

# Question and Answer

## Unknown Analyst

Just 2 quick questions, firstly, if we look at the yield trends of the last couple of months, I know you took about the rest, but I guess for both long haul and short haul yields sort of moving into negative territory in December and January, how are you sort of seen your forward bookings? And do you still expect -- is that reflecting some underlying softness in the long haul demand profile?

## Robert Stuart McDonald

*Former Chief Financial Officer*

Russell, it's Rob here. So the yields didn't go negative in the preceding months. What's just occurring there is we sort of laughing ourselves. So the trend is downwards because the increase is not as large.

## Unknown Analyst

Rob, it's just startling stronger comps essentially?

## Robert Stuart McDonald

*Former Chief Financial Officer*

Yes. So, I mean, if I reflect back on the 2009 and '10 high season, we had good started to enjoy good deal growth in and that's in -- we're still growing on that, but nowhere near the rates that we had from the 2008 and 2009 period. So it's just -- to coin a phrase, we're just laughing ourselves almost. We're not seeing yields go backwards.

## John Leonard Palmer

*Former Director*

And I think it's worth commenting as well on the trends Tasman on the Seats to Suit that there has been part of the strategy in order to actually get the demand and the seat factor right and that has certainly showing a better results than we had expected.

## Unknown Analyst

I guess you are saying that closing of the GAAP in terms of demand in capacity as well.

## John Leonard Palmer

*Former Director*

Yes. That's right. Yes.

## Robert Stuart McDonald

*Former Chief Financial Officer*

And John's quite right. I mean, the Seats to Suit is an actual yield reduction, quite intentional, but less than what we anticipated with high load.

## Unknown Analyst

And just a question on the maintenance cost, you said it was some timing issue or would we expect a catch up in the second half or something approaching what you had last year?

## Robert Stuart McDonald

*Former Chief Financial Officer*

I think the issue was more that 2010 was probably a bigger peak period, so this would tend to travel along on the current trend at the moment.

## Operator

The next question comes from the line of Rob Mercer from Forsyth Barr.

**Robert William Mercer**

*Forsyth Barr Group Ltd., Research Division*

Just on terms of the feedback which you are getting on the product of 777-300, could you just go through sort of where you're at in your thinking with the maybe, like, changes here?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Yes. So the product is out there now and not being actually sold as quite [indiscernible] that will commence once we start through to London with the arrival of the third aircraft to nearly the – sorry the, will commence services in early April through to London. So we're just doing some working around the service flows that's progressing well, but the initial customer response from the aircraft, enormous sales looking at this morning, is very, very positive about the interior and the new seats, and the IFE including things like that. So we're very pleased with the way the customers are reacting to it. As I mentioned, there is some tweaking going on, on the service flows as well. The other aspect is that we're really pleased with is just the operational efficiency of the plane even in its initial operation is exceeding our expectations as well, so quite an advance on flying a 747-400.

**John Leonard Palmer**

*Former Director*

I think the any other thing, Rob, is that particularly in the service flows beyond cabin piece, I mean, some of the things we've set out to do hugely ambitious by normal airline standards. I think we're already seeing that maybe some of the tweaking is where we perhaps got to just moderate that ambition but still provide service flows in the cabin. That will be way beyond what most people there experienced before.

**Robert William Mercer**

*Forsyth Barr Group Ltd., Research Division*

It's just there was a feedback and it does appear the seats in the back of the plane of that type but it seems to worth them down the space and perch. Has it not coming throwing you around feedback?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

No. So that's not a general theme. We have noticed some comments around that because we are flying in the same road numbers as people like Emirates and Air France and others. But the important thing to remember is that the seat with us is the same size as 747 seat, and probably importantly though the perch is greater than anyone else flying in that sort of seat row number as well. So we're, on average, around 33 inches, which is a very generous economy seat. So if there's any, sort of, view that it's not as wide as other seats, we certainly give in the perch.

**Robert William Mercer**

*Forsyth Barr Group Ltd., Research Division*

And just in terms of the Rugby World Cup, and then obviously it's a significant event, and the time is right. In terms of yield management around it and just sort of guesstimate as to what the overall lift in profitability or revenue, what guidance can you give in that area at the moment?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

So we haven't changed our view since we talked about it at the Investor Day. So that's still remains hedged. Again, the bookings look very positive, but the overall overriding focus is still there. Operational execution in that has been very well planned with the specialist team, thinking through a whole lot of scenarios. So that's certainly the focus, but we are not blind to the commercial opportunities as well. I think it's important, I should say, we're not jacking up the fees at all in those periods, but what we're

clearly doing is we are yield managing that so it's normally a shoulder season and you should give it as a peak season.

**Robert William Mercer**

*Forsyth Barr Group Ltd., Research Division*

All right. And the other thing is we are noticing that there is some fuel surcharge recovery sort of coming through in some of the pricing. So what's your view in terms of your ability to manage the yield with the step up in capacity that you're bringing on at the moment?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

So the step up in capacity, internationally, that's relatively modest because with the 747 exiting, the 777-300 is actually less seats in total but the same number of premium seats. It's less elastic more than elastic in the front of the plane when it comes to getting the fares up. So that's a good mix to start to introduce now. Domestically, I think that's very much surrounding the removal of a competitor, the spaces opened there that capacities coming in around that. When we look at fuel surcharges, it's very much now fuel and where it's gone and particularly in the last 3 months but even in the last month with the Middle Eastern issues there, very much an industry issue now, we'd probably view ourselves in what we know about the industry generally is our hedge position is probably one of the better ones, and certainly gives us time to adjust the undoubtedly the industry with this sort of fuel level. If it persists, we'll have to adjust.

**Operator**

Your next question comes from the line of Jason Bloom from UBS.

**Jason Bloom**

*UBS Investment Bank, Research Division*

Just a couple of quick ones. Rob, just on the tax as of the [indiscernible] in the first half, can you just give us an idea of what the tax rate for the second half would be? And also, can you just remind us in terms of the relationship with Virgin, just kind of what the timeframe is for that cooperation in terms of sharing the flights, lounges, product, all of that sort of stuff going forward?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Yes. So let me start with tax. So the tax has got a reasonably large permanent difference relating to the exit of some aircraft that we'd been in discussion with IRD for some period and that was resolved on the correct treatment. That's right for the first half as an average now for the -- so the average for the full year, that's the way the accounting treatment has done. So if you look at that as a percentage, it will be that percentage for the whole year. And then moving to Virgin. We're working very hard, a lot of teams mobilized on both the alliance for aiming at a 1st July launch that will obviously start with code-share, lounge, reciprocity, frequent flier and probably on the longer-term and that as Virgin moves its products up and now we have launched Seats to Suit, that the product I think will come in overtime but certainly, you'll see a pretty seamless code-shares commence on the 1st of July. And that wouldn't start with the revenue pooling as well.

**Operator**

The next question comes from the line of Jason Familton from First New Zealand Capital.

**Jason Familton**

*Jarden Limited, Research Division*

Just 3 for me. This one is just on fuel costs. And quite clearly, in a recent [indiscernible] seen as [indiscernible] between which takes us into media and bring pricing and jet fuel itself. I'm just wondering, Rob, you sort of you've been changing the policy and bringing some hedging on board. Let's take one just around employee cost, just wondering into little old detail around the increase there and what it's

specifically related to? I know you talked about it yesterday. That's the quickness of the ceiling with the parts. I'm wondering is related to that? And certainly just around the CapEx guidance you've given. I'm just wondering how that progress previous payments are included in there?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Okay, just starting with the fuel hedging. And as you correctly observe, Jason, that the normal sort of \$3 or \$4 discount for bringing it to WTI is not existent for a couple of months and, in fact, from the -- I think at one point, it was out almost at the top date at almost \$20 as a premium, which for a what is a inferior crude oil is quite remarkable. So that clearly lift the hedging profile slightly challenge if we hadn't had a significant portion of Singapore Jet hedges which means we were just in product for that. I guess to your question though which is, should we be doing more [indiscernible]? I think that's a very valid question and something that we've obviously asked ourselves in the last few weeks, but I guess our approach in these sort of things is we would expect this to wash out in the next couple of months. The WTI issue is more a pipeline changes and the dynamics of the pipeline system in the U.S. that will sort of comma the equilibrium we would expect to the next few months. So we'd sort of see a heading or closing of that gap. I think at that time, again, the time you want to ask the question, do we want to be more diversified across a crude spectrum, and we'll certainly do that. Certainly, ask that question but doing it while it sort of seems to be on the extremities of what would be a sensible position is not something we'd do. Let me talk about the employee cost would drop our \$30 millions. Most of that actually is the fact is we've grown a bit, and there's activity there that's clearly check all pilot and cabin crew capacity increases that's quite a bit of that, as well as more work in the engineering base. So that is actually the majority of that increase. The rate increases were around 1.5% of that of the 6 months, so around the 3%. So that's pretty well sort of normal for New Zealand at this time, so the rate increases as we would be expect it. And then in CapEx, those CapEx numbers do include the 787, which at this time, we are still told as of December 13, delivery until we hear otherwise from Boeing we're assuming that. And those numbers reflect that.

**Operator**

Your next question comes from the line of Geoffrey Zame from Craigs Investment.

**Geoff Zame**

*Deutsche Bank AG, Research Division*

Just, I think, we've kind of most of it. I just wanted to get a perspective on the last year, the second half of this financial year just where we see capacity going and the NZ impact onto the large factors, because it looks like there has been an increase as additional A320s in the second half?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Two A320s. So let me talk domestic. These 2 A320s which have now arrived in the country, actually. So they will be deployed domestically and then later in the year, we'll see 737s start to exit after the World Cup. In terms of additional capacity, the 747s are pretty well replaced by the 777s. So there's no additional units going into the international business at that time but that utilization increased in the first half and that will carry on in the second half. In terms of the Tasman, we'll see the full 6 months of Seats to Suit which will give that private network quite a bit of growth in the second half.

**Geoff Zame**

*Deutsche Bank AG, Research Division*

Okay. And just as a sort of reminder to fuel hedging policy saving, you look greatly well hedged for the second half so the remainder will -- yes, that 7%. You're hedged on just will be on spot or is it still sort of rolling, you're rolling into it?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

No. That for the remainder of the year, we'll pretty well be spot.

**Operator**

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

**Marcus Curley**

*Goldman Sachs JBWere Pty Ltd, Research Division*

Just a few from me. Just on the year-front again, Rob, can you give us a view whether you think actually yields are actually going to be in positive territory in the second half of the year against the back drop off as you mentioned your quite substantial increase in Asian capacity even though it's not on competing routes?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Yes. So I think one of the issues around yield will be the industry having to adjust, if it has to adjust, if the oil prices persist. So there will be a pressure across the whole industry to lift yields. And we're seeing that across the Pacific already with fuel surcharges coming out of Australia, and obviously, we've looked in and followed that to North America and other Asian parts as well. I think you've observed that sort of airlines going into places, that is away from our network but can often have an impact. Our assessment at this stage is they are largely and it catches on significant parts of areas that overlap with us. So we're not expecting a big yield impact at all perhaps only at the hedges. But I think the overriding theme for the second half across the industry is to respond to the increase in fuel.

**Marcus Curley**

*Goldman Sachs JBWere Pty Ltd, Research Division*

Okay. So would you be disappointed not to see yields up?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Yes, I would be disappointed.

**Marcus Curley**

*Goldman Sachs JBWere Pty Ltd, Research Division*

Short haul yields. Would you look at the increased capacity from Jetstar domestically and just Seats to Suit product yields down on that basis?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

I think just on the Seats to Suit, as I mentioned that by definition of the way the fare structure works is that we will always going to have a yield reduction, we simply we're going to sell it. Lower fare is given that we -- some of those fares simply didn't offer the same product selection. So the good thing that we've enjoyed on the launch is that impact hasn't been as much as we thought it would be, and that might be because we went to the high season, we may see a bit more of that be present as we move into the low season. But we're pretty pleased with the way that Seats to Suit has gone and certainly in a RASK level it's a pretty strong performance. Domestic yields, bit hard to tell at the moment and I think we'd probably have to put the issue of the question quite on top of that. So I really wouldn't want to make an observation at this stage.

**Marcus Curley**

*Goldman Sachs JBWere Pty Ltd, Research Division*

And you mentioned positive RASK out of Seats to Suit, what sort of level are you talking?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Sorry, I missed that question.

**Unknown Analyst**

You mentioned you got a net positive RASK in effect from Seats to Suit, to what level was that at the moment?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

Just bear with me. It's around, sort of, at the RASK level probably around 4%.

**Robert Stuart McDonald**

*Former Chief Financial Officer*

And then just finally, with regard to your second half outlook. Just wondering whether you can provide a little bit more color around how the business is going to track. For example, do you think you'll be profitable in the second half of the year?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

So we haven't given any guidance on that. But it's fair to say that it wasn't the case, we'd probably be giving some guidance.

**Marcus Curley**

*Goldman Sachs JBWere Pty Ltd, Research Division*

Okay. So just I suppose, the last time you gave guidance of you see it as something like you expected based on level of profitability increase or something like that for this year, right? Would that direction still be the case?

**Robert Stuart McDonald**

*Former Chief Financial Officer*

I think the issue is, Marcus, that we don't know where fuel is going to go, will it get worse? I mean, if things sort of receded a bit in terms of on the tension front in the Middle East, then you could expect a lot of the imbalances that are there on the refining margin as well as the difference between Brent and WTI to wash away in the next couple of months, and that would clearly be a benefit to us effect -- if there are sort of things that are present now and had been for the last couple of months. Persistent, that will be a more challenging environment and equally, I think, we just need to see where the Christchurch earthquake impact goes. But I think, I mean, I've might have got a sort of double negative here. We certainly think we'll be positive on the second half.

**Operator**

There are no more questions on the line. Back to you.

**John Leonard Palmer**

*Former Director*

On the assumption, there are no further questions. Thank you all for attending, and we will close the session. Thank you.