

Question and Answer

Operator

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

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Just a few questions, if I can. Just first of all, could you just talk about the labor transition cost looking forward, what you would expect into the second half, and whether these sort of cost are isolated to just this year?

Christopher Mark Luxon

Former Chief Executive Officer

Yes. I mean, again, the big focus has been on making sure we just build this culture of continuous improvement, productivity and simplification. So we don't sort of have major big cost out sort of initiatives, but that's been very much our focus. We've done some pretty basic, I guess, particularly with cabin crew in the last year, obviously, wide-body heavy maintenance is flowing through as the other 2 big areas or 2 big work groups that we've got, with structural change happening. And so the benefit for us is that we've now reset the labor base for the cabin crew environment and we'll get the benefits of that for the next 10 years. So it'll start building increasingly over the next few years.

Robert Stuart McDonald

Former Chief Financial Officer

Yes, maybe I'll just make some comments on that. So of that transitional labor that we've identified, about \$14 million of it is redundancy. And some more redundancy will appear on the second half, and that's associated with some of that restructuring. We don't expect that to follow-on next year. The rest of that, what we refer to as transition cost such as training, and that relates to the very significant number of seat changes that are going on in front of the new fleet that's coming. That will carry on a bit next year, and then it will fade out, and there'll be a normalized sort of labor going on, particularly in the pilot community.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And just supplementary on that, Rob, could you give us any sort of color on the magnitude of the benefits from rightsizing the engineering workforce?

Christopher Mark Luxon

Former Chief Executive Officer

Not at this stage. That's not completed yet. We will be able to complete that at the end of next year. But certainly, we'll have a -- we'll have completed the consultations in respect of who's coming and going on at the end -- hopefully, at the end of this financial year, but that's not certain.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Okay. And then just shifting to the revenue side. Could you provide any sort of, I suppose, current trading comments with regard to the trends in both forward bookings and passenger yields and also what you see happening at the moment in the CAGR market, obviously, been under a little bit under the pressure of recent [indiscernible] improvement in those trends that are noticeable?

Christopher Mark Luxon

Former Chief Executive Officer

Yes, I mean, Marcus, to be honest here, we've got a very good time to aim forwards across all our markets, if I'm really honest on a passenger sense. The challenges, as you would've seen, in the interim results have really been around third-party revenue and that's largely through engineering contract services. And the other challenge that you rightly identified is cargo. What I'd say is, in the last couple of months, we've actually seen cargo do much better. And I think our relative performance of the cargo business compared to others is very, very good. So that's really a macro trend, I guess, linked to China and a bit of slowdown in rent cargo. And certainly, people with dedicated freighters are suffering tremendously. But yes, our cargo has certainly been challenged, but it's only improved.

Robert Stuart McDonald

Former Chief Financial Officer

And if you'd go through the monthly stats, you'll start to see domestic yields in the last couple of months starting to move in the right direction after a period of going backwards, and so that's quite encouraging as we look forward. So yes, that's certainly good news on that side.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And then just finally, on the revenues. Christopher, you just touched on third-party engineering. Is this half sort of a baseline or is there further contraction to come on the third-party engineering?

Christopher Mark Luxon

Former Chief Executive Officer

I had to gauge, to be honest, I mean, not a major driver or impact on our results, to be honest. So moving forwards, I don't think it's going to get any better than where we are, would be my read.

Robert Stuart McDonald

Former Chief Financial Officer

Just in -- across the third-party parts of engineering, the Christchurch base, which is now predominantly a third-party base, is performing well and quite strong. The gap that has been in the revenue has actually been in the marine and industrial turbines. It's been a very difficult market for a couple of years, but certainly, in that period was quite difficult. That's a market that effectively we service, particularly in the energy market out of the U.S. for [indiscernible] load, gas turbines, and that market has been very, very subdued in the last period.

Operator

[Operator Instructions] And your next question comes from the line of Andy Bowley of Forsyth Barr.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

A couple of questions from me. And the first one, in relation to domestic yields, and I recognized, Rob, that you've commented on that in terms of current trends and things are stabilizing somewhat -- stabilizing, probably, a wrong word in light of what you were telling us 6 months ago in terms of the stimulation that was going to be applied to improve demand. But in the context of more A320s coming onstream, can you just talk about the next 6 to 12 months in terms of your expectations from domestic yields.

Robert Stuart McDonald

Former Chief Financial Officer

Yes. I think we don't talk about yields going forward. But what I would say is -- and Christopher mentioned this in the media conference this morning, that as we're introducing those 320s and retiring the 730s, we're adding additional seats at lower incremental costs. But importantly, the underlying time in the economy is very strong, and it's growing. So those seats are coming in and are very welcomed in terms of

these sort of demands that we've seen in recent months and certainly, as we commented, just bookings in the near term.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

The yield decline that we saw in the first half was reasonably modest, in the context of some of the commentary that you're providing 6 months ago, it would have been better than your expectations?

Robert Stuart McDonald

Former Chief Financial Officer

Absolutely. I think Christopher mentioned that this morning, that really, from October on, we've seen some really strong growth throughout the provinces and domestic, and it hasn't been hurt by our competitor also pulling back some of their domestic flying to do some Tasman flying.

Christopher Mark Luxon

Former Chief Executive Officer

Yes, I think the outlook looks very positive for domestic. I mean, obviously we've got, I think, it's probably going to be around 4% type capacity growth. And in the FY '15, you're coming in with those A320s coming in. So I think it's great progress. I mean, if you think about where we were in August last year and where we are now on yield, it's been very, very positive.

Andrew James Bowley

Forsyth Barr Group Ltd., Research Division

And for my second question, clearly, you seemed pretty happy with the new alliance with Singapore Airlines. In light of that alliance that hopefully comes onstream later this year together with the Cathay alliance, what scope is there for further alliances into the Asian region, if you can comment on that please?

Christopher Mark Luxon

Former Chief Executive Officer

Yes, I think, to be honest, Andy, the Singapore one is really transformative. If you actually think about the Virgin Australia alliance is very, very important to us, and the other big anchor one, I would argue, moving forward, will be the Singapore one. And that's because all of a sudden we've opened up and got a position now in Southeast Asia, Europe, South Africa or in India, which we just had very little exposure or presence on. And it will be great because we'll be able to build market knowledge, we're going to build our businesses around both destinations, which will be really good. Singapore is a fantastic partner, complimentary product, et cetera. So the big challenge for us is getting it approved by the regulators and then, hopefully, starting flying in December this year. The Cathay piece is very much localized just to greater China. And so, really, we work with Air China or Star Alliance, partner, Cathay, obviously, the OneWorld partner. Both Cathay and Air China actually have cross ownership with each other. And really, they are very much localized into Greater China, and there's a lot more that we can do, I think, moving forward, that we would hope to do moving forward, around those partnership. And then, obviously, as you go into Northeast Asia, our partner really is ANA for Japan and Korea. So I think we've got most of Asia covered. In the Americas, obviously the United [indiscernible]. In Australasia, it's obviously Virgin Australia. And the one to solve as you've probably saying public intermediaries, in the medium to longer term, as to how ultimately could we fill on the white space that will be Latin America. That's quite a hard one to work through in terms of the right partners. So at this stage, for me, the real challenge is, if you think about the last couple of years, we've brought on ANA for Northeast Asia. We've brought in Cathay, we've brought, obviously, even Virgin Australia had that reauthorized. We've now got Singapore up and running. Just actually, executing these alliances and making sure we get value out of them is actually really what we've got to focus on in the next 1.5 years.

Operator

Your next question comes from the line of Peter Bradfield [ph], who's a private investor.

Unknown Shareholder

Having pulled out of Hong Kong-London, I was just interested in what you've done with the slots in Heathrow?

Christopher Mark Luxon

Former Chief Executive Officer

Yes, good question, Peter. We've actually leased it out to Cathay, and they're operating it at the moment.

Unknown Shareholder

We could, at some future stage, pick it up again?

Christopher Mark Luxon

Former Chief Executive Officer

Unlikely, to be honest. What we have learned if anything in this international business over the last 10, 15 years is that they're ultra long haul second leg flying. You never get twice the price for traveling twice the distance. And so our focus is very much on point-to-point traffic out of New Zealand into the Pacific Rim. And so that's why these alliance partnerships are much more important where we can partner with Singapore, so we can then, all of a sudden, open up, I think it's 20 plus locations throughout Europe. It's a much more efficient, effective way for us to do it than us mentally flying on from Hong Kong or Singapore into Europe.

Unknown Shareholder

Sure. But you are still committed to Los Angeles-London?

Christopher Mark Luxon

Former Chief Executive Officer

Yes. We've work really hard. I mean, that's a route that struggled for a very long period of time and over the last year or so, we've really fixated on getting the right mix of customers. Again, what we're practicing is not through traffic, we really want point-to-point traffic. So if you look at that route, we've seen a very big change, a radical change, actually, in the mix of through versus point-to-point traffic. So we've worked with our corporate sales team in the U.K. and the U.S. and not gone hunting and looking for corporate clients that have head offices in London and L.A. And obviously our product and service quality is very, I think, superior to any of the British or American carriers. And as a consequence, a lot of those customers have really enjoyed our service and enjoying that connection across the Atlantic. So it's not necessarily lots of Brits coming to New Zealand, or lots of Kiwis going to Britain on their services. Now it's really a big number of people who have head offices in both L.A. and London that are using them as -- at transatlantic.

Unknown Shareholder

So if you look at that route and we talked about a year ago it's profitable, that's a pretty unusual place to be, but it is because we approach the sectors in a very mercantile way in the already new management team. So we're able to achieve the right economic outcomes, but only by working hard on point-to-point and the right through traffic.

Operator

[Operator Instructions]

Christopher Mark Luxon

Former Chief Executive Officer

So guys, I don't think there's any further questions. Again, thanks for your time and we look forward to seeing you out and about in the next few weeks. Thanks a lot.

Operator

And that does conclude today's conference. Thank you, all, for your participation.