

Question and Answer

Operator

We have a question from the line of Russell Shaw of Macquarie.

Russell Shaw

Both Robs, couple of questions from me, just to start with on the, if I look at your unit cost ex-fuel that gone up 3% or as last year you've mentioned keep them flat, just want to understand what's driving that. And I guess in line with that, when you look at these profit improvement targets, you said it still have the timeframe for overhead costs and some of the other things. How much of those do you think will start kicking in the second half of the FY'12?

Robert Stuart McDonald

Former Chief Financial Officer

Yes, Russell, I'll answer that, it's Rob McDonald. Just on this 3% increase as you can imagine the 1% reduction and capacity you're sort of running against the scale economies which is also through labor got the rate increase. We're running a bit faster in that on April charges, airways charges and things like that. So when you look at those big operational costs, so that sort of things driving it to an extent we can get some growth back into the business. I think we can improve that. Sorry.

Russell Shaw

It's fine. And then just with respect to the announcement yesterday from Virgin, I mean you had spoken about the benefits you are getting on the Tasman which sounds good. But just with that foreign ownership registry opening up now, how does it change the dynamics of your investment given the opportunity to further in airlines tended to invest?

Robert Ian Fyfe

Former Chief Executive Officer

It's actually Rob Fyfe here. I think twofold. There are a number of drivers behind our investment in Virgin. And we could see a genuine value opportunity and like you said being demonstrated by the improving performance of Virgin and we felt that was a good time to buy and to the airline at the time we did. We also did want to ensure we protected our position with Virgin as we were building the trans-Tasman alliance and make sure that there wasn't an investor that came on to the register that I guess could distract attention from that.

Both those objectives have or are being achieved and I think both Virgin and ourselves are seeing material benefits flowing from the alliance. And that's certainly on their side those benefits are exceeding our business plan predictions so that's very positive. And I think now an entry from anyone else on to the registers is unlikely to disrupt that initiative because it's evident the value is creating. So we don't see any risk to the objectives we set out with -- whether this creates additional opportunities for Air New Zealand as something for us to consider and not something will be appropriate to comment on today.

Russell Shaw

And then just with respect to your long-haul business clearly that that's the one which you are struggling, has that run rate, the lost run rate shall we say, improved at all from what you spoke about previously let's say for \$1 million a week?

Robert Ian Fyfe

Former Chief Executive Officer

Well, so slightly difficult question to answer because when we talk about that as a annualized run rate and the year when you look at the seasonality of the year and peak seasons and low seasons and so on that's difficult to translate through into a month by month picture. But if we look at the international network I

think firstly it's important to stress some parts of the international network notwithstanding the fuel prices are performing well. So it's not a problem across the entirety of our network, but areas where we do have performance challenges we've highlighted specifically, the most difficult being U.K. and Europe and Japan.

We're clearly taking mitigating actions against those issues and we've already taken some and we continue to take some. There are also some upside opportunities for us. Qantas is coming off. LA, Oakland present some performance improvement opportunities for us. There are some other things that we already have in place. So we would expect to see the annualized performance improve during the remainder of this financial year and certainly improve materially as we go into next financial year.

Operator

Your next question comes from Marcus Curley of Goldman Sachs.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Good morning. Just a few questions. Just in terms of the period just been, do you think that you store a net one-off gain, do you have a few incorporate the Rugby World Cup, do you have an offset the benefits of the election?

Robert Ian Fyfe

Former Chief Executive Officer

I am sorry, difficult to analyze. If we run through, Russell it's actually, sorry Marcus. If almost I look at four or five months, so what we are still trying to get that head around. So we definitely saw an upswing during the Rugby World Cup. We definitely saw a downturn during the election. We didn't see as a strong peak season through December, January as we normally would. How much of that is because we have a substitution effect out of Rugby World Cup. We're not quite sure how much of that was a residual impact from a slowdown during the election. We're not quite sure.

So, February onwards is the first chance for us really to get a kind of clean look at underlying demand and what forward booking curve looks like. And for the most part, we're seeing either stable or positive [prudence] in that regard, so I would say when you wash all those things thrown aside, it's slightly difficult to wash out cause and effect. I would say when you wash everything through, we're probably slightly on the negative side of positive or neutral.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And you mentioned about the forward-looking trends, can you just provide some color if you can on yield trends; short haul, long haul, one would assume in the short haul, given a year ago, you're sort of, last thing Christchurch Earthquake issues that you're starting to see some recovery on that front?

Robert Ian Fyfe

Former Chief Executive Officer

Christchurch is difficult, I mean, Christchurch is still down, mid-down if we look at Christchurch flows, particularly trans-Tasman flows are still down domestically, like you said, the margin. Yield domestically is not really causing us too many concerns, and we are quite comfortable with how we see it sitting today and forward-looking, so the overall performance of that business is solid in terms of its financial performance, profitability, et cetera.

The big issues and the big impacts of the fuel has been to long haul. And the yield picture of a long haul is, there is a yield picture and there is a load factor picture, both of those will be, and how that will flow will be materially impacted by the combination of what we choose to do and what competitors choose to do. So the impact of Qantas coming off Auckland to L.A., like you can do a calculation yourself but I mean my estimate is that I'm probably carrying \$50 million worth of revenue a year on that route.

That have that flows, how much of that flows through to us and in what form whether we increase load factors on that route or we put on more capacity we don't believe is too much scope for increasing ticket prices, but we do think there's scope for us materially improving overall profitability on the North America and the North American market. We're seeing the (indiscernible) announce they're going to pull out of Europe, I suspect we're going to see continuing changes as all long haul airlines face these challenges and I think there is more ups, far more upside potential on both demand and yield than what there is downside risk.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Okay, and then just finally just on your profit improvement program and you spoke about having achieved some of the headcount reductions already, can you give us sort of some color on how much of the overhead cost savings would be realized again in the next six months if any at all?

Robert Ian Fyfe

Former Chief Executive Officer

So, just facing to put in context, so over \$195 million, we identify, 441 job reductions, so if you look at the job components and kind of take average salaries and so on you now you think of \$25 to \$30 million or whatever in terms of RIM savings from both job reductions, so it's relatively modest component of that overall performance improvement program. You should assume for anything that will happen in the next six months, the costs of any redundancies will at least offset any savings and likely be more significant than any savings will achieve in that period.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And then just finally maybe just on stack can you give us some color on [indiscernible]?

Robert Ian Fyfe

Former Chief Executive Officer

Yes. we are typically holding all settlements below the 3% Mark.

Operator

The next question comes from Keith Hamilton of Best New Zealand Capital.

Keith Hamilton

I have got three questions if possible. The first one just on Virgin Australia alliance. If could you just comment on the benefit which you achieved from that during the period. In the Virgin alliance presentation, you stated about half of the benefits occurred to your business so far? Secondly, just on the 787s, I see you've only got one arriving now and '14 and 2 in '15 versus 5 you had previously.

And also the capital commitments are substantially reduced in those years and also talk about for fiscal thinking behind that. And then finally, just on the accrued and currency hedging quite clearly, currency hedging is running well of accrued hedging in your mind relatively on each about the second half and into full year to be same. So I guess whether you can just comment around that in and behind that, maybe I guess you are still looking at the oil market is being unruly?

Robert Ian Fyfe

Former Chief Executive Officer

Good question session, I'll pick up the first, I'll pass to Rob McDonald to talk about what are the implications on the capital program of the rescheduling of the 787s and also to pick up the hedging issue.

In terms of the Virgin alliance, so that went live in July, clearly the benefits began to build during the course of the six-month period. We haven't actually tried to extrapolate back to see how much of the benefit that we actually get during that period. We had a number of moving parts going on because we are

also still getting incremental year-on-year benefits from our seats and the introduction of our Seats to Suit program at the start of 2011 calendar year maybe in the 2010.

Sufficed to say, I think we indicated to the market that we were targeting annualized benefits to the tune of \$30 million-plus. We're now satisfied that based on our experience, we're now setting it but achieving that we are exceeding those fully loaded benefits on an annualized basis.

So when you are getting that run rate, albeit, as I say, what we've achieved in a -- in the first half would have been a, if you like, a fraction of that benefit, but we haven't actually done any specific calculation. We're more focused on getting up to that run rate. But I'll pass to Rob to answer the other two questions.

Robert Stuart McDonald

Former Chief Financial Officer

Yes, just talking about the 787s, the previous sort of notices, delays we've got were starting to Constantine the deliveries right after, and you're quite correct. There was five in a very short order, which operationally would have been very difficult for us. The first one is now due to arrive, we expect to arrive around the second calendar quarter of 2014. And then, the next two would be reasonably quick after that. In the third, close to the fourth quarter. So we get three in reasonably in quick order in calendar '14 and then three in '15, three in '16. So we've just spread it to what operationally would be a much better look for us as well as framed up a couple of extra on the back end as well.

Talking about the fuel hedging and the FX hedging, the FX hedging is sort of carrying on as to normal and we just average that up. And I guess, nine months ago we talked about reducing our hedging on the basis that we felt the markets, instruments we were using were relatively unreliable and we used the word too unruly. As we stand now, we are effectively saying that actually unruly is normal.

And that reliability of the instruments hasn't improved and from our perspective that since we do a limited amount, but we certainly don't do a lot. And in the end, we have a portion that I think in the near-term is more of -- just to capture any sort of catastrophic movements and to give what we give to [market] the industry's time to adjust. But in terms of taking much longer term views around hedging, we've just begun. Just too concerned about the volatility in the market and the reliability of instruments that are available, particularly for short term hedging.

Keith Hamilton

Okay. Just one more follow-up if I can just on both 787s and obviously given the operating cost savings, which Rob talked about earlier this versus the 747-200, I am just wondering how negotiations are going around the compensation payment?

Robert Ian Fyfe

Former Chief Executive Officer

I mean if you look in the accounts, effectively that what we've got in the accounts will tell you that we have new delivery dates, we had new terms and we had new conditions. And we have some additional firm orders and there are no further discussions to have with Boeing.

Operator

There are no further questions from the phone line. Back to you Mr. Fyfe.

Robert Ian Fyfe

Former Chief Executive Officer

Okay, well thanks everyone for listening in and hopefully we've addressed the questions. I would just like to say in summary, we don't shy away from the fact, this is a very disappointing results for the business. I wouldn't want to leave you with the since that we lack optimism by going forward. We actually have a very strong franchise here in New Zealand we're very happy with the progress we've made on the Tasman and the sustainability of that performance.

We're confident we can address the challenges that we're facing long-haul and adapt our business to the market conditions, we now expect for the foreseeable future. We have a strong performance improvement program that we've developed. And every time I open the newspapers I see new opportunities confronting us. So, notwithstanding a disappointing result, I actually look forward to the year ahead with a quite bit of excitement actually. It will be interesting to see just to have that unfolds, so watch this space. Thanks again for joining us.