

Question and Answer

Operator

[Operator Instructions] Your first question comes the line of Marcus Curley from Goldman Sachs.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Just a couple for me. First of all, you've talked about the one-off costs in the result with regard to the new fleet. I suppose if you add in the depreciation write-down, it probably totals around \$50 million. Any further more one-off costs to come in '15?

Robert Stuart McDonald

Former Chief Financial Officer

Not -- sorry -- just on the -- when we -- I think we've referred to the fleet changeover costs as sort of transitioning you might recall at the Investor Day, Marcus, I said a fair bit of that cost will travel over into the current year. So that's what we call that training bubble in transitioning, particularly in the pilot group at the moment. But by the end of this current year, we would expect that to pretty well be done and from -- certainly, from FY '15 -- sorry, from '16, we'll be in a normal fleet configuration, although still some older fleets around, but the vast bulk of what's the movement of seats by pilots will be done. So next month, 747s are out. Well, there's only 1 left. End of next year -- sorry, probably by next September, 737s are out as well. So they are 2 big sort of areas in the pilot training. So that's probably zoning about less than \$10 million a year extra that we'll endure in the coming year. As far as other costs, really, the changes that we've been doing in the maintenance area, that's fully provided for in the current result. We don't anticipate more of that going forward. We're pretty well in the set configuration for that.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And redundancies?

Robert Stuart McDonald

Former Chief Financial Officer

I couldn't say we won't have redundancies. There's lots of areas that are always under review, but they're nothing of the order that you saw in the current year at all.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Yes. And then, just on the domestic new ASAs, you talked at the Investor Day of this being sort of revenue neutral. Is that still your expectation, now you've sort of -- you have started then on the offering?

Christopher Mark Luxon

Former Chief Executive Officer

Yes, Marcus, Chris here. Yes, most definitely. I mean, as you know, the domestic proposition is all about trying to find a dimension to put a sharper customer proposition around, which is really around flexibility. So yes, we're on track. We're really comfortable with how things are going and progressing, and we confined June and tweak as we get more experience with it as well. So that's landed very well, landed very well with customers, frankly, in terms of simple, clear, appreciated. And then, economically, we're managing that very well.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And so we shouldn't read too much into the fact that your load factors have sort of weakened off a little on the domestic routes?

Christopher Mark Luxon

Former Chief Executive Officer

Well, there's been a lot of capacity go in as well over that period of time. So no, I wouldn't get too hung up on that at all.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Okay. And then, just 2 further questions. Long-haul yield outlook, obviously a strong year for yields on the long-haul business with your network changes, et cetera. Where are you seeing that looking into '15?

Christopher Mark Luxon

Former Chief Executive Officer

Pretty much consistent and just continuing where we sort of have been. I think if I'd go quickly around this, I mean, North America remained strong. We've got some more capacity going in, in the coming year. We've got the big capacity drive going into Asia, obviously around Singapore. That's a good deal from us from Day 1. So we're not going through the normal curve that we would on new routes of deep loss-making before we get -- become profitable. And then, as we look in China, there's a real opportunity for us to do better in yield management, actually, because the challenge we've had in China, as you know, is that we've been flying the 767 into China and the cabin mix is obviously not what it is in a 777-200 or a 787 configuration. So there's a real opportunity for us to do better at the front end of the aircraft going into China, as well as obviously receiving the operating efficiencies around more fuel-efficient aircraft as well. So we don't see any big challenges or holes. Rob, do you have anything else to add to that?

Robert Stuart McDonald

Former Chief Financial Officer

Yes, I think the yield environments reasonably reflect the wealthy economic environment in the countries we fly to. So as Christopher mentioned, the U.S. is having sound economic performance, similarly New Zealand. Even Australia, we're not finding it challenging. There's lots of talk of consumer confidence. But generally, the demand and yield have held up well. Mentally, there's a conversion issue with the lower Australian dollar. And then Asia, probably the standout a little bit has been -- for us, has been Japan. We are really happy with the execution going on by the team in Japan. And just really centering up in Tokyo and growing that, which we're going to do over the coming summer has -- I think, it's put a bit of spark back into that market.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And then just finally, can you give a little bit of color in terms of where the ASA growth -- ASK growth is going to go in '15? You obviously talked about on a group basis, but on a regional basis.

Christopher Mark Luxon

Former Chief Executive Officer

Yes. I'm just trying to find that chart for you. Yes, so I think we mentioned sort of 6% growth end of '15. Domestically, that will be around 5%. And that's really just extra seats as the A320s really get into the downhole part of that conversion. So I think by the end of the financial year, we'll only have 2 737s left, and that will be gone a few months after that. Good growth into North America with the old 777-300s, San Francisco and L.A. And then, in Asia, good growth into both Japan and to Shanghai. And then, off the international growth, a reasonable portion has actually gone to Singapore. So that's a good start. So in summary, growth is everywhere.

Operator

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

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Just to follow-on on that question, in terms of growth across the Tasman, what do you expect in terms of the ASK growth on those routes?

Christopher Mark Luxon

Former Chief Executive Officer

About 3%, Andy.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

And I guess backtracking on one of Marcus' other questions, just in terms of yield outlook, I recognize you made some comments around the domestic market, ASK growth up 5%. The new kind of fleet configuration, in terms of your product. But in terms of what -- how do you see that yield play out, not least given the increase in supply and the lower-cost product that you're continuing to provide?

Christopher Mark Luxon

Former Chief Executive Officer

Yes, so there's a couple of issues. One is we still see quite reasonable economic growth in New Zealand. So that's, in our minds, does underpin that extra supply coming in. So we still, to us, New Zealand has continued to grow year-on-year. And those economic conditions have also been quite supportive of yield across the network as well. We're not really expecting yield to do much in New Zealand. We're entirely content to absorb that capacity and have flat yields.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

But you don't see there'll be a need to stimulate demand in the market and, therefore, lower yields to fill that capacity?

Christopher Mark Luxon

Former Chief Executive Officer

I don't think so. I think, yes, we sort of have made assumption that we'll have flat yields by virtue of the economic growth that we see being able to help us work into that capacity over time. So yes, I don't -- no, that's definitely not -- going in position, we'd be -- we should be able to maintain pretty flat yields.

Robert Stuart McDonald

Former Chief Financial Officer

Yes, and the areas we're growing that's Christchurch to the Queenstown's quite supportive of the economic picture. And Christchurch is very supportive. Very equally, [indiscernible] tourism has grown strongly in the last year, 7%. So that flows into the domestic network as well.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Thanks. And the next question, just around your loyalty scheme, non-air revenues up 14% year-on-year. Can you kind of talk about the makeup of that non-air revenue? Recognize credit and debit cards were a key driver this year. Where do you include it in the financial statements and any kind of context around quantum?

Christopher Mark Luxon

Former Chief Executive Officer

What was the last word you said?

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

How much revenue?

Robert Stuart McDonald

Former Chief Financial Officer

Yes, sorry, I know that you said something else.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Yes, quantum.

Robert Stuart McDonald

Former Chief Financial Officer

So it is predominantly financial partners air, and we're seeing good growth across all our cards. We launched the Kiwibank credit card during the year, that's gone very well. And really importantly for us, we're not seeing these incremental growth to our card base. We're not seeing swapping over from 1 brand of Airpoints cards to another. So that's very important. Equally OneSmart continues to move forward. And then, there's a number of other areas we'll be launching across sort of additional partnerships. We had the partnership with Loyalty New Zealand. That's grown in the course of the year as well. So there's a number of areas. But predominantly, the sub or the main part of the growth is coming out of financial partners. And it's a very attractive currency for credit cards. And so, we think there's a lot more there. There's -- you'll see a lot more cut in the coming months around things like shopping malls and things like that or online shopping malls. And so we'll unpack those in the coming months. But you'll certainly see the full suite of what you see around the world in terms of frequent flyer loyalty schemes.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

And then, where do you put it in the financial statements, Rob, in terms of that revenue?

Christopher Mark Luxon

Former Chief Executive Officer

In stays in Other Revenue.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Okay. And any kind of color around quantum?

Christopher Mark Luxon

Former Chief Executive Officer

Yes, typically, we haven't broken it out in the past. And we'll sort of -- it's fair to say that we have a very strong provision, and we almost fully provide, and that provisions around \$250 million a year. And annual revenues are up sort of more than half of that.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

Okay, great. Last question, just around those transitional costs. Christopher, you said in the presentation that they -- there would still be some in fiscal '15. How much will that be in fiscal '15?

Christopher Mark Luxon

Former Chief Executive Officer

I think, as Rob alluded to, probably -- we're expecting around \$10 million. I mean we will be completely free of it by the end of FY '15. But we still obviously have a bit of a training bubble as we bring the fleet through and that we'd taper that down. But it's a big step down from what we've experienced in FY '14. But we continue to work our way through it particularly in the first half.

Operator

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

Paul Turnbull

Jarden Limited, Research Division

Just good things. Just going back to the ASK growth questions. Firstly, just on North America/London. Could you give us a number on -- you said good growth, but could you provide an actual number on ASK growth you're expecting for that market?

Christopher Mark Luxon

Former Chief Executive Officer

I could tell you that there's no growth on London routes because that's exactly the same. It's going to be the same aircraft all year. So you could assume London is actually 0. And yes, North America really is around 7% in FY '14. And I think we're probably 2 to 3 to 4, depending on how we ultimately finish up in the coming year.

Paul Turnbull

Jarden Limited, Research Division

So 2 to 4?

Christopher Mark Luxon

Former Chief Executive Officer

Yes.

Paul Turnbull

Jarden Limited, Research Division

Okay. Second question just on the cargo revenue. And you've seen further yield decline in that market, and that's been a long-term trend going back many years. What do you see as the outlook for the cargo market from, I guess, a volume and a yield perspective? Do you expect ongoing yield decline going forward? And secondly, in relation to the capacity growth, I think you mentioned at the Strategy Day, you were looking to enter discussions with Singapore Airlines regarding air cargo between New Zealand and Singapore and how discussions are going there.

Christopher Mark Luxon

Former Chief Executive Officer

So I think, yes, a good question around cargo. I mean, remembering cargo, in the context of our business, is relatively small as a driver of overall revenue unlike some other airlines. But the challenge that we've had is when we came out of Hong Kong-London, we lost a huge amount of capacity. And what I'm actually really proud about this result is this is a really good team over the last 4, 5 years that's just really done a good job just grinding out a result and being -- going against the trend of the global cargo industry. But we've actually managed to get flat capacity over the last year as the team have really worked hard to plug the loss of the capacity coming out of London-Hong Kong. As a result, we've had yields, and prices have been reduced. And that's actually I think lead to lower revenue in the order of about 3%, excluding foreign exchange. So for me, really good grafting sort of outcome. The 3% decline in cargo are not material for us in the context of our overall result. But as we move forward, the larger aircraft are coming with a lot more belly space, so it is going to create more opportunity. And particularly, when we go into places like China, where we actually do max out on capacity at times and can't give certainty of supply to some of our key customers, this just enabled us to get a much more stable sort of platform in place around capacity, with

the Dreamliner coming onboard, having a lot more -- I think, it's almost double the capacity of the 767s that are flying. When we get the 777-200s going into these other markets as well, that will be useful as well. So I think the headline for us is, there'll be more capacity coming onstream. It will probably still be pretty tough on yield and pricing, but I think I'd say we'll build our position in the coming years with the capacity strength that we've got.

Robert Stuart McDonald

Former Chief Financial Officer

Yes. Certainly for us, it's really a total revenue thing. So I think you could almost assume yields will go down because of the amount of additional volume we're bringing in, particularly with 787s taking out 767s. That's a huge leap in capacity. That said, I think there's quite a lot of efficiencies that come into the business in getting rid of 767s. They don't have the same can size as a 787 or a 777. So at a network level, wide-bodies will get a seamless sort of transfer. And that probably does present some transit opportunities. And again, pretty low yield but, for us, that's -- it's all about total revenue.

Paul Turnbull

Jarden Limited, Research Division

Yes, sure. I'm going to guess you're not the only ones bringing on these new aircraft with the additional belly space. So perhaps, are you seeing, in an overall cargo market context, additional downward yield pressure at the moment because of these new aircraft that are coming on? Or is it too soon to say?

Christopher Mark Luxon

Former Chief Executive Officer

To be honest, if you think about our direct competition, I mean, most of them have deferred new aircraft. So it's not a huge -- I don't -- we're not -- we're probably not seeing it in the same way in terms of a big competitive threat or concern at this point. I think the markets we're flying to, where we're seeing huge passenger demand, are also markets where we see good outbound opportunities for New Zealand exporters. And that's really about what we're trying to convert. And I think we're doing that fairly well. I do agree with Rob, I think yield will be really challenging in cargo. But it's quite manageable. We're not actually seeing to build our market share and position with the capacity, knowing that we've got a good team there that actually can grind the outcome out as well.

Robert Stuart McDonald

Former Chief Financial Officer

Yes. I think in the last 5 years, the freighter market and the freight market has gone a pretty fundamental change, where if you're an operator of freight is that's a very challenging place to be because of the amount of large wide-bodies, particularly twin engines that have come into the market with very large cargo capacity. But most of that's sort of out there. And so whether it's a 787 replacing something else, that's probably not the move that's damaged the market as much. That damage occurred 4 or 5 years ago when you saw a lot of 777s coming into market taking out 747s and putting a lot of pressure on freighters.

Operator

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

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

A couple of follow-ups. With regard to your cost per ASK and just to perfectly understand what you're saying here for '15, you're effectively saying a -- your a -- at worst-case, your outcome would be a cost per ASK x fuel and foreign exchange gains of flat?

Robert Stuart McDonald

Former Chief Financial Officer

Yes, that would sort of -- that would be a reasonable outcome.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Okay. And just with regard to the guidance. When you say current fuel costs -- or cost of fuel at current levels, on an annualized basis, Rob, are you effectively talking about your overall fuel costs for the business on a per barrel basis be the same as last year or below?

Robert Stuart McDonald

Former Chief Financial Officer

We probably expect it to be a touch lower.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Okay. And then just finally, with regard to the changes announced with Qantas on their long-haul business, have you got any observations in terms of how that might impact you?

Robert Stuart McDonald

Former Chief Financial Officer

Our networks don't really overlap anymore at a Qantas level. So we'd sort of -- it's probably more focused about carriers out of Asia coming into Auckland. So that's more our competitive set now.

Operator

There are no further questions at this time. Please continue.

Christopher Mark Luxon

Former Chief Executive Officer

Well, guys, thank you very much for your time. Really do appreciate being on the call. And thanks again for your support. We genuinely do feel really proud about these results. We're trying to do what we say we'd do and do it well. And so we'll just now march forward to the next half and keep going forward. So thanks again for your support. See you.

Operator

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