



# Qantas Airways Limited

## Building a Stronger Qantas August 2011

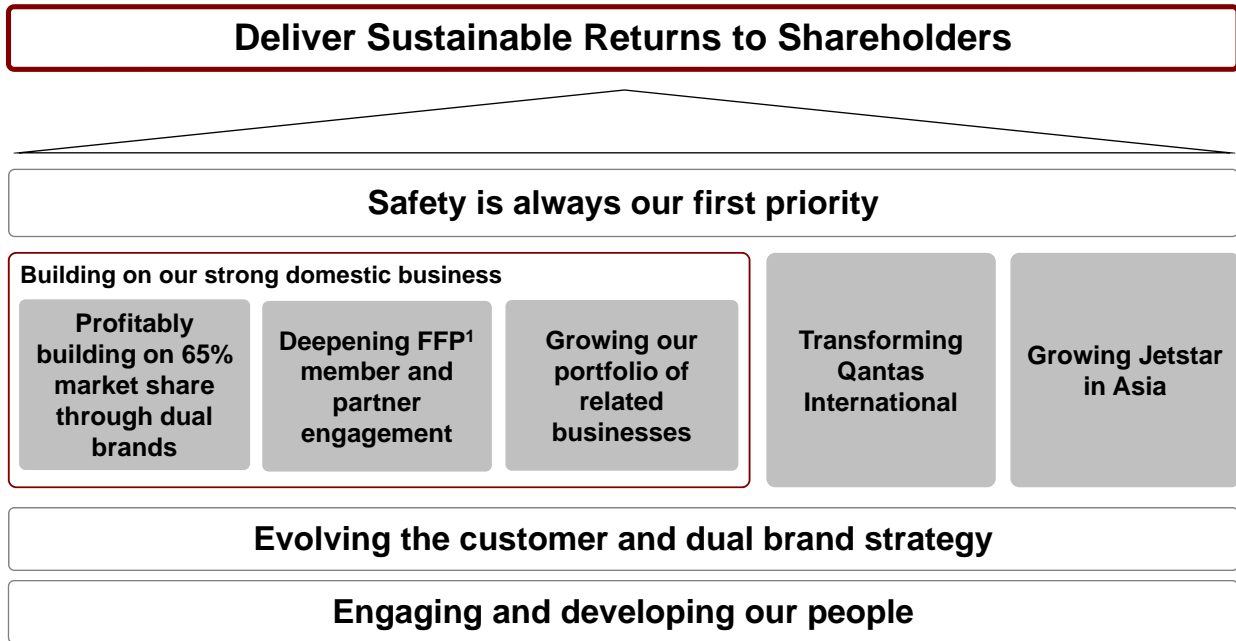


## Executive Summary

- ▶ Significant strategic developments announced today
  - ▶ **Initial Phase** of comprehensive plan to turnaround the **Qantas International** business
  - ▶ Building on successful **Pan-Asia growth** with launch of Jetstar Japan in 2012
  - ▶ Underpinned by **flexible fleet plan**, including A320 investment and deferral of A380 deliveries
- ▶ Transforming Qantas International: building sustainable returns for shareholders
  - ▶ Continued focus on customer excellence and premium product positioning
  - ▶ Confirmed intention to invest in a new premium, full-service airline based in Asia
  - ▶ Restructured Joint Services Agreement with British Airways
  - ▶ Significantly reducing capital investment by US\$2.3b<sup>1</sup> in underperforming Qantas International
- ▶ Detailed FY11 results briefing on 24 August 2011 - no change to current earnings guidance

1. Based on A380 list prices, actual prices paid are commercial-in-confidence

# Strategy



1. FFP = Frequent Flyer Program

## Building On Our Strong Domestic Business

**Powerful domestic franchise underpins Group's success**



### Sustainable Competitive Advantages

- ▶ Superior in-flight experience and on-time performance
- ▶ Largest wide-body fleet
- ▶ Greater frequency, biggest network
- ▶ Strongest regional franchise
- ▶ Strong partnerships & alliances
- ▶ Owned terminals
- ▶ World class lounges
- ▶ Market leading check-in technology
- ▶ Largest travel website (qantas.com)

- ▶ 8.0 million members
- ▶ World class customer insights
- ▶ Deep home market penetration
- ▶ Extensive award opportunities
- ▶ Faster earn capabilities
- ▶ Record high member engagement
- ▶ World leading coalition of partners

- ▶ Simple, high quality product
- ▶ Market leader in ancillary revenue
- ▶ Low cost leader
- ▶ Strong brand & customer perception
- ▶ Extensive leisure network
- ▶ Common A320/1 aircraft fleet

### Strategic Priorities

- ▶ Setting new standards for customer experience
- ▶ Building on frequency advantage
- ▶ Capitalising on resources sector growth
- ▶ Best fleet

- ▶ Enhancing member proposition
- ▶ Adding to world leading partner portfolio
- ▶ Diversifying revenue streams
- ▶ Leveraging IP and member penetration

- ▶ Singularly focused on price sensitive market
- ▶ Maintaining low cost position
- ▶ Driving ancillary revenue
- ▶ Best fleet

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# Transform Qantas International

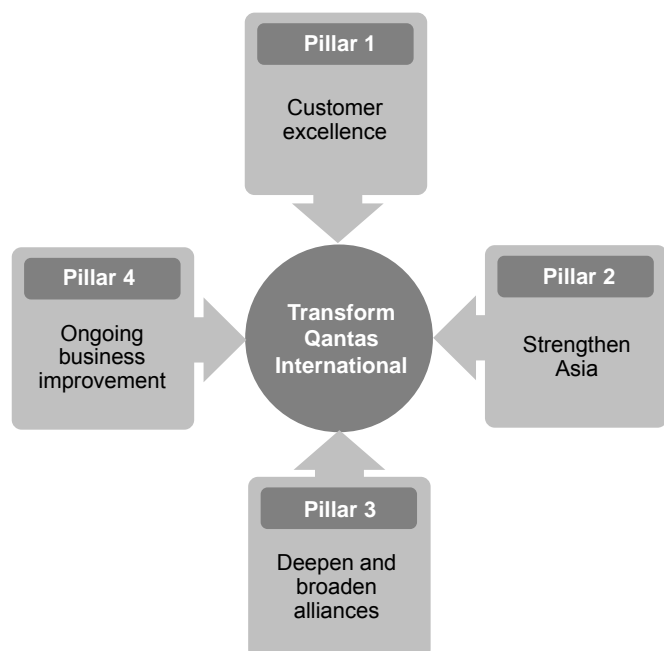
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## Transformation Plan

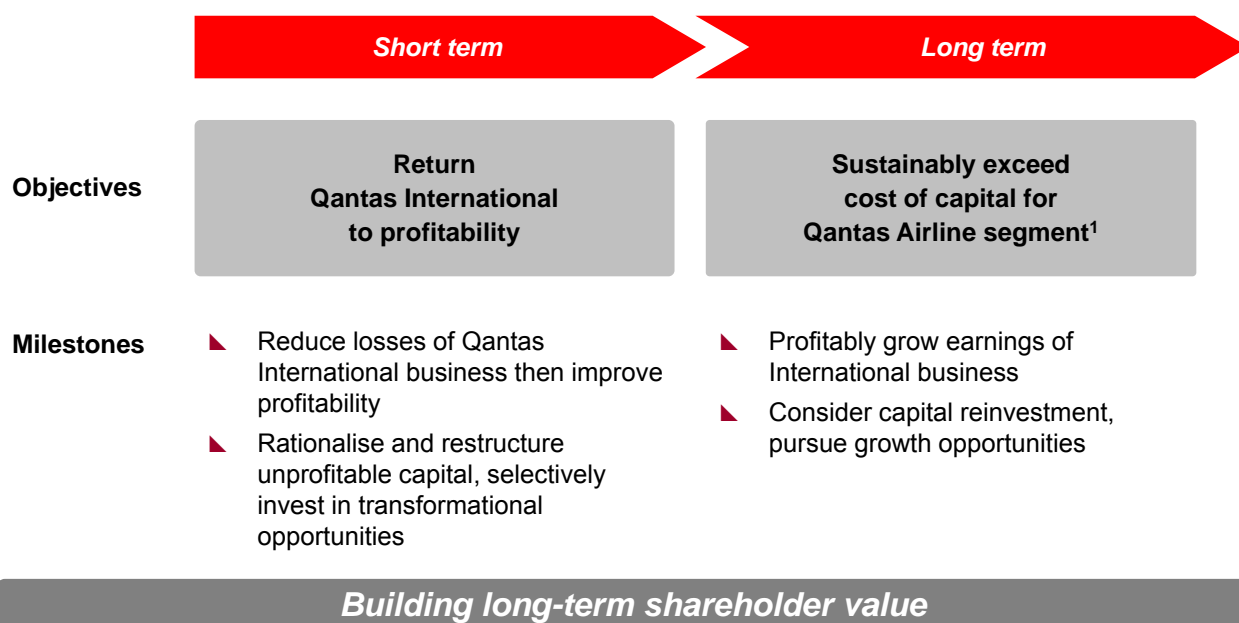
### 5 Year Transformation Plan

*To be one of the world's best premium airlines, setting global standards for long haul travel while delivering attractive returns to shareholders*

- ▶ the right network, connections and frequencies
- ▶ a great flying experience
- ▶ a loyalty program with the best incentives and benefits



# Clear Objectives Established



1. As defined in the 2010 Annual Report Note 2 (page 60). Qantas represents the Qantas passenger flying businesses and related businesses, and excludes Jetstar, Qantas Freight and Qantas Frequent Flyer.

# Customer Excellence

Pillar 1  
Customer excellence

- ▶ Enabling our people to deliver consistent excellence to our customers
- ▶ Enhanced by award-winning standard of Qantas A380 and improved ground experience
  - ▶ 12 x A380 in service by the end of 2011 and upgrade of 9 x B744 completed by the end of 2012
  - ▶ New and refreshed premium lounges in Los Angeles, Singapore and Hong Kong
  - ▶ Deployment of new B737 aircraft and introduction of market-leading check-in technology across the Tasman
- ▶ Building on market leading loyalty proposition of Qantas Frequent Flyer
  - ▶ New tier for highest flyers - Platinum One
  - ▶ Doubled points bonus in premium cabins
  - ▶ Increased Silver and Gold points bonus
  - ▶ Qantas epiQure launch and acquisition of Wishlist

# Strengthen Asia

- ▶ Intention to invest in a new premium, full-service airline based in Asia under a new brand
  - ▶ Participate in the frequency and network advantage of being a hub carrier
  - ▶ Enable the Group to offer customers same-day travel from Australia to Asia and increase frequencies from Australian gateways
  - ▶ Expand the intra-Asia network with connections to multiple Asian destinations
  - ▶ Leverage the Group's experience in Asia
  - ▶ Leverage the Group's corporate customer relationships
  - ▶ Leverage the Group's existing alliance networks
- ▶ Exploring various potential base locations
- ▶ Premium configuration, utilising next-generation, in-flight and seat technologies
- ▶ Fleet requirements - up to 11 x A320 aircraft

1. Including the A320 fleet order announced today



# Deepen and Broaden Alliances

## British Airways restructured and strengthened Joint Services Agreement

- ▶ Qantas and British Airways will continue to provide services from Australia to London, connecting through Singapore as a premium hub into Europe
- ▶ Qantas to maintain flying to London with premium product (A380 aircraft or equivalent product)
- ▶ Bangkok and Hong Kong will leverage partner network adjacency
  - Qantas to continue services between Australia to Bangkok and Hong Kong but will eliminate unprofitable, asset-intensive flying between Bangkok and Hong Kong to London
  - British Airways to operate services between Bangkok and Hong Kong to London
  - British Airways to cancel one service between London and Australia
- ▶ Qantas to retain ownership of slots at Heathrow and lease to British Airways
- ▶ Commencing early 2012
- ▶ Release 4 x B744 for retirement

## LAN Airlines improved South American coverage

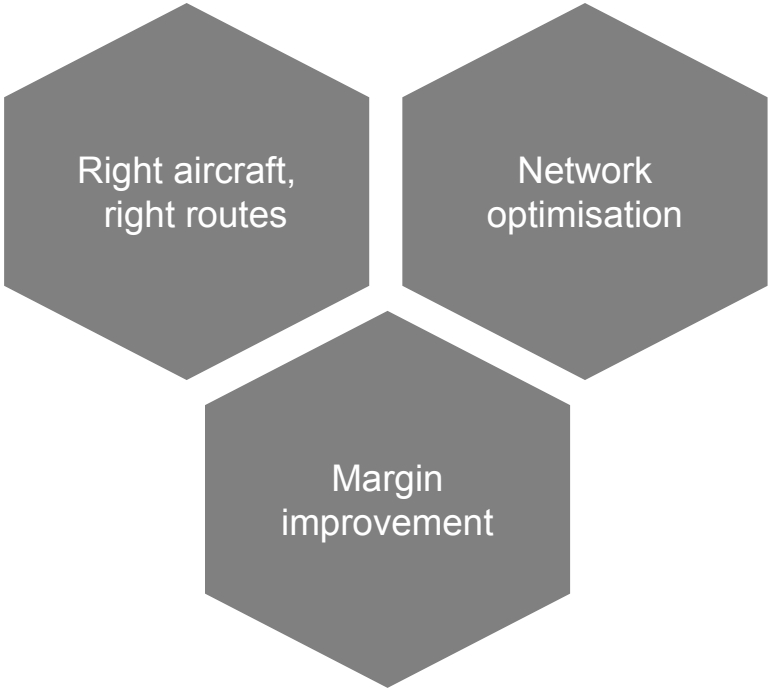
- ▶ Replace Buenos Aires with three-weekly service to Santiago
  - Larger, more premium market
  - Better and more frequent connections with LAN to other South American destinations
- ▶ Commencing early 2012

*Anticipate further progress this calendar year*



# Ongoing Business Improvement

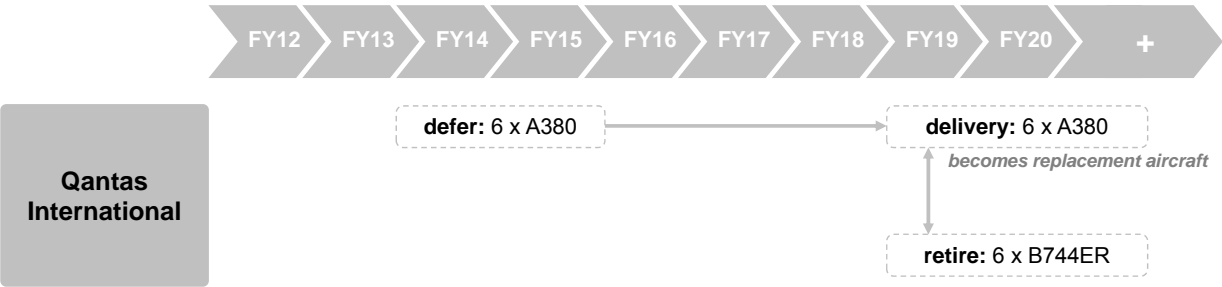
Pillar 4  
Ongoing business improvement



# Reduced Capex - Qantas International

Pillar 4  
Ongoing business improvement

- ▶ Significantly reduced capital investment in underperforming Qantas International
- ▶ Reduced short-term capex profile
  - ▶ Deferred delivery of 6 x A380 from FY14-FY16 to FY19 and beyond, valued at US\$2.3b<sup>1</sup>
  - ▶ Strengthens key balance sheet metrics
- ▶ Reduced long-term capex profile
  - ▶ Deferred 6 x A380 become replacement aircraft for 6 x B744ER from FY19



1. Based on list prices, actual prices paid are commercial-in-confidence



# People

- ▶ About 1,000 roles will be redundant
  - ▶ Affecting positions across Management, Pilots, Cabin Crew, Engineering and Airport Administration
- ▶ Substantial voluntary redundancy programs
- ▶ Opportunities for alternative roles and redeployment in the Group
- ▶ Opportunities to take leave without pay during the transformation period
- ▶ Seeking to minimise compulsory redundancies

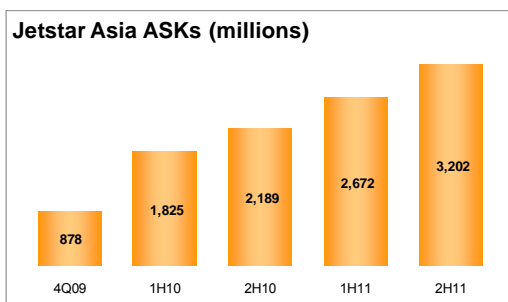
# Next Steps

- ▶ These initiatives form the ***Initial Phase*** of the Qantas International Transformation Strategy
- ▶ Clear milestones are in place defining short and long term objectives
  - ▶ Reduce losses → Improve profitability → Drive profitable growth
  - ▶ Rationalise and restructure unprofitable capital → Consider investment in profitable opportunities → Invest to build long-term shareholder value
- ▶ Further initiatives to achieve the 5 Year Transformation Plan are in progress
- ▶ Announcements regarding further developments will be made in the coming months
- ▶ Transformation costs for this initial phase are still being assessed, preliminary estimates are in the range of \$350m to \$450m with more than half being non-cash charges

# Grow Jetstar in Asia

## Jetstar well-established in Asia

- ▶ Jetstar Group is one of the fastest growing airlines in the Asia Pacific region
  - Operations based across two continents and four countries
  - Servicing 17 countries, 56 destinations
  - Combined operating fleet of 78 aircraft<sup>1</sup>
  - 2,400 flights per week and growing
- ▶ Jetstar brand embedded in Asia
  - Significant growth into China - now serving 9 ports, 12 by the end of 2011
  - Launch of long-haul A330 base in Singapore
- ▶ Jetstar Asia strong profits and growing



1. Including Jetstar Pacific aircraft



# Jetstar Japan to launch in 2012

- ▶ First true LCC in Japanese market
- ▶ JAL and Mitsubishi strong local partners
  - ▶ Economic interests – Jetstar and JAL 42%, Mitsubishi 16%
  - ▶ Equal voting interests
- ▶ Large market with low LCC penetration
- ▶ Leverages strong Jetstar brand position
- ▶ Rapid growth to 24 aircraft<sup>1</sup> in first few years
- ▶ Focus on domestic and international leisure destinations
- ▶ Qantas Group investment of c¥5b (c\$64m) over 3 tranches

**Jetstar** 



**Reinforcing Jetstar as  
the largest LCC in Asia Pacific<sup>2</sup>**

1. Off balance sheet for Qantas Group  
2. Based on gross revenues

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## Disciplined Investment in Fleet

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# A320 Fleet Order - Disciplined Investment

	Indicative Timing <sup>1</sup>	No. Aircraft & Type	Indicative Allocations		Flexibility
New Fleet Order <sup>1</sup>	SHORT TERM FY13 - FY16	32 x A320	24 aircraft to Jetstar Japan off QAN <a href="#">balance sheet</a>	8 aircraft to start new premium airline based in Asia <sup>2</sup>	Configured to enable flexible allocation
	LONG TERM FY16 - FY20	78 x A320neo	Jetstar Group		Qantas Group has significant fleet flexibility including substantial reschedule rights, lease expiries and retirements
		c50% will cover lease expiries	c50% will support long-term growth of 4-6%pa for existing businesses		

1. Fleet order contract has significant order and delivery flexibility including substantial reschedule rights and 2 options plus 32 rolling purchase rights (equivalent to 192 purchase rights)  
 2. Up to 11 aircraft will be deployed to the investment in a new Asian-based airline with additional aircraft sourced from existing fleet orders

## A320 Fleet

- ▶ New fleet order is attractively priced and provides flexibility to manage fleet requirements against demand
- ▶ New fleet order secures early access to more efficient, new-technology A320neo aircraft from FY16
  - ▶ Unit cost advantage of around 8% over current A320 aircraft
    - up to 15% lower fuel burn
    - up to 20% lower engine maintenance costs
    - improved payload range capability
  - ▶ Longer range opens new destinations
  - ▶ Highly sought after - Airbus has over 1,150 firm and 400 option aircraft orders to date with supply limited in initial production years FY16-FY18

# Capital Management

- ▶ Planned net capital expenditure of \$2.5b in FY12 and \$2.8b in FY13
- ▶ Significant cash reserves - over \$3.4b at 30 June 2011
- ▶ \$315m unsecured syndicated loan extended to April 2015 - upsized to \$450m
- ▶ Mandated funding already in place for FY12 aircraft deliveries including 2 x A380, 10 x B737-800 and 3 x Q400
- ▶ Continue to leverage balance sheet strength to fund upcoming deliveries with a mix of:
  - ▶ Cash reserves, sale and leaseback, bank funding and ECA funding
- ▶ No financial covenants in any financing facilities
- ▶ Continue to focus on release of capital from non-core assets and operations where appropriate

# Flexible Investment Profile

- ▶ Fleet flexibility demonstrated to date
  - ▶ Deferred delivery of 6 x A380 aircraft
  - ▶ Early retirement of B744, B767 and B734 aircraft
  - ▶ Deferred delivery of B738 aircraft
  - ▶ Non renewal of B738 and A320 lease
- ▶ Future fleet plan includes flexibility to scale up or down to meet market demand
  - ▶ Contractual cancellation rights
  - ▶ Up to 95 narrow-body aircraft and 25 wide-body aircraft lease renewals over next 10 years with 43 over the next 3 years
  - ▶ Aircraft delivery reschedule rights
  - ▶ Up to 50 aircraft retirements over the next 5 years
  - ▶ Purchase options and purchase rights
- ▶ Average fleet age<sup>2</sup> will be 8.6 years in FY11 and is expected to decline to 8.3 years in FY12

Aircraft deliveries (indicative timing)

Aircraft Type	FY12	FY13 – FY18	FY19 – FY24
A380-800	2	2	6
A330-200	2	1	-
B787-8	-	15	-
B787-9	-	35	-
A320 Family <sup>1</sup>	9	80	42
B737-800	12	11	-
B717	2	-	-
Q400	3	3	-
F100	5	5	-
<b>Total Deliveries</b>	<b>35</b>	<b>152</b>	<b>48</b>

1. Includes recently announced A320 aircraft order, does not include 24 aircraft for Jetstar Japan and 10 aircraft for Jetstar Pacific  
 2. Excludes Express Freighters and Network Aviation

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# Summary

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## Summary

- ▶ ***Initial Phase*** of comprehensive plan to turnaround the Qantas International business
  - ▶ Continued focus on customer excellence and premium product positioning
  - ▶ Strengthen our presence in Asia with intention to invest in a new premium airline
  - ▶ Deepen and broaden alliances
  - ▶ Significantly reducing capital investment in underperforming Qantas International
- ▶ Further initiatives underway to achieve 5 Year Transformation Plan, announcements regarding developments will be made over the coming months
- ▶ Milestones defined for short and long term objectives
- ▶ Building on successful Pan-Asia growth with launch of Jetstar Japan in 2012
- ▶ Flexible fleet plan including new Airbus A320neo fleet order
- ▶ ***A clear plan to build long-term shareholder value***