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

- >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**

- Annualised 1H14 ex-fuel expenditure
- $2b transformation benefits
- Inflation ($<250m p.a.)

Assumes steady FX rates, capacity and sector length

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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

$2b Qantas Transformation Pipeline

- Development phase $1,200m
- Implementation phase $800m

As at May-14

• 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

- Engineering
- Catering
- Freight
- Crew
- Airports
- Flight Ops

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

**Timeline**
- 1,000 of 1,500 FTE reduction to be actioned\(^2\) by end FY14
- Remainder to exit in 1H15

**Payback Period**
- 1 year

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\(1\) 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 synch 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

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

**Payback Period**
- 2.3 years

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\(1\) 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

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A332</td>
<td>10</td>
</tr>
<tr>
<td>B767</td>
<td>14</td>
</tr>
<tr>
<td>B737-400</td>
<td>3</td>
</tr>
<tr>
<td>B737-800</td>
<td>62</td>
</tr>
</tbody>
</table>

### 3Q FY15 – 2 Fleet Types

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A332</td>
<td></td>
</tr>
<tr>
<td>B737-800</td>
<td></td>
</tr>
</tbody>
</table>

17 retirements in 15 months

**Timeline**

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>Jan-14 to Jun-14</th>
<th>Jul-14 to Dec-14</th>
<th>Jan-15 to Mar-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>B767-300</td>
<td>(2)</td>
<td>(6)</td>
<td>(6)</td>
</tr>
<tr>
<td>B737-400</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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

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**Qantas Transformation**  
*Right-sizing Initiative: Qantas International network optimisation*

**Background**

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

<table>
<thead>
<tr>
<th>Optimisation of fleet and network</th>
<th>Exit PER-SIN(^1)</th>
<th>Increased domestic utilisation</th>
<th>Retime QF9/10 (MEL-DXB-LHR(^6))</th>
</tr>
</thead>
<tbody>
<tr>
<td>B747 retirements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Down-gauge BNE-SIN(^2) to A330</td>
<td>1 x A330</td>
<td></td>
<td>1 x A380</td>
</tr>
<tr>
<td>Down-gauge SYD-SIN(^3) to A330</td>
<td></td>
<td></td>
<td>1 x B747</td>
</tr>
</tbody>
</table>

### 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\(^6\))

- 1 x A380  
- Redeploy to SYD-DFW\(^5\) service  
- 1 x B747  
- 2Q FY15

**Benefit**

Total annual benefit\(^4\) – >$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

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 CAPEX1 & LEASE INVESTMENT2 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

<table>
<thead>
<tr>
<th>Target</th>
<th>Metric</th>
<th>Timeframe</th>
<th>PROGRESS TO DATE As at 1 May 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>COST SAVINGS</td>
<td>$2b gross savings</td>
<td>FY17</td>
<td>Initiatives in implementation phase = $800m</td>
</tr>
<tr>
<td></td>
<td>&gt;10% ex-fuel expenditure reduction¹</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DELEVERAGE BALANCE SHEET</td>
<td>5,000 FTE reduction</td>
<td>FY17</td>
<td>FTEs reduced by 2,200 by end FY14</td>
</tr>
<tr>
<td></td>
<td>&gt;$1b debt reduction</td>
<td>FY15</td>
<td>Focus on cash generation in FY15</td>
</tr>
<tr>
<td></td>
<td>Gross Debt / Adj. EBITDA² &lt;4.0x</td>
<td>FY17</td>
<td>Gross Debt / Adj. EBITDA² to peak FY14</td>
</tr>
<tr>
<td>CASH FLOW</td>
<td>Positive free cash flow</td>
<td>FY15 onwards</td>
<td>FY15 &amp; FY16 net capex reduced by $1.2b since Aug-13</td>
</tr>
<tr>
<td>FLEET SIMPLIFICATION</td>
<td>11 fleet types to 7</td>
<td>FY16</td>
<td>1 x B747 retired since Dec-13 2 x B767 retired since Dec-13 All remaining B734s retired</td>
</tr>
<tr>
<td>CUSTOMER &amp; BRAND</td>
<td>Customer satisfaction (6 month rolling average): Improving / Stable / Declining</td>
<td>Ongoing</td>
<td>Improving</td>
</tr>
<tr>
<td></td>
<td>Most on-time domestic carrier: Qantas Domestic</td>
<td>Ongoing</td>
<td>9 out of 9 months (FY14)</td>
</tr>
</tbody>
</table>

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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