenger growth. There are examples like Walker and Hall, which continue to amaze me, who are leveraging the -- their position at the airport into high-street business, which works for them and it works for us. So there are lots of examples where that is going incredibly well. And that's why we are focused on adding retail net lettable area, leveraging the online because we can see the signals where those things can work, and it's about getting into them quickly and working ahead of -- to run them hard.

Paul Turnbull
Jarden Limited, Research Division

Great. Final question, just on life [ph] factors and how their trending across your airline customer base, it looks like domestic's probably down a touch, but how are you seeing international?

Adrian Littlewood
Chief Executive Officer

Look, yes, good point. A bit of a mixed bag, some of them are in very good hard and good shape and good mix as well as just loads. Others -- Tasman has been a little bit weaker in the last couple of months. Again, I think that can expect, to Simon's point before, to have some year-over-year features that have affected some of that and some fleet and flag changes. So our focus remains on -- the quickest path for growth for us is to continue to fill available seats that are already there, so that's where the focus remains.

Operator

The last question comes from the line of Nachi Moghe from Morningstar Research.

Nachiket Moghe
Morningstar Inc., Research Division

Just on property first, you saw sort of good momentum in property this year. Should we expect sort of property growth to be sort of low-single digit -- low-double-digit, high-single-digit type of growth going forward, too, in the medium term?

Adrian Littlewood
Chief Executive Officer

Look, hard to predict. We'd like to think it maintains the momentum. I think -- look, I think, generally -- a couple of things, it's a function of -- growth here is a function of what is going on in the local economy. But I think also -- I think we are getting recognition now, and I said anecdotally before that's the feedback we're getting for the quality of the work we've put in place here. I would also add to that, we've got long-term prospects around the motorway, direct connectivity with the CBD, which will come on in 2 years' time. So tenants and prospective tenants are looking ahead to that and seeing the potential here. So I'm personally confident about investment property growth for the longer term. I think we've got a very good product, and we are getting more and more attention for what we're doing here.

Nachiket Moghe
Morningstar Inc., Research Division

Right, right. And the second question is on marketing and promotional costs. They have sort of remained stable this year. Should we expect those costs to remain stable or grow in 2015?

Adrian Littlewood
Chief Executive Officer

Look, I think we always say that broadly around that number is roughly where we target. But if there are opportunities to support additional routes, frequency or growth, we absolutely will do that. It makes complete sense for our business. So we are -- we're, obviously, scanning the market pretty closely and work on a range of opportunities across the market. So as they unfold and as the support or as the business case supports it, we will support those. But roughly, that's where we've been for the last few years, and that's where it will probably be.

Operator

Your next question comes from the line of Jason Familton from Accident Compensation Corporation.

Jason Familton

Just a couple for me. The first one just around the $125 million on the international terminal. Can you give a split between just the aeronautical component and the non-aeronautical debt?

Adrian Littlewood
Chief Executive Officer

Yes. Look, still to be worked out. That's why we said we're still at the high-level feasibility stage and the stuff and to the -- the images you're seeing are really just an indication. We got a lot of work to do in there. But just to give you a rough sense, it includes new footprint for our major processing areas, new common area terminal, as well as retail and other elements. So it's a mix. The allocation will be done. We have a broad formula we work with in terms of space allocation, and that will be worked through as the design is finalized in the coming months.

Jason Familton

Okay. And the second one, I'm just trying to understand there's been some mixed messages coming here from your sales around the Singapore and New Zealand alliance. I'm just trying to understand just what your position is around that alliance and, I guess, what impact they may have on growth out of, I guess, in Tunisia or in India specifically, which are 2 areas which you've sort of highlighted previously as key markets for you guys and where you may see some growth in capacity?

Adrian Littlewood
Chief Executive Officer

We've been supportive of the alliance. We did highlight something -- I guess, some concerns about how it might affect other airlines. But this is 100,000 -- at least 100,000 net additional seats into this market. And as you highlighted, those key growth markets of India, which is pretty difficult economically to get here in one flight; and Indonesia, also important market for us. So it's one of a suite. Malaysia would be another obvious airline we've worked on those growth markets as well. So it's a range of airlines who want to work with but this is an important path of growth for us, and the A380 coming down will bring significant new product in terms of the business class product and capacity into this market. So I think it's got to be good for New Zealand.

Operator

There are no further questions at this time. Mr. Littlewood, please continue.

Adrian Littlewood
Chief Executive Officer

All right. Again, thank you, listeners on the webcast and on the phone call today. We look forward to speaking to you again at the interims when we will be hopefully reporting great results. Thank you, again.

Operator
That does conclude our conference for today. Thank you for participating. You may all disconnect.