Half Year Results
Press Conference
Remarks by Qantas CEO Alan Joyce
21 February 2013

Good morning.

Thanks for joining us for the Qantas Group result for the six months ended 31 December 2012.

The Group achieved an underlying profit before tax of $223 million, which was at the higher end of guidance, and statutory profit after tax of $111 million.

The result demonstrates the progress of the Qantas Group despite a challenging competitive environment.

We have now passed a turning point as we continue to deliver the transformation of Qantas.

All parts of the Group were profitable, with the exception of Qantas International, which continued to track towards profitability, with losses reduced by 65 per cent compared to the same period in the prior year.

This progress would not have been possible without the passion and commitment of the people of the Qantas Group, right across the company.

Over the past six months we have:

- Announced the world's leading airline partnership with Emirates, received interim authorisation, and commenced joint sales towards our 31 March launch date
- Retained our leading position in the domestic market
- Brought the average fleet age down from 8.3 to 8 years
- Launched Jetstar Japan in partnership with JAL, Mitsubishi and Century Tokyo Leasing
- Put in place a revitalised Qantas schedule in Asia
- Sold the non-core assets StarTrack and two catering facilities
- Consolidated maintenance bases from three to two, on the way to one
- Strengthened our financial position with a planned early debt reduction of $650 million, and positive free cash flow for the half
- And commenced a share buy-back

Throughout we have continued to invest in product and service, and delivered every day for our customers, to lift both our domestic and international customer satisfaction ratings to record highs.

Today's result includes $125 million of compensation income from Boeing.

This comprehensive settlement, negotiated by Qantas management, recognises the opportunity-cost to our business incurred by the delay in delivery of the B787, which affected Jetstar, Qantas International and Qantas Domestic.

The result also reflects our highly disciplined approach to transformation. The Group incurred the negative impact of $136 million in one-off costs relating to business restructuring, redundancies and aircraft write downs.

And despite sustained high jet-fuel prices, and while continuing to invest in the customer experience, comparable unit costs were down by 3 per cent on the prior period, and the Group achieved cost savings and efficiencies of $172 million via the Qantas transformation program.

We will continue to retain our focus on financial discipline even as we transform and invest to shape our business for the future.

Our capital expenditure program this year will be reduced by $200 million to $1.6 billion, and next year by $400 million to $1.5 billion.

Let me now turn specifically to the business segments.

Qantas International

The 65 per cent improvement in the Qantas International result compared to the prior year reflects the wholesale transformation process we have underway.

A lot has been achieved and there is more to come.

By closing down loss-making routes, retiring aircraft,
and consolidating maintenance tasks, we have taken significant costs permanently out of the business.

We are progressively creating the best premium experience ever offered to Qantas customers across fleet, lounges, seats, meals, entertainment and service.

We have strengthened relations with gateway partners such as American Airlines out of Dallas/Fort Worth and LAN out of Santiago which is good for customers and for our bottom line.

We have announced our new Asian schedule which creates stronger links to the key Asian hubs in terms of capacity, frequency and timing.

And then there's our global partnership with Emirates.

As Tim Clark, President of Emirates likes to say, this represents a seismic shift for global aviation.

We have been taking bookings on Qantas-coded flights on Emirates metal for just three weeks and we have been flooded with bookings.

Clearly this does represent some pent-up consumer demand.

But to give you a sense of the appeal of the Qantas-Emirates partnership, in our second week of selling we took more than five times the bookings achieved with previous partner British Airways in the equivalent week last year.

Customers are clearly excited about our one-stop offer to Europe.

We sold four times the number of seats to Barcelona than the same week last year; 13 times more to Munich, 14 times to Copenhagen and 17 times to Milan.

Manchester and London Gatwick are our best performing destinations outside of London Heathrow.

Fleet

Now to fleet.

Today we are announcing significant new fleet initiatives, to be undertaken within our reduced capital expenditure parameters.

We will be upgrading our entire fleet of Airbus A330-300s with lie-flat seats in business class, a refreshed economy cabin and a new inflight entertainment offering, to support our Asian network.

We are upgrading 20 A330-200s which means that Australian east-west services will be operated by aircraft with international standard fit outs, including lie-flat seats.

It will certainly be the world's best domestic business class experience by a long way.

We will acquire five new Boeing 737-800 aircraft and extend the leases on two B737-800s.

This is in addition to our recent orders for five additional Boeing 717s and three Q400 aircraft, to support our profit-maximising position in the domestic market.

Qantas Domestic

Let me now turn to Qantas Domestic, which reported underlying earnings before tax of $218 million.

Clearly this reflects the elevated levels of capacity growth into the market as the competitor tries to claim market share from Qantas Domestic.

This has put pressure on yields for all airlines in the domestic market.

But Qantas has maintained its leading 84% share of the corporate market.

We remain Australia's aviation leader in support of our vital energy and resources sector.

We have recently secured further long-term charter contracts, including with Bechtel for the Curtis Island LNG construction project in Gladstone.

We continue to invest in the domestic business with our new and upgraded aircraft and improving customer service.

Our commitment to excellence in all areas is borne out by the metrics.

We are hitting records in on-time performance, check-in results, baggage delivery satisfaction, and overall customer satisfaction.

Jetstar

This year Jetstar comes of age, with milestones such as 100 aircraft in the air, carrying 100 million passengers within Australia, to and from Asia, and within Asia.

Jetstar's revenues increased by 12 per cent as it positions for a new phase in its development.

Jetstar reported earnings before interest and tax of $128 million, down from $147 in the prior reporting period, a decline which was largely driven by domestic market conditions and the start-up investments for our Jetstar operations in Japan and Hong Kong.

Jetstar in Australia has reduced costs in every year since it commenced flying in 2004.

During this period it again lowered its costs, down by 2%.

Today Jetstar remains the clear low cost leader in the Australian market.

Jetstar Japan commenced flying last July and is already scaling up from five to eight domestic destinations, carrying more than 600,000 passengers in its first six months.

Singapore-based Jetstar Asia continued to grow with a significant improvement in profitability.

Vietnam-based Jetstar Pacific is improving its performance after an ownership restructure and the completion of its fleet renewal program.

In a ground-breaking partnership with one of China's big three airlines, China Eastern, we are working towards the launch of Jetstar Hong Kong.

We do not take the outcome for granted, but we believe there is a compelling argument for a new low cost airline in a market where both demand and air fares are currently high.

Jetstar is a great Australian success story today, and a huge growth opportunity for the Qantas Group over the coming years, as Jetstar develops across the world's most exciting aviation market.

Qantas Loyalty

Qantas Loyalty goes from strength to strength.

It reported underlying earnings before interest and tax of $137 million, up from $119 million in the prior period.

This is a record result and again it proves the value of this business to the Group.

Qantas Loyalty delivers steady cash flow for the Group and adds enormous value for customers.

Half of all Australian households have a member of Qantas Frequent Flyer.

We keep innovating with businesses such as Qantas epiQure and Wishlist.

Our new partnership with Emirates offers a wide array of options for Frequent Flyers to use and redeem their points while earning status credits.

And yesterday we were delighted to announce the new 'Qantas Cash Card' in partnership with Mastercard[1].

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[1] *The offer of Qantas Cash™ is subject to certain regulatory requirements being satisfied. Terms and conditions and fees and charges may apply. The proposed issuer of the prepaid facility is Heritage Bank Limited, subject to final agreement. A Product Disclosure Statement will be made available when the prepaid facility is available, expected to be later this year, via qantas.com, and will also be given to applicants for the facility. A person should consider the Product Disclosure Statement in making any decisions about whether the prepaid facility is appropriate for them. MasterCard and the MasterCard Brand Mark are registered trademarks of MasterCard International Incorporated. PayPass is the trademark of MasterCard International*

This is a major expansion of the program with a new chip-enabled card making it easy to earn points, load up foreign currencies, go shopping, pay bills and much more.

I predict it will become the essential travel companion for Australians overseas.

So once you've got it, don't take off without it.

Group Financial Position

Turning to our financial position, liquidity remains strong with $3.1 billion in cash held as at 31 December, and access to a $400 million undrawn facility.

Over the period we announced the early repayment of over $650 million of debt.

The Group achieved positive free cash flow of $205 million, and we continue to aim for positive free cash flow for the full-year.

The share buy-back announcement reflected the Board's confidence in the Group's underlying financial strength and long term strategy.

Conclusion

Finally let me say that, while we are making excellent progress in our transformation program, there are still challenges ahead.

We will continue to incur transformation costs such as the $40-50 million impact of moving our major hub from Singapore to Dubai.

We can expect ongoing and vigorous challenges from our domestic and international competitors.

And the external environment remains complex and volatile, with uncertainty in fuel prices and exchange rates.

For this reason we have not provided specific profit guidance for the second half today.

In summary, the past six months have been a period of delivery – delivery on our key transformation priorities.

We have just started realizing the benefits of the changes we have made.

Those benefits will become greater next year.

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By working with the world's best partners, by driving down unnecessary costs, by investing in the best experiences for our customers, and by engaging our people we are creating a better, stronger Qantas Group.