Broadening our horizons
For the Qantas Group, 2011/2012 was a year of transformation. We recorded an Underlying Profit Before Tax* despite significant challenges. We continued to build Qantas' strong domestic network, Jetstar and Qantas Frequent Flyer. And we launched a five-year plan to turn around Qantas' international network.

Qantas Group CEO Alan Joyce

*For explanations of non-statutory measures see the Review of Operations in the Annual Report.
Broadening our horizons

Building on unique Australian qualities – and the skills of its 33,600 people – the Qantas Group is broadening its horizons to secure a successful and profitable future.
The Qantas Group reported Underlying Profit Before Tax* of $95 million for 2011/2012. The Group’s portfolio of businesses faced a challenging year but is well positioned for a strong, sustainable future. As a result of major transformation costs, the Group reported a Statutory Loss After Tax of $244 million. The Group’s financial position remains sound with $3.4 billion cash held and an investment-grade credit rating.
Qantas reported an Underlying EBIT* loss of $21 million, reflecting the poor performance of its international network. Domestically, Qantas performed strongly with higher Underlying EBIT* compared with 2010/2011. Significant progress was made in Qantas’ five-year international turnaround plan.

Jetstar reported record Underlying EBIT* of $203 million. Revenue increased by 18 per cent and unit costs were reduced to record lows as Jetstar achieved capacity and passenger growth in all markets.

Qantas Frequent Flyer delivered record Normalised EBIT* of $231 million. Billings increased by 14 per cent to $1.2 billion and membership now stands at 8.6 million people, averaging more than 2,000 new members each day.

*For scheduled passenger aircraft.
*For explanations of non-statutory measures see the Review of Operations in the Annual Report.
Safety, training and people

Modern aviation is one of the most technologically sophisticated industries in the world. Our commitment to safety, training and our people will always be uncompromising.
The Qantas Group is one of Australia’s top employers.

We directly employ more than 30,000 people across 200 separate job categories, with over 90 per cent of them based in Australia. More than five per cent of our customers are based in rural and regional Australia, which means direct employment for 1,200 people in regional communities.

Our workforce is made up of 102 nationalities speaking 51 different languages. More than 40 per cent of our employees are women, including over 30 per cent of senior employees. We provide exceptional benefits for new parents and the Group is proud to have a retention rate of 99 per cent for women returning from maternity leave.

Without great people, we would not be able to maintain the world-class standards of safety, customer service and operational excellence that we demand of ourselves and that our customers expect. As the national carrier, we offer unique opportunities for employees to apply their skills and experience.

The Qantas Group is one of the most respected in the world.

— In 2011/2012, Qantas invested $65 million in training for around 2,300 pilots. Overall, flight crew completed 48,000 hours of training during the year
— More than 7,000 engineering apprentices have graduated through our programs since 1927 and there are more than 300 in training today
— Over 16,000 employees have undertaken specialised customer service training in our Centre of Service Excellence, a dedicated facility in Sydney
— The Qantas graduate program has taken in 122 young people in the past four years. Their training, enabling them to experience various aspects of airline management and operations, will provide the next generation of aviation executives.
Safety is the Qantas Group’s first priority. A dedicated Board committee has oversight of safety governance and the Qantas Group’s Safety Management Systems cover all aspects of safety, health, environmental and security performance. Ensuring consistency across the Group in safety management and legislative compliance, it is acknowledged as a best practice model in the aviation industry.

The Group works closely with the Civil Aviation Safety Authority, Australian Transport Safety Bureau and international regulators on compliance matters, the introduction of new technology and processes, and investigations into safety occurrences.

As well as meeting all regulatory requirements, the Group encourages employees to report operational incidents promptly and openly.
The Qantas Group has a broad portfolio and a clearly defined five-year strategy.
The Qantas Group has a broad portfolio and a clearly defined strategy, with the following core goals:

— Build on the Group’s strong domestic businesses through a clear focus on the customer.
— Turn around Qantas International through the “four pillars” of targeting global gateways, growing with Asia, improving the customer experience and ensuring disciplined financial management.
— Strengthen Jetstar’s presence across Asia to capture the full benefits of the region’s low-cost leisure travel boom.
— Continue to expand Qantas Frequent Flyer by adding new partners and increasing ways for members to earn and spend points.

Supporting these goals are several business transformation initiatives, including the modernisation of Qantas’ engineering, catering and airports divisions. With the three-year QFuture initiative having concluded on 30 June 2012 and achieved $1.4 billion in cost savings through business improvements, a new phase of change programs has been launched across the Group.

While there are significant costs associated with the Group’s transformation, affecting Statutory profit for 2011/2012, they will be far outweighed by the long-term advantages of greater efficiency and competitiveness.

In June 2012, an organisational restructure was announced to bring further rigour to the management of the Group’s strategy. As of 1 July 2012, Qantas Domestic and Qantas International are being managed as distinct business segments, each with its own accountable CEO. With dedicated CEOs also in place for Jetstar and Qantas Frequent Flyer, the Group is now operating as a true multi-brand aviation business across different market segments and regions.

In a fast-evolving global aviation marketplace, this approach positions the Group to maximise its strengths, fix its weaknesses and capitalise on new opportunities.
HIGHEST BAGGAGE DELIVERY SATISFACTION LEVELS SINCE 2004

BEST CHECK-IN RESULTS IN FIVE YEARS

HIGHEST NUMBER OF CUSTOMER ADVOCATES SINCE 2007

HIGHEST ON-TIME PERFORMANCE SATISFACTION LEVELS IN TWO YEARS

LONGEST PERIOD OF CONSISTENTLY HIGH DOMESTIC CUSTOMER SATISFACTION LEVELS SINCE 2004

QANTAS ANNUAL REVIEW 2012
The Group’s goal in the domestic market is simple: to have Australia’s leading premium and low-cost airlines. That means offering the best network, frequency and flying experience in both the business and leisure markets. During 2011/2012, Qantas beat Virgin for on-time performance in eight of 12 months. By early 2012, domestic customer satisfaction had reached its highest sustained levels since 2004. Customer advocacy – how strongly customers would recommend Qantas services – was at its highest level since we started recording this measure in 2007. As well as on-time performance, Qantas’ customer satisfaction scores were exceptionally high for check-in, cabin crew and baggage delivery. This renewed focus on how our people deliver customer service following the industrial action and fleet grounding was supported by continued investment in new aircraft and technology. Next generation Boeing 737-800 and Airbus A330 aircraft continue to enter the Qantas Domestic fleet. A new, tablet-based inflight entertainment system, Q Streaming, was trialled and received outstanding customer feedback. A key focus for Qantas was continued expansion in regional Western Australia and Queensland, meeting demand in the resources industry and supporting regional tourism. QantasLink, the Group’s regional airline, was named best in the world in its category by Air Transport World magazine. The charter business Network Aviation, acquired in 2011, placed orders for 10 new Fokker 100 aircraft to extend its reach into Western Australia’s mining centres as part of the Group’s fly-in fly-out strategy. Jetstar’s focus in the domestic market remained on building up capacity on core leisure routes with its modern fleet of A320 aircraft, adding almost 16,000 extra seats during the year. iPads were introduced as an inflight entertainment option, making Jetstar the first airline in the world to offer tailored technology for the Apple device. In May 2012, the Qantas Group announced that both Qantas and Jetstar would implement significant capacity increases during 2012/2013 to ensure that they continue to provide the best network and frequency in every segment of the domestic market.
In August 2011, the Group announced a five-year plan to turn around Qantas’ loss-making international business. Qantas International is a great airline with a rich history, an iconic brand and an outstanding reputation in safety and customer service. However, it does not recover its cost of capital and is sustaining heavy losses. It faces the structural disadvantages of a non-hub location, heavy competition and a cost base 30 per cent higher than other global airlines serving Australia.

In 2011/2012, these structural challenges were compounded by record fuel prices, industrial action and the impact on long haul markets as a result of the economic crisis in Europe.

Major changes are required to restore Qantas International to profitability and competitiveness.

Decisive action has already been taken, including:
- Withdrawal from loss-making routes
- Major reductions in capital expenditure
- An expanded alliance with American Airlines
- The doubling of capacity on the successful Dallas/Fort Worth service
- The launch of new services to South America’s commercial hub, Santiago (home to another partner, LAN)
- The reconfiguration of seven Boeing 747s with new interiors (with a further two aircraft to come)

The Group is reducing costs and allocating aircraft and capital efficiently. Over $300 million in annual benefits have been identified from the transformation initiatives launched to date.

The international turnaround plan remains guided by the Group’s goal of restoring Qantas’ international network to profit and ensuring that Qantas’ domestic and international networks combined exceed the cost of capital on a sustainable basis over the long term.
The shift in global economic weight to Asia is well established as the dominant trend in aviation. Traditional carriers and new players must respond or risk playing a marginal role.

The Qantas Group has moved quickly and decisively, forming Jetstar airlines in Singapore (Jetstar Asia), Vietnam (Jetstar Pacific), Japan (Jetstar Japan) and announcing Jetstar Hong Kong, in each case the Group established the airline in conjunction with local investor partners, ensuring that the Group's expertise in branding, safety and commercial operations is applied effectively in the local context.

By operating a mix of international and domestic routes across the four airlines, Jetstar provides a pan-Asian network that no individual airline can match, while also linking back to Jetstar’s Australian operations. Few Australian companies have such a strong brand presence in Asia.

In 2011/2012, Jetstar Japan was established in partnership with Japan Airlines and Mitsubishi Corporation, beginning domestic services in July 2012 with three Airbus A320 aircraft. International services will follow and the airline has attracted significant business and consumer interest. Over 100 investors expressed interest in becoming the fourth cornerstone shareholder (including the successful candidate, Century Tokyo Leasing), and up to 4,000 tickets an hour are being sold at peak times.

Subject to regulatory approvals, Jetstar Hong Kong – a joint venture with China Eastern Airlines, one of the world’s largest airlines – will commence services in early 2013. It will operate short haul routes in markets including Greater China, Japan, South Korea and South-East Asia.

Trade between Australia and the Asian region continues to grow and diversify. Premium travel demand in Asia will grow rapidly as a result. From Australia, Qantas serves the major hubs of Singapore, Hong Kong, Tokyo, Shanghai, Jakarta and Manila. We remain committed to exploring opportunities in Asia focused on the business market. However, in current market conditions, we will do so only with the right partner, the right location and the right business model.
QANTAS GROUP PRESENCE IN CHINA

QANTAS

JETSTAR IN ASIA
With 8.6 million members and our 500 partners, the Qantas Frequent Flyer program is the glue that binds the Group’s domestic and international operations together.

In 2011/2012, we continued to improve the program to increase the benefits available to our most regular customers and deliver a truly global loyalty proposition. Members can now earn and redeem points with our wide network of alliance partners.

Qantas Frequent Flyer’s success is built on deep consumer knowledge which in turn is informing a long-term strategy to engage customers through their special interests. The program now has major partnerships with Optus, all the “big four” banks, Australia’s biggest retailers and a range of other organisations.

The establishment of a new, premium membership tier, Platinum One, has added a new points-earning incentive promising unique levels of service and care.

As Australia’s only all-inclusive loyalty program, with both a retail and airline offering, Qantas Frequent Flyer has a key competitive edge over rival schemes and airlines. It drives customers to Qantas flights and generates consistent revenues that provide stable and predictable cash earnings.
Modernising the business

In 2011/2012, the Qantas Group launched an extensive business transformation program to improve productivity, reduce the cost gap with other global airlines and realise the benefits of new technology.

The long-term result will be a more agile, efficient airline, using the latest technology and processes, better equipped to compete in the global aviation market.

- Improving fleet economics through selective fleet renewal and the reconfiguration of Boeing 747 and Airbus A380 aircraft

- Exit from loss-making routes such as Hong Kong-London, Bangkok-London, Sydney-Buenos Aires, Singapore-Mumbai and Auckland-Los Angeles

- Heavy maintenance consolidation – from three Australian facilities to two (Brisbane and Avalon) – reflecting a forecast 60 per cent reduction in heavy maintenance requirements as a result of fleet renewal

- Modernising engineering and catering processes, with a new line maintenance system for domestic B737-800s and A330s, a state-of-the-art new catering facility in Brisbane and other improvements planned
Why Qantas matters

33,600 EMPLOYEES
SIX BILLION DOLLARS SPENT WITH AUSTRALIAN SUPPLIERS EVERY YEAR

PROMOTES AUSTRALIA THROUGH A $44 MILLION PARTNERSHIP WITH TOURISM AUSTRALIA

SUPPORTS 1,500 AUSTRALIAN FOOD AND WINE PROVIDERS

CONVERTED FOUR A330S INTO REFUELLING TANKERS FOR THE RAAF

INVESTMENT IN THE AUSTRALIAN WINE INDUSTRY

$16 MILLION
Investment in technology and the customer experience

In 2011/2012 Qantas continued to invest to make the journey easier, more comfortable and more enjoyable for customers.
Qantas has been at the forefront of aviation technology for 91 years.

Today the Qantas Group fleet comprises 308 aircraft. We have made substantial progress in our fleet renewal program and, at 8.3 years, the Group’s average scheduled passenger fleet age is highly competitive with other major global airlines.

The Qantas A380 fleet now numbers 12 aircraft. In late 2011 we added our fourth international A380 destination, Hong Kong, which joined Singapore, London and Los Angeles.

As part of our broader international strategy, we are investing in international lounges, new inflight entertainment and aircraft refurbishment.

Qantas’ faster, smarter check-in technology – now in place across the domestic network and for some trans-Tasman flights – was recognised in the 2011 Airline Strategy Awards and Australian International Design Awards.

We trialled Q Streaming technology in the domestic market – enabling customers to access a vast inflight entertainment library via iPads provided onboard – and wireless internet connectivity on selected Airbus A380 services between Australia and Los Angeles.

Jetstar is also investing in new technology for customers, becoming the first airline in the world to offer iPads for hire as an inflight entertainment option, giving passengers access to the latest movies, TV series and music, plus e-books and games.
Community and environment

Working with the community, supporting charities and environmental responsibility are all part of our role as the national carrier.
As Australia’s national carrier, we have a responsibility to work with and contribute to the community.

Every year we spend nearly $6 billion on Australia-based products and services – from accountants and information technology experts to florists, construction companies and hotels.

We buy from more than 1,500 Australian providers of food, wines and beverages, and our patronage has helped many small Australian companies find new markets.

Qantas Group customers spend $22 billion per year in the tourism economy and we promote Australia’s unique destinations and experiences on every single one of our flights – as well as through our $44 million marketing partnership with Tourism Australia.

At a global, national and regional level, we work with organisations focused on making a genuine difference in education, the environment, culture and the arts.

May 2012 saw the Group release its third Reconciliation Action Plan (RAP). The Qantas RAP identifies four key focus areas:

- Partnerships that support Indigenous education and employment
- Development of a more comprehensive supplier diversity program that advocates relationships with Indigenous-owned enterprises
- Increased opportunities for employees to learn about Indigenous culture and heritage
- Promotion of Indigenous culture to our domestic and international customers

During the year Qantas increased its engagement with Indigenous suppliers. To date, eight Australian AIMSC-certified businesses have been contracted and, in 2012, Qantas won the Australian Minority Supplier Council’s Corporate Member of the Year Award.

The Group employs 354 Indigenous Australians, with a goal of 450 employees by December 2013. In addition, Qantas supports the education-to-employment pipeline through:

- Indigenous university internships (via a new partnership with Career Trackers Indigenous Internships)
- A successful and growing school-based trainee program
- A dedicated Indigenous Careers@Qantas team who are focused on recruitment
- The Qantas graduate program
- Mentoring and cultural awareness training

In 2012, Qantas again celebrated Indigenous culture through events to mark Reconciliation Week and NAIDOC Week.
In 2012, the Group marked 21 years of partnership with UNICEF’s Change for Good program – an initiative that, through the generosity of Qantas passengers, has raised over $25 million to help improve the lives of some of the world’s poorest children.

Other highlights of 2011/2012 included the launch of a three-year partnership with the Prostate Cancer Foundation of Australia, providing flights for nurses to undertake training to become Australia’s first specialist prostate cancer nurses and building awareness of prostate cancer through advertising, inflight announcements and onboard messaging. A custom-painted Qantas Boeing 737 aircraft was unveiled, featuring the Foundation’s distinctive blue ribbon logo. As an extension of this partnership, Qantas also supported Movember with digital signage in airports and a giant “Mo” on the side of T3 at Sydney Domestic Airport.

The Group supported a number of charity campaigns, events and organisations during the year, including the Australian of the Year Awards, Care Australia’s “Walk in her Shoes” campaign and Vinnies CEO sleepout.
A busy year for the Qantas Foundation included the inaugural CEO CookOff, a joint initiative between Qantas and OzHarvest. With the support of 132 CEOs and 30 prominent chefs, the event provided food and entertainment for over 1,000 disadvantaged Australians and raised approximately $950,000 for OzHarvest and Mission Australia.

The annual Qantas Foundation Encouragement of Australian Contemporary Art Award recognises emerging Australian talent. The award, now in its fourth year, incorporates a community residency component which requires each recipient to engage a local community through their art.

During 2011/2012, the Foundation continued to support a number of organisations including the Royal Flying Doctor Service, Landcare Australia and The Fred Hollows Foundation. The Foundation also entered into a new partnership with RedKite, a leading not-for-profit charitable organisation that provides vital services to children and young people with cancer and their families.

In October 2011, the then Foreign Minister Kevin Rudd delivered the annual Qantas Foundation Social Impact Lecture, stressing the importance of corporate social responsibility in addressing disadvantage in Australia and overseas.
In 2011/2012, Qantas extended its support of the Australian Olympic Committee for another four years, carrying the team to and from the London Games. We continue to support the best of Australian sporting talent through the Qantas athlete program and our sponsorships of the Qantas Wallabies, Qantas Socceroos and the Qantas Australian Formula 1 Grand Prix.
Qantas and Jetstar operated Australia’s first commercial flights powered by sustainable biofuel in April, using a fuel type derived from recycled cooking oil.
The Qantas Group has a comprehensive environment strategy.

Core to the strategy is a targeted fuel efficiency program which since its launch in 2005 has saved almost 2 million tonnes of carbon emissions.

Ranging from major business priorities such as fleet renewal and more efficient flight operations to initiatives such as aircraft weight reduction, aircraft washing and reduced auxiliary power unit use, the program has assumed even greater importance as fuel prices have reached record levels and governments have begun introducing carbon pricing schemes.

In 2011/2012, the Group took a major step forward in its sustainable aviation fuel agenda. Only the production of sustainable alternatives to conventional jet fuel can truly deliver the generational change needed to meet the International Air Transport Association’s long-term goals of carbon-neutral growth from 2020 and a 50 per cent reduction in emissions by 2050 (compared with 2005 levels).

Qantas and Jetstar operated Australia’s first commercial flights powered by sustainable biofuel in April, using a fuel type derived from recycled cooking oil with a “life cycle” carbon footprint up to 60 per cent lower than conventional jet fuel.

The flights provided an opportunity to highlight the potential of sustainable aviation fuel and to launch an Australian Government-backed feasibility study into the conditions needed to establish an aviation biofuel industry in Australia – to be conducted by Qantas with technical advice from Shell. In a 2011 report the CSIRO found that such an industry could generate up to 12,000 jobs.
The Qantas and Jetstar carbon offset programs have saved over one million tonnes of carbon.
Governments around the world are increasingly attempting to incentivise emissions reduction through carbon pricing. The Qantas Group now accounts for a carbon price in three jurisdictions – New Zealand, the European Union and Australia.

Beyond regulatory requirements, we firmly believe in working to reduce our own resource consumption and greenhouse gas emissions, and in helping our customers and employees do the same.

Launched in 2007, the Qantas and Jetstar carbon offset programs have saved over one million tonnes of carbon. The programs are entirely voluntary and give customers the option of paying a small amount to offset their portion of the emissions from their flight.

All proceeds go to accredited projects in Australia or developing countries that generate certified carbon offset credits. Qantas and RM Williams recently formed an exciting new partnership where the Group will purchase credits from Henbury Station – a former pastoral property being regenerated to restore natural vegetation and remove carbon dioxide from the atmosphere.

The Qantas Green Team raises awareness of environmental issues among employees and advocates small steps that can be taken. The Qantas Group also continues to work with community organisations with an environmental focus, such as the Great Barrier Reef Foundation, Landcare Australia and Flora and Fauna International Australia, as well as with the tourism industry on positioning Australia as a low-carbon destination.