Question and Answer

Operator

And your first question comes from the line of Rob Mercer from Forsyth Barr.

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

Just in terms of the CapEx program that you outlined in the course of more you have done that before for us, but can you just give us a sense of what the balance sheet will look like when this is completed given that you obviously got a mixture of owned and rental currently, obviously all the 747s being pushed off and the 767s in the future? And I give maybe it was that your balance sheet can withstand that's the sale of [indiscernible] CapEx when there's no new fleet?

Robert Stuart McDonald
Former Chief Financial Officer

Rob, it's Rob here. The program going forward is that we have signaled that previously, the balance sheet, I guess is starting from a really strong position, but clearly in the coming years, we see the gearings were moving up more closer to 50, at the time that sits nicely sort of targeted range of 45 to 55. In terms of owned versus leased. It's sort of we are an interesting juncture on that. We certainly see in the narrow body space a lot of opportunity for sale on leaseback and also just market leases, and it's about lot of leases coming up for expiry in the Tasman fleet, but as we look at the wide bodies and particularly 787s, those aircraft given the nature of the way they are built probably have a longer life. And realistically, we are probably looking more to own those and that's why you will see the gearing move up into that sort of zone around 50 over the next couple of years.

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

I guess you are talking 50% of including off balance sheet capitalized leases, yes. So okay, and is it -- so you are feeling comfortable with that as an appropriate level of gearing?

Robert Stuart McDonald
Former Chief Financial Officer

That sits right in the middle of our target range.

Operator

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

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

I will start with a few if I can. Can you just talk a little bit about the domestic performance, yes, you have given some metrics out this morning in terms of obviously load factors up, yields down, you have alluded to cost thing, unit cost thing down, net-net, has the change in aircraft type financially worked for you in the last 12 months?

Christopher Mark Luxon
Chief Executive Officer

Yes, I think the realty on domestic is that we are trying to align our costs very strong into the yield environment. So yes, you have seen full year results, where yield is down 5%, but demand is up 4%. And as we accelerate in the A320s, they have got essentially 15% unit cost benefit with them. So the reality for us is that we are focused on product and service. We are focused on OTP and reliability. We are going to keep a competitive pressure on prices. We can't see them floating up, but we are going to work the cost base well. And by and large, I think we are pretty comfortable with where we sit there.

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

Secondly, just on the revenues side, can you talk a little bit about the outlook for engineering and your maintenance cost, obviously, there is some press in the papers around the next restructuring, I just want to get a little color in terms of how the maintenance or the engineering book looks in relative to what you are doing on the cost base?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, Marcus, it's Rob here. Just talk about wide body in the first instance, I think that I have previously given some examples of the amount of maintenance that goes on, particularly in later life of 747s and 767s versus 777s, which is what we will say clearly aluminum planes there. They are very material in the maintenance, with very material differences in the maintenance profiles. And clearly that alone changes the work profile going forward. And as you bring in the 787s, that's just a completely different type of aircraft. And at that point in the wide body since, we simply don't have any sort of scale to mount a heavy maintenance operation in Auckland as well as the main external client Hawaiian is shifting over to A330s, which we don't do heavy maintenance on as well. So at that point, there simply isn't the work and if any work we do in heavy maintenance, which now in the case of 777 moves to more like 12-year cycles that will be done offshore. So from that perspective, you see a quite a change in terms of the amount of heavy maintenance that gets done. In the narrow body, the Christchurch operation is a very efficient operation. It's got a large customer in Virgin Australia doing a 737 work and equally going into the future where it will be moving to around 30, over time 30 aircrafts will be A320 fleet. So good size aircrafts to get a good efficient operation, a lot of continuous improvement focus going on there. But often, people get pretty focused on heavy maintenance when in fact that's not really a big material cost in the maintenance. What it is, is in fact engines, the biggest single cost of maintenance is engines, and that's we will pretty will say the same going forward as we get more and more efficient engines, particularly on the 787, but also the 777-300s got a very efficient engine as well.

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

So if you look forward, it sounds like you are positioning yourself in '14 for what will come in '15 is what sort of a net outcome is, is it a net neutral outcome, negative, or do you think you could actually get a net positive out of exiting heavy maintenance?

Robert Stuart McDonald
Former Chief Financial Officer

We are certainly seeing nothing in the current year, so nothing in FY '14. And in fact depending on what the outcome of the consultation is there may in fact be redundancy in '14 that we have to account for.

They are clearly not certain at this time, that's consultation.

Christopher Mark Luxon
Chief Executive Officer

Marcus, just to be clear, we are not actually exiting heavy maintenance wide body maintenance, what we are doing is obviously downsizing the resources that we would have there. And it's a situation of again as Rob said because the work frankly isn't there, and the timing ultimately whether that falls into FY '14, FY '15 is really to be determined once we get through this consultation process.

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

Okay. And then just broadly on labor, can you give us a little bit of color in terms of where your staff numbers got to in '13 where they are going to in '14 and what you are currently seeing on wage settlements?

Christopher Mark Luxon
Chief Executive Officer

Broadly, just in broad terms, I mean our staff numbers have been pretty stable this last year. Obviously, there was a risk, we had some redundancies the year before as we did the corporate overview -- review, but as we move forward, labor rates are broadly in line with CPI, so.

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

And then finally, can you provide a little bit more color around your comments on forward bookings, obviously you are alluding to them being encouraging, just talk a little bit about sort of what markets are showing the best signs of life?

Christopher Mark Luxon
Chief Executive Officer

Yes, as I said in the call, I mean, good start to the year, but a very early period of time obviously, but forward bookings for the next 6 months are looking strong and to be honest it is coming from all parts of our business, nothing specific.

Robert Stuart McDonald
Former Chief Financial Officer

Yes, I don't think I would pick out any one particular area. Clearly, each area has their own different profile as well, but as we stand now and it's clearly several months away, but the high season, there was promises everything as good as last year.

Operator

[Operator Instructions] And your next question comes from the line of Russell Shaw from Macquarie.

Russell Shaw
Macquarie Research

And a couple from me -- just on -- can you talk to I guess the level of benefits you got from the Cathay alliance in '13, had it really kicked in at all or is most of that benefit meant to come through over the next 12 months?

Christopher Mark Luxon
Chief Executive Officer

Most of that benefit will come in the next 12 months, but suffice to say that we are off to a very positive start with that relationship. And I think for both Cathay and for us, we are doing better than we were doing before the alliance. And that's kind of where we sit. So -- but the benefits will flow through as we go through the course of the year.

Russell Shaw
Macquarie Research

Okay. Then on aircraft operating operations charges, clearly, Rob you pointed out the increased landing cost, I mean, on a per ASK basis, it looks like it was up 6% for the year, and what are your expectations around that for the next 12 months and it sounds like there is still more to come on it right?

Christopher Mark Luxon
Chief Executive Officer

Maybe I can answer that, Russell, it's a very fair question. I mean, yes, it is $26 million of cost that's been added to the business through New Zealand Airport charges by and large. And you know our position pretty well on this which is while we collaborate with the airports in lots of different dimensions, but our relationship whether it be operations, market development, infrastructure we just have a fundamental disagreement around pricing and the regime in place here in New Zealand. So where we are, is that the commerce mission is doing its -- has completed its reports on Wellington and Auckland. In the next few months, we will complete its report around Christchurch. Likewise, the governments are starting to look at the Civil Aviation Act and certainly considering the Airports Authorities Act as well. And there is also a High Court, a court case going on around the Merits Review and the input methodology is used for that. So there is quite a few moving pieces that need to be settled and sorted out to give a bit more clarity around where things are heading. Suffice to say, we are very keen to get this issue moving forward, because it's been one that's been sitting out there for 15 to 20 years. It does have a real implication in terms of certainly for customers in terms of pricing and costs being passed on, certainly in terms of what it does for local economies and whether it helps them or chokes them. So it is something that we want a resolution for. We are big fans, not of price control, but we think the light handed sort of information disclosure is not working and we think the negotiate, arbitrate type framework as the way forward. So it's a bit of wait and see, but we are continuing to push really hard that agenda.

Russell Shaw
Macquarie Research

Okay, but at this stage, is it fair to assume you are looking at again another year of above CPI type increases in that space?

Robert Stuart McDonald
Former Chief Financial Officer

In short, yes, but that's -- it is a moving feast with some of the airports sort of backpedaling given that they sense the winds of change might be being caused by them.

Operator

Your next question comes from the line of Tomas Romero from APEX Magazine.

Tomas Romero

My question is I was wondering what impact you think you are -- the very cool passenger experience contest as you have this past year have had on your performance today? I am talking specifically like the Hobbit and the [indiscernible] inflight safety video or that sort of thing. I mean, it definitely increased your cool factor in the United States and I just wondered if you think that's a big part of what's been happening with you guys still?

Christopher Mark Luxon
Chief Executive Officer

Yes, firstly, thanks for the question. I mean, the reality is I would argue we have been cool for some time, but I am -- but it's great to know that we are getting registered and attention in the states and because of course that is a very important market for us. The story very clearly is -- and I have lived in America for 8 years, but there is 22 million Americans that tell us they want to come and do a trip to New Zealand before they die, and last year 174,000 came I think it was. So the challenge is we have got to get you guys thinking about coming here on your next holiday rather than before you pass away, because that would be terribly tragic, not to experience New Zealand as a result. So we are very focused on sales and marketing efforts in about converting that 22 million and getting more Americans coming down here. And so if you look at our safety videos are things that we have been doing, we have been doing innovative safety videos I would argue for some years. We've got several variations of them, but they work on 2 levels. One is they genuinely get disproportionate attention inside the cabin to deliver our safety messages, which is really important -- the number of airlines you sit there and I think people will get switch off. That's not the case, we get very high attention to those commercials, so they work for us in a safety sense. And importantly, if you think about the Hobbit, I think we generated 10 million to

12 million YouTube views, which is just amplifying the branding through creative marketing vehicle. So certainly the Hobbit has been very, very important. We think it’s probably fans of the Hobbit are also fans of New Zealand. And I think it’s driven quite a lot of business for New Zealand tourism in general. So you will continue to keep doing some innovative and creative things. You may have seen in North America, our recent efforts about trying to get Americans to understand that it’s as a short night's sleep and some nice food and wine, and you sort of could wake up in Auckland. And just getting people to understand that trigger and barrier that the perception that it’s a long way away actually isn’t the case. And so we had a great marketing activation with the San Francisco Giants recently, where we took one of their fans down here overnight and gave them good time for couple of days and send them back to the stadium again. So lots of opportunity in North America, lots of creative marketing that will continue to come as part of us trying to get attention and drive sales.

Tomas Romero

Also what about connectivity, are you still working on that?

Christopher Mark Luxon
Chief Executive Officer

In what sense, in a network sense, or in a Wi-Fi sense?

Tomas Romero

I am sorry, in flight Wi-Fi, is it throughout the fleet now or what?

Christopher Mark Luxon
Chief Executive Officer

No, it's not throughout the fleet, but clearly with the 787 coming those are sort of things under active consideration. One of the challenges for us is the Trans-Pacific is a zone that isn’t that well covered as opposed to some of the other areas across satellites and things that’s relatively expensive.

Operator

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

Paul Turnbull
Jarden Limited, Research Division

Just a question for you on your yield outlook across your routes. I guess in particular on the domestic front, given just Stars continued push from market share there and also the overall capacity expansion going on in that area?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, thanks for the question. Yes, I mean, domestically some yields on this year have actually fallen 5%, we're actually seeing them come back a little bit as we move forward, improved slightly, but we have obviously stimulated a tremendous amount of travel and demand as well. So the reality for us is in this competitive dynamic, we don’t see yields improving dramatically. There will be some improvement, but at the end of the day, our fixation is really on lowering our unit costs and that's happening through the rapid introduction of the A320 fleet got $0.15 lower cost than our 737s. We have got 4 of them to come into the fleet this year, I think it will be 9 in the next 3 years. So they will be quite transforming in terms of their cost base domestically.

Operator

And we have a follow-up question from the line of Marcus Curley from Goldman Sachs.

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

Sorry, but just a few more. To just talk a little bit about your cargo performance in the second half revenue is down, is that just a pure reflection of that capacity coming out of Hong Kong?

Christopher Mark Luxon
Chief Executive Officer

Yes. Yes, it is Marcus. Sadly for our cargo network planners, there really aren't any of them, the networks plan for passenger and for the cargo guys often may have to plan the network sometimes offline as well. But clearly that Hong Kong-London was one of the best performing routes, but clearly for passenger, not a good route at all. So they just have to take what's given to them and they have performed stunningly well in my view in the course of the year.

Robert Stuart McDonald
Former Chief Financial Officer

I think if you think, Marcus, about the relative performance of cargo businesses in the airlines all around the world, I would argue our guys have performed incredibly well relative to that standard. I said we have got a very good team there and I think the performance over the last 3 years has actually been really outstanding in quite challenging times.

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

Okay. And secondly, a small question, but within the detail of the write-up, Rob, you referred to other cost including the cargo settlement and the Virgin losses, can you just stipulate how much each of those were?

Robert Stuart McDonald
Former Chief Financial Officer

The cargo loss was $8 million, that was disclosed and the loss on the derivative that was put in place just shortly after we said the guidance was $5 million. But we previously in the quarter -- previous half year had a $2 million gain. So the net impact for the Virgin derivative activity was negative $3 million. But at year end, the derivative that's still outstanding was mark-to-market with a $5 million loss that went through the P&L.

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

And on your holding in Virgin is sort of, is there any further update in terms of your target levels?

Christopher Mark Luxon
Chief Executive Officer

You mean in terms of us increasing our shareholding there?

Marcus Curley
Goldman Sachs JBWere Pty Ltd, Research Division

Yes.

Christopher Mark Luxon
Chief Executive Officer

Yes, Marcus, where we are there is that we are obviously put an application forward to FIRB. We have got an economic interest of 23%. We have got a further application in place to increase that's 26%. FIRB will be due to come back with a decision out of -- or essentially ACCC will come out with their decision early September. I think by the time it gets through the Australian election and hopefully through FIRB and to the Treasurer for approval, and we are expecting that answer in September on the shareholding piece.

Robert Stuart McDonald
Former Chief Financial Officer

But October is just be the [indiscernible] whether there is the change in government.

Operator

And there are no further questions on the phone line at this time.

Christopher Mark Luxon
Chief Executive Officer

Okay, guys. With no more questions, thank you very much for your time and for dialing, we really do appreciate it. I think the headline for us is that we feel very proud about these results. I think they are really a very strong performance. We are doing what we said we would do and we are very encouraged about the outlook as we move forward as well. So thanks again for your time and thanks for listening to us. Appreciate it.

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