Qantas Airways Limited

Macquarie Australia Conference

8 May 2014

Qantas' Guiding Strategic Principles

- Safety is always our first priority
- The first choice for customers in every market we serve
- Maintaining dual-brand strength in domestic market
- Reshaping Qantas International to remain competitive
- Maintaining the Jetstar opportunity in Asia
- Broadening Qantas Loyalty for strong, diversified earnings
- Driving efficiency and productivity

Qantas Transformation
Immediate priorities, long-term competitiveness

STRENGTHENING OUR CORE BUSINESS

Accelerating cost reduction	Deferring growth
Right-sizing fleet and network	Aligning capex to financial performance
Working existing assets harder	Accelerating simplification

EARNINGS RECOVERY THROUGH BUSINESS TRANSFORMATION

Qantas Transformation
Deleveraging the balance sheet

$2B COST SAVINGS BY FY17

- **Gross savings of $2b by FY17**
  - >10% reduction in ex-fuel expenditure
  - Targeting $800m cost savings by FY15
  - Close Qantas Domestic cost gap to domestic competitor to <5%, increase margin advantage
  - Reduce Qantas International cost gap to international competitors
  - Maintain Jetstar cost leadership

>$1B DEBT REDUCTION BY FY15

- **Positive free cash flow from FY15 onwards**
  - Right-sizing fleet and network
  - Increased asset utilisation
  - Scaled back investment, deferred growth plans
  - Asset sales

IMPROVING CREDIT PROFILE FROM FY15, TARGETING GROSS DEBT/ADJ. EBITDA <4.0 BY FY17

Qantas Transformation
Focus on cost reduction

FY17 EX-FUEL EXPENDITURE TARGET: >10% REDUCTION

FY17 EX-FUEL EXPENDITURE = Annualised 1H14 ex-fuel expenditure[1] − $2b transformation benefits + Inflation (<$250m p.a.)

Assumes steady FX rates, capacity and sector length

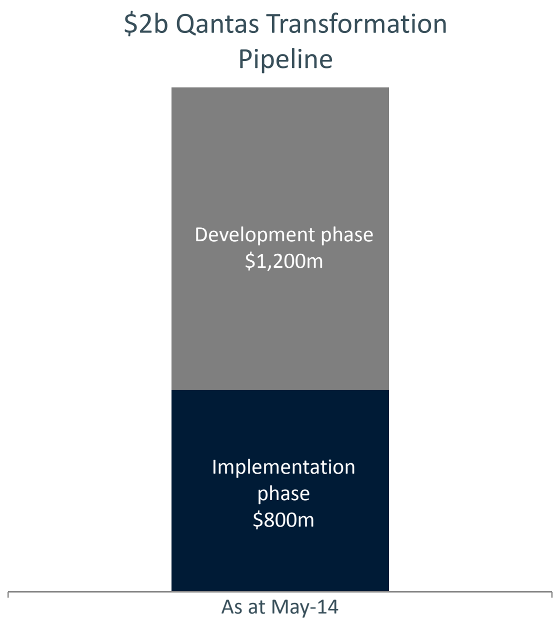
1. Annualised 1H14 ex-fuel expenditure ($11,608m) is equal to two times the total of 1H14 Operating expenses (excluding fuel) ($4,797m), 1H14 Depreciation and amortisation ($746m) and 1H14 Non-cancellable aircraft operating lease rentals ($261m).

Qantas Transformation
Focus on cash flow generation through to FY17

- Base assumptions: challenging operating environment to remain
  - Competitive intensity high in all markets
  - Elevated AUD fuel price
- Improved operating cash flow to come from $2b cost savings
  - Front-loading initiatives for early realisation of benefits
- Separate measures to mitigate cost and wage inflation
- Group capex aligned to financial performance with flexibility for further adjustments

Qantas Transformation
Moving at pace towards $2b target

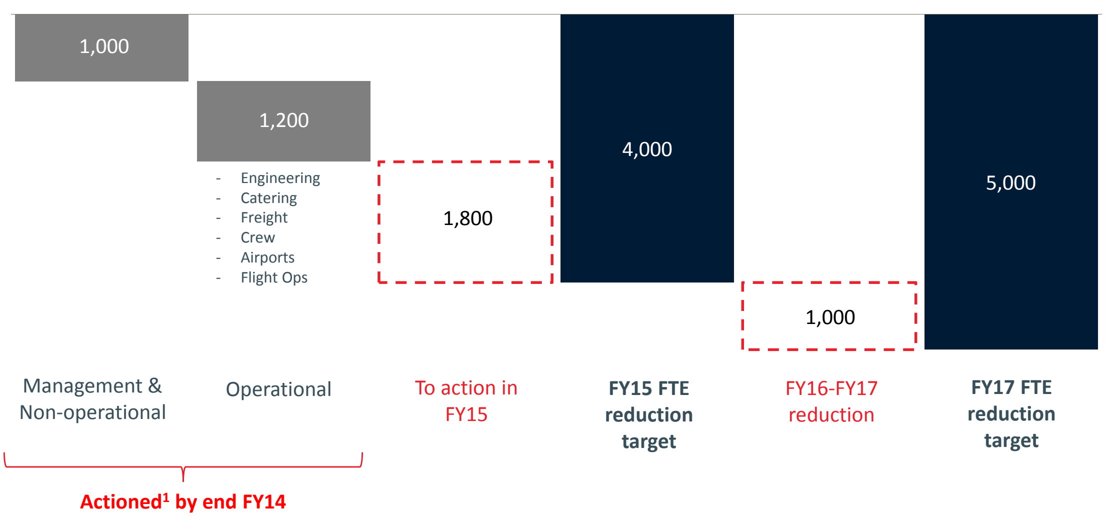
TARGET: $800M COST SAVINGS BY FY15



- Chain of responsibility established for implementation of 250 initiatives
- Segment CEOs responsible for delivery of segment targets
- Initiatives broken down into key milestones with delivery timeframes
- Focus on moving initiatives through development phase into implementation

Qantas Transformation
FTE reduction target – 5,000 by FY17

PROGRESS ON FTE REDUCTION TARGET



1. Includes FTEs that have exited or received notice by 30 June 2014.

Qantas Transformation

Consolidation Initiative: 1,500 Management & Non-operational FTE reduction

Background

- Head office restructure to reduce management layers and improve efficiency
- Simplified organisation structures for all reporting segments
- Freeze on recruitment, consultants and contractors

Benefit

Total annual benefit[1] – $175m

Cost

Total redundancy costs – $165m

Payback Period

1 year

Timeline

- 1,000 of 1,500 FTE reduction to be actioned[2] by end FY14
- Remainder to exit in 1H15

1. Total annual benefit realised one year after completion of initiative. 2. Includes FTEs that have exited or received notice by 30 June 2014.

Qantas Transformation

Productivity Initiative: Line Maintenance Operations (LMO)

Background

- Reduced international flying
- New generation aircraft benefit from improved maintenance systems
- Reduced maintenance demand from B767 and B747 retirements
- B738 LMO maintenance tasks grouped into larger checks
- Better synching of maintenance with flight schedules to reduce aircraft ground time
- **FTEs reduced by ~300 in SYD[1], MEL[2], BNE[3] and ADL[4], increase in PER[5] – net 272 reduction**

Benefit

Total annual benefit[6] – $45m

Cost

Total redundancy costs – $70m

Payback Period

2.3 years

Timeline

- Initial voluntary redundancy process with exits from Apr-14
- Consultation process for compulsory redundancy post Apr-14, working through with each union

1. Sydney 2. Melbourne 3. Brisbane 4. Adelaide 5. Perth 6. Total annual benefit realised one year after completion of initiative.

Qantas Transformation
Right-sizing Initiative: Qantas Domestic Mainline fleet simplification

Background

Accelerating fleet simplification to 1 x narrow-body and 1 x wide-body fleet type
- Enabled by B787 deliveries to free up A332 from Jetstar and narrow-body deliveries

Dec-13 – 4 Fleet Types

10 x A332
14 x B767
3 x B737-400
62 x B737-800

17 retirements in 15 months

3Q FY15 – 2 Fleet Types

A332
B737-800

Timeline

Aircraft Retirements	Jan-14 to Jun-14	Jul-14 to Dec-14	Jan-15 to Mar-15
B767-300	(2)	(6)	(6)
B737-400	(3)		

Benefit

Total annual benefit[1] – >$55m[2]
***plus* unit cost benefits from increased domestic utilisation and productivity**
- Fuel and operational efficiencies
- Reduced tech crew, cabin crew, engineering and reserve crew requirements
- Increased utilisation and better network recovery
- Maintenance savings and lower spares inventory requirement
- Improved customer proposition – consistent product and in-seat IFE[3] offering

1. Total annual benefit realised one year after completion of initiative. 2. Includes fuel efficiency benefits. 3. In-flight entertainment

Qantas Transformation
Right-sizing Initiative: Qantas International network optimisation

Background

Increased asset utilisation / optimised fleet mix across Asia, Europe, and US networks

Optimisation of fleet and network			B747 retirements	
Exit PER-SIN[1]	1 x A330	Down-gauge BNE-SIN[2] to A330	1 x B747	4Q FY14
Increased domestic utilisation	1 x A330	Down-gauge SYD-SIN[3] to A330	1 x B747	2Q FY15
Retime QF9/10 (MEL-DXB-LHR[4])	1 x A380	Redeploy to SYD-DFW[5] service	1 x B747	2Q FY15

- Non-stop service each way[8]
- 10% capacity increase
- A380 product to main AA hub

Benefit

Total annual benefit[6] – >$100m[7]
- 2 x B747 replaced with existing A330
- 1 x B747 replaced through increased A380 fleet utilisation
- 2 x B747 planned for retirement by 2H FY16
- Voluntary redundancies launched for surplus cabin crew - phased FY15 exits

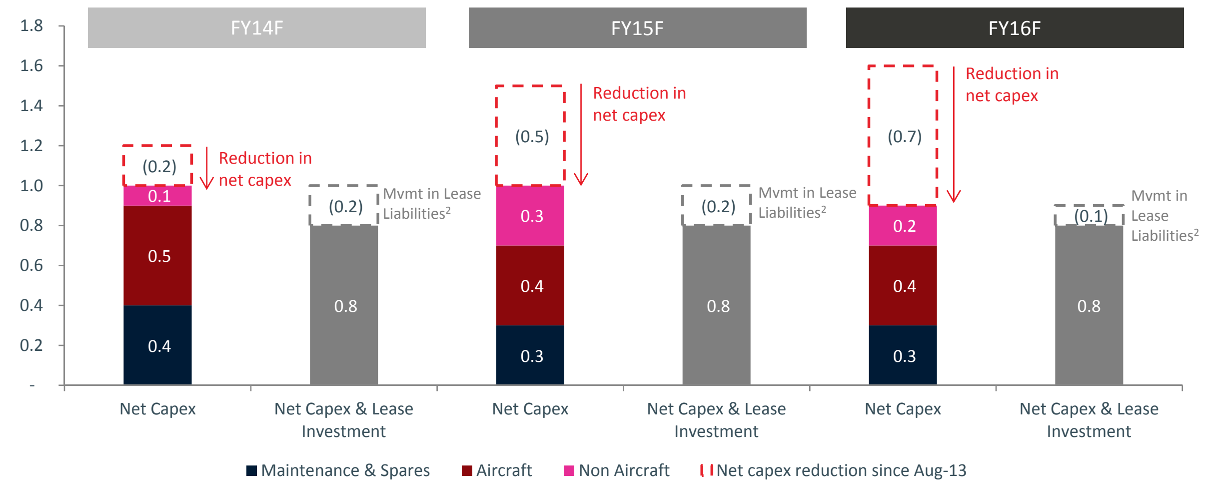
1. Perth-Singapore 2. Brisbane-Singapore 3. Sydney-Singapore 4. Melbourne-Dubai-London Heathrow 5. Sydney-Dallas Fort Worth, from 29 September 2014. 6. Total annual benefit realised one year after completion of initiative. 7. Includes revenue enhancement opportunities and cost benefits. 8. Avoids Brisbane stop-over on Dallas Fort Worth-Sydney.

Group Capex Aligned with Financial Performance

Supporting positive free cash flow from FY15 onward

- Restructure of fleet order, prioritising completion of simplification
- Targeted investment in customer; B787; A330 reconfigurations; lounges
- Flexibility to adjust capex further; average fleet age of 8 yrs in FY16

NET CAPEX[1] & LEASE INVESTMENT[2] REDUCTIONS ($B) SINCE AUG-13



1. Equal to investing cash flows. 2. Movement in on and off balance sheet lease debt including the movement in operating lease liabilities (calculated as the present value of minimum lease payments for aircraft operating leases which, in accordance with AASB 117: Leases, is not recognised on balance sheet) and the movement in aircraft-related Japanese operating leases (with call options) accounted for in financing cash flows.

Measuring Progress

Scorecard to FY17

		Target		PROGRESS TO DATE
		Metric	Timeframe	As at 1 May 2014
ACHIEVING OUR TARGETS	COST SAVINGS	$2b gross savings >10% ex-fuel expenditure reduction[1]	FY17	Initiatives in implementation phase = $800m
		5,000 FTE reduction	FY17	FTEs reduced by 2,200 by end FY14
	DELEVERAGE BALANCE SHEET	>$1b debt reduction	FY15	Focus on cash generation in FY15
		Gross Debt / Adj. EBITDA[2] <4.0x	FY17	Gross Debt / Adj. EBITDA[2] to peak FY14
	CASH FLOW	Positive free cash flow	FY15 onwards	FY15 & FY16 net capex reduced by $1.2b since Aug-13
	FLEET SIMPLIFICATION	11 fleet types to 7	FY16	1 x B747 retired since Dec-13 2 x B767 retired since Dec-13 All remaining B734s retired
	CUSTOMER & BRAND	Customer satisfaction (6 month rolling average): Improving / Stable / Declining	Ongoing	Improving
		Most on-time domestic carrier: Qantas Domestic	Ongoing	9 out of 9 months (FY14)

1. Assumes steady FX rates, capacity and sector length. 2. Metric calculated based on Moody's methodology.

Summary

- Guiding strategic principles remain consistent
- Immediate priority to strengthen core business
- Deleveraging balance sheet through earnings recovery, debt reduction
- Moving at pace towards delivering $2b cost savings
- Group capex aligned with financial performance
- Strict financial and customer targets in place
- Determined to deliver all milestones in scorecard

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