# Qantas Airways Limited
# FY17 Results

25 August 2017

ASX:QAN
US OTC:QABSY

# FY17 Highlights

**Delivering sustainable Group financial performance**

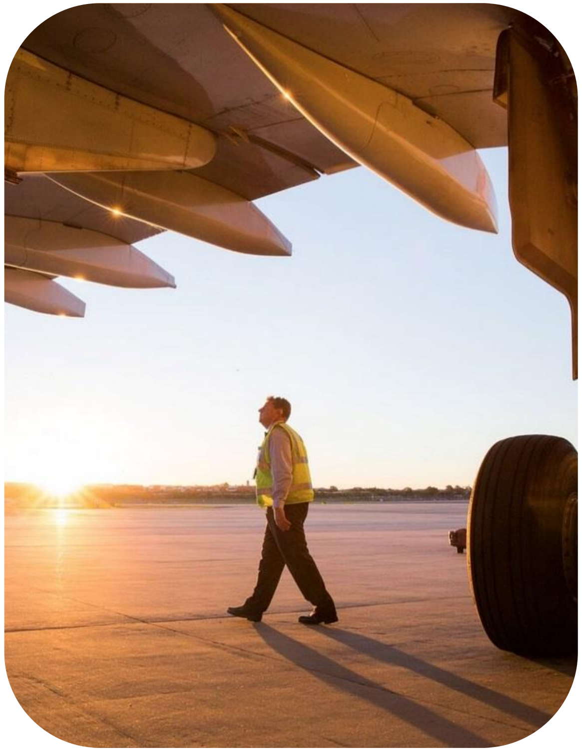
- Underlying Profit Before Tax (PBT) $1,401m, Statutory PBT $1,181m
- Second highest Underlying Profit result in the Group's history[1]
- Continued strong Return on Invested Capital (ROIC) of 20.1%[2]
- All Qantas Transformation targets delivered

**All operating segments delivering ROIC > WACC[3]**

- Record Qantas Domestic and Group Domestic[4] earnings[5] supported by disciplined capacity management across Qantas and Jetstar
- Second highest results[5] for Qantas International and Jetstar Group
- Record Qantas Loyalty earnings[5] provides growing diversified earnings stream

**Financial framework providing balance sheet strength and shareholder returns**

- Net debt[6] of $5.2b, towards lower end of the target range
- 7 cents per share dividend, unfranked, on-market share buy-back of up to $373m



**TURNAROUND PROGRAM COMPLETE, TRANSFORMATION ONGOING**

1. Underlying PBT has been the Group's primary performance reporting measure since FY09. For prior periods, comparison is to Statutory PBT adjusted for disclosed extraordinary items. 2. For a detailed calculation of ROIC please see slide 11 in the Supplementary presentation. Calculated as ROIC EBIT for the 12 months ended 30 June 2017, divided by the 12-months average Invested Capital. 3. Weighted Average Cost of Capital calculated on a pre-tax basis. 4. Includes Qantas Domestic and Jetstar Domestic. 5. Underlying Earnings Before Net Finance Cost and Income Tax Expense (Underlying EBIT). 6. Net debt under the Group's Financial Framework includes net on balance sheet debt and off balance sheet aircraft operating lease liabilities. For a detailed calculation of net debt, please see slide 12 in the Supplementary presentation.

# Results Achieved in Mixed Market Conditions

**Domestic airlines**

- Market demand increased by 1.1%[1], despite resources sector decline
- Business market demand strengthened in 2H17
- Healthy demand in price driven segments
- Strong East Coast performance

**International airlines**

- Significant competitor capacity growth in the first half moderated during the second half[2]
- Growing demand[3] in Asian markets, both premium and leisure

**Qantas Loyalty**

- Continuing to participate in disrupting markets via Qantas Assure and Qantas Money
- Financial services sector facing changing market conditions under new interchange fee regulations
- Increasing trend towards transactions made on cards[4]

**Freight**

- International markets challenged with significant levels of wide-body capacity[5]
- Qantas continues to hold strong domestic market share

1. Market demand measured as revenue passenger kilometres (RPK). Source: BITRE, Domestic Aviation Activity for 12 months ending May 2017. 2. Source: BITRE data for July 2016-April 2017. Diio Mi forecast data for May 2017-June 2017. Excludes Qantas Group. 3. Measured on RPKs compared to FY16. 4. Source: Credit cards number one way to pay, as Australians shift to cashless, Xinhua English, 25 July 2017. 5. Source: IATA AirFreight Market Analysis June 2017.

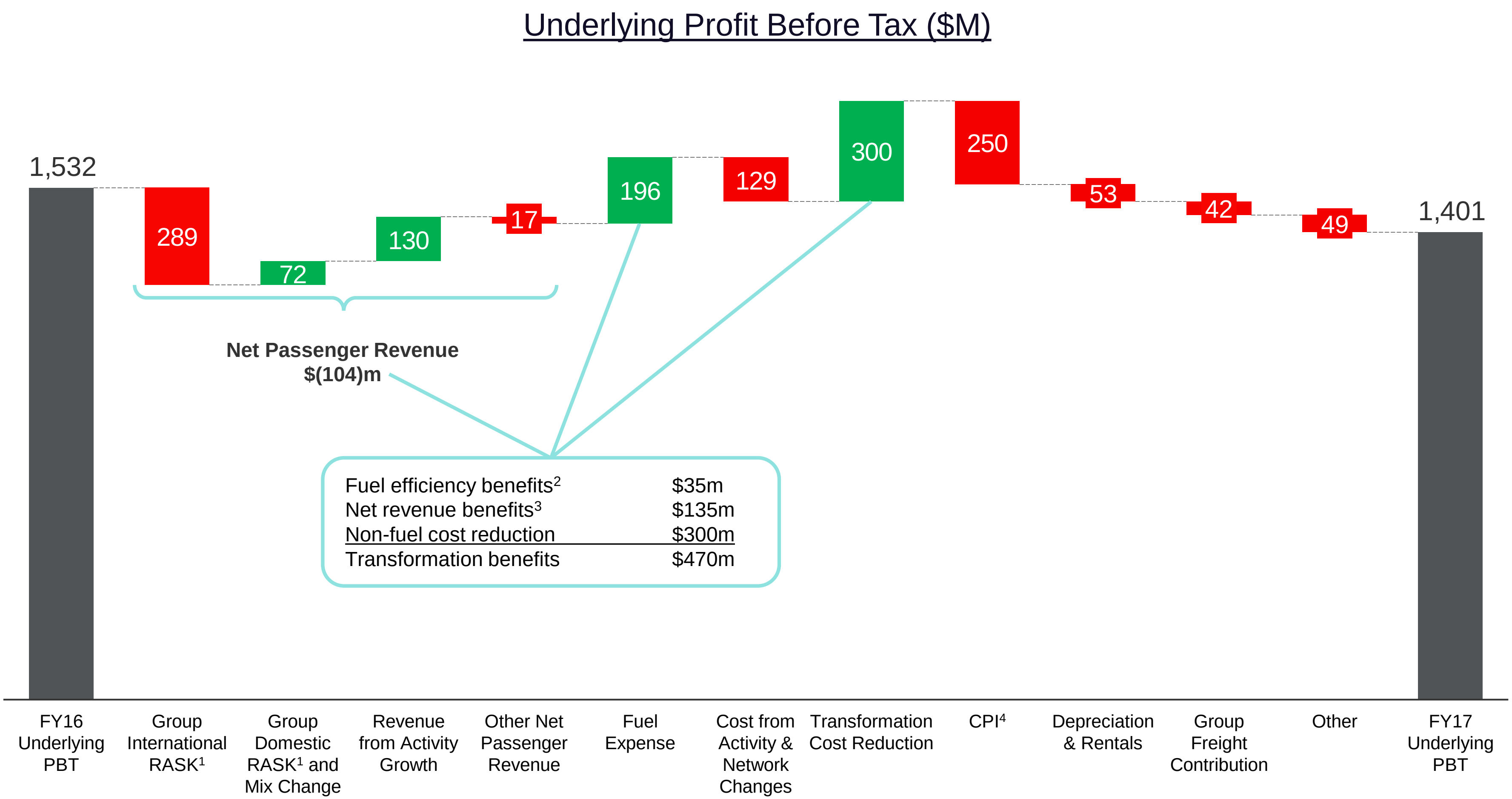
# FY17 Key Group Financial Metrics

| Underlying PBT[1] | Underlying Earnings per Share[2] | ROIC | Cash Flow |
|---|---|---|---|
| $1,401m<br>Down $131m on FY16 | 54.6c<br>Up 1.5c on FY16 | 20.1%<br>> WACC | $2.7b<br>Operating cash flow<br>$1.3b<br>Net free cash flow[3] |

| Unit Revenue[4] | Total Unit Cost[5] | Operating Margin[6] | Traffic/Capacity Growth |
|---|---|---|---|
| -1.8% | -0.7% | 9.9%<br>Versus 10.8% in FY16 | ASKs[7] +1.1%<br>RPKs[8] +1.8% |

1. Underlying PBT is a non-statutory measure and is the primary reporting measure used by the chief operating decision-making bodies, being the Chief Executive Officer, Group Management Committee and the Board of Directors, for the purpose of assessing the performance of the Qantas Group. All items in the FY17 Results Presentation are reported on an Underlying basis. Refer to Supplementary slide 6 for a reconciliation of Underlying to Statutory PBT. 2. Underlying Earnings per Share is calculated as Underlying PBT less tax expense (based on the Group's effective tax rate of 27.8% (2016: 27.7%)) divided by the weighted average number of shares during the year consistent with the Statutory Earnings per Share (EPS) calculation. 3. Net cash from operating activities less net cash used in investing activities (excluding aircraft operating lease refinancing). 4. Ticketed passenger revenue per available seat kilometre (ASK). 5. Underlying PBT less ticketed passenger revenue per available seat kilometre (ASK). 6. Group Underlying EBIT divided by Group Total Revenue. 7. Available seat kilometres. Total number of seats available for passengers, multiplied by the number of kilometres flown. 8. Revenue passenger kilometres. Total number of passengers carried, multiplied by the number of kilometres flown.

# FY17 Profit Bridge




1. Ticketed passenger revenue per available seat kilometre (ASK). Also known as Unit Revenue. 2. Includes reduction in consumption from fuel efficiency and reduction in into-plane costs following Transformation initiatives. 3. Revenue benefits less incremental costs associated with that benefit including costs of increased activity where related to a Transformation initiative. 4. Company estimate, including wage and other inflation.

# Segment Results

# Integrated Group Portfolio Weighted to Domestic Australia

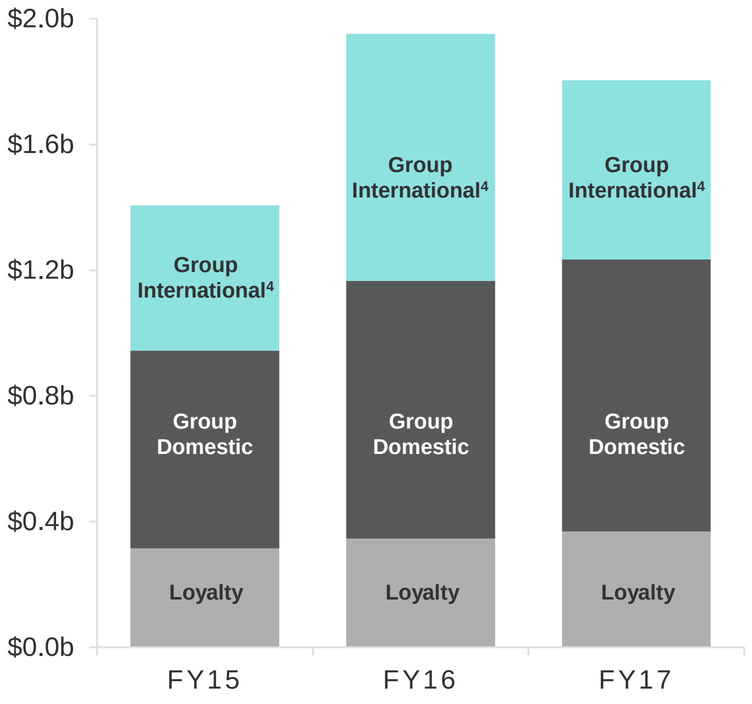
**Growing earnings base from Group Domestic airlines and Loyalty**

- Qantas Transformation Program supported strong and growing margin advantage at Qantas Domestic and Jetstar vs competitors[1]
- Unit Revenue improvement supported by proactive capacity management and customer focused investments
- Loyalty business achieved double digit growth[2] in the second half

**Resilient earnings[2] from the Group's international airlines**

- Qantas International delivering ROIC > 10% through continued transformation
- Jetstar International continues strong performance[2]
- First and second largest[3] outbound carriers from Australia
- Improving profitability[2] of Jetstar's Asian portfolio
- Network focus on strategically advantaged markets

Operating Segment EBIT[2]




**DOMESTIC AIRLINES & LOYALTY UNDERPIN GROUP EARNINGS[2]**

1. Operating Margin is defined as Underlying EBIT divided by total segment revenue. Competitors refer to Virgin Australia Domestic and Tigerair Australia. Competitor margins are calculated using published data. 2. Measured on Underlying EBIT. 3. Source: BITRE, based on the number of flights for the 12 months ending May 2017. 4. Group International includes Qantas International, Freight, Jetstar International Australian operations, Jetstar New Zealand (including Jetstar Regionals), Jetstar Asia (Singapore) and the contributions from Jetstar Japan and Jetstar Pacific.

# Maximising Leading Dual Brand Domestic Position

*Dual brand strategy at the core of Group's portfolio strength*

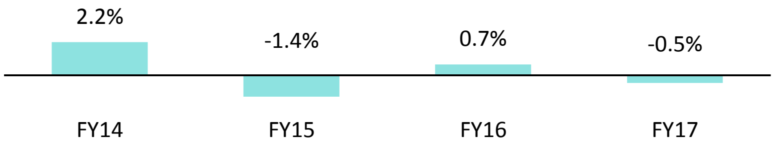
**$865m** — **Record Group Domestic[1] Underlying EBIT in FY17, supported by disciplined capacity management, Transformation and customer focused investments**

**~90%** — **Underlying EBIT share compared to a capacity share of 61%[2]**

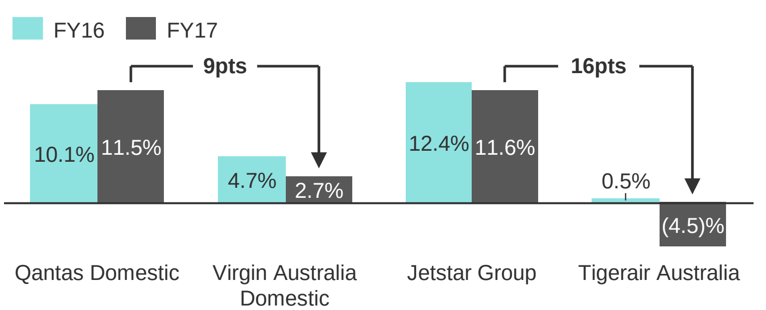
**9pts** — **Growing margin advantage at Qantas Domestic over competitor[3] from 5pts in FY16**

**16pts** — **Growing margin advantage at Jetstar Group over competitor[3] from 12pts in FY16**

**Average Domestic Market Capacity Growth[4]**




**Both Qantas and Jetstar retain a significant margin advantage over their respective competitors[3]**




**THE DUAL BRAND STRATEGY CONTINUES TO DELIVER SUPERIOR MARGINS**

1. Includes Qantas Domestic and Jetstar Domestic. 2. Based on BITRE capacity data and published schedules for FY17. Total market EBIT includes Qantas Domestic, Jetstar Domestic, Virgin Australia Domestic and Tigerair Australia. 3. Competitor operating margins calculated using published data. Competitor refers to Virgin Australia Domestic for Qantas Domestic, and Tigerair Australia for Jetstar Group. Calculated as Underlying segment EBIT divided by total segment revenue. 4. Compared to prior year. Source: BITRE capacity data and published schedules.

# Qantas Domestic

- Record Underlying EBIT of $645m
- Improved operating margin
  - Unit Revenue up 3%
  - 2.8% capacity reduction due to resource market right-sizing, with targeted East Coast growth
- Continued investment in customer experience
  - Record customer advocacy[1], 23pt premium to competitor[2]
  - 87.6% on time performance[3]
  - On-board Wi-Fi roll-out underway, Brisbane Domestic Business Lounge and Premium Lounge Entry opened
  - Upgrade of Business and Qantas Club lounges at Melbourne Domestic Terminal
  - Leveraging launch of Qantas Business Rewards to improve SME[4] penetration

| | | FY17 | FY16 | VLY %[7] |
|---|---|---|---|---|
| Revenue | $M | 5,632 | 5,710 | (1.4) |
| Underlying EBIT | $M | 645 | 578 | 12 |
| Operating Margin[5] | % | 11.5 | 10.1 | 1.4pts |
| ASKs | M | 35,231 | 36,260 | (2.8) |
| Seat factor[6] | % | 76.4 | 75.2 | 1.2 pts |

**DISCIPLINED CAPACITY MANAGEMENT DRIVES EARNINGS GROWTH**

1. Customer advocacy measured as Net Promoter Score (NPS). Based on Qantas internal reporting. 2. Competitor refers to Virgin Australia. Based on Qantas internal reporting. 3. On time performance (OTP) of Qantas Domestic Mainline (excluding QantasLink) operations. Measured as departures within 15 minutes of scheduled departure time for FY17. Source: BITRE. 4. Small to Medium Enterprise. 5. Operating margin calculated as Underlying EBIT divided by total segment revenue. 6. RPKs divided by ASKs. 7. Variance to FY16.

# Qantas International

- Underlying EBIT of $327m
  - Unit Revenue decline of 4.0%[1] in the second half as market capacity growth moderated[2]
  - Strong margin in competitive market
  - Transformation benefits of $859m[3] delivering a structurally lower cost base
- Capacity growth achieved through leveraging existing Group fleet in response to shifting demand
  - Growing services to Asia[4] and continuing seasonal services
- Continuing investment in customer experience
  - Record customer advocacy[5]
  - Brisbane International lounge completed in October 2016, London lounge and Perth integrated hub lounge to be completed in FY18
- First four 787-9 on track for delivery by March 2018, enabling new network opportunities and cost efficiencies

| | | FY17 | FY16 | VLY % |
|---|---|---|---|---|
| Revenue | $M | 5,708 | 5,750 | (0.7) |
| Underlying EBIT | $M | 327 | 512 | (36) |
| Operating Margin | % | 5.7 | 8.9 | (3.2pts) |
| ASKs | M | 66,389 | 63,599 | 4.4 |
| Seat factor | % | 81.0 | 81.7 | (0.7pts) |

**MORE RESILIENT QANTAS INTERNATIONAL CONTINUING TO DELIVER ROIC > WACC**

1. Calculated as ticketed passenger revenue per ASK including FX (2.0% decline excluding FX). 6.5% decline in FY17 compared to FY16 including FX (5.2% decline excluding FX). 2. Source: BITRE data for July 2016-April 2017. Diio Mi forecast data for May 2017-June 2017. Excludes Qantas Group. 3. From commencement of the Transformation Program in FY14 to 30 June 2017. 4. Sydney-Beijing, Melbourne-Narita, Sydney-Denpasar. 5. Measured as Net Promoter Score (NPS). Based on Qantas internal reporting.

# Jetstar Group

- Underlying EBIT of $417m
  - Second highest result[1] in Jetstar's 13 year history
  - Able to partially offset impact of booking and service fee changes and softer freight yields
- Jetstar Domestic Unit Revenue up 2% on flat capacity
- Strong Jetstar International[2] earnings[1]
- Improved profitability of Jetstar's Asian portfolio[3]
  - Jetstar Japan maintains LCC[4] leadership position[5], Jetstar Pacific subject to intense competition
- Continuing investment in digital transformation and customer experience
  - Comprehensive service training delivered to more than 3,800 team members
  - Investments in data analytics capability with re-platforming of jetstar.com and relaunch of Club Jetstar
  - Continuous innovation through straight to gate mobile check-in and new small business product offering

| | | FY17 | FY16 | VLY % |
|---|---|---|---|---|
| Revenue[6] | $M | 3,600 | 3,636 | (1.0) |
| Underlying EBIT | $M | 417 | 452 | (7.7) |
| Operating Margin | % | 11.6 | 12.4 | (0.8)pts |
| ASKs | M | 48,703 | 48,832 | (0.3) |
| Seat factor | % | 83.1 | 81.5 | 1.6pts |

**A WINNING AND PROFITABLE MODEL WITH SIGNIFICANT GROWTH POTENTIAL**

1. Underlying EBIT. 2. Includes Jetstar International Australian operations and Jetstar New Zealand (including Jetstar Regionals). 3. Includes Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific. 4. Low Cost Carrier. 5. Measured as percentage of market share for FY17. Source: Diio Mi. 6. Revenue consolidated by the Qantas Group, does not include Jetstar Japan and Jetstar Pacific.

# Qantas Loyalty

- Record Underlying EBIT of $369m
  - Double digit growth in 2H17[1]
  - QFF[2] co-branded credit card issuance growing at 3x market[3], investment in strong earn propositions with key partners
  - Strong ramp up in Woolworths opt ins; improved member earn[4]
- Continued strength of Coalition Business
  - 22 new coalition partners of which 12 are B2B[5]; 27% growth in Qantas Business Rewards membership post launch[6]
  - Qantas Cash: stable market share[7], increased customer value proposition and awarded 5 star Canstar rating[8]
  - Record NPS[9]; maintaining high engagement in the program and a substantial premium over airline competitors[10]
- New Businesses remain on track
  - Qantas Assure: 30% of industry growth in Health[11]; successful launch of Life insurance
  - Qantas Money: successful launch of the Qantas Premier credit card and companion app
  - Data and Marketing: one of the most valuable data sets in Australia

| | | FY17 | FY16 | VLY % |
|---|---|---|---|---|
| Revenue | $M | 1,505 | 1,454 | 3.5 |
| Underlying EBIT | $M | 369 | 346 | 6.6 |
| Operating Margin | % | 24.5 | 23.8 | 0.7pts |
| QFF Members | M | 11.8 | 11.4 | 3.7 |

**COALITION AND NEW BUSINESSES DRIVE GROWTH AND DIVERSIFICATION OF EARNINGS**

1. Underlying EBIT compared to 2H16. 2. Qantas Frequent Flyer. 3. Based on number of personal credit card accounts with interest free periods. Market growth calculated excluding Qantas' contribution to market. Based on June 2017 compared to June 2016. Source: RBA credit and card charges statistics. 4. Compared to previous program. 5. Business to Business. 6. Members at June 2017 compared to January 2017. 7. Share of the Australian prepaid travel card market (based on spend) for FY17. Based on Qantas internal reporting. 8. Travel Money Card 2017. 9. Net Promoter Score (NPS). Based on Qantas internal reporting. 10. Includes domestic and international airlines. Source: Ergo Strategy market research, March 2017. 11. Twelve months to June 2017 on a net persons covered basis. Source: APRA PHI Statistics for June 2017.

# Qantas Freight

- Underlying EBIT of $47m
  - Transformation benefits partially offset adverse FX and impact of softer demand on revenue
  - Domestic performance[1] remains stable, new 737-400 will enable further growth opportunities
- Customer advocacy[2] continues to improve
  - Investment in next generation digital platform will drive innovation and enhance the customer experience

| | | FY17 | FY16 | VLY % |
|---|---|---|---|---|
| Revenue | $M | 938 | 982 | (4.5) |
| Underlying EBIT | $M | 47 | 64 | (27) |
| Operating Margin | % | 5.0 | 6.5 | (1.5)pts |
| International Capacity[3] | B | 3.4 | 3.3 | 3.0 |
| International Load[4] | % | 54.2 | 53.4 | 0.8pts |

**RESILIENT FREIGHT PERFORMANCE IN CHALLENGING GLOBAL CARGO MARKETS**

1. Measured on Underlying EBIT. 2. Measured as Net Promoter Score (NPS). Based on Qantas internal reporting. 3. Capacity measured as international available freight tonne kilometres (AFTK). 4. Measured as international revenue freight tonne kilometres (RFTK) divided by international available freight tonne kilometres (AFTK).

# Financial Framework

# Financial Framework Aligned with Shareholder Objectives

| 1. Maintaining an Optimal Capital Structure | 2. ROIC > WACC[2] Through the Cycle | 3. Disciplined Allocation of Capital |
|---|---|---|
| ✓ | ✓ | ✓ |
| **Minimise cost of capital by targeting a net debt range of $4.8b to $6.0b[1]** | **Deliver ROIC > 10%[3] through the cycle** | **Grow invested capital with disciplined investment, return surplus capital** |
| (See slide 16) | (See slides 17 and 18) | (See slides 19 to 21) |

**MAINTAINABLE EPS[4] GROWTH OVER THE CYCLE**

**TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE[5]**



1. Based on current invested capital of ~$9b. 2. Weighted Average Cost of Capital, calculated on a pre-tax basis. 3. Target of 10% ROIC allows ROIC to be greater than pre-tax WACC through the cycle. 4. Earnings per Share. 5. Target Total Shareholder Returns within the top quartile of the ASX100 and global listed airline peer group as stated in the 2016 Annual Report, with reference to the 2017-2019 LTIP.

# Maintaining an Optimal Capital Structure
*Leverage and liquidity*

### Optimal capital structure

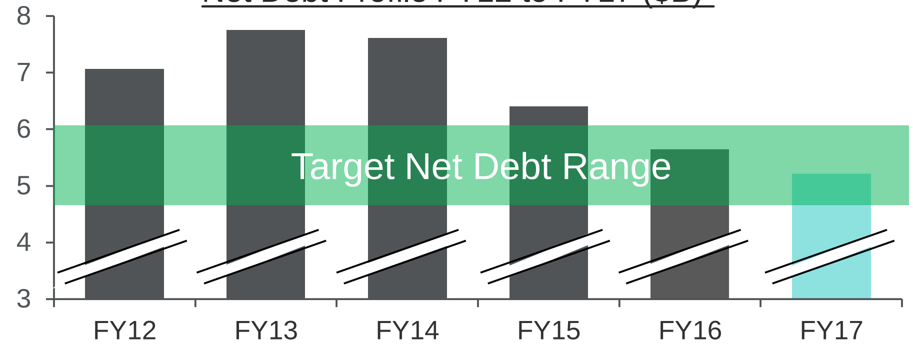
- Net debt at $5.2b
- Extended maturity profile with $425m bonds issuance
- Significant unencumbered asset base
  - Valued at ~US$3.8b[1]
  - 62% of Group fleet[2]
- Credit rating with Moody's upgraded to Baa2
  - No financial covenants in any debt instruments

### Strong short term liquidity

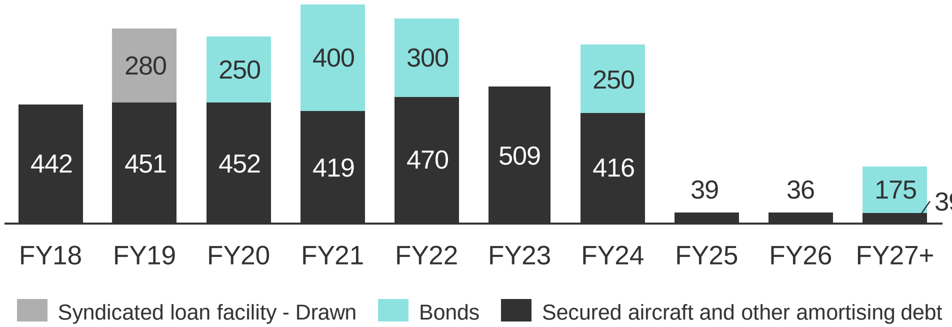
- Cash of $1.8b[3]
- Undrawn facilities of $1b

### Lowers cost of debt

Net Debt Profile FY12 to FY17 ($B)[4]




Debt Maturity Profile as at 30 June 2017 ($M)[5]



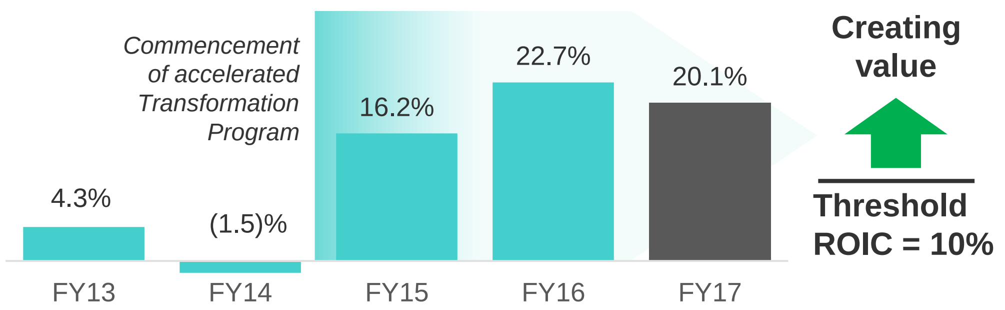

**MAINTAINING OPTIMAL CAPITAL STRUCTURE DELIVERS LOWEST WACC**

1. Based on AVAC market values. 2. Based on number of aircraft as at 30 June 2017. 3. Includes cash and cash equivalents as at 30 June 2017. 4. Net debt includes on balance sheet debt and aircraft operating lease liabilities under the Group's Financial Framework. Capitalised aircraft operating lease liabilities are measured at fair value at the lease commencement date and remeasured over lease term on a principal and interest basis akin to a finance lease. Residual value of capitalised aircraft operating lease liability denominated in foreign currency is translated at the long-term exchange rate. 5. Cash debt maturity profile excluding operating leases.

# Delivering ROIC >10% Through the Cycle

- FY17 Group ROIC of 20.1%
- All operating segments continue to deliver ROIC > WACC
- Efficient allocation of capital
  - Leveraging existing assets
  - Increased fleet utilisation[1]
  - Revenue and cost benefits through Qantas Transformation Program

<u>Return on Invested Capital</u>

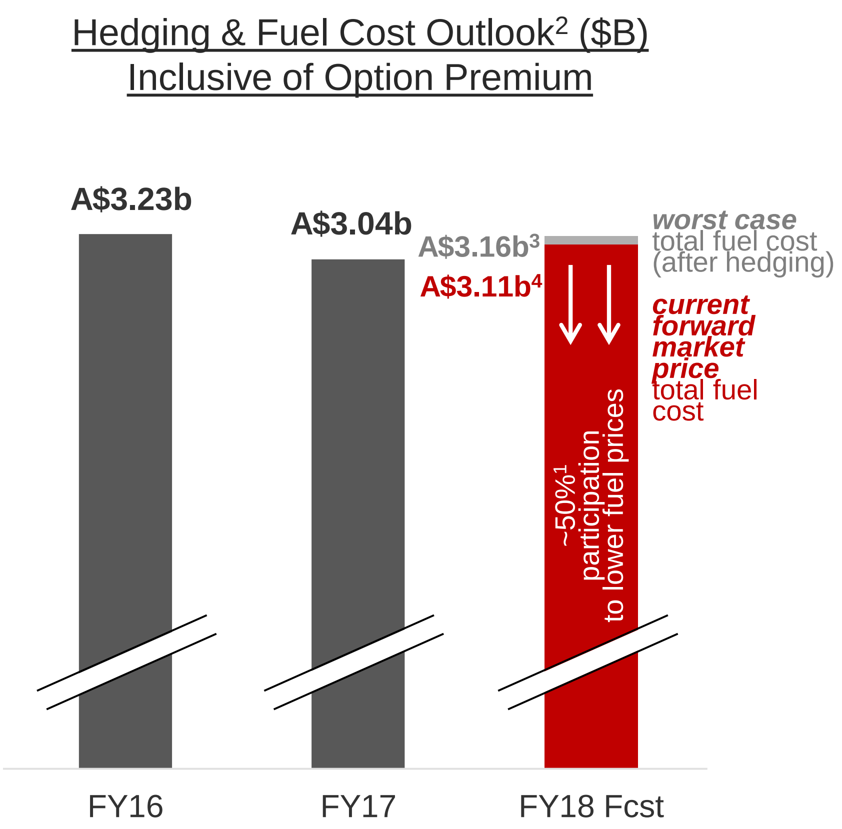



1. Average block hours per aircraft per day compared to FY16.

# Delivering ROIC >10% Through the Cycle

*Protecting ROIC through the disciplined hedging program*

- High level of protection in place for FY18
  - Fuel risk 86% hedged
  - Protection in place against adverse spike in Fuel and FX
  - High proportion of options providing ~50% participation[1] to favourable price movements in AUD Brent prices




1. Participation from current market Brent prices down to A$54/bbl for remainder of FY18. 2. As at 22 August 2017. 3. Worst case total fuel cost based on a 2-standard deviation move in Brent forward market prices to US$64/bbl and an assumed correlated AUD/USD rate at 0.84, for the remainder of FY18. Assumes no changes in jet fuel refining margins. 4. Current forward market price total fuel cost based on a Brent forward market price of A$64/bbl for remainder of FY18.

# Disciplined Capital Allocation
## *Disciplined capital expenditure*

- FY17 net capital expenditure[1] of $1.5b, $0.5b in 2H17
- Forecast FY18 and FY19 aggregate net capital expenditure[1] of $3.0b, consistent with prior guidance
  - Similar to FY17, FY18 capex is expected to be skewed to the first half
- Sustainable positive free cash flow[2] has allowed significant deleveraging of the balance sheet to the lower end of the target range, combined with shareholder returns
- Capex allocations determined by whether it enhances shareholder value and generates sufficient free cash flow to
  - Maintain net debt within the target range
  - Support base dividend
- Any additional surplus capital would be prioritised to value creating investment opportunities or returned to shareholders

**DISCIPLINED ALLOCATION OF CAPITAL TO INCREASE SHAREHOLDER VALUE**



1. Equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) and the impact to Invested Capital from the disposals/acquisitions of operating leased aircraft. 2. Net cash from operating activities less net cash used in investing activities (excluding aircraft operating lease refinancing).

# Disciplined Capital Allocation
*Fleet strategy*

## Optimise

- Increased cross-utilisation of A330 and 737-800 between Qantas International and Qantas Domestic, optimising capacity to match demand
- Increased utilisation of F100s and 717s to right-size domestic network

## Refurbish

- A380 upgrade program begins 2019, improving route economics. Upgrade includes latest Business Suites, new Premium Economy seat, refurbish of First Class and upgrade of Economy
- Jetstar A320/321 cabin enhancements: delivers better customer experience and adds 3% capacity per aircraft
- Two more 717s into dual-class layout


## Renewal

- 8 x 787-9s at Qantas International[1]: delivers cost efficiencies and new network opportunities; allows for five oldest 747s to be retired
- A320neos at Jetstar: next generation aircraft to deliver lower cost
- Evaluation of ultra-long range aircraft: new technology enabling unique route opportunities

**RETAINING FLEET FLEXIBILITY – INVESTMENT DECISIONS INFORMED BY COMPETITIVE LANDSCAPE**

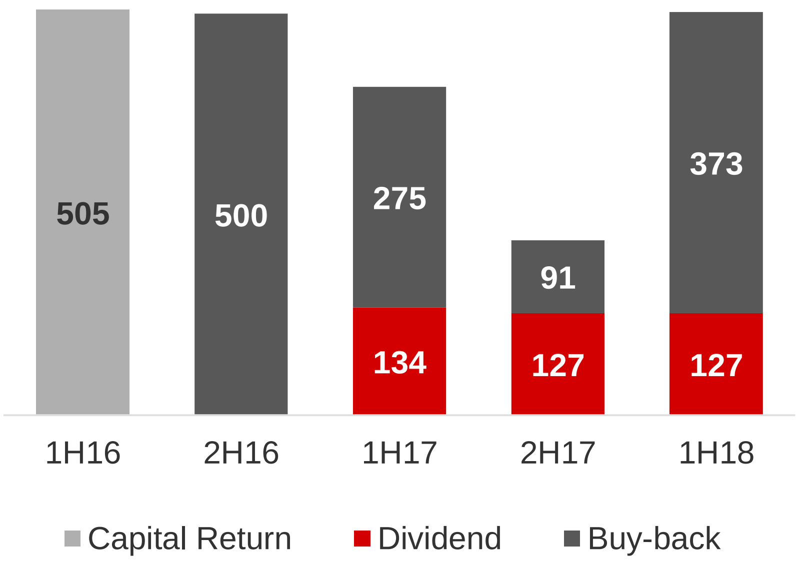


1. To be delivered from October 2017 to November 2018.

# Disciplined Capital Allocation
*Shareholder distributions*

- Final dividend of 7 cents per share declared
  - Unfranked, record date 11 September 2017, payment date 13 October 2017
  - Conduit foreign income credits available for foreign shareholders
- On-market share buy-back of up to $373m
- Future dividends will be unfranked until tax payments resume
  - Carried forward tax losses of $0.95b as at 30 June 2017
- ~20%[1] reduction of shares on issue at completion of announced on-market share buy-back
  - Buy-back to be managed with regard to Qantas Sale Act

Track Record of Delivering Shareholder Returns ($M)




**>$2B OF CAPITAL RETURNS TO SHAREHOLDERS SINCE OCTOBER 2015**



1. Reduction in shares calculated against balance as at 1 July 2015. Represents indicative reduction in shares where announced buy-back is calculated using the closing share price on 22 August 2017 of $5.74.

# Building Long-Term Shareholder Value

# Recognising and Responding to Emerging Global Forces

*The long-term context*

**New Centres of Customer Demand and Geopolitical Influence**

**Rapid Digitisation and Disruption from Big Data**

**Shifting Customer and Workforce Preferences**

**Resource Constraints and Climate Change**

## Clear Strategic Priorities


Maximising Leading Domestic Position through Dual Brand Strategy

Building a Resilient and Sustainable Qantas International, Growing Efficiently with Partnerships

Aligning Qantas & Jetstar with Asia's Growth

Investing in Customer, Brand, Data & Digital

Diversification & Growth at Qantas Loyalty

Focus on People, Culture and Leadership

# The Qantas Group Portfolio has Unique Competitive Advantages

**Dual Brand Strategy to Segment and Grow Markets**

Two highest-margin[1] carriers operating in Australia

**Structurally Advantaged Domestic Position**

Generating ~90% of domestic profit pool from <2/3[2] capacity share through the benefits of transformation

**Innovative Loyalty Business with Valuable Data Insights**

Continued Loyalty earnings growth

**Positioned in Asia with Premier Airline Partnerships**

Restructured Group International network with >50% capacity to Asia

**Reputation for Operational and Safety Excellence, Iconic Australian Brand**

Strong licence to operate, highly trusted brand that supports diversification

**INTEGRATED GROUP PORTFOLIO, MAJORITY OF EARNINGS FROM ADVANTAGED DOMESTIC BUSINESSES**

1. Competitor operating margins calculated using published data. Competitors include Virgin Australia Domestic and Tigerair Australia. Calculated as Underlying segment EBIT divided by total segment revenue.
2. Based on BITRE capacity data and published schedules for FY17. Total market EBIT includes Qantas Domestic, Jetstar Domestic, Virgin Australia Domestic and Tigerair Australia.

# Successful Business Turnaround

*Significant improvement in financial performance*

**Return on Invested Capital >20%**

All operating segments delivering ROIC > 10%

**All accelerated Transformation Program targets achieved**

Delivered >$2.1b in benefits

**Strong balance sheet with net debt towards lower end of target range**

Net debt at $5.2b

**Sustainable free cash flow**

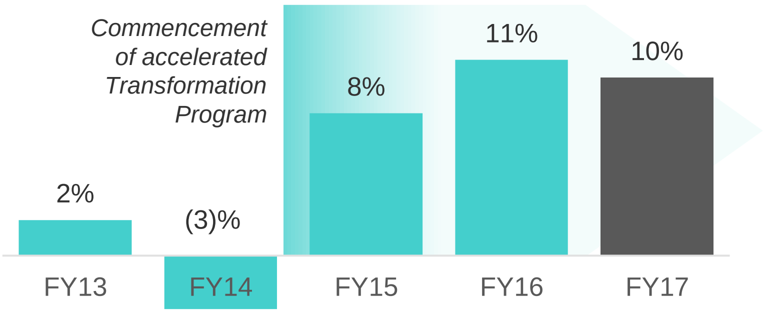
>$2b returned to shareholders since October 2015

Disciplined investment in the business

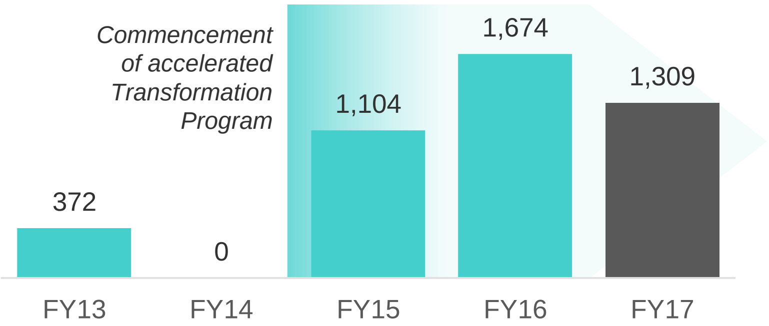
**Rewarding employees**

Non-executive employee[1] bonus of ~$55m for the successful completion of the turnaround program

## Group Operating Margin (%)




## Net Free Cash Flow[2] ($M)




**POSITIONED TO DELIVER SUSTAINABLE RETURNS THROUGH THE CYCLE**

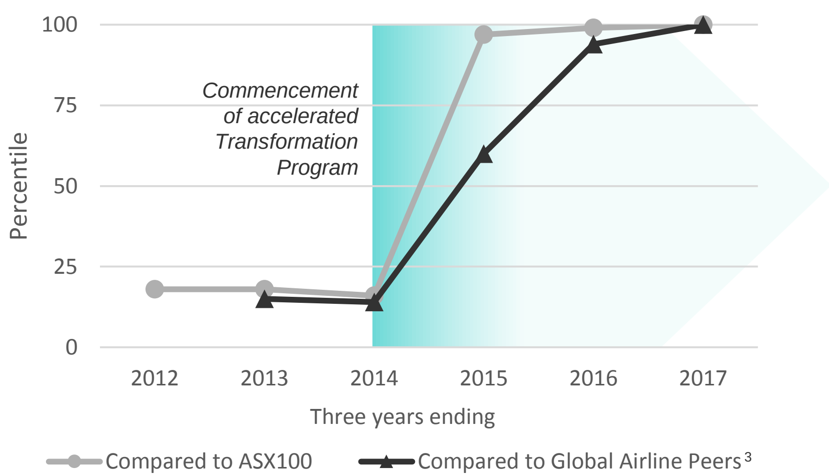
1. For non-executive employees who have agreed to the 18 months wage freeze. $2,500 for full-time employees, $2,000 for part-time employees. It is anticipated that the non-recurring cost of up to $55m will be recognised in the Group's FY18 result, outside of Underlying earnings. 2. Net cash from operating activities less net cash used in investing activities (excluding aircraft operating lease refinancing).

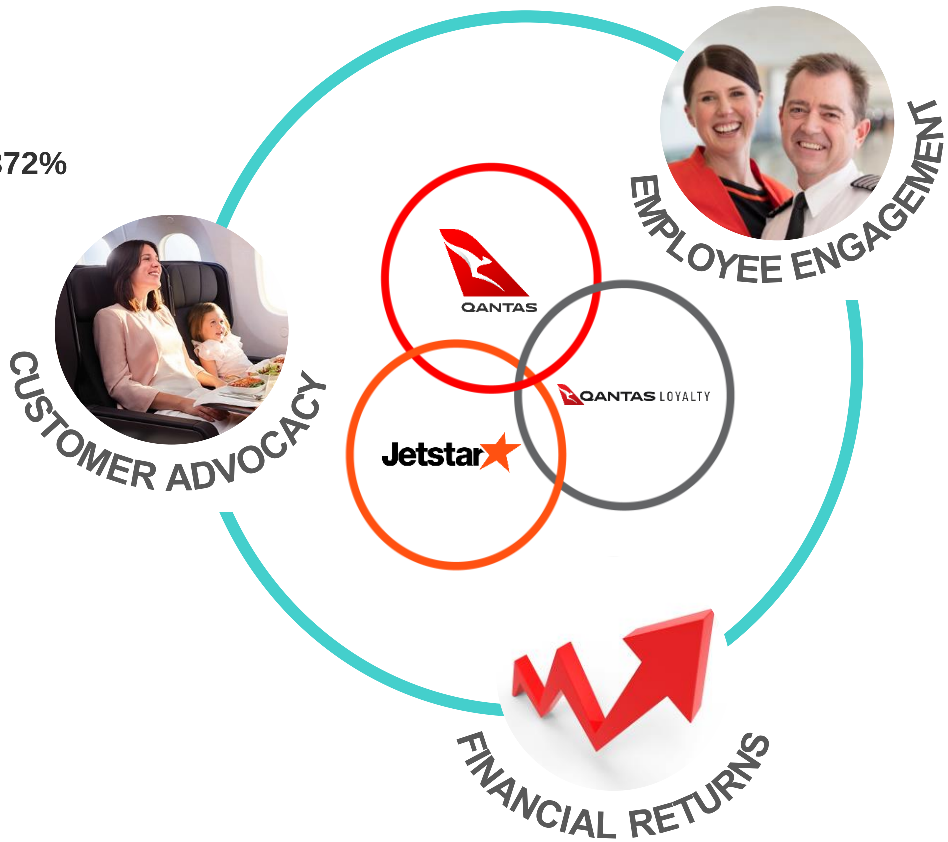
# Successful Business Turnaround

*While delivering for our customers, employees and shareholders*

- **Record customer advocacy[1]**
- **Record employee engagement[2]**
- **Top Quartile Total Shareholder Return FY15-FY17 of 372%**
  - **FY17 Total Shareholder Return of 111%**

Qantas Relative TSR Performance




**CULTURE OF TRANSFORMATION EMBEDDED**

1. Measured as Net Promoter Score (NPS). Based on Qantas internal reporting. Records achieved across Qantas International, Qantas Domestic and Loyalty. 2. Five percentage point improvement from FY13 to FY17. 3. Airline peers as stated in the relative Annual Report in reference to the related LTIP for the period ending in the respective years.

# Transformation is Ongoing

*FY18 transformation targets*

### What we are targeting

- Gross benefits of at least $400m in FY18 from:
  - Technology
  - Supplier
  - Utilisation
  - Continuous improvement
  - Indirect costs
  - Group initiatives

### Examples of how we are delivering

- On track for first 787-9 delivery; 1 x 747 retired in July 2017
- Jetstar A320/321 reconfiguration, 3% additional capacity with limited capital invested
- Predictive analytics to support efficiencies in rostering, maintenance and catering across Jetstar and Qantas
- New flight disruption management systems and processes across the Group
- Enhanced digital product offering to SMEs
- Faster, more efficient base maintenance turn-around times
- Launched pilot app as tool to support pilots in improving fuel optimisation and compliance
- Joint learning and development opportunities across the Group

**TARGETING ONGOING GROSS BENEFITS OF $400M PER ANNUM**



Note - Transformation costs are expected to be approximately $150m. As with prior years, these will be items outside of the Underlying result.

# Outlook

# 1H18 Outlook – Domestic and International Operating Environment

- 1H18 planned Group capacity to increase by ~3%[1]
- Group Domestic capacity expected to decrease by ~1%[1]
  - Unit Revenue is expected to increase in 1H18 on stronger demand[1]
- Group International capacity expected to increase by ~5%[1] driven by increased utilisation and impact of previously announced changes (e.g. Sydney-Beijing and Melbourne-Narita), using existing Group fleet to target growing Asia markets
  - Unit Revenue declined ~2% in 2H17[2] on 5% competitor capacity growth; expect 1H18 competitor capacity growth of ~4%[1]
- Qantas retains significant flexibility within its fleet and operational envelopes to respond to market conditions and to maximise our customer proposition



1. Compared to 1H17. 2. Compared to 2H16.

# FY18 Group Outlook

- Current Group operating expectations:
  - FY18 fuel cost expected to be no more than $3.16b[1], $3.11b[2] at current forward AUD prices; 1H18 expected to be no more than $1.56b
  - FY18 net depreciation and non-cancellable aircraft operating lease rentals expected to be ~$70m higher than FY17
    - FY18 depreciation and amortisation expense expected to be ~$150m higher than FY17
    - FY18 non-cancellable aircraft operating lease rentals expected to be ~$80m lower than FY17
  - FY18 transformation benefits (cost, fuel efficiency and net revenue) expected to be ~$400m
  - FY18 inflation impact on expenditure forecasted to be ~$250m (including wage growth)
  - Net capital expenditure[3] expected to be $3.0b for FY18 and FY19 combined

1. Worst case total fuel cost based on a 2-standard deviation move in Brent forward market prices to US$64/bbl and an assumed correlated AUD/USD rate at 0.84, for the remainder of FY18. Assumes no changes in jet fuel refining margins. 2. Current forward market price total fuel cost based on a Brent forward market price of A$64/bbl for the remainder of FY18. 3. Equal to net investing cash flows included in the Consolidated Cash Flow Statement (excluding aircraft operating lease refinancing) and the impact to Invested Capital from the disposals/acquisitions of operating leased aircraft.

Questions?

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This Presentation has been prepared by Qantas Airways Limited (ABN 16 009 661 901) (Qantas).

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