

QANTAS GROUP FINANCIAL RESULTS
ALAN JOYCE OPENING REMARKS
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Introduction

Today I want to outline the Full Year result, update you on the Qantas Transformation program, and set out the results of the Structural Review announced in December last year.

This morning Qantas announced an Underlying Loss Before Tax of \$646 million.

This underlying result reflects:

- The cumulative effect of two years of market capacity growth outstripping demand,
- A record high fuel cost of \$4.5 billion, up \$253 million on the prior year, and
- Weaker demand due to an environment of lower consumer confidence, with reduced activity by business, particularly the mining and government sectors.

The statutory loss after tax of \$2.8 billion reflects the underlying loss, and:

- The costs associated with our \$2 billion Qantas Transformation program, including redundancies and early aircraft retirement, and
- A non-cash write-down of \$2.6 billion to the value of the Qantas International fleet, following our Structural Review, and as required by accounting standards.

I foreshadowed today's result at our half-year announcement in February, declaring it was unacceptable.

There's no doubt that today's numbers are confronting.

But they represent the year that is past, and we have now come through the worst.

With our accelerated Qantas Transformation program, we are already emerging as a leaner, more focused, and sustainable Qantas Group.

Our work is on track and we will see accelerating benefits in the coming year.

The changes arising from the Structural Review will deliver significant short and long-term benefits.

Importantly, there is a clear and significant easing of both international and domestic capacity growth, which will stabilise the operating environment.

We therefore anticipate a rapid improvement in the Group's financial performance in financial year 2015.

The Qantas Group expects to deliver an underlying profit before tax in the first half of the year, subject to factors outside our control.

Full Year

Turning to key points in the full year result.

- Both our Qantas Domestic and Jetstar Domestic businesses were profitable over the year - in all likelihood, the only profitable airlines in the domestic market - in a year of unprecedented competitive pressure.

Group Domestic earnings were just below \$50 million.

Revenue declined relative to the prior year, due to a second consecutive year of market capacity growth well ahead of demand.

Both airlines delivered unit cost improvements, offsetting some of the revenue decline and higher fuel costs.

- Qantas International is transforming at speed, with \$400 million of costs removed over the past two years.

However, these achievements were offset over the same period by revenue decline, again due to competitor capacity growth running well ahead of demand, and fuel cost increases.

Earnings recovery in Qantas International will continue to be driven by removing costs from the business, and the easing back of capacity oversupply.

- The Jetstar Group delivered a two per cent unit cost improvement and business fundamentals remained strong.

However, due to competitive intensity and capacity oversupply in Australia and South East Asia, yields were adversely affected.

- Qantas Loyalty recorded its fifth straight year of double-digit earnings growth - another record result in a great business.
- The Group finished the year with a strong cash position of \$3 billion, a decrease in debt, and total liquidity of \$3.6 billion.
- With two recent landmark bond issuances totalling \$700 million, the Group's debt maturity profile has been significantly extended, with no major unsecured re-financing required before April 2016.
- The Group also reported an operating cash flow of \$1.1 billion, leading to a neutral free cash flow result, despite the significant costs associated with Qantas Transformation over the period.

Accelerated transformation program

Now to our progress with our accelerated Qantas Transformation program.

The reality is that we are undergoing the biggest and fastest transition since the privatisation of Qantas in 1995.

Our Transformation is about working our assets harder, making our business smarter, giving even more to our customers, and reshaping our operations for long-term sustainable success.

We are only six months into the program but we front-loaded many of the more difficult employment and restructuring measures, so we are well ahead in terms of the execution of our major plans.

- The measures announced in February led to significant redundancies, of which 2500 have taken place.

By the end of full year 2015, 4000 of the total 5000 redundancies will have occurred.

The 5000 redundancies will conclude the period of major job reductions.

- Over the course of the year, Group unit costs were cut by three per cent, two percent in the first half of full year 2014, and four percent in the second half, demonstrating the growing momentum in the Transformation program.

- A total of \$440 million in benefits was delivered in 2014, including \$204 million from the accelerated Transformation program.

A further \$900 million in initiatives is underway, with more than \$600 million in benefits to be delivered in full year 2015.

- Net debt was cut by almost \$100 million, with an expectation of more than \$1 billion of debt reduction in total by the end of the current financial year.
- Importantly for our balance sheet, our debt-to-EBITDA peaked in financial year 2014, with earnings improving and debt being reduced from this point forward.

Customer Focus

While we are aggressively cutting our costs, we are creating even better experiences for our customers, because customers are at the heart of everything we do at Qantas.

Our targeted investment programs support the Qantas brand promise and yield premium every day, and for the long-term.

- We are investing in new international lounges, and even better in-flight entertainment.
- We are updating the cabins of our A330 and B738 fleets.
- We continue to innovate with great Qantas Loyalty options like Qantas Cash and the Aquire scheme.
- We keep investing in our people to deliver outstanding customer service.
- As a result, Qantas leads on key indicators including customer advocacy and on time performance.

We have recently achieved a string of global and national awards and recognition.

For Jetstar Group we are investing in the Boeing 787 Dreamliner, hitting record customer satisfaction levels across the portfolio, and continuing to improve the customer experience from booking to destination.

Structural review

In December last year I announced a comprehensive structural review of the Qantas Group.

That review is complete.

Non-Core Asset Sales

The review identified opportunities to divest some non-core assets such as airport terminals, property and land holdings.

Valuations were undertaken.

Some assets have now been sold, including the Brisbane Airport terminal lease, and we continue to assess opportunities where these will lead to enhanced shareholder value.

The proceeds from any sales will be used to pay down debt.

Qantas Loyalty

We also considered the partial sale of Qantas Loyalty.

Due to the strong support of our customers and partners, Qantas Loyalty is a standout business, achieving a new record result for the year with double-digit growth.

After careful consideration, our judgement was that Qantas Loyalty continued to offer major profitable growth opportunities, and there was insufficient justification for a partial sale.

To continue to realise the value in Qantas Loyalty, we will be innovating, investing, working closely with our partners, and rewarding the loyalty of our customers with even more ways to earn and redeem Qantas points.

Jetstar in Asia

And we looked at our Jetstar ventures in Asia.

In the world's fastest growing aviation market, this is a major long-term opportunity that we continue to believe in.

No new Jetstar ventures will be established while the Group is focused on Transformation, but we know that substantial value exists across the Jetstar airlines and we will realise that value over time.

Structural separation

Since 2012, in order to strengthen accountability and performance, we have reported the Qantas International and Qantas Domestic businesses as separate segments.

The Australian Parliament recently decided to soften the foreign ownership restrictions in the Qantas Sale Act.

As a consequence of this decision, we have decided to create a new holding structure and corporate entity for Qantas International.

This will have no impact on the day-to-day operations, network or staffing at Qantas International.

However, this structure increases the potential for future investment.

It will create the long-term option for Qantas International to participate in partnership opportunities in the international aviation market, with a view to achieving further efficiencies and improved returns to shareholders.

Fleet Write-down

The decision to create a separate holding structure and entity for Qantas International has triggered an accounting requirement to test the value of Qantas International assets on a stand-alone basis.

The international fleet was purchased when the value of the Australian dollar averaged 68 cents against the US dollar, and in the case of the B747s, 57 cents.

Today the Australian dollar is trading at 93 cents.

The value of these aircraft on our books has therefore been written down by \$2.6 billion to their current market value.

As a result future Qantas International depreciation expenses will be lower by around \$200 million per year.

Importantly, this is a non-cash charge – a book write-down to the carrying value of aircraft that Qantas has no intention to sell, and will retain in its fleet.

It will have no impact on the economics of the business or change cash flow forecasts.

Outlook and Conclusion

Let me conclude.

Everything we are doing is about building a sustainable premium airline model for the 21st century.

Over the coming year we anticipate continuing high competitive intensity, but capacity growth is clearly and significantly easing in both the domestic and international markets.

- International competitor capacity growth in Australia is expected to be below three per cent for the first half of 2015, compared to average growth of eight per cent over the past four years.
- Overall domestic capacity growth in the first half of 2015 is likely to be around one per cent.

As you know, we froze Qantas Group domestic capacity growth for the first quarter and we have decided to extend that freeze for the second quarter, meaning no capacity growth for the first half of 2015.

We believe this to be appropriate given the underlying market conditions.

However, we maintain significant flexibility within our fleet and operational envelopes to respond swiftly should market conditions and our customer proposition require it.

By the end of this Transformation:

- We will have dramatically reduced our cost-base disadvantages in Qantas Domestic, compared with our competitor, to under five per cent, and significantly reduced the Qantas International cost base.
- Our organisational structure will be clearly aligned to our strategy, with Qantas International in a separate entity to provide future options.
- And our capital structure will be stronger, through the generation of positive free cash flow, and further asset sales to repay debt.

Finally, I want to thank the employees of the Qantas Group.

The transformation of our business is a difficult process. They have responded with great courage and good spirit to the challenges that we face, while maintaining the highest standards of performance.

Due to their efforts, the national carrier will be far better placed to deliver for our customers, reward our frequent flyers, serve Australia, and build long-term shareholder value.

We still have more to do, but we have come through the worst and we have clear evidence of a brighter future.

As I said, we anticipate a rapid improvement in the Group's financial performance in financial year 2015 and, subject to factors outside our control, we expect to deliver an underlying profit before tax in the first half of the year.

Any questions.