Qantas Group - Positioned for Growth and Sustainable Returns

Tino La Spina, Qantas Group Chief Financial Officer
Macquarie Australia Conference 3 May 2018
Third Quarter¹ FY18 Trading Update

- Q3 trading update released 2 May 2018
- Q3 total revenue up 7.5%² to $4.25b
- Strong Unit Revenue³ performance in both the domestic and international markets
- On track for a record result despite increased fuel costs⁴
- Full Year Underlying Profit Before Tax⁵ guidance range of $1.55b to 1.60b
- Current on market share buy-back is ~ 50% complete⁶
- Ordered 6 additional 787-9 Dreamliners for delivery by the end of 2020

1. Third quarter represents the 3 months ending March 2018. 2. Compared to 3Q17. 3. Unit Revenue (RASK) is calculated as ticketed passenger revenue per ASK. 4. Compared to prior year. 5. Underlying Profit Before Tax 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. 6. The on market share buy-back of up to $378 million announced on 22 February 2018, as at 30 April 2018.
Having Come Through Qantas Transformation, the Group is in a Position of Strength

- **Return on Invested Capital of >20% (12 months to 31 Dec 2017)**
  - All segments delivering ROIC >10%

- **Targeting ongoing transformation gross benefits of $400m pa**

- **Strong balance sheet with net debt in target range**
  - Investment grade credit rating lowering cost of capital

- **Reinvestment in growth alongside shareholder returns**
  - On track to return > $2.6b to shareholders since October 2015

- **Improved customer advocacy and employee engagement**

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1. Group Underlying EBIT divided by Group Total Revenue.
Financial Framework Aligned with Shareholder Objectives

1. Maintaining an Optimal Capital Structure
   - Minimise cost of capital by targeting a net debt range of $5.0b to $6.2b

2. ROIC > WACC$^2$ Through the Cycle
   - Deliver ROIC > 10%$^3$ through the cycle

3. Disciplined Allocation of Capital
   - Grow invested capital with disciplined investment, return surplus capital

MAINTAINABLE EPS$^4$ GROWTH OVER THE CYCLE

TOTAL SHAREHOLDER RETURNS IN THE TOP QUARTILE$^5$

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1. Based on average invested capital of ~$9b for the 12 months to 31 December 2017. 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 2017 Annual Report, with reference to the 2017-2019 Long Term Incentive Plan.
Delivering on Our Strategy to Respond to Emerging Global Forces

Understanding the Long-term Context

- New Centres of Customer Demand and Geopolitical Influence
- Rapid Digitisation and the Rise of Big Data
- Shifting Customer and Workforce Preferences
- Resource Constraints and Climate Change

Clear Strategic Priorities to FY20

- Maximising Leading Domestic Position through Dual Brand Strategy
- Building a Resilient and Sustainable Qantas International, Growing Efficiently with Partnerships
- Aligning Qantas and Jetstar with Asia’s Growth
- Investing in Customer, Brand, Data and Digital
- Diversification and Growth at Qantas Loyalty
- Focus on People, Culture and Leadership
Maximising our Leading Domestic Position Through Dual Brand Strategy

- Disciplined approach to capacity growth
- Growing margins and maintaining advantage to competitors
- Holding corporate market share, growing SME and leisure
- Extending network and product leadership
- Investing in Wi-Fi, digital customer experience and ancillary product
- Holding stable Group market share with limited fleet growth

TARGETING >80% EBIT\(^4\) SHARE IN GROWING DOMESTIC AUSTRALIA PROFIT POOL

1. Includes Qantas Domestic and Jetstar Domestic. 2. Compared to prior corresponding year or half year. Source: BITRE capacity data and published schedules. 3. Calculated as Underlying segment EBIT divided by total segment revenue. Competitor operating margins calculated using published data. 4. Underlying EBIT.
Building a More Resilient Qantas International

Fleet Renewal

Network and Hub\(^1\) Evolution

Grow with Asia

Strategic Airline Partnerships

Attracting the High-Yield Customer

A MORE SUSTAINABLE BUSINESS DELIVERING ROIC > 10%

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1. Perth hub and return to Singapore hub commenced in March 2018.
Aligning Qantas and Jetstar with Asia’s Growth
FY18 Group International Capacity

**North America**

The USA has strong market growth. Qantas continues to be the market share leader.

- **Qantas International** has maintained capacity share
  - **25%**

**UK²**

UK represents one of the slowest growing markets whilst exposed to intense competition.

- **Qantas International** has reduced capacity exposure
  - **8%**

**Asia²**

The rise of the Asian middle class has provided significant growth and new opportunity for Qantas.

- **Qantas Group** has increased capacity to these markets
  - **55%**

**Other³**

Tasman remains critical for International and Domestic connectivity.

- **Qantas International** has maintained capacity share
  - **12%**

POSITIONED FOR SUCCESS IN THE FASTEST GROWING PASSENGER MARKET IN THE WORLD

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1. Includes Qantas International, Jetstar International, Jetstar New Zealand, Jetstar Asia (Singapore), Jetstar Japan and Jetstar Pacific (Vietnam). Based on Available Seat Kilometres estimated using published schedules. 2. UK ASKs assumes that 50% of ASKs to the mid-point is Asia (i.e. AU-SIN). 3. Includes Tasman, South America, South Africa and Pacific Islands.
Qantas Loyalty targeting 7-10% CAGR\(^1\) in earnings\(^2\) through FY22:

- Growing core Qantas Frequent Flyer and Business Rewards with member and partner expansion
- Increasing earnings mix from new businesses following investment in expansion from FY15-FY17
- Diversifying into new customer products across financial services, health and wellness
- Leveraging data and marketing capabilities to develop new external revenue opportunities

STRATEGIC INVESTMENT PROVIDES QANTAS LOYALTY WITH A PATH TO DELIVERING $500-600M EBIT\(^2\) BY 2022

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1. Compound average growth rate. Future growth profiles for New Businesses not expected to be linear. 2. Underlying EBIT.
Investing in Customer, Brand, Data and Digital

Global Lounge Program

Technology-enabled Journeys

Innovative Onboard Product

Award-winning Service

QANTAS CONTINUES TO BE RECOGNISED IN LEADING GLOBAL AIRLINE AWARDS
Focus on People, Culture and Leadership

Engagement

- Top 10 companies to work for in Australia
- Ongoing investment in customer service training across Group
- Highest ever employee engagement (80% in 2017)

Diversity

- 35% of senior roles held by women
- Enhanced parental leave, mental health and domestic violence policies
- 2018 Reconciliation Action Plan
- Employee network groups

Leadership and Talent

- Investment in development and training, across-Group careers
- Group-wide succession planning
- Attracting and developing talent for focus on digital economy and Asia

Investment Proposition
**Integrated portfolio, stable earnings, financial strength**

**Domestic Airlines**
- Dual brand strategy delivering sustainable margin advantage to respective competitors
- Operating in structurally advantaged market with network, schedule and frequency advantage
- Generating >80% of the profit pool from <2/3 capacity share

**Loyalty Business**
- High penetration with half the population as members in the program
  
- Customer data insights collected through 30 years of the program
- >35% market share of credit card spend on a co-branded card
- >17% share of travel debit card market
- Strong retail partnerships provide everyday earn and redeem options
- Diversified earnings stream from new ventures e.g. Qantas Premier credit cards, Qantas Assure Health and Life insurance
- Strong growth trajectory; Targeting $500-600m Underlying EBIT by 2022

**International Airlines**
- Leading two airlines for outbound Australia
- Structurally transformed Qantas International maintains margin advantage to regional competitors
- Jetstar’s international airline portfolio well positioned to leverage Asian demand growth
- Growing efficiently through key airline partnerships and alliances
- Strengthening longer term position through introduction of new capability fleet and network and hub restructure

**Strong Financial Position**
- Investment grade credit rating
- Generating ROIC returns well in excess of WACC
- Disciplined financial framework provides balance sheet strength and industry leading free cash flow
- Track record of shareholder returns; approximately 25% of issued capital bought back

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1. 12 million Qantas Frequent Flyer members as at 31 December 2017.
2. Qantas estimates.
3. Since October 2015, including the estimate of shares bought back at completion of the buy-back announced on 22 February 2018.
This Presentation has been prepared by Qantas Airways Limited (ABN 16 009 661 901) (Qantas).

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