# Qantas Airways Limited 1H16 Results

23 February 2016

**ASX: QAN** 

**US OTC: QABSY** 

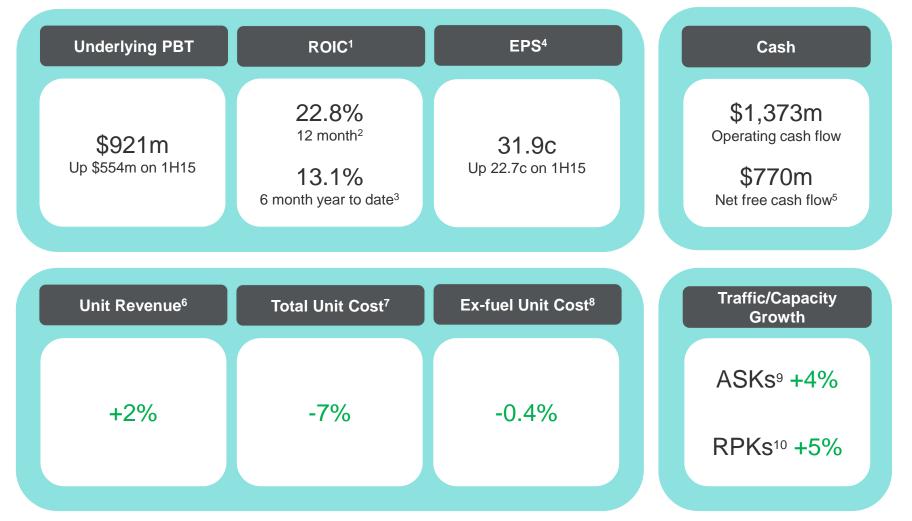


## A Strong Platform for Sustainable Growth

- Delivering against Group strategy to maximise long-term shareholder value
  - Record first half Underlying Profit Before Tax (PBT)¹ \$921m, Statutory PBT \$983m
  - All segments generating Return on Invested Capital (ROIC)<sup>2</sup> above Cost of Capital
  - Record Group Domestic Underlying EBIT \$556m<sup>3</sup> from dual brand coordination
  - Highly cash generative, operating cash flow up 95 per cent to \$1.4b
- Margin<sup>4</sup> expansion with continued cost discipline, revenue growth
  - Qantas Transformation on schedule with \$1.36b of \$2b benefits target realised
  - Strong revenue performance driven by increased fleet utilisation
  - Hedging program capturing benefit from lower AUD fuel prices
- Strong balance sheet maintained through disciplined financial framework
  - Investment grade credit rating reinstated by Standard & Poor's<sup>5</sup>
  - Surplus capital distributed to shareholders; on-market buy-back of up to \$500m

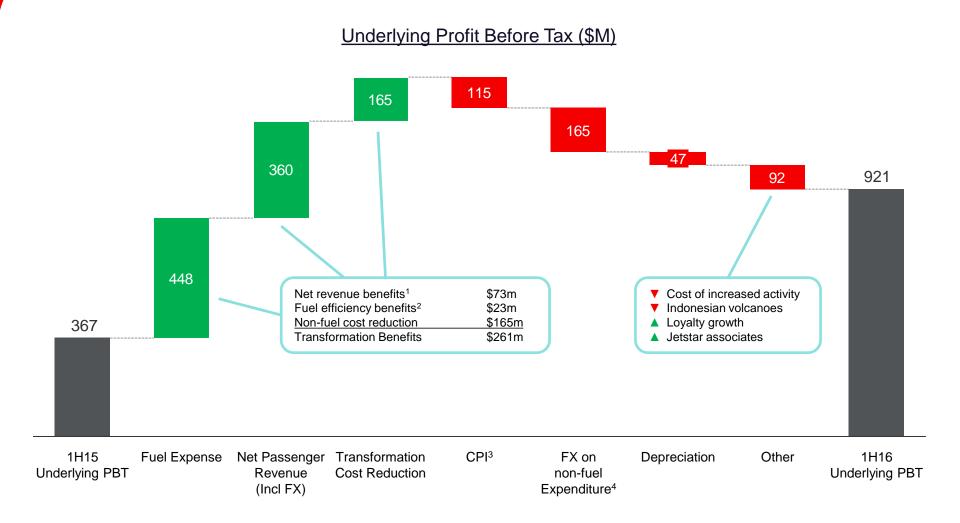
## DELIVERING AGAINST OUR LONG-TERM TARGETS TO ACHIEVE TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE OF ASX100 AND GLOBAL AIRLINE PEERS<sup>6</sup>

## 1H16 Key Group Financial Metrics



<sup>1.</sup> Return on invested capital. For a detailed calculation please see slide 18. 2. Calculated as ROIC EBIT for the 12 month ended 31 December 2015 divided by the average Invested Capital for the period 1 January 2015 to 31 December 2015. 3. Calculated as the ROIC EBIT for the 6 months ended 31 December 2015 divided by the average invested capital for the period 1 July 2015 to 31 December 2015. 4. Statutory earnings per share. 5. Net cash from operating activities less net cash used in investing activities (excluding aircraft operating lease refinancing). 6. Ticketed passenger revenue per available seat kilometre (ASK). 7. Based on Underlying PBT less ticketed passenger revenue per ASK. 8. Comparable ex-fuel unit cost calculated as Underlying PBT less ticketed passenger revenue and fuel, adjusted for the impact of changes in discount rates, changes in foreign exchange rates, changes in block codeshare flying agreements and share of net profit/loss of investments accounted for under the equity method per ASK. 9. Available seat kilometres. Total number of seats available for passengers, multiplied by the number of kilometres flown. 10. Revenue seat kilometres. Total number of passengers carried, multiplied by the number of kilometres flown.

## 1H16 Profit Bridge



<sup>1.</sup> Revenue benefits less incremental costs associated with that benefit including costs of increased activity where related to a transformation initiative. 2. Includes reduction in consumption from fuel efficiency and reduction in into-plane costs following transformation initiatives. 3. Company estimate including wage and other inflation less CPI offset measures. 4. Excluding FX on passenger revenue and fuel.



## Integrated Group Portfolio With Leading Market Positions

#### **Qantas Domestic**

- Largest and highest margin full-service carrier in domestic market<sup>1</sup>
- Maintaining network, frequency & product advantage for premium customer base

#### **Qantas International**

- Leveraging utilisation for growth, agile network to match shifting demand
- Deepening cornerstone airline partnerships for long-term success

#### **Jetstar Group**

- Leading low fares position in domestic and outbound Australia market
- Strengthening Pan-Asia portfolio in fastest growing aviation market<sup>2</sup>

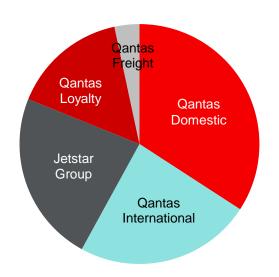
#### **Qantas Loyalty**

- Unrivalled in Australia, contributing steady growth of non-cyclical earnings
- Leveraging customer insights and digital opportunities for break-out growth

#### **Qantas Freight**

Leading domestic market share<sup>3</sup> with unique international traffic rights

### 1H16 Operating Segment EBIT<sup>4</sup>



INTEGRATED PORTFOLIO STRATEGY MAXIMISES GROUP OUTCOMES, GROWTH OF NON-CYCLICAL EARNINGS<sup>5</sup>

## **Qantas Domestic**

- Underlying EBIT of \$387m, margin<sup>1</sup> improvement of 5.4pts
  - Unit revenue (RASK)<sup>2</sup> +2% in mixed market conditions
  - Ex-fuel unit cost (CASK)<sup>3</sup> improvement of 1% on -1% capacity
- Rest-of-market (ex-resources) unit revenue<sup>2</sup> +4%
  - Strong Triangle performance (Sydney-Melbourne-Brisbane)
- Continued resource sector weakness, right sizing of capacity
  - Resource-related revenue down ~\$50m in half<sup>4</sup>
- Utilisation increase of 5%<sup>5</sup> with reduced B737 turn times
- Premium on-time performance with increase to 89.3% from 86.8% in 1H156
- Customer advocacy (NPS) improved by 7pts<sup>7</sup> with investment in B737 and A330 cabins
  - 9 of 18 x A330 and 12 of 67 x B737 reconfigurations completed

		1H16	1H15	VLY %9
Revenue	\$M	3,007	3,007	0.0
Underlying EBIT	\$M	387	227	70
Operating Margin <sup>1</sup>	%	12.9	7.5	5.4pts
ASKs	М	18,536	18,765	(1.2)
Seat factor <sup>8</sup>	%	76.5	76.0	0.5pts

#### STRONG IMPROVEMENT IN KEY OPERATIONAL METRICS OF OTP6, UTILISATION5, SEAT FACTOR8 AND NPS7

### **Qantas International**

- Underlying EBIT of \$270m, margin<sup>1</sup> improvement of 7.0pts
  - Unit revenue<sup>2</sup> growth of 3% including improved seat factor on +6.5% capacity
  - Ex-fuel unit cost<sup>3</sup> improvement of 2%
  - Benefit from lower AUD fuel price
- Increased fleet utilisation<sup>4</sup> >5% vs 1H15
- Reallocating existing assets in response to shifting demand

_	Broadening US	network with	American.	Airlines	partnership <sup>5</sup>	from Dec	-15 intro	eduction of SE	$0^6$

- Additional services to Asia (Japan, Hong Kong, Singapore, Manila)
- Customer advocacy<sup>7</sup> improved by 7pts with continued investment in product & service
  - 7 out of 10 International A330 cabin reconfigurations completed

		1H16	1H15	VLY %
Revenue	\$M	2,953	2,748	7.5
Underlying EBIT	\$M	270	59	>100
Operating Margin <sup>1</sup>	%	9.1	2.1	7.0pts
ASKs	М	31,492	29,580	6.5
Seat factor	%	83.3	82.4	0.9pts

#### LEVERAGING EXISTING ASSETS AND CORNERSTONE AIRLINE PARTNERSHIPS FOR EFFICIENT GROWTH

## Jetstar Group

- Record Underlying EBIT of \$262m, margin<sup>1</sup> improvement of 9.1pts
  - Domestic Australia unit revenue +10%² driven by strong low fares demand
  - Capacity growth of 4% with increased utilisation<sup>3</sup>, higher seat count of B787-8
  - Controllable unit cost<sup>4</sup> improvement of 2%
  - Indonesian volcanoes EBIT impact \$23m
- Jetstar International efficiency gains with an all B787-8 long-haul fleet
- Jetstar Group Airlines in Asia profitable in the half<sup>5</sup>
  - Jetstar Japan first time profitable with utilisation improvement, expansion of international routes
  - Jetstar Asia (Singapore) profitable in half with the benefit of lower costs
- Jetstar.com refresh, product innovation delivering growth in ancillary revenue per passenger

		1H16	1H15	VLY %
Revenue	\$M	1,913	1,773	7.9
Underlying EBIT	\$M	262	81	>100
Operating Margin <sup>1</sup>	%	13.7	4.6	9.1pts
ASKs	М	24,622	23,591	4.4
Seat factor	%	82.2	80.3	1.9pts

RECORD FIRST HALF RESULT<sup>6</sup> DRIVEN BY STRONG DOMESTIC PERFORMANCE, GROUP-WIDE COST REDUCTION

## **Qantas Loyalty**

- Record Underlying EBIT<sup>1</sup> of \$176m, improvement of \$16m
  - 10% revenue growth; significant contribution from adjacent businesses
  - 5% growth in QFF<sup>2</sup> co-branded credit cards, outpacing industry<sup>3</sup>
- QFF member growth to over 11.2m, up 700,000 since 1H15
- Continued investment in diversification of earnings
  - 20% growth in Qantas Cash currency, \$1.5b<sup>4</sup> loaded
  - Qantas Assure health insurance JV to launch in Q4 FY16<sup>5</sup>
- 24 new QFF and Aquire partners announced<sup>6</sup>
  - Vodafone partnership delivering new ways to earn, more to come in 2H16
- Record member NPS<sup>7</sup> with further improvements to member value proposition
  - Reduction in points required for economy Classic Rewards & carrier charges

		1H16	1H15	VLY %
Revenue	\$M	734	669	9.7
Underlying EBIT	\$M	176	160	10
Operating Margin <sup>9</sup>	%	24.0	23.9	0.1 pts
Deferred Revenue Growth <sup>10</sup>	M	40	68	(41)
Members	М	11.2	10.5	6.3

#### ADJACENT BUSINESS VENTURES<sup>8</sup> CONTRIBUTING 39% OF LOYALTY SEGMENT REVENUE GROWTH

## **Qantas Freight**

- Underlying EBIT of \$38m, decrease of \$16m
- Margin decline in challenging cargo markets
  - Revenue decrease of 5%
  - Conclusion of favourable Australian air Express legacy agreements
  - Fuel surcharge reductions
  - Decline in international air freight demand
- Investment in improved customer experience
  - Launched customer advocacy survey in November 2015 to drive next wave of customer innovation
  - Centralising freight capacity management
  - New markets including Haneda, San Francisco, Vancouver

		1H16	1H15	VLY %
Revenue	\$M	525	550	(4.5)
Underlying EBIT	\$M	38	54	(30)
Operating Margin <sup>1</sup>	%	7.2	9.8	(2.6)pts
International Capacity <sup>2</sup>	В	1.7	1.6	3.7
International Load <sup>3</sup>	%	54.8	57.7	(2.9)pts

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



## Financial Framework Aligned with Shareholder Objectives

 Maintaining an Optimal Capital Structure 2. ROIC > WACC Through the Cycle 3. Disciplined Allocation of Capital

Minimise cost of capital by maintaining investment grade credit metrics

Deliver ROIC > 10%<sup>1</sup> through the cycle

Grow invested capital with disciplined investment, return surplus capital



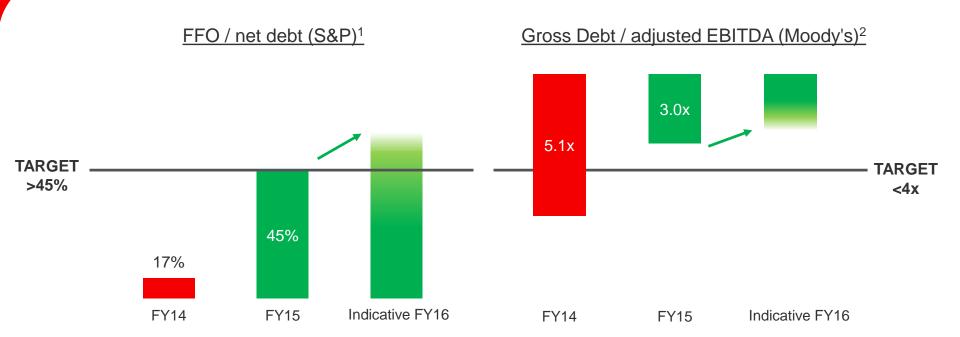
#### MAINTAINABLE EPS<sup>2</sup> GROWTH OVER THE CYCLE



### TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE<sup>3</sup>

## Maintaining our Optimal Capital Structure

Credit metrics above investment grade targets

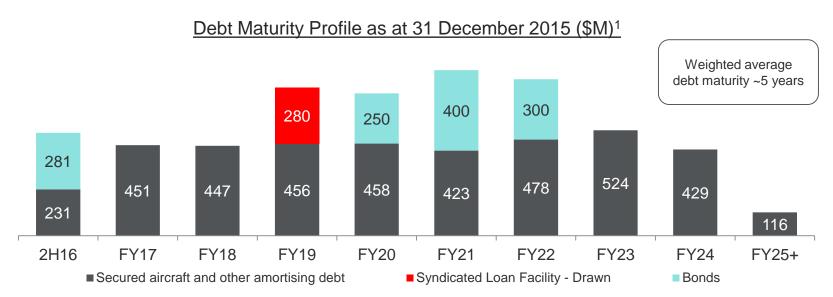


- Targeting investment grade credit metrics through the cycle including:
  - FFO / net debt > 45%
  - Gross debt / adjusted EBITDA < 4x</li>
- Investment grade credit rating regained from Standard and Poor's on 17 November 2015

#### FUTHER IMPROVEMENT IN LEVERAGE METRICS ABOVE INVESTMENT GRADE TARGETS IN FY16

## Maintaining our Optimal Capital Structure Minimal refinancing risk and diverse funding profile

- Manageable maturities in each funding market and period
  - FY16 bonds (\$281m) to be repaid in 4Q FY16
- Continued diversification of funding sources
- No financial covenants
- Exploring opportunities for extending debt tenor

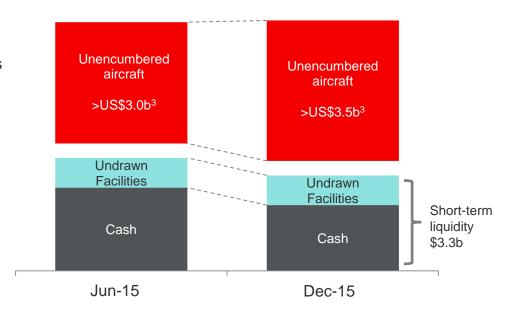


#### NO NEAR TERM REFINANCING RISK, SMOOTH MATURITY PROFILE

## Maintaining our Optimal Capital Structure Optimal liquidity

- Retaining strong short-term liquidity of \$3.3b
  - Cash of \$2.3b<sup>1</sup>
  - Undrawn facilities of \$1b
- Minimal refinancing risk and access to markets provides flexibility to optimise liquidity mix
- Utilising surplus cash to refinance high cost, maturing operating leases
- Increasing number and value of unencumbered aircraft
  - ~50% of Group fleet now unencumbered<sup>2</sup> up from ~40% at FY15, value >US\$3.5b<sup>3</sup>
  - Cheaper source of liquidity

### <u>Total Liquidity – optimising mix</u>

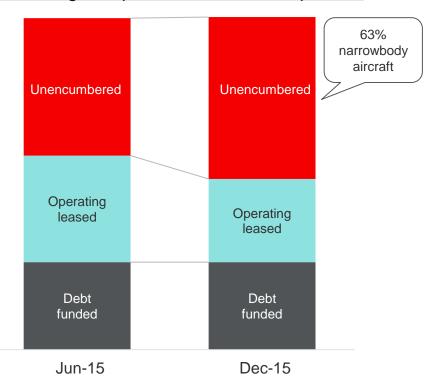


OPTIMISING LIQUIDITY WITH CHEAPER MIX OF SOURCES TO LOWER COST OF CAPITAL

## Maintaining our Optimal Capital Structure Refinancing aircraft out of operating leases

- Refinanced 24 operating leased aircraft to unencumbered owned aircraft<sup>1</sup>
  - Totalled A\$587m as at 31 Dec-15
  - Core narrowbody aircraft
- Cheaper funding alternative for existing fleet
  - Minimal change in net debt<sup>2</sup>
- Other benefits:
  - Greater fleet and maintenance planning flexibility
  - Secure core fleet types
  - Reduce surplus cash and cost of carry
  - Reduce exposure to USD lease rentals
- Continuing to evaluate refinancing of maturing operating leases

### Financing Composition of Total Group Fleet<sup>3</sup>



REFINANCING EXISTING FLEET AT LOWER COST OF CAPITAL, INCREASING UNENCUMBERED ASSETS

## Improving Return on Invested Capital Delivering ROIC>10% through the cycle

- 12 month ROIC of 22.8%, 13.1% year to date
  - Meeting Group target of ROIC > 10%
- All segments continue to deliver ROIC > WACC<sup>1</sup>
- See supplementary slide 10 for detailed calculation of Invested Capital

\$M	1H16	2H15	1H15
Underlying PBT	921	608	367
Add back: Underlying net finance costs	110	125	133
Add back: Non-cancellable aircraft operating lease rentals	254	254	241
Less: Notional depreciation <sup>2</sup>	(111)	(124)	(128)
ROIC EBIT	1,174	863	613
\$M	1H16	2H15	1H15
Net working capital <sup>3</sup>	(6,225)	(6,198)	(6,139)
Fixed assets <sup>4</sup>	12,696	11,788	11,855
Capitalised operating leased aircraft <sup>2</sup>	2,537	3,100	3,284
Invested Capital	9,008	8,690	9,000
Average Invested Capital <sup>5</sup>	8,986	8,886	9,296
Return on Invested Capital (%)	13.1	9.7	6.6
		22.8 1	6.2

<sup>1.</sup> On a 12 month ROIC basis. 2. For calculating ROIC outcomes, capitalised operating leased aircraft are included in the Group's Invested Capital at the AUD market value (referencing AVITAS) of the aircraft at the date of commencing operations at the prevailing AUD/USD rate. This value is depreciated in accordance with the Group's accounting policies with the calculated depreciation expense known as notional depreciation. The carrying value (AUD market value less accumulated notional depreciation) is known as capitalised operating leased aircraft. 3. Net working capital is the net total of the following items disclosed in the Group's Consolidated Balance Sheet; receivables, inventories and other assets reduced by payables, revenue received in advance and provisions. 4. Fixed assets is the sum of the following items disclosed in the Group's Consolidated Balance Sheet; asset classified as held for sale, investments accounted for under the equity method, property, plant and equipment and intangible assets. 5. Equal to the six month average of monthly Invested Capital.

## Improving Return on Invested Capital Continued Delivery of Business Transformation

### \$261m Transformation benefits in 1H16

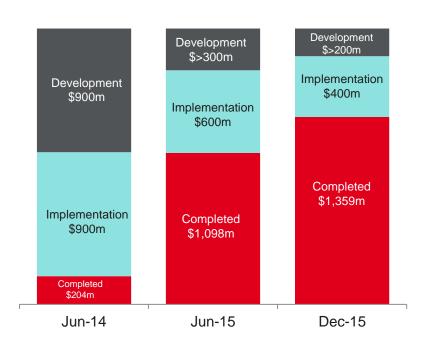
#### Cost Reduction<sup>1</sup> \$188m

- Launch of Group procurement program 'Spend Aware'
- Group fuel efficiency program
- Jetstar 'Lowest Seat Cost' efficiency program
- Improved customer disruption management
- Operational productivity (engineering, catering, freight)
- Sustainability projects (waste, energy, property)
- On-going benefits from key programs (call centre consolidation, non-operational staff reduction)

#### Net revenue benefits<sup>2</sup> \$73m

- Utilisation and network optimisation
- A330 and B737 reconfiguration programs
- Direct distribution enhancements

### \$2b Qantas Transformation Pipeline



ON TARGET TO ACHIEVE \$450M TRANSFORMATION BENEFITS IN FY16

## Improving Return on Invested Capital

Qantas Transformation Scorecard

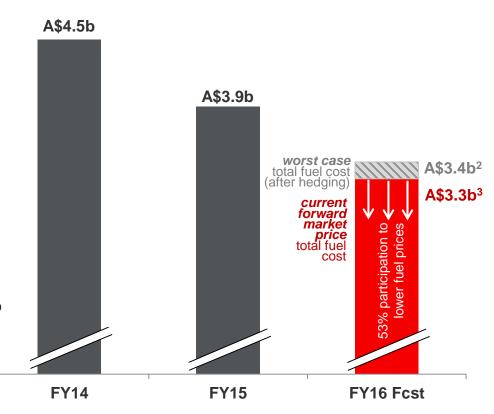
		Target	Progress to Date	
		Metric	Timeframe	Progress to Date
	Accelerated Transformation Benefits	\$2b gross benefits >10% Group ex-fuel expenditure reduction <sup>1</sup>	FY17	\$1,359m benefits realised  Ex-fuel expenditure reduced by 7.9% <sup>2</sup>
ည		5,000 FTE reduction	FY17	4,500 FTE reduction <sup>3</sup>
OUR TARGETS	Deleverage	>\$1b debt reduction <sup>4</sup>	FY15	Delivered on schedule
R TAI	Balance Sheet	Debt / EBITDA <sup>5</sup> <4.0x FFO / net debt <sup>6</sup> > 45%	FY17	Delivered ahead of schedule
no :	Cash Flow	Sustainable positive free cash flow <sup>7</sup>	FY15 onwards	Delivered on schedule
ACHIEVING	Fleet Simplification	11 fleet types to 7	FY16	8 fleet types Retaining 2 x non-reconfigured B747
АСН	Customer Advocacy (NPS) Customer And		Ongoing	NPS improvement for Qantas Domestic, Qantas International and Qantas Loyalty <sup>8</sup>
	Brand	Most on-time domestic carrier:  Qantas Domestic	Ongoing	Premium on-time performance maintained with increase to 89.3%9

<sup>1.</sup> Target assumes steady FX rates and capacity. 2. Includes Underlying operating expenses (excluding fuel), depreciation and amortisation (excluding depreciation reduction from Qantas International non-cash fleet impairment) and non-cancellable aircraft operating lease rentals, adjusted for movements in FX rates and capacity. 1H16 vs 1H14. 3. Actioned Full Time Equivalent employee reduction as at 31 December 2015. ~270 FTEs still to exit as at 31 December 2015. 4. Reduction in net debt including capitalised operating lease liabilities. 5. Metric calculated based on Moody's methodology. 3.0x as at 30 June 2015. 6. Metric based on Standard and Poor's methodology. 45% as at 30 June 2015. 7. Net free cash flow is operating cash flows less investing cash flows (excluding aircraft operating lease refinancing). 8. Measured as Net Promoter Score. Average 1H16 compared to average 1 H15. 9. Qantas mainline operations (excluding QantasLink) for the period of 1H16 compared to 1H15. Source: BITRE.

## Improving Return on Invested Capital Protecting ROIC through disciplined hedging program

- Hedging approach protects against unfavourable movements in Fuel and FX, while allowing for participation to favourable price movements
  - 53% participation to lower fuel prices in FY16
- FY16 total fuel cost forecast includes increased consumption relative to FY15
  - Capacity growth from increased utilisation
- High level of protection in place for FY17
  - Fuel risk 77% hedged
  - Protection in place against adverse spike
  - High proportion of options providing participation to favourable price movements

## Hedging & Fuel Cost Outlook<sup>1</sup> (A\$b) Inclusive of Option Premium



## Disciplined Allocation of Capital Capital Expenditure in line with FY16 guidance

- 1H16 net capital expenditure<sup>1</sup> of \$490m
  - Investing cash flows of \$603m
  - Less \$113m reduction in lease liabilities
  - Excludes \$587m aircraft operating lease refinancing
- Group average fleet age of 8.0 years<sup>2</sup>, lower end of target 8-10 year range
- FY16 net capital expenditure<sup>1</sup> expected to be ~\$1b
- Net capital expenditure<sup>1</sup> for 3 years FY17 FY19 to total between \$3.6b - \$4.5b
  - Premised on maintaining optimal capital structure

\$M	1H16	1H15	VLY %
Operating cash flows	1,373	703	95
Investing cash flows (excluding aircraft operating lease refinancing)	(603)	(509)	(18)
Net free cash flow <sup>3</sup>	770	194	>100

**GROWING INVESTED CAPITAL FOR LONG-TERM EPS GROWTH WHEN AT OPTIMAL CAPITAL STRUCTURE** 

## Disciplined Allocation of Capital Share buy-back of up to \$500 million

- Qantas takes a disciplined approach to continually reviewing its optimal capital structure and, where there is surplus capital, assessing how to enhance shareholder value with the appropriate mix of growth and shareholder returns
- With the optimal capital structure exceeded, and based on current operating outlook, surplus capital is available to be distributed to shareholders
  - 1H16 distribution announced, on-market share buy-back of up to \$500 million
- Form of shareholder distributions takes into account:
  - Level of franking credits available
  - Tax effectiveness for all shareholders
  - Earnings per share accretion
- Qantas will assess whether there is additional surplus capital at the end of FY16 and, if so, optimal method of distribution



## Building on the Group's Long-Term Competitive Advantages



Maximising
Leading
Domestic
Position through
Dual Brand
Strategy



Growing Qantas
International
Efficiently with
Partnerships



Aligning Qantas & Jetstar with Asia's Growth



Investing in Customer, Brand, Technology and Digital



Breakout Growth at Qantas Loyalty



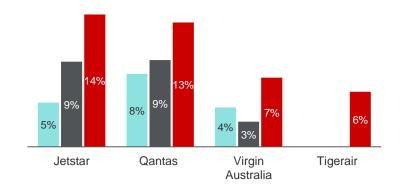
Focus on People, Culture & Leadership

**Embedding Sustainability Across Qantas Group** 

## Maximising Leading Dual Brand Domestic Position

- Dual brand coordination to continue delivering profit share above capacity share
  - Group domestic underlying EBIT¹ of \$556m in 1H16, increase of >90%²
  - EBIT share ~80% vs Capacity share of 62%<sup>3</sup>
  - Margin advantage at both Qantas and Jetstar
- Dynamic capacity management that optimises for market demand and fleet utilisation
- Regular joint reviews of dual brand network, informed by customer segmentation, to optimise brand positioning
  - Qantas serving business and premium leisure customers with schedule and network advantage
  - Jetstar serving price sensitive customers with network scale advantage and differentiated product offering

## Qantas and Jetstar Operating Margin Advantage vs Competitor<sup>4</sup>



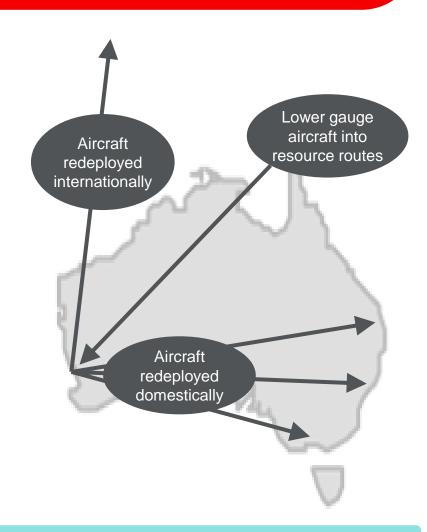
■1H15 ■2H15 ■1H16

Qantas Domestic operating margin advantage improved by 2pts since 1H15

#### **DUAL BRAND STRATEGY AT CORE OF GROUP PORTFOLIO STRENGTH**

## Responding to Domestic Economy in Transition

- Group portfolio and fleet mix provide flexibility to respond to resources downturn, shift assets to growth markets
- Capacity share on resource routes ~70%¹
  - Western Australia and Intra-Queensland most affected
  - Expecting ~\$50m negative revenue impact in 2H16
- Managing QF Group exposure, reducing capacity and cost position with lower-gauge aircraft
  - Network and frequency maintained
  - B737s replaced by B717s, B717s replaced by F100s
  - 2 x additional F100s entered service since July 2015, additional 3 x F100s to enter in 2016
- Redirected aircraft meeting demand on East Coast and international markets (Perth-Singapore, Trans-Tasman)



DYNAMIC APPROACH TO CAPACITY MANAGEMENT TO RIGHT-SIZE SUPPLY TO DEMAND

## Growing Qantas International Efficiently With Partnerships

#### 3 CORNERSTONE ALLIANCES CEMENTING QANTAS' LONG-TERM POSITION IN US, EUROPE & CHINA

- Qantas International & Qantas Domestic ROIC both benefiting from airline partnerships
  - Deepened alliances with China Eastern from November 2015 and American Airlines from December 2015<sup>1</sup>
- Synergies from deep commercial partnerships: customer experience, sales & marketing, Frequent Flyer
  - International QF code destinations increased to 2412 from 214 at June 2015
  - 1H16 codeshare partner uplifts (Qantas passengers on partners) up +79% from 1H13<sup>3</sup>
  - 1H16 codeshare uplifts (partner airline passengers on Qantas) up +193% from 1H13<sup>4</sup>



## Aligning Qantas with Asia's growth

- Increased focus on Asia driving sustainable improvement in Qantas International earnings
  - Owning the high-yield customer base in Australia
  - Flying direct to key gateway cities
  - Intra-region connectivity with codeshare partners
- Qantas International meeting rising demand to/from Asia with more direct services
  - Japan: Double-daily services recapturing share, growing market
  - China: Increased Hong Kong services / capacity from Sydney and Melbourne<sup>2</sup>
  - Singapore: Increased frequency from Perth<sup>3</sup> and Melbourne<sup>2</sup>
  - Bali: Introduction of seasonal services from December 2015 to meet premium demand

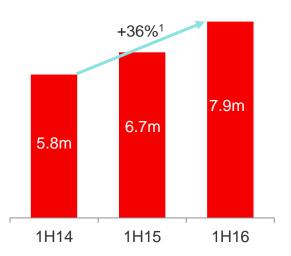


POSITIONING THE GROUP FOR SUCCESS IN THE FASTEST GROWING PASSENGER MARKET IN THE WORLD

## Aligning Jetstar with Asia's growth

- Leading LCC Australia-outbound to Asia and Japan/China-inbound
  - ~80% of B787 long haul capacity deployed between Australia and Asia
  - Dynamic network management to capture low fares demand in Asia
  - Innovative partnership with Wanda Group for charter flights between Gold Coast and China (Wuhan) since September 2015
- Ideally positioned to take advantage of major regional traffic flows
  - Pan-Asia Pacific network supported by market-leading Jetstar brand
  - Jetstar Group Airlines in Asia tapping into growing China demand
- Jetstar Group model well suited to capitalise on Asia market dynamics
  - Strategic partnerships with strong airlines in home market
  - Deploying dual brand strategy in Japan and Vietnam with their partners
  - Jetstar Asia (Singapore) adding codeshare and interline partners

### Asia Passenger Growth



More than 50 new Asian routes launched in the past 18 months<sup>2</sup>

POSITIONING THE GROUP FOR SUCCESS IN THE FASTEST GROWING PASSENGER MARKET IN THE WORLD

## Investing in Drivers of Revenue Growth Customer, Brand, Technology & Digital

#### Targeted investment in customer experience

- New flagship 230 passenger lounge coming for London Heathrow
- A330 and B737 cabin reconfigurations complete in FY17
- Rebuild of Qantas and Jetstar website and booking experiences based on latest technology and insights
- In-flight Wi-Fi rollout on Qantas Domestic from 2017
- Qantas and Jetstar mobile-enabled booking, check-in, disrupt management

#### Brand and marketing innovation

- Increase in targeted digital and social media marketing via Red Planet
- High impact on booking intention from 'Feels Like Home' second phase
- 'Ready for Take Off' documentary series, tourism destination safety video

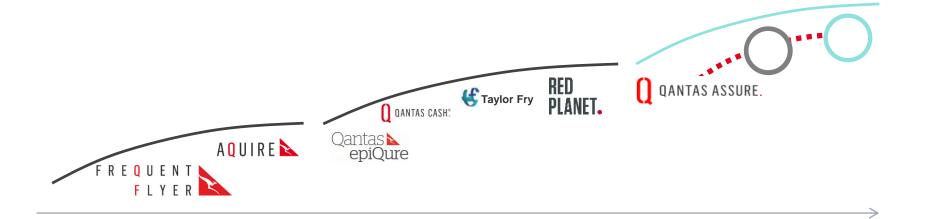
#### Next-generation fleet and technology

- B787 Dreamliner for Jetstar and Qantas, A320 NEO order
- New revenue management system PROS fully implemented 2H16
- Adoption of predictive analytics in network recovery and flight planning





## Investing in Drivers of Revenue Growth Leveraging digital & data opportunities for break-out Loyalty growth



## UNMATCHED ASSETS AND CAPABILITIES

- >11m QFF¹ members
- 93k Aquire members<sup>2</sup>
- 29 years of historical data
- 100k member consumer research panel
- 2.5m+ visits to qantas.com per week

## FIRST STAGE OF ADJACENT AND BREAK-OUT GROWTH DELIVERED

- Innovation in online retail assets –
   Qantas store range, Qantas epiQuire
- Qantas Cash Pre-paid debit card with >\$1.5b loaded<sup>3</sup>
- Taylor Fry Bringing data analytics capability in-house
- Red Planet Integrated media analytics and research services, providing targeted digital marketing for Qantas Group and external clients

## PORTFOLIO OF GROWTH PLAYS IN PIPELINE

- Qantas Assure Joint Venture health insurance offering with nib (see supplementary slide 23)
- Evaluating further opportunities to enter new markets with innovative, digitally-led, customer-centric businesses
- Disrupting existing industry dynamics
- Tapping global trends, new technology, core capabilities of Qantas Group

## People, Culture & Leadership

- Group-wide commitment to driving workplace change and improved culture
  - Pilot recruitment to support the entry of B787-9, creating promotion opportunities
  - Enhanced people safety program commenced August 2015
  - Leadership development program for over 400 senior managers
  - Over 24,000 employees to complete culture & leadership training by 2016
  - Third series of customer service training completed in 2016
  - New employee peer recognition platform 'ThankQ', using Qantas Points
  - Program of events surrounding Qantas' 95<sup>th</sup> Birthday celebrations
- Working alongside our people through period of business transformation
  - 24 workplace agreements closed with 18-month wages freeze
  - Payment of one-off bonus (five per cent of base annual salary) made to employees who have agreed to the 18 month wages freeze





ENGAGING AND DEVELOPING OUR PEOPLE FOR LONG-TERM SUCCESS

## Embedding Sustainability Across Qantas Group

#### **Environment**

- CDP¹ 'Climate Leadership Award' to Australian company with the highest carbon disclosure score and highest quality overall disclosure
- Carbon offset partnerships with Ernst and Young, Allens, Cricket Australia
- 19% increase in carbon offsets purchased as part of the 'Fly Carbon Neutral'2

#### Social

- Membership of oneworld Supplier Ethical Data Exchange (SEDEX)
- Risk-based sustainability audit program, 10 audits completed
- Brazil nuts served inflight purchased from carbon offset project protecting Amazon rainforest in Peru

#### Governance

- DJSI<sup>3</sup> Australia and Asia Pacific: highest ranking in industry for Brand, Governance, Risk Management
- Risk mitigation partnerships with Government and industry for enhanced threat intelligence, new technology
- Qantas awarded Safest Airline in the world for the third year in a row<sup>4</sup>
- Coordinated Fraud and Corruption Control Framework across Qantas Group







### Outlook – Domestic Market

- 2H16 domestic market capacity growth of ~2%<sup>1</sup>
- Qantas Group domestic 2H16 capacity growth expected to be ~2%, maintaining flexibility<sup>2</sup>
  - Further contraction of Qantas Domestic seats in resources markets, growth on East Coast
  - Jetstar Domestic growth to meet rising low fares demand
- Continuation of resources-related revenue drop off in 2H16 (~\$50m) at Qantas
- Qantas and Jetstar cycling one-off positive revenue impact of Cricket World Cup in 2H15
  - ~\$50m benefit in prior corresponding period
- Total unit cost improvement from Transformation, AUD fuel price



## Outlook – International Market

- Growth in inbound visitor arrivals with lower AUD, +8.2% in 2015<sup>1</sup>
  - Chinese visitor arrivals +22%<sup>1</sup>, US arrivals +10%<sup>1</sup>
- 2H16 market capacity growth increasing in line with demand
  - 2H16 competitor growth of +9%, FY16 +5-6%<sup>2</sup>
  - ~50% growth from Chinese carriers<sup>3</sup>, positive for domestic travel
- Qantas International 2H16 capacity +9%<sup>4</sup> driven by increased utilisation
- Jetstar International 2H16 capacity +12%<sup>4</sup> with higher seat count of B787
- Group International revenue growth from increased utilisation of existing fleet
- Total unit cost improvement from Transformation, AUD fuel price



## **Group Outlook**

- Current Group operating expectations:
  - FY16 Qantas Group capacity expected to increase by 5% from increased utilisation of existing fleet
  - FY16 Underlying fuel costs expected to be no more than \$3.4b<sup>1</sup>, \$3.3b<sup>2</sup> at current forward AUD prices
  - FY16 depreciation and amortisation expense expected to increase to \$1.25b
  - FY16 Transformation benefits (cost, fuel efficiency and revenue) expected to be \$450m
  - FY16 net capital expenditure<sup>3</sup> to be ~\$1b
- Having regard to industry and economic dynamics, no Group profit guidance is provided at this time

## Questions?



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