Question and Answer

Operator

(Operator Instructions) Your first question comes from the line of Jeff Sant [ph] from Deutsche Bank. Your line is now open.

Jeff Sant

Hi, Rob and Rob. Look, I just wondered if you can - if you're already given the [inaudible] outlook for each of those routes over the next year, and then sort of offset with that the expectations around cost also. And finally, look, the only other thing I just was interested in your perspective on the Auckland domestic terminal, given the comments by Auckland Airport.

Rob Fyfe

So let me just pickup a couple of those questions and then I'll pass over to Rob. From an outlook perspective, the Tasman fleet environment is relatively stable or be it as I say we get a full-year benefit from the increased capacity that came with the change in seat count on our A320 aircraft. So we'll get a capacity uplift as a result of that full-year benefit, but the fleet configuration stays largely the same. Domestically, we get both a capacity and efficiency gain that comes as a result of the A3 - the further introduction of A320s replacing 737s. And I would say also that we've seen the product positioning we have in the marketplace has send a very strong competitive position domestically and we have a very positive view.

When look internationally, we see a mix to 777-300s arrive effectively in around six month's time.

Robert Stuart McDonald
Former Chief Financial Officer

November and January.

Rob Fyfe

November and January. Six months into the financial year. They will again bring further efficiency in productivity gains and revenue opportunities associated with the new products. So all - if you look across all route groups from an outlook point of view, you see the potential for efficiency and capacity enhancement in each of those markets. In terms of the cost picture in the airport terminal, the domestic Auckland Airport Terminal, I'll just ask Rob to offer some perspective on those points.

Robert Stuart McDonald
Former Chief Financial Officer

Yes. So the comments by Auckland Airport are in line with the discussions we've been having with them. That's reasonably very collaborative process, everyone is looking for the right answer in what will be ultimately over the longer term of transition to a new terminal as well as another runway in the longer term. But it's really a discussion that's focused on what's the best product, what's the best economic outcomes for both parties as we move along that transition over the longer term. So I mean it's one thing we're working very well with them.

Jeff Sant

Great. And on the cost side?

Robert Stuart McDonald
Former Chief Financial Officer

I mean at the initial years we're looking from our perspective relatively modest costs. I mean and the refresh units is clearly tens of millions on the current side. But that would - that doesn't have a long life so it would be amortized over a reasonable period. We are - it's fair to say we are starting to get quite capacity constraint there, so we need that a lifting in capacity and the availability of gates.

Jeff Sant

Sorry, Rob, I was reading by cost just by January and FY12. I think you know your capacity is fairly rising, efficiency will help as to what is the sort of border outlook for labor costs?

Robert Stuart McDonald
Former Chief Financial Officer

In terms of labor costs, I mean we are still sorting our settlements in the range we're comfortable with which is sort of a more CPI sort of level.

Rob Fyfe

They currently are coming through below 3% annualized.

Robert Stuart McDonald
Former Chief Financial Officer

Yes. And as well mention the A320s is approximately 15% per seat better cost than the 737s, so that's a good cost gain in the domestic environment. Trans-Tasman will see the whole year of Seats to Suit. That's a very sharp cost gain for us as we put those additional seats. And in the past year, you haven't seen the benefit yet of the 777-300s. They only got there in the last quarter. And after Christchurch and some of the adjustments we made through Japan and what went through the rest of the network, the remaining 747 fleet is running in a pretty inefficient mode. That will continue on to some extent in the current year, but the current year you will see more of the powerful economics of the 777-300 is starting to come through and in a sort of an exit or a movement down to that minimal level of 747s. So that will start to drive some much better productivity for the international business.

Jeff Sant

Thanks guys.

Operator

The next question comes from the line of Rob Mercer from Forsyth Barr. Your line is now open.

Rob Mercer
Forsyth Barr

Good morning, Rob and Rob. I guess just picking up on the Tasman, because it's a great outcome that you've achieved seat per suit, but also with the Virgin Alliance, I was really interested to know how August had gone. Is there some tangible evidence now that Virgin is attracting market share from Qantas from Australian and domestic. Particularly, I would say - the Business Traveler, they say your better product overall and the frequency of service that you offer in New Zealand being better than the Qantas combination.

Rob Fyfe

Yes, so -

Rob Mercer
Forsyth Barr

And then some hard numbers you can sort of put around it.

Rob Fyfe

So in terms of the Virgin Alliance piece, Rob, that really is too early. We took a feat - the alliance operationally, we took a feat from the 26th of July, so we are not even a month yet, so it'd be low to put any hard numbers. But if I just talk - the two benefit dynamics that we see is firstly being able to offer

Kiwis that are travelling excess market, excess to a 28 ports in Australia now on a single linked ticket, whereas previously we believe we're losing that traffic to Qantas or certainly a portion of their traffic. And, likewise from the other side, Virgin being able to offer the full range of New Zealand domestic destinations to the customers.

We've got that upside, but clearly the other dynamic that's going on in the Australian market coincident with us is Qantas is having a pretty challenging time with union issues, with a lot of media comment and political feedback which in our assessment looking from as far as creating opportunity for Virgin to strengthen its position and the business market. The product changes they're making are clearly designed to also do that. And we hope that the combination of those things will provide further business stimulus out of the Australian market across the Tasman and then to domestic New Zealand as well. But realistically we're not going to see the benefits of that through till, I would guess at the earliest or any material benefits from that through to the end of this year or early next year.

But net-net, our view is to offer back of Seats to Suit in this alliance initiative. When you put the two together and when you looked at that one graph I showed you of our position relative to the rest of the market, effectively we are the only airline and the airline now in combination with Virgin Atlantic - Virgin Australia that has any real momentum in that Tasman market.

Rob Mercer
Forsyth Barr

Okay. And one other question on the - probably will tap, but in particular so have you seen the changed behavior in travelers, they would otherwise have been travelling to New Zealand. And does the neat game, it looks like it should be lower than what you have outlined say six months ago.

Rob Fyfe

Yes, so you can run those numbers. I mean our view is that the implication of Christchurch on air will cut revenue up, it's about $10 million. So that's the financial impact of what happened from the shifting of the games. That's not - we're not fully able to assess that. We're expecting there will be a reasonable amount of demand for people for an additional travel. Once they're at the country and they're between games and so on and thinking about what they're going to do, so some of that is difficult to assess. But in terms of booked demand, we're reasonably confident as we hone in on the start date of the tournament that $30 million is robust.

Rob Mercer
Forsyth Barr

Okay, thank you.

Operator

The next question comes from the line of Russell Shaw from Macquarie. Your line is now open.

Russell Shaw
Macquarie

Good morning, Robs. Just a couple of questions. And just with respect - I think you've [inaudible] a bit of a touch on capacity outlook. I noticed obviously a few months ago, you tried to put through a 10% price rise, how are you finding that's picking, it doesn't look like a lot of it is picking cost through at the moment?

Robert Stuart McDonald
Former Chief Financial Officer

In terms of the short haul environment for us is being much more successful at coping with fuel rises in the last six months. The long haul takes, there is quite a lot. So a much longer lag on that given the forward nature of those bookings, but that also changes in markets to markets. So it's coming through slower in the international markets than in the domestic market.

Rob Fyfe

I think Russell the other - Rob Fyfe here - the other comment I would make is you get a slight pollution effect when you get new carriers into the markets. So clearly with Jetstar, AirAsia X, China Southern coming onto routes you get these big dollars of capacity that arrive in the market and there is always an amount of discounting activity goes on as a new carrier tries to stimulate demand to support their additional seats.

So you've got that offset dynamic and when given that we have those - effectively those three carriers arrive in relatively quick succession that has certainly put some pressure on our ability to recover our fuel costs, but history and our experience shows that those situations will stabilize and you will see once those carriers have made their entry strategy or made their entry position and got they have a stabilized and they will be looking quite quickly to move the yields up and certainly that their experience we'll see in other markets from these carriers. So you can - I would certainly take some heart from the fact that we've seen a significant increase in some of those competitive dynamics which has a short-term suppressant effect on yields.

Russell Shaw
Macquarie

Okay, fair enough. And then just with respect to the - Rob McDonald you mentioned the exit costs on the 747s in '11 and a bit in '12, can you give any more color on this and I guess how that compares to the benefits that you see from the introduction of a 777-300s?

Robert Stuart McDonald
Former Chief Financial Officer

The cost of both exited and efficiency in the last year we had sort of assessed around $30 million; and in the current year, a figure probably not too dissimilar. And the 777-300, it certainly we're expecting benefits greater than that once the full fleet complement is in. And the dynamics or the economics of the 300 versus what we have currently deployed, it's got a - it's got the same size frontend as a 747 with less economy seats, it carries more cargo - 40% more cargo on routes that are very valuable cargo routes, earning 15% less fuel per seat. So this is just a number really good combination that will drive that to be quite a strong performing fleet.

Russell Shaw
Macquarie

Great. And then just a final question, just with respect to your changed hedging policy, I mean I think you've given all the hedging at the moment, WTI that your next move would be in spring. But just wanted to get a bit of - in terms of you're not calling unruly markets, what you need to see settling before you start stepping back into the market again?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, so if you look at sort of WTI brand spin by in large to the last decade about being a dollar discount to WTI, the stocks and cushion we bring WTI is measured exactly the same as they were a year-ago when brand was at discount. And at the moment, it's something over $20 as a premium. So it's equally the Singapore Jet premium over WTI is heading towards $40. I think by any measure that's quite excessive volatility when in the past it's been in the sort of $10 to $15. So there is a lot of sort of things to ring out in these markets that we would have thought, perhaps would have happened by now, but haven't, and you see some quite sharp volatility from night to night. And so our attitude in the end is just to stand back.

Russell Shaw
Macquarie

Is it fair to say the compensation losses that you've got at the moment with the WTI those would disappear pretty quickly and you just saw a small upward movement in WTI?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, $5 upwards and they're just about gone.

Russell Shaw
Macquarie

Great, okay, thanks.

Operator

The next question comes from the line of Jason Familton from First NZ Capital. Your line is now open.

Jason Familton
First NZ Capital

Good morning, guys. Thank you for taking my call.

Rob Fyfe

Hi Jason.

Jason Familton
First NZ Capital

Just four questions, if I may. The first one is just on the comment in the release around losing $1 million long haul network. Does that include, I guess the losses from Japan post the earthquake?

Secondly, just on I guess the Chilean ash cloud, and perhaps you can put some numbers around what that might hit on the financial results.

Thirdly, just picking up Jeff's question really around international capacity growth or long haul capacity growth I should say over the next 12 months, obviously just given the same reduction in capacity in July as the 300 replaces 747s, just wondering how they will sort of plays out, perhaps you can give a little bit more numbers around there.

And then, finally, just on maintenance CapEx sequentially up significantly in the second half, just wondering whether that was just due to the timing, and perhaps some heavy body maintenance.

Rob Fyfe

Let me pickup the first two and I'll ask Rob to just comment on the capacity and maintenance space. In terms of losing $1 million a week, yes that include the impact of Japan. Albeit we reduced capacity pretty quickly to lineup with a drop-off in demand that we saw in that market that affected the fleet utilization which does have a play into profitability.

The Chilean ash cloud, the neat impact on our result was around $10 million positive. We clearly incurred additional costs in terms of flying more secured routes and flying lower and so on. But because competitors chose not to fly and reposition passengers on to our services, then we saw a revenue uplift that was associated with that.

Rob, do you want to -?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, just on the CapEx on maintenance, that is timing, and it's also timing associated with the exit of the 747 fleet.

Rob Fyfe

Capacity.

Robert Stuart McDonald
Former Chief Financial Officer

Capacity internationally where we stand now is probably relatively flat. As the 777s have a little less seats than 747s which they're largely replacing.

Rob Fyfe

And we've got some frequency increases on some routes as well.

Robert Stuart McDonald
Former Chief Financial Officer

Yes. Domestic has capacity increase and going on. Sorry and in short haul as well.

Jason Familton
First NZ Capital

Yes, thank you for that.

Rob Fyfe

Great. Thanks Jason.

Operator

The next question comes from the line of Marcus Curley from Goldman Sachs. Your line is now open.

Marcus Curley
Goldman Sachs

Good morning. Just a few questions if I can. First of all, are you able to breakdown the estimated $2 million cost from the earthquakes between the Christchurch impact and the Japanese impact?

Rob Fyfe

We can't. What we did say is that the impact was split about 50-50 between short haul and long haul. But in terms of linking it to one or other event, the difficulty is actually interrelated events because of the traffic flows between the two markets. So for example, of the back of the Christchurch earthquake and the fact that there are a number of Japanese nationals that were killed, we expect that we would have seen a drop in demand out of the Japanese market, they're very sensitive to those sorts of things independent of the Japanese earthquake. So how that demand comes back linked to recovery in the Japanese market and lingering concerns about the safety of Christchurch and so on is kind of hard for us to separate and differentiate those two effects.

Marcus Curley
Goldman Sachs

Given your comments around the rebound in Christchurch traffic domestically, is it fair enough to assume that this year we should see at least half of it recover in the units?

Rob Fyfe

Yes, I think that's a reasonable assessment. We're seeing - there is a change of mix. So a lot of those people flying in and out of Christchurch now are people involved in the recovery efforts, so the out-of-towners spending their weeks down in Christchurch for days or whatever to assist and is less demand that's originating out of Christchurch. So those two things are balancing themselves out. So we're certainly year-on-year now seeing traffic flows out of Christchurch say ahead of pre-earthquake levels.

Marcus Curley
Goldman Sachs

And secondly, can you just give us a little bit of color on the benefits from the long haul products. Previously I think you've suggested that you could see revenue per seat increases around [inaudible] implemented, is that sort of the experience at the moment?

Rob Fyfe

Yes, that will be consistent, and it comes in two forms. One is the premium we're getting out of product like the Skycouch which is actually exceeding our expectations and then the other key seat - revenue per seat premium comes from the change in the cabin mix that Rob referred to earlier with proportionately fewer economy seats in the larger of premium seats.

Marcus Curley
Goldman Sachs

And then you mentioned the high New Zealand dollar and do you have any visibility on summer bookings at this stage? Is it a risk or is it materializing and in lowering bookings at the moment?

Rob Fyfe

No, that's a little early for us to see far out. One of the impacts of, I guess, the increased economic volatility is we just see this constant drift to later and later booking profile. So that makes it difficult for us to get clarity through that November, December, January peak period. I suspect to be honest, Marcus, is that yes exchange range is going to be least impactful on demand than the economic conditions in our key source markets and consumer business seem to maintain the likes of the UK and the US.

Marcus Curley
Goldman Sachs

Okay. And then - and the other revenue you reported a $45 million increase in the accounts, I think you referred to HR activity and altitude workers. Is that the two major overheads in the list?

Rob Fyfe

Actually, the bigger driver is the engineering third-party work.

Marcus Curley
Goldman Sachs

I'm actually just talking about other revenue rather than -

Rob Fyfe

Yes, so that's in summary revenue coming through via predominantly.

Marcus Curley
Goldman Sachs

Is it sustainable?

Rob Fyfe

Yes it is.

Marcus Curley
Goldman Sachs

And then just finally one for Rob; in terms of the tax rate looking forward, heading off to one-off credits this year, would it normalize in 2012?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, it would. That particular issue which as we mentioned of the accounts goes back to 2009 and is set in deferred tax. And once we got concurrence with IID of the treatment, it came through this year. Those - that particular circumstance doesn’t exist anywhere else.

Marcus Curley
Goldman Sachs

Okay, thanks.

Operator

The next question comes from the line of Adrian Schofield from Aviation Week. Your line is now open.

Adrian Schofield
Aviation Week

Thanks a lot. Couple of questions if I may. First of all, in general terms, what range of options could be on the table for the long haul review and when like we have some results from that? And just secondly, how confident are you in Boeing’s target of December 2013 for the first 787 delivery?

Rob Fyfe

Let me answer the first question while I ponder the second one. In terms of the long haul review, we are looking at everything from product configuration which is the mix of premium proposition versus I guess competing with low-cost long haul carriers. So, for example, as we mentioned we’ve had the great success with our Seats to Suit product on the Tasman where we’ve positioned ourselves to compete far more effectively against the budget carriers while we’re retaining a place in the premium and business market as well. So we are exploring how that could be applied or if it could be applied to the long haul business.

We’re looking at the benefits that we could create through different or additional alliance relationships with other airlines. We’re looking at whether we should be operating different product configurations into different markets. We’re looking at ancillary revenue opportunities and we’re looking at our core cost base. We’re also looking at frequency in capacity allocation route by route to existing markets as well as potentially any new markets. So that - I mean that gives you a sense of the type of input options that are going into the process. We’re well short of a lighting on preferred scenarios. But I would stress that our competitive and operating environment is quite different than Qantas on our long haul routes, so there is some options that they are clearly considering or looking to execute that are fairly relevant to the options that we are reviewing.

I guess, also, it’s a matter of looking - sorry Rob just alluded me to the fact - there is also a matter of looking very closely at our fleet strategy going forward and making sure we have the right aircraft for the right mission, and what the appropriate mix of 787 versus 777 and so on in our fleet. To your question, therefore about what confidence do we have in the delivery dates of the 787, I guess to be frank we clearly have seen these dates slip multiple times. Every time that slipped, we are being told the new date is the definitive date. When does the end of that process - are we at the end of that process or not, I don’t think we are in a position to know with a high degree of confidence. That said, we continue to rollout [ph] planning on the basis that we will be introducing these aircraft into our fleet in the first half of 2014.

Operator

The next question comes from the line of Will Horton from Centre for Asia Pacific Aviation. Your line is now open.

Will Horton
Centre for Asia Pacific Aviation

Good morning. If I can - three question. Following on the comments [Technical Difficulty]

Rob Fyfe

I’m sorry. Will -

Will Horton
Centre for Asia Pacific Aviation

Yes.

Rob Fyfe

Could I just ask you to repeat that question? We were getting a very - we are losing a number of the words.

Will Horton
Centre for Asia Pacific Aviation

Sorry. Line is, well - with regards to your comment about [Technical Difficulty] were you alluding converting some updates of 787s to two 777? That's my first question.

Rob Fyfe

Right. I think I got that. So, no we're not necessarily talking about converting options. As we current - as we start to take delivery of 787s, the question for us is what aircraft are we exiting out of the fleet or retiring and what ultimate mix are we aiming for, because the way we've got our existing leases setup, the way we've got our firm orders and their option setup leave us with a range of choices in terms of aircraft mix between 777-200s, 777-300s and 787s in terms of our long run view and then also a range of options for the speed at which we exit our 767s into some degree our 747s, although that is pretty much distant fits under any scenario.

So I guess what I'm saying is there is a number of options in fleet's ability and we are reviewing what is the optimal mix and that will be dependent on the long haul strategy that evolves from this project in review we have underway. In terms of any of our firm orders, we are not looking at replacing any of those firm aircraft with any other or ultimate types at this stage.

I think to nearly a question I'm not sure I fully answered our expectation is that we will be implementing outcomes from this review before the end of this calendar year.

Will Horton
Centre for Asia Pacific Aviation

Okay. Moving onto my two question. What is the financial [Technical Difficulty] 300? And then with regards to long haul network, are you seeing the same performance Europe and Asia [Technical Difficulty]?

Rob Fyfe

So, I'll do my best. The questions again came through - very difficult to hear. But I think the first question was what's the impact of the removal of a row from premium economy?

Will Horton
Centre for Asia Pacific Aviation

Yes.

Rob Fyfe

So the impact is negligible I think in terms - if you look at load factors, displacement and a range of other dynamics, I think we assessed it around about a 4% assuming that there was no increase from fear level. We are quite confident we can recover the - if you like the loss revenue from the removal of capacity by a modest increase and the fear position of premium economy given the very superior position that will place us in terms of product against competitors. So we have - we're quite as I say confident of sustaining our current revenue from that cabin.

What was the second question? Could you just repeat the second aspect of that question? We didn't catch that at the same?

Will Horton
Centre for Asia Pacific Aviation

Sorry. The third question was [Technical Difficulty] performance in Europe and Asia that [Technical Difficulty] $1 million losses on the second half, what was the losses - what is the losses [Technical Difficulty]?

Rob Fyfe

Right. So we're not declaring or breaking down those losses any further by regroup. What I would say is, if you look at the latter part of this period, their performance out of Asia has been certainly impacted by the fact that we've got three new carriers have emerged on Asian routes being AirAsia X, Jetstar and China Southern, so you get an impact as the market absorbs that capacity for a period of time. Although in terms of those three new entrants, the one that most materially effects us in terms of where we fly is China Southern and that's a very strong growth market. So we're quite confident the market will grow into that capacity quite quickly.

The UK market for us despite visitor numbers from the UK at an New Zealand level being down in New Zealand continues to perform quite strongly out of that market. We have maintained our position out of the US market and we've actually seen some quite strong growth out of both the domestic and Australian markets for our long haul services into the US. So if you isolate Japan linked to the earthquake and you isolate some of those if you like slight discontinuities you get from new entrants we don't see any particular market that is either overly problematic or overly positive, we see improvement opportunities across all markets and we remain positive in terms of the prospects of all markets we fly.

I mean the very strong difference when you compare and you used the reference to Qantas is we in terms of the international long haul seats and now that New Zealand we are close to 45% shear of those seats and Qantas has been talking figures of 16% or 18%, and the number of the routes that we fly because they are long and relatively thin routes in terms of demand, we are the sole, the right carrier on those routes, the routes like Beijing, Shanghai, Vancouver, Narita, Osaka, San Francisco. So the dynamics in our routing work are very different than Qantas.

Will Horton
Centre for Asia Pacific Aviation

Okay, thank you.

Operator

The next question comes from the line of Nachi Moghe from Morningstar Research. Your line is now open.

Nachi Moghe
Morningstar Research

Good morning. I just had a question on what sort of growth are you expecting on the short haul and long haul - sorry short haul and domestic in terms of capacity?

Rob Fyfe

So the comment Rob made earlier is that long haul will be broadly flat in terms of capacity. Do we have a figure team for short haul capacity growth? We don't have a specific figure, but I suspect we are in the region of 4% to 5% capacity growth short haul. If you say it as an indicative figure that's different than they - we'll let you know. We'll just do some numbers in the background as the questions continue.

Nachi Moghe
Morningstar Research

Great. And what is your assessment as far as yields both on the long haul and the short haul?

Rob Fyfe

Sorry, could you repeat the question, please?

Nachi Moghe
Morningstar Research

What is your assessment in terms of - for yields both on the long haul and the short haul?

Rob Fyfe

Yields, short haul and long haul.

Robert Stuart McDonald
Former Chief Financial Officer

Just in the yield picture for short haul, the Seats to Suit which is effectively a reduction in yield once we launch that that will still be present on the Tasman, so we will see some sort of effectively pressure on yields while we have a strong demand outcome for that. So the actual rise will increase. Domestic, we're seeing with some of the fuel increases that have gone through that is we expect an increase there. And then long haul, only carried [ph] by the issues around both direct and indirect competition or introduction of new carriers into the New Zealand market, we are starting to see a better grip of the fuel surcharges or the fuel price increase related. So, well, that's - we're hopeful at the local market level, that's where we will see the best yield growth.

Rob Fyfe

Combined with the change in premium economy mix on these 777-300s, we'll have a yield improvement as well.

Nachi Moghe
Morningstar Research

Thanks.

Operator

There are no further questions from the telephone.

Rob Fyfe

Sorry, just before we close-off, just a focus on my team, that number stand rough around - yes, okay, we're confident enough on the indicative figure 4% to 5% for domestic growth.
Okay, thanks to everyone that took the time to join us. I hope you found them informative. If there are any questions subsequent to the phone call, feel free to contact Sonya and Julie [ph], they're will respond to those questions or get Rob or I to come back to you at a neat speed. Thank you.